THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your securities in Allied Properties (H.K.) Limited, you should at once hand this circular to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ALLIED PROPERTIES (H.K.) LIMITED
（聯合地產（香港）有限公司）

(Incorporated in Hong Kong with limited liability)

(Stock Code: 56)

MAJOR TRANSACTION

CONDITIONAL GRANT OF OPTION OVER SHARES AND WARRANTS IN QUALITY HEALTHCARE ASIA LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 593)

29th June, 2006

CONTENTS

Page

Definitions 1

Letter from the Board

Introduction 4

The Conditional Grant of Option 5

The Option Agreement (as amended by the Supplemental Letter) 5

Information about QHA 10

Information about the Company, AGL, SHK and Wah Cheong 10

Information about CLSA 13

Reasons for and Benefits of the Option 13

Financial Effect of Taking the Option 13

Effect of the Exercise of the Option 14

Listing Rules Implications 14

Additional Information 14

Appendix I – Financial Information of the Group 15

Appendix II – Financial Information of the QHA Group 97

Appendix III – Management Discussion and Analysis of the QHA Group 149

Appendix IV – Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group 170

Appendix V – General Information 175

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

"AGL"	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
"Board"	board of Directors
"CLSA"	CLSA Capital Limited, a company incorporated in Hong Kong with limited liability
"Company"	Allied Properties (H.K.) Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange
"C$"	Canadian dollars, the lawful currency of Canada
"Directors"	directors of the Company
"Enlarged Group"	the Group and the QHA Group
"Group"	the Company and it subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	26th June, 2006, being the latest practicable date prior to the printing of this circular, for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Option"	the option granted by CLSA to Wah Cheong under the Option Agreement
"Option Agreement"	the call option agreement dated 3rd April, 2006 made between CLSA and Wah Cheong, pursuant to which the Option is granted
"Option Shares"	the 34,156,666 QHA Shares held by CLSA, over which the Option is granted under the Option Agreement

"Option Warrants"	the number of Warrants held by CLSA, which, if exercised, would lead to the subscription of 6,943,333 QHA Shares at an initial subscription price of HK$2.50 per QHA Share (subject to adjustments), over which the Option is granted under the Option Agreement (as at the Latest Practicable Date, the subscription price in respect of the Warrants had been adjusted to HK$2.46 per QHA Share and the exercise of the Option Warrants in full at such adjusted subscription price would lead to the subscription of 7,056,232 QHA Shares)
"QHA"	Quality HealthCare Asia Limited, a company incorporated in Bermuda with limited liability, with its securities listed on the Main Board of the Stock Exchange
"QHA Group"	QHA and its subsidiaries
"QHA Shares"	ordinary shares of nominal value of HK$0.10 each in the share capital of QHA
"RMB"	Reminbi, the lawful currency of the People's Republic of China
"SFC"	Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SHK"	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of Stock Exchange
"Shareholders"	shareholders of the Company
"Shares"	ordinary shares of nominal value of HK$2.00 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Letter"	the letter dated 18th May, 2006 made between CLSA and Wah Cheong supplemental to the Option Agreement
"Takeovers Code"	Code on Takeovers and Mergers

"US$"	United States dollars, the lawful currency of the United States of America
"Wah Cheong"	Wah Cheong Development (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of SHK
"Warrants"	listed subscription warrants issued by QHA on 12th January, 2004 at an initial subscription price of HK$2.50 per QHA Share and an existing adjusted subscription price of HK$2.46 per QHA Share (subject to further adjustments)
"%"	per cent.

ALLIED PROPERTIES (H.K.) LIMITED
（聯合地產（香港）有限公司）

(Incorporated in Hong Kong with limited liability)
(Stock Code: 56)

Executive Directors:
Patrick Lee Seng Wei *(Chief Executive)*
Li Chi Kong

Non-executive Directors:
Henry Lai Hin Wing
Steven Lee Siu Chung

Independent non-executive Directors:
John Douglas Mackie
Steven Samuel Zoellner
Alan Stephen Jones

Registered Office:
22nd Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

29th June, 2006

To the Shareholders and, for information only,
the holders of the warrants of the Company

Dear Sir or Madam,

MAJOR TRANSACTION

CONDITIONAL GRANT OF OPTION OVER SHARES AND WARRANTS IN QUALITY HEALTHCARE ASIA LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 593)

INTRODUCTION

On 7th April, 2006, the Directors announced the conditional grant of the Option over the Option Shares and Option Warrants in QHA by CLSA to Wah Cheong. Subsequently, on 18th May, 2006, the Directors announced that there was a change on the major terms of the Option Agreement and the Supplemental Letter was executed to amend the Option Agreement.

The taking of the Option constitutes a major transaction for the Company under the Listing Rules, on the basis that the calculation of the revenue ratio is within the range of 25% and 100%. The exercise of the Option also constitutes a major transaction for the Company.

The purpose of this circular is to provide the Shareholders with details of the terms of the Option Agreement and the Supplemental Letter and other information in accordance with the requirements of the Listing Rules.

THE CONDITIONAL GRANT OF OPTION

On 3rd April, 2006, Wah Cheong (a direct wholly-owned subsidiary of SHK) entered into the Option Agreement with CLSA, pursuant to which CLSA agreed to grant the Option to Wah Cheong. Subsequently, on 18th May, 2006, Wah Cheong entered into the Supplemental Letter with CLSA in relation to amending the terms contained in the Option Agreement.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CLSA and its ultimate owners are independent third parties not connected with the Company or its subsidiaries or any of their respective associates, or any of the connected persons of the Company or its subsidiaries or any of their respective associates.

THE OPTION AGREEMENT (AS AMENDED BY THE SUPPLEMENTAL LETTER)

Date of the Option Agreement

3rd April, 2006

Date of the Supplemental Letter

18th May, 2006

Parties

(1) CLSA as grantor

(2) Wah Cheong as grantee

The Option

The Option will entitle Wah Cheong to require CLSA:–

(i) to sell all (but not part) of the Option Shares (being 34,156,666 QHA Shares) at an aggregate exercise price of HK$99,908,248.05 (i.e. HK$2.925 per Option Share); and

(ii) to exercise all or part of the Option Warrants (being such number of Warrants held by CLSA as would, if exercised, lead to the subscription of 6,943,333 QHA Shares at an initial subscription price of HK$2.50 per QHA Share (as at the Latest Practicable Date, the subscription price in respect of the Warrants had been adjusted to HK$2.46 per QHA Share and the exercise of the Option

Warrants in full at such adjusted subscription price would lead to the subscription of 7,056,232 QHA Shares)) upon Wah Cheong paying the subscription price for such exercise, and following such exercise to transfer to Wah Cheong the resultant QHA Shares issued by QHA to CLSA.

The Option is exercisable by Wah Cheong:–

(i) with respect to the Option Shares, at any time within a period of one year from the day on which the Option Agreement takes effect, by giving an irrevocable notice to CLSA and paying the aggregate exercise price; and

(ii) with respect to the Option Warrants, on or before 13th January, 2007, by giving irrevocable instructions to CLSA.

There is no right on the part of CLSA under the Option Agreement (as amended by the Supplemental Letter) to require Wah Cheong when or whether to exercise the Option.

According to the Option Agreement (as amended by the Supplemental Letter), the Option over the Option Shares, if not exercised, will lapse after the one year period, upon which the Option consideration will be retained by CLSA. The Option over the Option Warrants will lapse, if not exercised or not exercised in full on or before 13th January, 2007, but the Option consideration will not be affected.

The Option Shares represented approximately 17.43% of the issued share capital of QHA as at the Latest Practicable Date, which, together with the new QHA Shares fall to be issued upon exercise of the Option Warrants in full would represent approximately 20.26% (being an aggregate of 41,099,999 QHA Shares by the addition of 34,156,666 QHA Shares and 6,943,333 new QHA Shares arising from the exercise of the Option Warrants at an initial subscription price of HK$2.50 per QHA Share) and approximately 20.30% (being an aggregate of 41,212,898 QHA Shares by the addition of 34,156,666 QHA Shares and 7,056,232 new QHA Shares arising from the exercise of the Option Warrants at an adjusted subscription price of HK$2.46 per QHA Share) of the issued share capital of QHA as enlarged by issue of the new QHA Shares following exercise of the Option Warrants in full.

The Option Shares and the Option Warrants represented all interests of CLSA in QHA as at the Latest Practicable Date.

Net profits attributable to the Option Shares and the new QHA Shares fall to be issued upon exercise of the Option Warrants in full for the two financial years ended 31st December, 2005 were:–

(i) approximately HK$7,848,000 or approximately HK$0.23 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$45,018,000 for the financial year ended 31st December, 2004 and 195,925,168 QHA Shares in issue at the Latest Practicable Date);

(ii) approximately HK$9,787,000 or approximately HK$0.29 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$56,140,000 for the financial year ended 31st December, 2005 and 195,925,168 QHA Shares in issue at the Latest Practicable Date);

(iii) approximately HK$9,120,000 or approximately HK$0.22 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$45,018,000 for the financial year ended 31st December, 2004 and 202,868,501 QHA Shares in issue at the Latest Practicable Date as enlarged by issue of the new QHA Shares upon exercise of the Option Warrants by CLSA in full at an initial subscription price of HK$2.50 per QHA Share);

(iv) approximately HK$11,374,000 or approximately HK$0.28 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$56,140,000 for the financial year ended 31st December, 2005 and 202,868,501 QHA Shares in issue at the Latest Practicable Date as enlarged by issue of the new QHA Shares upon exercise of the Option Warrants by CLSA in full at an initial subscription price of HK$2.50 per QHA Share);

(v) approximately HK$9,140,000 or approximately HK$0.22 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$45,018,000 for the financial year ended 31st December, 2004 and 202,981,400 QHA Shares in issue at the Latest Practicable Date as enlarged by issue of the new QHA Shares upon exercise of the Option Warrants by CLSA in full at an adjusted subscription price of HK$2.46 per QHA Share); and

(vi) approximately HK$11,399,000 or approximately HK$0.28 per QHA Share (based on the audited consolidated profits of the QHA Group of approximately HK$56,140,000 for the financial year ended 31st December, 2005 and 202,981,400 QHA Shares in issue at the Latest Practicable Date as enlarged by issue of the new QHA Shares upon exercise of the Option Warrants by CLSA in full at an adjusted subscription price of HK$2.46 per QHA Share).

Consideration and exercise price

The consideration for the grant of the Option, which is payable by Wah Cheong upon the Option Agreement (as amended by the Supplemental Letter) taking effect, is HK$11,100,916.45. The Option consideration is not refundable if Wah Cheong does not exercise the Option.

The aggregate exercise price for the Option Shares is HK$99,908,248.05 (i.e. HK$2.925 per Option Share), payable upon exercise of the Option over the Option Shares.

If the Option is exercised in respect of the Option Shares, the aggregate payment for the grant of the Option and for the exercise of the Option over the Option Shares would be HK$111,009,164.50 (i.e. HK$3.25 per Option Share).

Both the Option consideration and the exercise price were arrived at after arm's length negotiations between Wah Cheong and CLSA. Wah Cheong is prepared to pay the Option consideration on the basis that the Option is for a period of one year, and, having regard to the Option Shares and the new QHA Shares fall to be issued upon exercise of the Option Warrants as a substantial block, the prevailing trading prices of the QHA Shares and the present growing trend of the capital market, considered the exercise price reasonable in the circumstances.

According to CLSA, in determining the Option value, it had made reference to the analysis of the discounted anticipated future cash flows and other market comparables in Asia.

The aggregate market value of the Option Shares was approximately HK$105,885,664.60 and the QHA Shares arising from the exercise by CLSA of the Option Warrants in full (i.e. 6,943,333 QHA Shares at an initial subscription price of HK$2.50 per QHA Share) was approximately HK$21,524,332.30, both based on the closing price of HK$3.10 per QHA Share as quoted on the Stock Exchange on 3rd April, 2006, being the last trading day prior to the day on which the Company, AGL and SHK jointly announced the conditional grant of Option over the Option Shares and Option Warrants in QHA on 7th April, 2006.

The aggregate market value of the Option Shares was approximately HK$95,638,664.80 and the QHA Shares arising from the exercise by CLSA of the Option Warrants in full (i.e. 7,056,232 QHA Shares at an adjusted subscription price of HK$2.46 per QHA Share) was approximately HK$19,757,449.60, both based on the closing price of HK$2.80 per QHA Share as quoted on the Stock Exchange on 18th May, 2006, being the day on which the Company, AGL and SHK jointly announced the update on the conditional grant of Option over the Option Shares and Option Warrants in QHA.

The revised exercise price of HK$2.925 per Option Share represented:–

- a premium of approximately 4.46%, over the closing price of HK$2.80 per QHA Share as quoted on the Stock Exchange on 18th May, 2006, being the day on which the Company, AGL and SHK jointly announced the update on the conditional grant of Option over the Option Shares and Option Warrants in QHA;

- a premium of approximately 4.46%, over the average closing price of HK$2.80 per QHA Share, based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 18th May, 2006;

- a premium of approximately 3.63%, over the average closing price of HK$2.8225 per QHA Share, based on the daily closing prices as quoted on the Stock Exchange over the ten trading days up to and including 18th May, 2006; and

- a premium of approximately 1.83%, over the average closing price of HK$2.8725 per QHA Share, based on the daily closing prices as quoted on the Stock Exchange over the 20 trading days up to and including 18th May, 2006.

Upon exercise of the Option over the Option Shares, stamp duty in respect of the sale and purchase of the Option Shares will be borne and paid by Wah Cheong and CLSA in equal shares.

The payment of the Option consideration and payments on exercise of the Option over the Option Shares and over the Option Warrants will be financed from internal resources of Wah Cheong or bank borrowings or both.

Conditions contained in the Option Agreement (as amended by the Supplemental Letter)

The Option Agreement (as amended by the Supplemental Letter) will only take effect upon:–

(i) rulings having been received from the SFC that following the granting and taking of the Option, Wah Cheong and CLSA will not be regarded as parties acting in concert for the purposes of the Takeovers Code, and that the taking of the Option by Wah Cheong will not give rise to any obligation to make a mandatory general offer on the part of Wah Cheong under the Takeovers Code in all material substance, without any proviso or requirement being stipulated by the SFC which either CLSA or Wah Cheong (in each case acting reasonably) considers detrimental; and

(ii) the Option Agreement and the transactions contemplated in it having been approved by the respective shareholders of the Company, AGL and SHK in accordance with all applicable requirements under the Listing Rules.

If either of the above conditions is not fulfilled on or before 31st July, 2006, the Option Agreement (as amended by the Supplemental Letter) will not take effect.

On 23rd May, 2006, the SFC granted the rulings sought by Wah Cheong in paragraph (i) above which neither CLSA nor Wah Cheong considers detrimental.

Conditions of exercise

In the Option Agreement, CLSA has given warranties and undertakings, amongst other things, in respect of the Option Shares (including the number of QHA Shares to be delivered upon exercise of the Option Shares) and the Option Warrants. Any breach of any of the warranties or undertakings will entitle Wah Cheong to terminate the Option Agreement, upon which CLSA will refund the Option consideration with interest and fully indemnify Wah Cheong for all losses and damages.

If, as a result of any default on the part of CLSA, listing of the Option Shares has been withdrawn (other than for any temporary suspension) from the Main Board of the Stock Exchange, Wah Cheong will be entitled to terminate the Option Agreement, upon which CLSA will refund the Option consideration with interest.

INFORMATION ABOUT QHA

QHA is a company incorporated in Bermuda with limited liability. Its securities are listed on the Main Board of the Stock Exchange.

The principal business activities of the QHA Group comprise health administration, medical scheme administration, and the provision of healthcare services. The latest audited net asset value of the QHA Group as at 31st December, 2005 was HK$150,287,000. There will not be any change to the board of directors of QHA as a result of the granting or taking of the Option.

INFORMATION ABOUT THE COMPANY, AGL, SHK AND WAH CHEONG

The Company

The Company is a company incorporated in Hong Kong with limited liability. Its securities are listed on the Main Board of the Stock Exchange.

The principal business activity of the Company is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, and the provision of financial services.

As at the Latest Practicable Date, the Company was beneficially owned as to approximately 74.93% by AGL.

AGL

AGL is a company incorporated in Hong Kong with limited liability. Its shares are listed on the Main Board of the Stock Exchange.

The principal business activity of AGL is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, and the provision of financial services.

SHK

SHK is a company incorporated in Hong Kong with limited liability. Its securities are listed on the Main Board of the Stock Exchange.

The principal business activity of SHK is investment holding. The principal business activities of its major subsidiaries are securities, leveraged forex, bullion, commodities, futures and options broking, provision of online financial services and online financial information, share margin and structured financing, financial planning and wealth management, asset management, corporate finance, strategic investment, and insurance broking.

As at the Latest Practicable Date, SHK was beneficially owned as to approximately 61.42% by the Company.

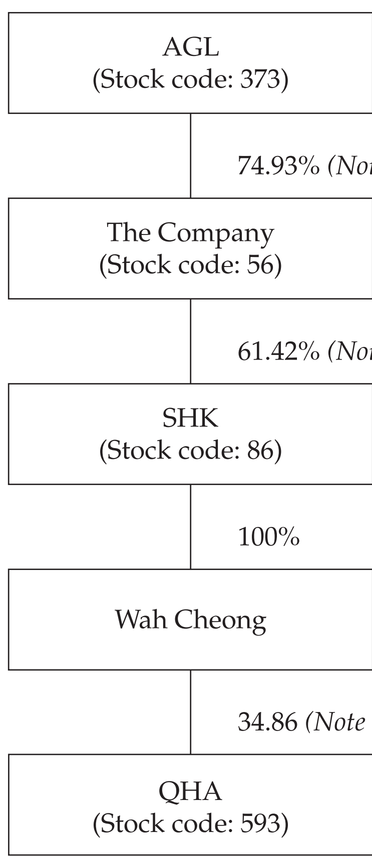
Wah Cheong

Wah Cheong is a direct wholly-owned subsidiary of SHK.

As at the Latest Practicable Date, Wah Cheong was the beneficial owner of 68,298,357 QHA Shares, representing approximately 34.86% of the existing issued share capital of QHA. It also held Warrants, which, if exercised, would lead to the subscription of 12,544,632 QHA Shares. Exercise of such Warrants in full would result in Wah Cheong holding 80,842,989 QHA Shares, representing approximately 38.78% of the issued share capital of QHA as at the Latest Practicable Date as enlarged by issue of the new QHA Shares following exercise of such Warrants in full.

Group chart as at the Latest Practicable Date

An overview of the shareholding structure of AGL, the Company, SHK, Wah Cheong and QHA as at the Latest Practicable Date is set out below:



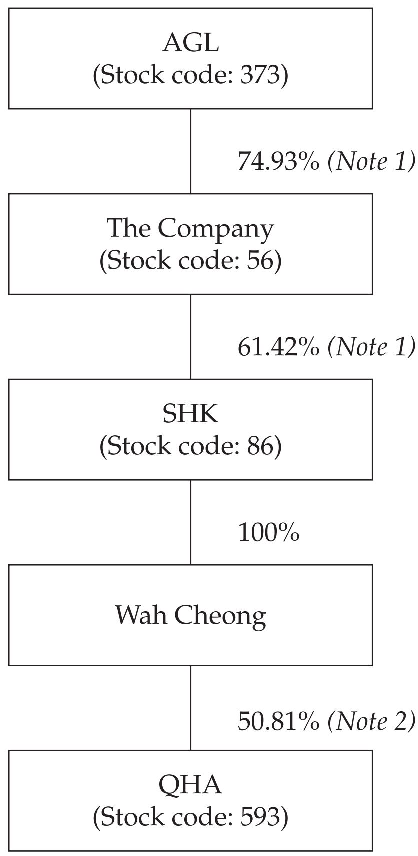
Notes:

(1) Wholly-owned intermediate holding companies are not shown in the above group chart.

(2) As at the Latest Practicable Date, SHK held 34.86% interest in QHA, which was accounted for as an associate of SHK using the equity method.

Group chart following exercise of the Option

An overview of the shareholding structure of AGL, the Company, SHK, Wah Cheong and QHA when the Option in respect of the Option Shares and Option Warrants are exercised in full is set out below:–



Notes:

(1) Wholly-owned intermediate holding companies are not shown in the above group chart.

(2) Assuming that (i) the Option is exercised in respect of the Option Shares, (ii) the Option Warrants have been exercised in full by CLSA at Wah Cheong's request pursuant to the Option and the resultant QHA Shares have been transferred to Wah Cheong by CLSA, (iii) the Warrants held by Wah Cheong are exercised in full, (iv) the Warrants held by other holders of the Warrants are exercised in full, and (v) the share options granted by QHA to its employees are exercised in full, Wah Cheong will own 122,055,887 QHA Shares, representing approximately 50.81% of the existing issued share capital of QHA as enlarged by the issue of the QHA Shares following exercise in full of the Warrants (at an adjusted subscription price of HK$2.46 per QHA Share) and share options. In such event, QHA, which is now an associate of SHK, will become a subsidiary of SHK and will be accounted for as a subsidiary using the purchase method.

INFORMATION ABOUT CLSA

The Directors have been advised that CLSA is a member of the CLSA Asia Pacific Markets Group, which is a comprehensive institutional broking, investment banking and asset management group.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, CLSA and its ultimate owners are independent third parties not connected with the Company or its subsidiaries or any of their respective associates, or any of the connected persons of the Company or its subsidiaries or any of their respective associates.

REASONS FOR AND BENEFITS OF THE OPTION

According to CLSA, the business of QHA is not related to its core business. On 23rd March, 2000, in relation to QHA's intention to make a general offer for ehealthcareasia Ltd., CLSA entered into a bridge finance facility with QHA. In September 2000, the facility was extended. In April 2001, the facility was re-negotiated to give CLSA an equity conversion right. Subsequently, CLSA exercised its equity conversion right and became the owner of the Option Shares and the Option Warrants. In order to strengthen its future business development and continued growth, CLSA wishes to allocate more resources to its core business. Accordingly, CLSA intends to dispose of the Option Shares and the Option Warrants in the Hong Kong securities market. Insufficient demand for the QHA Shares in the market, however, renders it difficult for the Option Shares to be absorbed by investors. As a result, CLSA approached Wah Cheong for the potential future sale of the Option Shares and the Option Warrants by way of granting the Option.

Upon the request of CLSA, Wah Cheong, after due consideration, had agreed to enter into negotiations with CLSA with a view to taking the Option on the basis that it was fair and just and to the benefit of the shareholders of SHK. The directors of SHK consider the taking of the Option a good opportunity, with sufficient flexibility, for SHK to increase its investments in QHA significantly, as and when directors of SHK see fit at any time within the coming one year.

Having regard to the financial position and business operation of the QHA Group, the Directors believe that the terms of the Option Agreement (as amended by the Supplemental Letter) are fair and reasonable and in the interests of the Shareholders taken as a whole.

FINANCIAL EFFECT OF TAKING THE OPTION

The consideration of taking the Option is HK$11,100,916.45 and will be classified as current assets under the category of "financial assets at fair value through profit or loss". The Board, therefore, believes that the taking of the Option will not give rise to any material effect on the earnings, working capital, gearing ratio and the assets and liabilities of the Group.

EFFECT OF THE EXERCISE OF THE OPTION

As a result of the exercise of the Option by Wah Cheong, SHK is expected to obtain or consolidate control of QHA and is obliged to make a mandatory offer for the QHA Shares in accordance with the Takeovers Code. The maximum additional percentage that may be acquired by SHK (through Wah Cheong) will be approximately 49.19%, assuming that the QHA shareholders will accept the offer price made by Wah Cheong for the time being and sell all their QHA Shares to Wah Cheong accordingly. QHA, therefore, will become a wholly-owned subsidiary of SHK. Following completion of the mandatory offer, Wah Cheong will place out at least 25% of the issued shares of QHA to other independent investors in the capital market for the purpose of maintaining the public float requirement of 25% under the Listing Rules. Following completion of the placing of 25% of the issued shares of QHA, QHA will become a 75% owned subsidiary of SHK.

In the event that SHK is obliged to make a mandatory offer for the QHA Shares, the acquisition of the additional QHA Shares will constitute a notifiable transaction for the Company under the Listing Rules. The Company will comply with the relevant requirements, including obtaining any Shareholders' approval (if necessary), under the Listing Rules.

The Company will also comply with all the applicable takeover and disclosure requirements under the Takeovers Code when the Option is exercised.

LISTING RULES IMPLICATIONS

The taking of the Option constitutes a major transaction for the Company under the Listing Rules, on the basis that the calculation of the revenue ratio is within the range of 25% and 100%, and is therefore subject to approval of the Shareholders. The exercise of the Option will also constitute a major transaction for the Company and is also subject to approval of the Shareholders. Pursuant to Rule 14.76(2) of the Listing Rules, the Company is also permitted to seek, at the time of taking the Option, approval of the Shareholders necessary for the exercise of the Option. Such approval would be sufficient for satisfying the shareholders' approval requirement under Chapter 14 of the Listing Rules in respect of the exercise of the Option.

Under Rule 14.44 of the Listing Rules, as no Shareholder was required to abstain from voting if the Company were to convene a general meeting for approving the Option Agreement (as amended by the Supplemental Letter) and the exercise of the Option, written approval had been obtained from AGL, as a Shareholder holding approximately 74.93% of the issued share capital of the Company as at the Latest Practicable Date, in lieu of holding a general meeting.

ADDITIONAL INFORMATION

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

Yours faithfully,
On behalf of the Board
Allied Properties (H.K.) Limited
Patrick Lee Seng Wei
Chief Executive

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following table summaries the consolidated income statement and consolidated balance sheet of the Group for the last three years ended 31st December, 2005, as extracted from the 2004 and 2005 published annual reports of the Company. Due to the adoption of new Hong Kong Financial Reporting Standards in 2005, the 2004 and 2003 financial information has been restated to conform with the new accounting policies adopted by the Group in 2005.

Consolidated Income Statement
Year ended 31st December

	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Revenue	1,144,153	1,128,169	862,783
Other income	95,029	19,564	43,257
Total income	1,239,182	1,147,733	906,040
Cost of sales	(219,524)	(201,927)	(97,229)
Brokerage and commission expenses	(141,463)	(161,553)	(99,639)
Selling and marketing expenses	(5,491)	(292)	(2,737)
Administrative expenses	(363,062)	(348,176)	(326,018)
Changes in values of properties	608,686	121,957	(93,633)
Bad and doubtful debts (provided) written back	(12,042)	902	19,339
Other operating expenses	(149,446)	(130,054)	(204,835)
Finance costs	(96,778)	(47,208)	(60,016)
Release of negative goodwill	–	156,741	140,282
Amortisation of capital reserve	–	17,267	17,267
Share of results of associates	150,388	165,856	83,373
Share of results of jointly controlled entities	105,298	19,090	11,216
Profit before taxation	1,115,748	740,336	293,410
Taxation	(79,306)	(80,108)	(24,295)
Profit for the year	1,036,442	660,228	269,115
Attributable to:			
Equity holders of the Company	935,342	563,023	217,625
Minority interests	101,100	97,205	51,490
	1,036,442	660,228	269,115
Dividend	53,715	26,858	–
Earnings per share			
Basic	HK$1.74	HK$1.14	HK$0.44
Diluted	N/A	HK$1.12	HK$0.44

Consolidated Balance Sheet
At 31st December

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Non-current assets			
Investment properties	2,784,100	2,215,668	1,955,055
Property, plant and equipment	209,419	197,956	164,922
Properties held for/under development	–	97,377	111,974
Prepaid land lease payments	287,367	271,505	275,606
Negative goodwill	–	(389,264)	(529,403)
Intangible assets	22,586	10,375	7,081
Interests in associates	2,710,057	2,463,020	2,186,591
Interests in jointly controlled entities	866,394	817,798	845,969
Available-for-sale financial assets	993,139	–	–
Statutory deposits	32,831	–	–
Investments	–	911,480	702,353
Loans and receivables	202,306	3,200	–
Deferred tax assets	4,143	10,279	10,230
	8,112,342	6,609,394	5,730,378
Current assets			
Properties held for sale and other inventories	520,950	401,721	447,890
Financial assets at fair value through profit or loss	179,204	–	–
Investments	–	48,263	35,563
Prepaid land lease payments	4,420	4,101	3,275
Accounts receivable, deposits and prepayments	2,612,044	2,330,938	2,861,392
Amounts due from associates	7,384	231	266,303
Amount due from a jointly controlled entity	2,159	2,040	2,056
Tax recoverable	3,842	1,464	5,281
Short-term pledged bank deposit	972	1,220	1,487
Bank deposits, bank balances and cash	481,196	598,254	629,201
	3,812,171	3,388,232	4,252,448

	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
Current liabilities			
Accounts payable and accrued charges	1,031,946	1,120,797	1,646,394
Financial liabilities at fair value through profit or loss	17,756	–	–
Amount due to Allied Group Limited	8,183	6,094	29,813
Amounts due to associates	62,828	49,260	38,081
Amount due to a jointly controlled entity	81,063	141,063	171,658
Tax payable	13,489	24,726	29,523
Bank borrowings due within one year	950,233	603,180	1,059,908
Other liabilities due within one year	33,366	42,122	35,096
	2,198,864	1,987,242	3,010,473
Net current assets	1,613,307	1,400,990	1,241,975
Total assets less current liabilities	9,725,649	8,010,384	6,972,353
Capital and reserves			
Share capital	1,074,303	1,074,303	978,768
Reserves	5,996,232	4,302,155	3,536,314
Equity attributable to equity holders of the Company	7,070,535	5,376,458	4,515,082
Minority interests	1,481,741	1,270,428	1,144,764
Total equity	8,552,276	6,646,886	5,659,846
Non-current liabilities			
Bank borrowings due after one year	875,763	1,046,569	941,435
Loan notes	64,252	129,637	231,637
Deferred tax liabilities	230,615	183,653	134,527
Other liabilities due after one year	2,743	3,639	4,908
	1,173,373	1,363,498	1,312,507
	9,725,649	8,010,384	6,972,353

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2005

Set out below are the audited consolidated financial statements and notes to the financial statements of the Group for the year ended 31st December, 2005 extracted from the annual report 2005 of the Company.

Consolidated Income Statement
for the year ended 31st December, 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Revenue	*7 & 8*	1,144,153	1,128,169
Other income		95,029	19,564
Total income		1,239,182	1,147,733
Cost of sales		(219,524)	(201,927)
Brokerage and commission expenses		(141,463)	(161,553)
Selling and marketing expenses		(5,491)	(292)
Administrative expenses		(363,062)	(348,176)
Changes in values of properties	*9*	608,686	121,957
Bad and doubtful debts (provided) written back		(12,042)	902
Other operating expenses		(149,446)	(130,054)
Finance costs	*11*	(96,778)	(47,208)
Release of negative goodwill		–	156,741
Amortisation of capital reserve		–	17,267
Share of results of associates		150,388	165,856
Share of results of jointly controlled entities		105,298	19,090
Profit before taxation	*12*	1,115,748	740,336
Taxation	*13*	(79,306)	(80,108)
Profit for the year		1,036,442	660,228
Attributable to:			
Equity holders of the Company		935,342	563,023
Minority interests		101,100	97,205
		1,036,442	660,228
Dividend	*14*	53,715	26,858
Earnings per share	*15*		
Basic		HK$1.74	HK$1.14
Diluted		N/A	HK$1.12

Consolidated Balance Sheet
at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Investment properties	16	2,784,100	2,215,668
Property, plant and equipment	17	209,419	197,956
Properties held for development	18	–	97,377
Prepaid land lease payments	19	287,367	271,505
Goodwill	20	–	–
Negative goodwill	21	–	(389,264)
Intangible assets	22	22,586	10,375
Interests in associates	24	2,710,057	2,463,020
Interests in jointly controlled entities	25	866,394	817,798
Available-for-sale financial assets	26	993,139	–
Statutory deposits		32,831	–
Investments	27	–	911,480
Loans and receivables	28	202,306	3,200
Deferred tax assets	29	4,143	10,279
		8,112,342	6,609,394
Current assets			
Properties held for sale and other inventories	30	520,950	401,721
Financial assets at fair value through profit or loss	31	179,204	–
Investments	27	–	48,263
Prepaid land lease payments	19	4,420	4,101
Accounts receivable, deposits and prepayments	32	2,612,044	2,330,938
Amounts due from associates		7,384	231
Amount due from a jointly controlled entity		2,159	2,040
Tax recoverable		3,842	1,464
Short-term pledged bank deposit		972	1,220
Bank deposits, bank balances and cash		481,196	598,254
		3,812,171	3,388,232
Current liabilities			
Accounts payable and accrued charges	33	1,031,946	1,120,797
Financial liabilities at fair value through profit or loss	38	17,756	–
Amount due to Allied Group Limited		8,183	6,094
Amounts due to associates		62,828	49,260
Amount due to a jointly controlled entity		81,063	141,063
Tax payable		13,489	24,726
Bank borrowings due within one year	39	950,233	603,180
Other liabilities due within one year	41	33,366	42,122
		2,198,864	1,987,242
Net current assets		1,613,307	1,400,990
Total assets less current liabilities		9,725,649	8,010,384

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Capital and reserves			
Share capital	*35*	1,074,303	1,074,303
Reserves	*36*	5,996,232	4,302,155
Equity attributable to equity holders of the Company		7,070,535	5,376,458
Minority interests		1,481,741	1,270,428
Total equity		8,552,276	6,646,886
Non-current liabilities			
Bank borrowings due after one year	*39*	875,763	1,046,569
Loan notes	*40*	64,252	129,637
Deferred tax liabilities	*29*	230,615	183,653
Other liabilities due after one year	*41*	2,743	3,639
		1,173,373	1,363,498
		9,725,649	8,010,384

Balance Sheet
at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Intangible assets	22	510	–
Interests in subsidiaries	23	3,231,983	2,696,497
Investments	27	–	510
		3,232,493	2,697,007
Current assets			
Accounts receivable, deposits and prepayments		475	1,473
Bank deposits, bank balances and cash		159	53,327
		634	54,800
Current liabilities			
Accounts payable and accrued charges		780	1,931
Amount due to Allied Group Limited		8,184	6,094
Bank borrowings due within one year	39	3,115	–
		12,079	8,025
Net current (liabilities) assets		(11,445)	46,775
Total assets less current liabilities		3,221,048	2,743,782
Capital and reserves			
Share capital	35	1,074,303	1,074,303
Reserves	36	1,771,589	1,225,870
Total equity		2,845,892	2,300,173
Non-current liabilities			
Amounts due to subsidiaries	37	375,156	443,609
		3,221,048	2,743,782

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2005

	Attributable to equity holders of the Company												
	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Special capital reserve	Capital redemption reserve	Translation reserve	Capital (goodwill) reserve	Accumulated profits	Dividend reserve	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 36(b))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004													
As originally stated	978,768	492,784	245,739	69,379	2,320,430	72,044	(205,761)	(24,027)	939,958	–	4,889,314	1,148,929	6,038,243
Prior period adjustments arising from changes in accounting policies	–	–	(114,085)	–	–	–	95,488	–	(355,635)	–	(374,232)	(4,165)	(378,397)
As restated	978,768	492,784	131,654	69,379	2,320,430	72,044	(110,273)	(24,027)	584,323	–	4,515,082	1,144,764	5,659,846
Distribution of interests in an associate to minority shareholders	–	–	–	1	–	–	–	–	–	–	1	–	1
Surplus arising on revaluation	–	–	–	156,090	–	–	–	–	–	–	156,090	52,082	208,172
Deferred tax liability arising on revaluation of assets	–	–	–	(166)	–	–	–	–	–	–	(166)	(56)	(222)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	–	31	–	–	–	31	(12)	19
Share of post-acquisition reserve movements of associates	–	–	9,819	4,067	–	–	244	–	–	–	14,130	4,713	18,843
Share of post-acquisition reserve movements of jointly controlled entities	–	–	8,840	–	–	–	14	–	–	–	8,854	–	8,854
Net income recognised directly in equity	–	–	18,659	159,992	–	–	289	–	–	–	178,940	56,727	235,667
Profit attributable to equity holders	–	–	–	–	–	–	–	–	563,023	–	563,023	97,205	660,228
Released on impairment of non-trading securities	–	–	–	12,672	–	–	–	–	–	–	12,672	4,226	16,898
Released on disposal of non-trading securities	–	–	–	4,985	–	–	–	–	–	–	4,985	1,663	6,648
Released on dilution of interests in an associate	–	–	(400)	31	–	–	–	(3)	–	–	(372)	(124)	(496)
Capital reserve released on amortisation	–	–	–	–	–	–	–	(17,267)	–	–	(17,267)	–	(17,267)
Total recognised income and expenses for the year	–	–	18,259	177,680	–	–	289	(17,270)	563,023	–	741,981	159,697	901,678
Distribution to minority interests	–	–	–	–	–	–	–	–	–	–	–	(2,389)	(2,389)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(1,856)	(1,856)
Transferred from special capital reserve to accumulated profits	–	–	–	–	(2,320,430)	–	–	–	2,320,430	–	–	–	–
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	–	2,120	(2,120)	–	–	–	–
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	–	–	(29,788)	(29,788)
Exercise of warrants subscription rights	95,535	23,884	–	–	–	–	–	–	–	–	119,419	–	119,419
Share issue expenses	–	(24)	–	–	–	–	–	–	–	–	(24)	–	(24)
Final dividend	–	–	–	–	–	–	–	–	(26,858)	26,858	–	–	–
At 31st December, 2004	1,074,303	516,644	149,913	247,059	–	72,044	(109,984)	(39,177)	3,438,798	26,858	5,376,458	1,270,428	6,646,886

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Capital (goodwill) reserve HK$'000 (Note 36(b))	Accumulated profits HK$'000	Dividend reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2005												
As originally stated	1,074,303	516,644	226,488	247,059	72,044	(205,496)	(39,177)	3,899,912	26,858	5,818,635	1,275,939	7,094,574
Prior period adjustments arising from changes in accounting policies	–	–	(76,575)	–	–	95,512	–	(461,114)	–	(442,177)	(5,511)	(447,688)
As restated, before opening balance adjustments	1,074,303	516,644	149,913	247,059	72,044	(109,984)	(39,177)	3,438,798	26,858	5,376,458	1,270,428	6,646,886
Opening balance adjustments arising from changes in accounting policies	–	–	(149,913)	(1,572)	–	–	41,987	623,558	–	514,060	49,010	563,070
As restated after prior period and opening balance adjustments	1,074,303	516,644	–	245,487	72,044	(109,984)	2,810	4,062,356	26,858	5,890,518	1,319,438	7,209,956
Gain on fair value changes of available-for-sale financial assets	–	–	–	255,662	–	–	–	–	–	255,662	85,266	340,928
Deferred tax arising on revaluation of assets	–	–	–	61	–	(124)	–	–	–	(63)	(21)	(84)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	246	–	–	–	246	143	389
Share of post-acquisition reserve movements of associates	–	–	–	7,723	–	19,551	1,754	–	–	29,028	9,681	38,709
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	–	3,566	–	–	–	3,566	–	3,566
Net income recognised directly in equity	–	–	–	263,446	–	23,239	1,754	–	–	288,439	95,069	383,508
Profit attributable to equity holders	–	–	–	–	–	–	–	935,342	–	935,342	101,100	1,036,442
Released on disposal of available-for-sale financial assets	–	–	–	(29,101)	–	–	–	–	–	(29,101)	(9,705)	(38,806)
Impairment loss of available-for-sale financial assets transferred to income statement	–	–	–	10,807	–	–	–	–	–	10,807	3,604	14,411
Released on disposal of jointly controlled entities	–	–	–	–	–	(8)	–	–	–	(8)	(3)	(11)
Total recognised income and expenses for the year	–	–	–	245,152	–	23,231	1,754	935,342	–	1,205,479	190,065	1,395,544
Unclaimed dividend	–	–	–	–	–	–	–	1,396	–	1,396	466	1,862
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	263	(263)	–	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	(26,858)	(26,858)	–	(26,858)
Proposed final dividend	–	–	–	–	–	–	–	(53,715)	53,715	–	–	–
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	–	(28,228)	(28,228)
At 31st December, 2005	1,074,303	516,644	–	490,639	72,044	(86,753)	4,827	4,945,116	53,715	7,070,535	1,481,741	8,552,276

Consolidated Cash Flow Statement
for the year ended 31st December, 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Operating activities		
Profit for the year	1,036,442	660,228
Adjustments for:		
Finance costs	96,778	47,208
Release of negative goodwill	–	(156,741)
Amortisation of capital reserve	–	(17,267)
Bad and doubtful debts (provided) written back	12,042	(902)
Share of results of associates	(150,388)	(165,856)
Share of results of jointly controlled entities	(105,298)	(19,090)
Taxation	79,306	80,108
Depreciation of property, plant and equipment	24,479	21,603
Impairment loss recognised in respect of available-for-sale financial assets	14,411	–
Impairment loss recognised in respect of goodwill of associates	13,323	–
Impairment loss recognised in respect of an associate	4,981	–
Amortisation of prepaid land lease payments	4,401	3,275
Impairment loss recognised in respect of property, plant and equipment	3,680	–
Amortisation of intangible assets	3,662	2,701
Impairment loss recognised in respect of intangible assets	980	–
Loss on disposal of property, plant and equipment	671	579
Impairment loss recognised in respect of goodwill of a subsidiary	267	–
Increase in fair value of investment properties	(522,250)	(91,719)
Profit on disposal of available-for-sale financial assets	(56,748)	–
Reversal of write-down of properties held for sale	(47,452)	(22,924)
Reversal of impairment loss of properties held for development	(34,700)	(3,000)
Reversal of impairment loss of buildings	(4,284)	(4,314)
Profit on disposal of an investment property	(2,061)	–
Profit on disposal/deemed disposal of a jointly controlled entity	(1,219)	(942)
Net unrealised profit on financial assets at fair value through profit or loss	(590)	–
Net unrealised loss on trading securities	–	2,109
Reversal of impairment loss of intangible assets	(320)	–
Excess of net fair value over consideration arising from acquisition of subsidiaries	(199)	–
Impairment loss recognised in respect of non-trading securities	–	16,418
Loss on dilution of interests in an associate	–	4,492
Loss on write off of intangible assets	–	96
Profit on disposal of non-trading securities	–	(2,483)
Profit on disposal of partial interest in a subsidiary	–	(789)
Operating cash flow before movements in working capital	369,914	352,790

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Decrease in properties held for sale and other inventories		7	20,741
Increase in financial assets at fair value through profit or loss		(127,651)	–
Increase in trading securities		–	(14,634)
(Increase) decrease in accounts receivable, deposits and prepayments		(277,130)	557,084
Increase in loans and receivables		–	(3,200)
Decrease in accounts payable and accrued charges		(82,591)	(499,683)
Increase in financial liabilities at fair value through profit or loss		17,756	–
Decrease in other liabilities		(9,606)	(3,046)
Increase (decrease) in amount due to Allied Group Limited		2,089	(23,719)
Cash (used in) generated from operations		(107,212)	386,333
Interest paid		(85,689)	(47,193)
Hong Kong Profits Tax paid		(39,752)	(32,809)
Tax outside Hong Kong paid		(341)	(248)
Net cash (used in) generated from operating activities		(232,994)	306,083
Investing activities			
Proceeds on disposal of available-for-sale financial assets		113,923	–
Proceeds on disposal of an investment property		14,661	–
Amounts repaid by associates		13,063	254,750
Dividend received from associates		8,162	6,182
Decrease in available-for-sale financial assets		5,620	–
Amount repaid by a jointly controlled entity		2,751	2,770
Decrease in pledged bank deposit		248	267
Proceeds on disposal of property, plant and equipment		142	56
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	*42*	(62,416)	(125,239)
Purchase of property, plant and equipment		(19,472)	(18,265)
Additions to intangible assets		(5,962)	(6,091)
Acquisition of associates		(5,592)	(102,350)
Net payment of statutory deposits		(4,472)	–
Amount advanced to a jointly controlled entity		(2,870)	(3,772)
Additions to investment properties		(2,605)	(110)
Purchase of available-for-sale financial assets		(705)	–
Amount advanced to an associate		(6)	(2)
Proceeds on disposal of non-trading securities		–	40,510
Purchase of non-trading securities		–	(32,285)
Additions to properties held for development		–	(14,186)
Acquisition of a jointly controlled entity		–	(2,294)
Amounts advanced to investee companies		–	(1,950)
Acquisition of additional interest in a subsidiary		–	(954)
Net cash from (used in) investing activities		54,470	(2,963)

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Financing activities		
New bank loans raised	359,000	86,500
Amounts advanced by associates	426	–
Repayment of bank loans	(207,883)	(346,126)
Repurchase of loan notes	(60,000)	(100,426)
Dividends paid by subsidiaries to minority interests	(28,228)	(29,788)
Dividend paid	(26,858)	–
Net distribution to minority interests	(48)	(33)
Net proceeds received from issue of shares	–	119,395
Amount advanced by a jointly controlled entity	–	29,500
Repayment of obligations under a finance lease	–	(890)
Amounts repaid to associates	–	(148)
Amount repaid to a jointly controlled entity	–	(95)
Net cash from (used in) financing activities	36,409	(242,111)
Net (decrease) increase in cash and cash equivalents	(142,115)	61,009
Effect of foreign exchange rate changes	(78)	12
Cash and cash equivalents at the beginning of the year	540,349	479,328
Cash and cash equivalents at the end of the year	398,156	540,349
Analysis of the balances of cash and cash equivalents		
Bank deposits, bank balances and cash	481,196	598,254
Bank overdrafts	(83,040)	(57,905)
	398,156	540,349

Notes to the Financial Statements

for the year ended 31st December, 2005

1. GENERAL

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"). Its ultimate holding company is Allied Group Limited ("Allied Group"), a listed public limited company which is also incorporated in Hong Kong.

The address of the registered office is 22nd Floor Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

The financial statements are presented in Hong Kong dollars which are the same as the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 52, 53 and 54 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates or jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually as well as in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit an entity to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24

At 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities were classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "non-trading securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

The effect of redesignation of investments together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 is summarised in the table below:

	As originally stated at 31st December, 2004	Effect on adoption of HKAS 39	As restated at 1st January, 2005	New designation on 1st January, 2005: Intangible assets	Available-for-sale financial assets	Statutory deposits	Loans and receivables	Financial assets at fair value through profit or loss	Accounts receivable, deposits and prepayments	Accounts payable and accrued charges
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Group										
Investment in securities										
Non-trading securities	784,778	(2,096)	782,682	–	747,363	–	35,319	–	–	–
Trading securities	48,263	22	48,285	–	–	–	–	48,285	–	–
Other investments										
Club debentures and exchange participation rights*	9,195	–	9,195	9,195	–	–	–	–	–	–
Statutory deposits and other deposits with Exchange and Clearing Companies	26,624	–	26,624	–	–	26,624	–	–	–	–
Amounts due from investee companies, less impairment losses	92,774	(1,447)	91,327	–	–	–	87,921	250	3,156	–
Amounts due to investee companies	(1,891)	–	(1,891)	–	–	–	–	–	–	(1,891)
				9,195	747,363	26,624	123,240	48,535	3,156	(1,891)
The Company										
Other investments										
Club debentures*	510	–	510	510	–	–	–	–	–	–

* *Following the adoption of HKAS 39, the Group has reclassified its exchange participation rights and club debentures which were previously grouped under "other investments" to "intangible assets".*

In addition, warrants of a listed associate and amounts due from associates, which were previously grouped under "interests in associates", together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 are as follows:

	Carrying value	**Amounts due from**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Interests in associates			
As originally stated at 31st December, 2004	2,340,530	142,583	2,483,113
Share of prior year adjustments of associates	(20,093)	–	(20,093)
As restated	2,320,437	142,583	2,463,020
Adjustments made on 1st January, 2005			
– Adoption of HKAS 39#	2,469	–	2,469
– Adoption of HKFRS 3, HKASs 36 and 38	153,481	–	153,481
– Share of associates	7,298	–	7,298
	2,483,685	142,583	2,626,268
Less: reclassification			
– Warrants reclassified to financial assets at fair value through profit or loss#	(2,469)	–	(2,469)
– Loan note reclassified to loans and receivables	–	(78,000)	(78,000)
– Amounts due from associates reclassified to accounts receivables, deposits and prepayments	–	(282)	(282)
	2,481,216	64,301	2,545,517

\# *The warrants of a listed associate which were previously grouped under "interests in associates" are classified as "financial assets at fair value through profit or loss" and carried at fair value in accordance with the provisions of HKAS 39.*

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Bad and doubtful debts

In previous years, allowances for bad and doubtful debts were made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances and accounts receivable. In determining the level of allowance required, management considered numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and accounts receivable and prior loss experience in respect of loans and advances and accounts receivable.

On adoption of HKAS 39, impairment provisions for advances assessed individually are calculated using a discounted cash flow analysis for the impaired advances. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of general provisions.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, as appropriate. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in property revaluation reserve has been transferred to the Group's accumulated profits on 1st January, 2005.

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties in accordance with SSAP 13. In previous years, property with 15% or less by area of value that was occupied by the company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. HKAS 40 requires that, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current year, the Group applied HKAS 40 and has reclassified certain of such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated.

Hotel properties

In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-INT 2") requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-INT 2, the new accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Intangible assets

The adoption of HKAS 38 results in a change of the useful lives of intangible assets according to the provisions of HKAS 38. Certain exchange participation rights with amortisation on a straight line basis over its estimated useful lives of five years before 1st January, 2005 were changed to indefinite useful life on that date. Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of these intangible assets.

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP-Interpretation 20). In the current year, the Group has applied HKAS Interpretation 21 (HKAS "INT-21") "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the value of the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Effect of the changes in accounting policies

The effects of the above changes to the Group's accounting policies as a result of the new HKFRSs on the Group's financial results for the year are summarised in note 3.

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective and are pertinent to the operation of the Group. The Directors anticipate that the application of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investments in a Foreign Operation[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Decrease in amortisation of intangible assets	846	–
Release of negative goodwill and capital reserve and decrease in amortisation of goodwill	(201,751)	–
Decrease in changes in fair value of investment properties arising from reclassification of investment properties to property, plant and equipment	(28,992)	(39,087)
Increase in deferred tax charge in relation to investment properties	(34,178)	(42,960)
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment	(3,064)	(2,176)
Increase in amortisation of prepaid land lease payments	(2,733)	(2,636)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss	(1,914)	–
Tax on loss arising from fair value changes of financial assets and liabilities, measured at fair value through profit or loss	2	–
Increase in finance costs	(8,692)	–
(Increase) decrease in deferred tax charge arising from restatement of property at cost	(18)	5
Increase in depreciation arising from restatement of property at cost	(449)	(31)
Increase in depreciation arising from reinstatement costs	(260)	(204)
Increase in deferred tax charge arising from reclassification of land premium to prepaid land lease payments	(155)	(90)
Increase (decrease) in share of results of associates	117,210	(5,492)
Increase (decrease) in share of results of jointly controlled entities	60,553	(14,323)
Decrease in profit for the year	(103,595)	(106,994)
Attributable to:		
Equity holders of the Company	(125,306)	(105,479)
Minority interests	21,711	(1,515)
	(103,595)	(106,994)

Analysis of the decrease in profit for the year by line items presented according to their function:

	2005 HK$'000	2004 HK$'000
Decrease in other income	(1,914)	–
Increase in other operating expenses	(5,400)	(4,880)
Increase in administrative expenses	(260)	(204)
Decrease in changes in fair value of investment properties	(28,992)	(22,669)
Reclassification of impairment losses recognised in respect of non-trading securities	–	(16,418)
Decrease in release of negative goodwill	(155,219)	–
Decrease in amortisation of capital reserve	(17,267)	–
Increase (decrease) in share of results of associates	87,945	(5,455)
Increase (decrease) in share of results of jointly controlled entities	60,553	(14,323)
Increase in finance costs	(8,692)	–
Increase in taxation	(34,349)	(43,045)
	(103,595)	(106,994)

The cumulative effect of the application of the new HKFRSs on the balance sheet at 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004 (Originally stated) HK$'000	Adjustments HK$'000 (Note)	At 31st December, 2004 (Restated) HK$'000	Adjustments HK$'000	At 1st January, 2005 (Restated) HK$'000
Investment properties	2,611,336	(395,668)	2,215,668	–	2,215,668
Property, plant and equipment	130,199	67,757	197,956	–	197,956
Interests in associates	2,483,113	(20,093)	2,463,020	82,497	2,545,517
Interests in jointly controlled entities	1,036,507	(218,709)	817,798	–	817,798
Prepaid land lease payments	–	275,606	275,606	–	275,606
Negative goodwill	(389,264)	–	(389,264)	389,264	–
Deferred tax assets	10,170	109	10,279	–	10,279
Deferred tax liabilities	(25,029)	(158,624)	(183,653)	–	(183,653)
Other assets/liabilities	1,237,542	1,934	1,239,476	91,309	1,330,785
Net assets	7,094,574	(447,688)	6,646,886	563,070	7,209,956
Share capital	1,074,303	–	1,074,303	–	1,074,303
Property revaluation reserve	226,488	(76,575)	149,913	(149,913)	–
Translation reserve	(205,496)	95,512	(109,984)	–	(109,984)
Capital (goodwill) reserve	(39,177)	–	(39,177)	41,987	2,810
Accumulated profits	3,899,912	(461,114)	3,438,798	623,558	4,062,356
Other reserves	862,605	–	862,605	(1,572)	861,033
Minority interests	–	1,270,428	1,270,428	49,010	1,319,438
Total equity	5,818,635	828,251	6,646,886	563,070	7,209,956
Minority interests	1,275,939	(1,275,939)	–	–	–

The financial effects of the application of the new HKFRSs to the Group's equity at 1st January, 2004 are summarised below.

	At 1st January, 2004 (Originally stated)	Adjustments	At 1st January, 2004 (Restated)
	HK$'000	*HK$'000* *(Note)*	*HK$'000*
Share capital	978,768	–	978,768
Property revaluation reserve	245,739	(114,085)	131,654
Translation reserve	(205,761)	95,488	(110,273)
Accumulated profits	939,958	(355,635)	584,323
Other reserves	2,930,610	–	2,930,610
Minority interests	1,148,929	(4,165)	1,144,764
Total equity	6,038,243	(378,397)	5,659,846

Note: The amounts represent adjustments to comparative figures arising from the reclassification of certain investment properties of the Group to property, plant and equipment and prepaid land lease payments as a result of the application of HKASs 3, 16, 17 and 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21, share of adjustments of associates and jointly controlled entities and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

Following the adoption of HKAS 39, the Company has reclassified its club debentures which were previously grouped under "other investments" to "intangible assets" at 1st January, 2005.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The 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 explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations (after 1st January, 2005)

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in subsidiaries

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting less any identified impairment loss. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any impairment in the value of individual investments. Losses of jointly controlled entities in excess of the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Goodwill and negative goodwill (capital reserve)

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions before 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

Impairment testing on capitalised goodwill

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

As explained above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable.

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Commission income is recognised as income on trade date basis.

Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms and conditions of the relevant agreement or deal mandate when a relevant significant act has been completed.

Fees for management and advisory of funds are recognised when the related services are rendered.

Realised profits or losses from financial assets at fair value through profit or loss and derivative contracts are recognised on a trade date basis whilst the unrealised profits or losses are recognised from valuation at the balance sheet date.

Profits or losses on trading in foreign currencies include both realised and unrealised gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such times as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates and jointly controlled entities, except where the Group as a parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses. Expenditure on major inspections and overhauls of property, plant and equipment is capitalised as a separate component of the relevant asset.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	2% to 3% or over the remaining terms of the leases
Leasehold improvements	20%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	$16^2/_3$% to 20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Properties held for development

Freehold land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes freehold land cost, development cost, borrowing cost and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

Prepaid land lease payments

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Exchange participation rights and club debentures

They comprise:

– The eligibility right to trade through the Stock Exchange, Hong Kong Futures Exchange Limited and other Exchanges; and

– The eligibility right to use the facilities of various clubs.

The exchange participation rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash flows indefinitely. The management also considers that the club debentures does not have a definite useful life. They are carried at cost less any impairment losses and are tested for impairment annually by comparing their recoverable amount with their carrying amount. Useful lives are also examined on an annual basis and adjustments where applicable are made on a prospective basis.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised from the dates when the software are available for use using the straight-line method over their estimated useful lives (not exceeding ten years).

Impairment of tangible and intangible assets excluding goodwill and intangible assets with indefinite lives

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

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

Financial instruments

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

Financial assets

Financial assets are classified into one of four categories, being financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse through profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including accounts payable and accrued charges, amount due to Allied Group Limited, amounts due to associates, amounts due to a jointly controlled entity and bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using valuation techniques including the use of recent arm's length transaction, reference to other investments that are substantially the same, discounted cash flow analysis, and option pricing models.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes freehold and leasehold land cost, development cost, borrowing costs and other direct costs attributable to such properties, until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

Estimate of fair value of investment properties

The investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

Impairment allowances on loans and receivables

The Group periodically reviews its loan portfolios to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the income statement, the Group has individually evaluated each loan account for impairment after taking into account the value of each client account's underlying collateral and the latest financial position of those borrowers in default of settlement.

Impairment of available-for-sale financial assets

For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as the price of the specific investment are taken into account.

For those unlisted equity investments, the Group determines their fair values by using appropriate valuation techniques and making assumptions that are based on market conditions existing at each balance sheet date. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

Estimated impairment of goodwill

The Group conducts tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether the goodwill is impaired requires an estimation of the value in use on basis of data available to the Group. Where the future cash flows are less than expected, an impairments loss may arise.

Deferred tax

Estimating the amount for deferred tax asset arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the Group's ability to utilise tax benefits through future earnings. In case where the actual future profits generated are less than expected, a reversal of the deferred tax asset may arise, which would be recognised in the income statement for the period in which such a reversal takes place. The Group's deferred tax asset arising from tax losses is mainly from term loan business. While the current financial models indicate that the tax losses can be utilised in future, any changes in assumptions, estimates and tax regulation can affect the recoverability of this deferred tax assets.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Were the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31st December 2005 was HK$209,419,000. The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life of three to fifteen years, after taking into account of their estimated residual value, using the straight-line method, commencing from the date the property, plant or equipment is placed into productive use. The estimated useful life and dates that the Group places the property, plant or equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Litigation

Sun Hung Kai Securities Limited ("SHKS"), an indirectly non-wholly owned subsidiary, has obtained leave to appeal the judgment of the Court of Appeal made on 29th June, 2005 ("Court of Appeal Judgment") to the Court of Final Appeal ("Final Appeal") in relation to litigation involving SHKS, New World Development Company Limited ("NWDC") and Stapleton Development Limited ("SDL"). The litigation relates to a disputed interest in a joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels at the city centre of Kuala Lumpur. The Group's understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest in the joint venture. The Final Appeal will be heard between 19th June, 2006 and 21st June, 2006. The Group has considered that it is not possible to decide with any degree of accuracy as to what the final position may be.

At 31st December, 2005, a sum of HK$118,003,000 representing SHKS Interest was recognised, as amounts due from investee companies under Loans and Receivables. In addition, contingent liabilities amounting to approximately HK$37,500,000 have been disclosed regarding the payments demanded by NWDC for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS. Furthermore, included in the 2004 income statement was a sum of HK$2,934,000 representing the interest expense paid by SHKS to NWDC pursuant to the 1st April, 2004 judgment of the High Court of Hong Kong (the "Judgment") on shareholders' contributions advanced by NWDC on behalf of SHKS. The nature of the interests and the uncertainty of the Final Appeal result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. This in turn affects the recovery of the above mentioned receivables or interest payments and the crystallisation or discharge of the above mentioned contingent liabilities. The Group has thus decided that it is not presently appropriate to make any impairment allowance for the above mentioned receivables, any provisions in respect of the above mentioned contingencies, or any recoveries of the above mentioned interest expenses. Details of the receivables, contingent liabilities and interest expenses are disclosed in notes 28, 44, and 12 respectively.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group has established policies and procedures for risk management which are reviewed regularly by the management and the credit & risks management committee ("CRM"), which reports to the executive committee of the concerned group company, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The concerned internal audit and compliance department ("IAC") (which reports independently to respective chairman and the audit committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Market risk

(i) Trading Risk

Market risk arises from trading activities, including market-making and proprietary trading. Trading activities across the Group are subject to limits approved by management. The Group's trading risk control unit ("TRCU") of the concerned group company independently monitors and reports the positions, risks and profit and loss of its proprietary trading activities involving derivatives, foreign exchange and bullion. In addition to the TRCU, part of the Group's proprietary trading exposure is closely monitored by the credit department. Proprietary trading exposures are measured on both a "mark-to-market" and a "mark-to-fair" basis, and "maximum loss" and "position" limits are used. Value at Risk ("VaR") and stress-tests are also used in the assessment of risk. These are approaches that assist in the quantification of risk by combining the size of a position and the extent of a potential market movement into a potential impact on the profit and loss.

The Group's various proprietary trading positions and the profit and loss are reported daily to senior management for review. The Group's IAC also performs audits to supplement the above controls to ensure compliance with the established market risk limits and guidelines.

(ii) Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from its leveraged foreign exchange business or purchases of foreign securities on behalf of clients. Foreign exchange risk is managed and monitored by the relevant department under the limits approved by the management. In relation to our leveraged foreign exchange activity, our position is that of a market-maker, and accordingly our risk is our open currency positions which are subject to management approved limits and are monitored and reported daily. The other possible risk is primarily a derivative foreign exchange risk for a client who does not or cannot meet margin calls following any period of substantial currency turbulence. Our principal lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on loan assets.

Credit risk

Credit risk arises from a number of areas. These include the possibility that a customer or counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market-making, derivatives, proprietary trading, rental business and hotel operation and other activities undertaken by the Group.

The Group's credit manual sets out in detail the credit approval and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the credit department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. Decisions made daily by the credit department are reported and reviewed by the management of the Group and by the CRM at its regular meetings.

Liquidity risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Interest rate risk

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its margin loans to an appropriate level. Its interest-sensitive positions can readily be identified. Interest rates paid by the Group are managed by the finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations. Most of the Group's bank borrowings are subject to floating interest rates.

The exposure of the Group's material fixed-rate assets and liabilities to fair value interest rate risk and their contractual maturity dates are as follows:

	Interest rates	In first year	In second year	In third year	In fourth year	In fifth year	More than 5 years	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2005								
Fixed deposits	0.28% to 7.25%	110,902	–	–	–	–	–	110,902
Treasury bills	3.78%	7,680	–	–	–	–	–	7,680
Loan note due from a listed associate	2.5%	–	–	78,000	–	–	–	78,000
Bank loans	4.85% to 5.35%	(255,000)	–	–	–	–	–	(255,000)
Loan notes *(note)*	7.9%	–	–	(64,252)	–	–	–	(64,252)
At 31st December, 2004								
Fixed deposits	0.01% to 7.50%	144,181	–	–	–	–	–	144,181
Loan note due from a listed associate	2.5%	–	–	–	78,000	–	–	78,000
Marketable debt securities	1.86%	7,741	–	–	–	–	–	7,741
Loan notes *(note)*	7.9%	–	–	–	(129,637)	–	–	(129,637)

Note: The coupon rate of the loan notes is 4.00% per annum. The interest rate disclosed in the table above represents the effective interest rate applied in calculating the corresponding amortised cost of the loan notes.

The exposure of the Group's material floating rate assets and liabilities to cash flow interest rate risk and their contractual maturity dates are as follows:

	Interest rates	In first year	In second year	In third year	In fourth year	In fifth year	More than 5 years	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2005								
Secured margin loans	7.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,293,285
Term loans	7.00% to 26.82%	371,909	–	–	–	–	–	371,909
Bank overdrafts	4.85% to 8.50%	(83,040)	–	–	–	–	–	(83,040)
Bank loans	4.89% to 6.69%	(612,193)	(606,939)	(36,119)	(100,473)	(74,622)	(57,610)	(1,487,956)
At 31st December, 2004								
Secured margin loans	4.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,441,056
Term loans	5.00% to 26.82%	181,310	3,200	–	–	–	–	184,510
Bank overdrafts	5.5%	(57,905)	–	–	–	–	–	(57,905)
Bank loans	1.15% to 3.00%	(545,275)	(226,738)	(613,160)	(28,981)	(91,328)	(86,362)	(1,591,844)

7. REVENUE#

Revenue represents the gross proceeds received and receivable derived from the sale of properties, securities trading and broking, income from property rental, hotel operations and property management services, interest and dividend income, income from corporate finance and advisory services, and income from securities margin financing and term loan financing and insurance broking services, and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

	2005	**2004**
	HK$'000	*HK$'000*
Securities broking	225,664	236,854
Interest income	180,696	171,510
Property rental, hotel operations and management services	173,358	169,935
Income from corporate finance and others	169,297	156,849
Income from forex, bullion, commodities and futures	149,289	149,380
Securities trading	203,993	145,205
Dividend income	41,856	73,653
Sale of properties	–	24,783
	1,144,153	1,128,169

Revenue is also the Group's turnover.

8. SEGMENTAL INFORMATION

The Group has the following main business segments:

– Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking services, provision of related financing and advisory products, and provision of term loan financing.

– Property rental, hotel operations and management services – property rental, hotel operations managed by third parties and provision of property management services.

– Sales of properties and property based investments – development and sale of properties and property based investments.

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

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

	2005			
	Investment, broking and finance	**Property rental, hotel operations and management services**	**Sale of properties and property based investments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	987,628	177,957	–	1,165,585
Less: inter-segment revenue	(16,833)	(4,599)	–	(21,432)
	970,795	173,358	–	1,144,153
Segment results	299,353	631,147	26,340	956,840
Finance costs				(96,778)
Share of results of associates				150,388
Share of results of jointly controlled entities				105,298
Profit before taxation				1,115,748
Taxation				(79,306)
Profit for the year				1,036,442
Segment assets	4,697,322	3,112,221	520,991	8,330,534
Interests in associates				2,710,057
Interests in jointly controlled entities				866,394
Deferred tax assets				4,143
Amounts due from associates				7,384
Amount due from a jointly controlled entity				2,159
Tax recoverable				3,842
Total assets				11,924,513
Segment liabilities	(1,029,132)	(63,144)	(744)	(1,093,020)
Amounts due to associates				(62,828)
Amount due to a jointly controlled entity				(81,063)
Tax payable				(13,489)
Bank and other borrowings				(1,891,222)
Deferred tax liabilities				(230,615)
Total liabilities				(3,372,237)
Other information				
Depreciation	17,258	7,221	–	24,479
Amortisation of prepaid land lease payments	1,645	2,756	–	4,401
Amortisation of intangible assets	3,662	–	–	3,662
Impairment losses recognised (reversed)	37,462	(4,424)	(82,152)	(49,114)
Increase in fair value of investment properties	–	(522,250)	–	(522,250)
Allowance for bad and doubtful debts	1,079	10,963	–	12,042
Capital additions	22,081	5,958	–	28,039

	2004			
	Investment, broking and finance	**Property rental, hotel operations and management services**	**Sale of properties and property based investments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)	(Restated)
Revenue	944,846	172,835	24,783	1,142,464
Less: inter-segment revenue	(11,395)	(2,900)	–	(14,295)
	933,451	169,935	24,783	1,128,169
Segment results	232,585	169,473	26,532	428,590
Finance costs				(47,208)
Release of negative goodwill				156,741
Amortisation of capital reserve				17,267
Share of results of associates				165,856
Share of results of jointly controlled entities				19,090
Profit before taxation				740,336
Taxation				(80,108)
Profit for the year				660,228
Segment assets	3,609,403	2,593,453	499,938	6,702,794
Interests in associates				2,463,020
Interests in jointly controlled entities				817,798
Deferred tax assets				10,279
Amounts due from associates				231
Amount due from a jointly controlled entity				2,040
Tax recoverable				1,464
Total assets				9,997,626
Segment liabilities	(1,084,601)	(86,305)	(648)	(1,171,554)
Amounts due to associates				(49,260)
Amount due to a jointly controlled entity				(141,063)
Tax payable				(24,726)
Bank and other borrowings				(1,780,484)
Deferred tax liabilities				(183,653)
Total liabilities				(3,350,740)
Other information				
Depreciation	15,852	5,751	–	21,603
Amortisation of prepaid land lease payments	616	2,659	–	3,275
Amortisation of intangible assets	2,701	–	–	2,701
Impairment losses recognised (reversed)	16,418	(4,314)	(25,924)	(13,820)
Increase in fair value of investment properties	–	(91,719)	–	(91,719)
Allowance for bad and doubtful debts written back	(528)	(374)	–	(902)
Capital additions	18,930	20,248	253	39,431

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

During the year, less than 10% of the operations of the Group in terms of revenue, segment results and assets were carried on or were situated outside Hong Kong. Accordingly, no geographical segmental information is shown.

9. CHANGES IN VALUES OF PROPERTIES

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Changes in values of properties comprise:		
Increase in fair value of investment properties	522,250	91,719
Reversal of write-down of properties held for sale	47,452	22,924
Reversal of impairment loss of properties held for development	34,700	3,000
Reversal of impairment loss of buildings	4,284	4,314
	608,686	121,957

The impairment losses reversed were determined with reference to the respective fair values based on independent professional valuations at 31st December, 2005.

10. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) The emoluments paid or payable to each of the seven (2004: seven) Directors were as follows:

	2005				
	Directors' fees	Salaries, consultancy fees and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Gordon Macwhinnie***	10	1,145	–	–	1,155
Patrick Lee Seng Wei	10	2,952	1,000	88	4,050
Li Chi Kong	–	494	95	22	611
Henry Lai Hin Wing	–	75	–	–	75
Steven Lee Siu Chung	–	325	55	13	393
John Douglas Mackie	–	–	–	–	–
Steven Samuel Zoellner	–	40	–	–	40
	20	5,031	1,150	123	6,324

Certain Directors of the Company received remuneration from the Company's ultimate holding company or its wholly owned subsidiary. The ultimate holding company provided management services to the Group and charged the Group a fee, which is included in share of management service expenses/management service fee as disclosed in note 49(a), for services provided by those Directors as well as other management personnel who are not Directors of the Company.

Prior to 2005, the management service fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the Directors mentioned above. The total of such apportioned amounts, which have been included in the above table, is HK$2,149,000.

Note: The amounts represented the actual bonus of year 2004 or before paid to the respective Directors during 2005. The bonus of year 2005 has yet to be decided.

	Directors' fees	Salaries, consultancy fees and other benefits	2004 Performance related incentive payments	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Gordon Macwhinnie	10	–	–	–	10
Patrick Lee Seng Wei	10	2,911	250	86	3,257
Li Chi Kong	–	–	–	–	–
Henry Lai Hin Wing	–	75	–	–	75
Steven Lee Siu Chung	–	–	–	–	–
John Douglas Mackie*	–	–	–	–	–
Steven Samuel Zoellner**	–	10	–	–	10
	20	2,996	250	86	3,352

* *Appointed on 1st February, 2004*
** *Appointed on 28th September, 2004*
*** *Retired on 30th December, 2005*

(b) Employees' emoluments

The five highest paid individuals included one (2004: one) of the Directors, details of whose emoluments are set out in note 10(a) above. The combined emoluments of the remaining four (2004: four) individuals are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and other benefits	10,129	9,992
Performance related incentive payments	4,811	4,760
Retirement benefit scheme contributions	237	222
	15,177	14,974

The emoluments of the above employees, who were not Directors of the Company, were within the following bands:

	Number of employees 2005	2004
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	1	2
HK$3,000,001 – HK$3,500,000	1	–
HK$3,500,001 – HK$4,000,000	1	–
HK$5,000,001 – HK$5,500,000	1	–
HK$7,000,001 – HK$7,500,000	–	1

11. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	81,935	35,287
Bank borrowings not wholly repayable within five years	6,151	4,749
Loan notes wholly repayable within five years	8,692	7,175
Obligations under a finance lease	–	26
Other borrowings wholly repayable within five years	–	106
	96,778	47,343
Less: Amount capitalised in respect of properties held for development	–	(135)
	96,778	47,208

12. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	5,161	4,671
Overprovision in prior years	(697)	(76)
	4,464	4,595
Amortisation of intangible assets (included in other operating expenses)	3,662	2,701
Amortisation of prepaid land lease payments	4,401	3,275
Commission expenses and sales incentives to account executives and certain staff	135,592	128,783
Depreciation		
Owned assets	24,437	21,090
Asset under a finance lease	42	513
	24,479	21,603
Impairment loss recognised in respect of an associate	4,981	–
Impairment loss recognised in respect of available-for-sale financial assets transferred from investment revaluation reserve	14,411	–
Impairment loss recognised in respect of intangible assets	980	–
Impairment loss recognised in respect of goodwill of associates	13,323	–
Impairment loss recognised in respect of goodwill of a subsidiary	267	–
Impairment loss recognised in respect of non-trading securities	–	16,418
Impairment loss recognised in respect of property, plant and equipment	3,680	–
Loss on dilution of interests in an associate	–	4,492
Loss on disposal of property, plant and equipment	671	579
Loss on write off of intangible assets	23	96
Net unrealised loss on trading securities	–	2,109
Net unrealised loss on derivatives	744	–
Provision for interest in respect of a litigation with NWDC *(note)*	–	2,934
Retirement benefit scheme contributions, net of forfeited contributions of HK$242,000 (2004: HK$805,000) *(note 47)*	10,918	10,096
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	213,584	221,627
and after crediting:		
Dividend income from listed equity securities	16,853	36,843
Dividend income from unlisted equity securities	25,003	36,810
Excess of net fair value over consideration arising from acquisition of subsidiaries	199	–
Net profit on other dealing activities	7,733	8,141

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Net realised profit on derivatives	20,513	15,455
Net realised profit on trading in equity securities	3,132	–
Net realised profit on trading securities	–	4,321
Net unrealised profit on trading in equity securities	1,334	–
Profit on dealing in foreign currencies	6,753	18,180
Profit on disposal of an investment property	2,061	–
Profit on disposal of available-for-sale financial assets	56,748	–
Profit on disposal of non-trading securities	–	2,483
Profit on disposal of partial interest in a subsidiary	–	789
Profit on disposal/deemed disposal of a jointly controlled entity	1,219	942
Rental income from investment properties under operating leases, net of outgoings of HK$21,369,000 (2004: HK$18,000,000)	65,841	50,952
Repayment of interest expenses in respect of litigation with NWDC pursuant to court of Appeal Judgment *(note)*	14,783	–
Reversal of impairment loss of intangible assets	320	–
Write back of loss arising from default of loan agreement with Millennium Touch Limited	–	2,847

Note:

On 1st April, 2004, the High Court of Hong Kong awarded the Judgment in favour of NWDC against SHKS, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK$80,117,653 together with interest of HK$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs.

SHKS has since year 2000 recorded as "Investments" (note 27) (redesignated as loans and receivables on 1st January, 2005 on adoption of HKAS 39) an amount of approximately HK$118,003,000 including payments already made to NWDC in a total sum of HK$35,319,000. Additionally, a provision of approximately HK$18,700,000 for interest was made in 2000. A further provision of HK$58,364,000 has been made in these accounts in respect of interest and legal costs in 2003 and interest expense of HK$2,934,000 was paid in 2004.

SHKS appealed against the Judgment to the Court of Appeal. The Court of Appeal has handed down the 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 High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The Final Appeal will be heard on 19th June, 2006.

Pending any judgment pursuant to the Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC, and/or SDL and/or SHKS to Great Union Properties Sdn Bhd ("GUP")) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and SDL holds 12.5% of the shares in GUP on trust for SHKS.

13. TAXATION

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
The charge comprises:		
Current tax:		
Hong Kong	26,254	31,637
Outside Hong Kong	229	3,099
	26,483	34,736
Deferred tax *(note 29)*	52,823	45,372
	79,306	80,108

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

The total charge for the year can be reconciled to the profit before taxation as follows:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation	1,115,748	740,336
Less: Share of results of associates	(150,388)	(165,856)
Share of results of jointly controlled entities	(105,298)	(19,090)
	860,062	555,390
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%)	150,510	97,193
Effect of different income tax rate of overseas subsidiaries	1,289	(1,476)
Tax effect of expenses that are not deductible for tax purposes	16,182	46,930
Tax effect of income that is not assessable for tax purposes	(84,206)	(77,546)
Tax effect of tax losses not recognised	2,645	6,748
Tax effect of utilisation of tax losses not previously recognised	(7,074)	(3,377)
Tax effect of utilisation of unrecognised deductible temporary difference	(302)	(2,951)
Tax effect of initial recognition exemption	–	13,652
Others	262	935
Taxation for the year	79,306	80,108

Details of deferred taxation are set out in note 29.

14. DIVIDEND

A final dividend of HK10 cents (2004: HK5 cents) per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company.

The amount of the proposed final dividend for the year ended 31st December, 2005 has been calculated by reference to 537,151,901 shares in issue at 12th April, 2006.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$935,342,000 (2004: HK$563,023,000, as restated) and on the weighted average number of 537,151,901 (2004: 492,746,074) shares in issue during the year.

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had impact on the amounts reported for earnings per share. The following tables summarise that impact on both the basic and diluted earnings per share.

Basic earnings per share

	2005	**2004**
	HK$	*HK$*
Figure before adjustments	1.97	1.36
Adjustments arising from changes in accounting policies	(0.23)	(0.22)
As reported/restated	1.74	1.14

Diluted earnings per share

	2004
	HK$
Figure before adjustments	1.32
Adjustments arising from changes in accounting policies	(0.20)
As restated	1.12

Diluted earnings per share is not presented for the year as the Company had no dilutive potential ordinary shares during the year. The calculation of the diluted earnings per share for 2004 was based on the profit attributable to equity holders of the Company of HK$563,023,000, as restated, and on the weighted average number of 504,809,099 shares in issue during the year 2004 after adjusting for the effects of all dilutive potential ordinary shares.

16. INVESTMENT PROPERTIES

	Hotel property HK$'000	Others HK$'000	Total HK$'000
The Group			
Valuation			
At 1st January, 2004, as originally stated	278,038	1,978,035	2,256,073
Effect on adoption of HKAS 17, HKAS 40 and HK-INT 2			
– transferred to property, plant and equipment and prepaid land lease payments	(278,038)	(22,980)	(301,018)
At 1st January, 2004, as restated	–	1,955,055	1,955,055
Additions	–	110	110
Acquisition of a subsidiary	–	126,375	126,375
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Increase in fair value during the year	–	91,719	91,719
At 31st December, 2004	–	2,215,668	2,215,668
Additions	–	2,605	2,605
Acquisition of subsidiaries	–	39,362	39,362
Disposal	–	(12,600)	(12,600)
Transferred from properties held for sale	–	47,160	47,160
Transferred to property, plant and equipment and prepaid land lease payments	–	(17,531)	(17,531)
Overprovision of construction costs	–	(12,814)	(12,814)
Increase in fair value during the year	–	522,250	522,250
At 31st December, 2005	–	2,784,100	2,784,100

The carrying amount of investment properties held by the Group at 31st December, 2005 and 2004 comprises:

	2005 HK$'000	2004 HK$'000
Properties in Hong Kong		
Long-term	2,300,400	1,823,868
Medium-term	440,300	391,800
Medium-term properties outside Hong Kong	43,400	–
	2,784,100	2,215,668

The Group's investment properties are held for rental purposes under operating leases. The fair value of the Group's investment properties at 31st December, 2005 has been arrived at on the basis of a valuation carried out at that date by Norton Appraisals Limited, independent valuers not connected with the Group. Norton Appraisals Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors, was based on rental capitalisation.

Details of the Group's investment properties and other assets being pledged to secure loans and general banking facilities are set out in note 48.

17. PROPERTY, PLANT AND EQUIPMENT

	Hotel property HK$'000	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
The Group						
Cost						
At 1st January, 2004, as originally stated	–	99,743	33,480	96,046	22,181	251,450
Effect on adoption of HKASs 17, 40 and HK-INT 2	339,755	(62,920)	147	–	–	276,982
At 1st January, 2004, as restated	339,755	36,823	33,627	96,046	22,181	528,432
Exchange adjustments	–	–	(1)	(4)	–	(5)
Additions	–	–	5,674	9,332	3,904	18,910
Transferred from properties held for development	32,049	–	–	–	–	32,049
Disposals	–	–	(1,190)	(815)	(1,588)	(3,593)
At 31st December, 2004	371,804	36,823	38,110	104,559	24,497	575,793
Exchange adjustments	–	–	6	(264)	–	(258)
Additions	2,395	–	4,637	12,440	–	19,472
Transferred from investment properties	–	5,849	–	–	–	5,849
Acquisition of subsidiaries	–	5,228	–	5,800	–	11,028
Disposals	–	–	(2,270)	(2,721)	(347)	(5,338)
At 31st December, 2005	374,199	47,900	40,483	119,814	24,150	606,546
Accumulated depreciation and impairment						
At 1st January, 2004, as originally stated	–	6,697	21,348	69,696	21,308	119,049
Effect on adoption of HKASs 17, 40 and HK-INT 2	242,719	1,721	21	–	–	244,461
At 1st January, 2004, as restated	242,719	8,418	21,369	69,696	21,308	363,510
Exchange adjustments	–	–	(1)	(3)	–	(4)
Provided for the year	2,064	1,106	5,702	12,001	730	21,603
Eliminated on disposals	–	–	(661)	(709)	(1,588)	(2,958)
Impairment loss reversed	(4,314)	–	–	–	–	(4,314)
At 31st December, 2004	240,469	9,524	26,409	80,985	20,450	377,837
Exchange and other adjustments	–	–	29	(89)	–	(60)
Provided for the year	2,863	907	6,101	13,647	961	24,479
Eliminated on disposals	–	–	(1,629)	(2,594)	(302)	(4,525)
Impairment loss (reversed)	(4,284)	–	–	3,675	5	(604)
At 31st December, 2005	239,048	10,431	30,910	95,624	21,114	397,127
Carrying amounts						
At 31st December, 2005	135,151	37,469	9,573	24,190	3,036	209,419
At 31st December, 2004	131,335	27,299	11,701	23,574	4,047	197,956

The carrying amount of furniture, fixtures and equipment at 31st December, 2005 of HK$24,190,000 (2004: HK$23,574,000) included nil amount (2004: HK$1,067,000) in respect of asset held under a finance lease.

The Company did not have any property, plant and equipment at 31st December, 2005 or 2004.

18. PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
At cost, less impairment loss recognised:		
At 1st January, as originally stated	97,377	131,174
Effect on adoption of HKAS 17	–	(19,200)
At 1st January, as restated	97,377	111,974
Exchange adjustments	(241)	131
Additions, including interest of nil amount (2004: HK$135,000) capitalised	–	14,321
Impairment loss reversed	34,700	3,000
Transferred to properties held for sale and other inventories	(131,836)	–
Transferred to property, plant and equipment	–	(32,049)
At 31st December	–	97,377

The carrying value of properties held for development held by the Group at 31st December, 2004 represented freehold properties outside Hong Kong.

The impairment loss reversal was determined with reference to the fair value based on an independent professional valuation at 31st December, 2005.

19. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments comprise:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Leasehold land in Hong Kong		
Long-term	282,364	274,796
Leasehold land outside Hong Kong		
Medium-term	8,693	–
Short-term	730	810
	291,787	275,606
Analysed for reporting purposes as:		
Non-current portion	287,367	271,505
Current portion included in current assets	4,420	4,101
	291,787	275,606

20. GOODWILL

	The Group
	HK$'000
Cost	
Arising on acquisition of subsidiaries and at 31st December, 2005	267
Impairment	
Amount recognised during the year and at 31st December, 2005	267
Carrying amount	
At 31st December, 2005	–

21. NEGATIVE GOODWILL

	The Group
	HK$'000
Gross amount	
At 1st January, 2004	765,570
Adjustment on acquisition of subsidiaries in prior year	15,700
Acquisition of additional interest in a subsidiary	902
At 31st December, 2004	782,172
Released to income statement	
At 1st January, 2004	236,167
Released during the year	156,741
At 31st December, 2004	392,908
Carrying amount	
At 31st December, 2004	389,264
Derecognised upon adoption of HKFRS 3	(389,264)
At 31st December, 2005	–

22. INTANGIBLE ASSETS

	Computer software	Exchange participation rights	Club debentures	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
Cost				
At 1st January, 2004	9,633	–	–	9,633
Additions	6,091	–	–	6,091
Write off	(120)	–	–	(120)
At 31st December, 2004	15,604	–	–	15,604
Opening balance adjustments arising from changes in accounting policies	–	2,507	6,868	9,375
Exchange adjustments	284	–	–	284
Acquisition of subsidiaries	–	1,200	–	1,200
Additions	5,962	–	–	5,962
Write off	–	–	(23)	(23)
At 31st December, 2005	21,850	3,707	6,845	32,402
Amortisation and impairment				
At 1st January, 2004	2,552	–	–	2,552
Provided for the year	2,701	–	–	2,701
Eliminated on write off	(24)	–	–	(24)
At 31st December, 2004	5,229	–	–	5,229
Opening balance adjustments arising from changes in accounting policies	–	–	180	180
Exchange adjustments	85	–	–	85
Provided for the year	3,662	–	–	3,662
Impairment loss	10	240	730	980
Impairment loss reversed	–	–	(320)	(320)
At 31st December, 2005	8,986	240	590	9,816
Carrying amounts				
At 31st December, 2005	12,864	3,467	6,255	22,586
At 31st December, 2004	10,375	–	–	10,375
The Company				
Cost				
Opening balance adjustment arising from changes in accounting policies and at 31st December, 2005	–	–	510	510

The computer software included above have finite useful lives, over which the assets are amortised whereas the exchange participation rights and club debentures have infinite useful lives and are not subject to amortisation. The amortisation period for computer software is three to five years.

23. INTERESTS IN SUBSIDIARIES

	2005	2004
	HK$'000	*HK$'000*
Investment, at cost	14	14
Amounts due from subsidiaries, less allowance	3,231,969	2,696,483
	3,231,983	2,696,497

The amounts due from subsidiaries are unsecured and interest-free. These amounts are considered as quasi-equity loans to the subsidiaries.

Other than the loan notes issued by Sun Hung Kai, terms of which are shown in note 40, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2005 are set out in note 52.

24. INTERESTS IN ASSOCIATES

	The Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Listed securities in Hong Kong *(note 24(i))*	2,560,483	2,305,571
Unlisted shares *(note 24 (ii))*	149,574	157,449
	2,710,057	2,463,020

Notes:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
(i) Listed securities in Hong Kong		
Cost of investment	1,806,717	1,801,125
Share of post-acquisition reserves	753,766	579,140
Negative goodwill on acquisition of associates *(note (iv))*	–	(152,694)
	2,560,483	2,227,571
Amount due from an associate	–	78,000
	2,560,483	2,305,571
Market value of listed securities	1,301,161	1,109,200

Included in cost of investment is goodwill of HK$86,127,000 (2004: HK$84,998,000) arising on acquisition of certain associates. The movement is set out in note (iii) below.

		The Group	
		2005	2004
		HK$'000	*HK$'000*
			(Restated)
(ii)	Unlisted shares		
	Cost of investment	35,376	35,376
	Share of post-acquisition reserves	76,489	80,178
	Negative goodwill on acquisition of associates *(note (vi))*	–	(787)
		111,865	114,767
	Less: impairment loss recognised	(26,873)	(21,892)
		84,992	92,875
	Amounts due from associates	64,582	64,574
		149,574	157,449

In 2004, cost of investment included goodwill of HK$894,000 arising on acquisition of certain associates. The movement is set out in note (v) below.

The amounts due from associates are unsecured and interest-free. They are considered as quasi-equity loans.

(iii) Goodwill on acquisition of listed associates

	The Group
	HK$'000
Cost	
At 1st January, 2004	232,304
Acquisition of associates	3,469
Disposal of associates	(433)
At 31st December, 2004	235,340
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(150,342)
Acquisition of additional interests in associates	13,683
Disposal of associates	(125)
At 31st December, 2005	98,556
Amortisation	
At 1st January, 2004	119,899
Provided for the year	30,860
Disposal of associates	(417)
At 31st December, 2004	150,342
Eliminated upon adoption of HKFRS 3	(150,342)
At 31st December, 2005	–
Impairment	
Amount recognised during the year and at 31st December, 2005	12,429
Carrying amounts	
At 31st December, 2005	86,127
At 31st December, 2004	84,998

(iv) Negative goodwill on acquisition of listed associates

	The Group
	HK$'000
Gross amount	
At 1st January, 2004	(339,190)
Acquisition of associates	(11,997)
Disposal of associates	1,755
At 31st December, 2004	(349,432)
Released to income statement	
At 1st January, 2004	(138,821)
Released during the year	(58,693)
Disposal of associates	776
At 31st December, 2004	(196,738)
Carrying amount	
At 31st December, 2004	(152,694)
Derecognised upon adoption of HKFRS 3	152,694
At 31st December, 2005	–

(v) Goodwill on acquisition of unlisted associates

	The Group
	HK$'000
Cost	
At 1st January, 2004	14,169
Adjustment in goodwill	(5,145)
At 31st December, 2004	9,024
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(8,130)
At 31st December, 2005	894
Amortisation	
At 1st January, 2004	8,229
Adjustment in amortisation	(343)
Provided for the year	244
At 31st December, 2004	8,130
Eliminated upon adoption of HKFRS 3	(8,130)
At 31st December, 2005	–
Impairment	
Amount recognised during the year and at 31st December, 2005	894
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	894

(vi) Negative goodwill on acquisition of unlisted associates

	The Group
	HK$'000
Gross amount	
At 1st January, 2004 and 31st December, 2004	(2,981)
Released to income statement	
At 1st January, 2004	(1,606)
Released during the year	(588)
At 31st December, 2004	(2,194)
Carrying amount	
At 31st December, 2004	(787)
Derecognised upon adoption of HKFRS 3	787
At 31st December, 2005	–

The Group tests goodwill annually, or whenever there is an indication that goodwill might be impaired. The impairment loss of HK$13,323,000 arose during the year mainly from the Group's interests in associates due to the prolonged decline in the fair value of the Group's interests in the associates below the Group's carrying amount.

Particulars of the Group's principal associates at 31st December, 2005 are set out in note 53.

The summarised financial information in respect of the Group's associates is set out below:

	2005	**2004**
	HK$'000	*HK$'000*
Total assets	12,504,896	10,936,258
Total liabilities	(6,112,961)	(5,117,700)
Minority interests	(569,177)	(451,110)
Net assets	5,822,758	5,367,448
Revenue	2,990,345	3,157,413
Profit for the year	469,356	338,208

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Unlisted shares		
Cost of investment	1,536	3,830
Share of post-acquisition reserves	882,480	831,590
	884,016	835,420
Elimination of unrealised profit	(17,622)	(17,622)
	866,394	817,798

In 2004, cost of investment included goodwill of HK$506,000 arising from acquisition of certain jointly controlled entities. The movement is set out in note below.

Note: Goodwill on acquisition of a jointly controlled entity

	The Group
	HK$'000
Cost	
Acquisition of a jointly controlled entity	1,253
Released on deemed disposal	(626)
At 31st December, 2004	627
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(121)
Disposal of a jointly controlled entity	(506)
At 31st December, 2005	–
Amortisation	
Provided for the year	219
Released on deemed disposal	(98)
At 31st December, 2004	121
Eliminated upon adoption of HKFRS 3	(121)
At 31st December, 2005	–
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	506

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out in note 54.

The summarised financial information of the Group's jointly controlled entities is set out below:

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	2,115,265	1,929,003
Current assets	319,212	409,289
Non-current liabilities	(575,870)	(567,377)
Current liabilities	(89,638)	(103,837)
Revenue	371,773	335,303
Expenses	(294,621)	(287,093)
Increase in fair value of investment properties	183,297	–

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	530,543	–
Outside Hong Kong	4,444	–
	534,987	–
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong *(note)*	399,901	–
Outside Hong Kong	58,251	–
	458,152	–
	993,139	–

Note: The amount includes the Group's interest in a fellow subsidiary of HK$399,900,000.

27. INVESTMENTS

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Group								
Listed equity securities, at market value, issued by corporate entities								
Hong Kong	–	476,810	–	23,152	–	–	–	499,962
Outside Hong Kong	–	4,474	–	3,740	–	–	–	8,214
issued by banks								
Hong Kong	–	–	–	13,133	–	–	–	13,133
Outside Hong Kong	–	–	–	59	–	–	–	59
issued by public utility entities								
Hong Kong	–	–	–	32	–	–	–	32
	–	481,284	–	40,116	–	–	–	521,400
Unlisted equity securities issued by corporate entities								
Hong Kong *(note (i))*	–	183,501	–	–	–	–	–	183,501
Outside Hong Kong *(note (ii))*	–	119,993	–	–	–	–	–	119,993
	–	303,494	–	–	–	–	–	303,494
Unlisted marketable debt securities issued by overseas government	–	–	–	7,741	–	–	–	7,741
Other unlisted securities	–	–	–	406	–	–	–	406
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing Companies	–	–	–	–	–	35,819	–	35,819
Amounts due from investee companies less impairment losses recognised *(note (ii))*	–	–	–	–	–	90,883	–	90,883
	–	784,778	–	48,263	–	126,702	–	959,743
Carrying amount analysed for reporting purposes as:								
Non-current	–	784,778	–	–	–	126,702	–	911,480
Current	–	–	–	48,263	–	–	–	48,263
	–	784,778	–	48,263	–	126,702	–	959,743

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Company								
Club debentures	–	–	–	–	–	510	–	510
Carrying amount analysed for reporting purposes as:								
Non-current	–	–	–	–	–	510	–	510

Notes:

(i) The investment represents the Group's interest in a fellow subsidiary.

(ii) Included a sum totalling HK$118,003,000 for the interests in the Kuala Lumpur hotels project in comparative figures of 2004. Please refer to footnote of note 28.

28. LOANS AND RECEIVABLES

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Loan note of a listed associate	78,000	–
Amounts due from investee companies *(note)*	124,687	–
Other	1,066	3,200
	203,753	3,200
Less: impairment	(1,447)	–
	202,306	3,200

The fair value of the Group's loans and receivables at 31st December, 2005 was approximate to the corresponding carrying amounts.

Note: Pending any Judgment pursuant to such appeal to the Court of Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC and/or SDL and/or SHKS to GUP) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and SDL holds 12.5% of the shares in GUP on trust for SHKS. A sum totalling HK$118,003,000 is included in "amounts due from investee companies" being the amount, (excluding interest which has been expensed in prior years) which represents the carrying value of the SHKS Interest.

The Group has decided that it is not presently appropriate to make any provisions in respect of the litigation or for impairment of the value of its interest in the total Kuala Lumpur hotels project pursuant to the Judgment and the Court of Appeal Judgment (together "Judgments"). This decision has been taken because it is considered that the current circumstances regarding the nature and value of the interest existing under the Judgments and the uncertainty of the Final Appeal, result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. On the one hand if SHKS is completely successful in the Final Appeal then it may be entitled to recovery of monies already paid. On the other hand if it is not successful or only partially successful then it may be possible that further provision for impairment of the value of its final interests in the Kuala Lumpur hotels project may be required. The extent of such provision is not presently capable of determination as the holding company of the hotel namely GUP has not provided a current valuation of the project and SHKS has not had sufficient access to the detailed books and records of GUP to reach a supportable view as to the value of the project.

29. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation of properties and other assets	Provisions	Unrealised profit	Undistributed earnings and others	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004, as originally stated	50,587	13,282	(5,431)	1,393	1,708	(49,986)	11,553
Effect of changes in accounting policies	94,815	54,187	(377)	–	–	(35,881)	112,744
At 1st January, 2004, as restated	145,402	67,469	(5,808)	1,393	1,708	(85,867)	124,297
Exchange adjustments	–	–	–	(13)	–	–	(13)
Transferred from tax payable	–	–	–	–	2,726	–	2,726
Acquisition of a subsidiary	770	–	–	–	–	–	770
Charged (credited) to income statement	22,178	31,638	(2,078)	(106)	(869)	(5,391)	45,372
Charged to equity	–	167	–	–	55	–	222
At 31st December, 2004	168,350	99,274	(7,886)	1,274	3,620	(91,258)	173,374
Exchange adjustments	–	–	–	67	–	–	67
Acquisition of subsidiaries	–	–	–	132	–	(8)	124
Charged (credited) to income statement	9,325	47,638	1,447	31	(866)	(4,752)	52,823
(Credited) charged to equity	–	(26)	–	–	110	–	84
At 31st December, 2005	177,675	146,886	(6,439)	1,504	2,864	(96,018)	226,472

The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes:

	The Group 2005	The Group 2004
	HK$'000	*HK$'000* (Restated)
Deferred tax liabilities	230,615	183,653
Deferred tax assets	(4,143)	(10,279)
	226,472	173,374

At 31st December, 2005, the Group had unrecognised deductible temporary differences of HK$5,880,000 (2004: HK$6,023,0000) and estimated unused tax losses of HK$2,012,760,000 (2004: HK$1,977,056,000, as restated) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$548,679,000 (2004: HK$521,474,000, as restated) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,464,081,000 (2004: HK$1,455,582,000, as restated) due to the unpredictability of future profit streams. There were no other significant temporary differences that are not recognised arising during the year or at the balance sheet date.

Included in unrecognised tax losses are losses of HK$4,467,000, HK$54,000 and HK$13,349,000 that will expire in 2006, 2007 and 2008, respectively. Other losses may be carried forward indefinitely.

At 31st December, 2005 the Company had estimated unused tax losses of HK$24,456,000 (2004: HK$23,511,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

30. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Properties in Hong Kong, at net realisable value	389,000	401,600
Non-current freehold properties outside Hong Kong, at net realisable value	131,836	–
Other inventories, at cost	114	121
	520,950	401,721

Certain of the Group's properties previously held for sale with a net realisable value of HK$47,160,000 (2004: HK$44,795,000) were rented out under operating leases during the year and were therefore reclassified as investment properties.

The cost of properties held for sale recognised as an expense in 2005 was nil (2004: HK$20,753,000).

The non-current freehold properties outside Hong Kong represent a property project in the United States of America. The Group has the intention to realise this asset. The freehold properties are included in the Group's sale of properties and property based investments for segment reporting purpose (note 8).

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Listed equity securities, at market value issued		
by corporate entities		
Hong Kong	32,396	–
Outside Hong Kong	2,534	–
issued by banks		
Hong Kong	20,654	–
Outside Hong Kong	87	–
issued by public utilities		
Hong Kong	33	–
	55,704	–
Unlisted equity securities, at fair value		
issued by a corporate entity outside Hong Kong	119,514	–
Warrants and options listed in Hong Kong, at fair value	3,508	–
Others	478	–
	179,204	–

32. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK$1,181,355,000 (2004: HK$833,906,000, as restated), the aged analysis of which is as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
0 to 30 days	1,155,721	790,286
31 to 180 days	16,849	20,671
181 to 365 days	778	2,888
over 365 days	167,080	218,207
	1,340,428	1,032,052
Allowance for doubtful debts	(159,073)	(198,146)
	1,181,355	833,906

No aging analysis on margin clients' receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing.

Details of the interest rates and maturity dates of term loans and margin loans are disclosed in note 6.

There were listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The fair value of the listed securities at 31st December, 2005 was HK$6,272,527,000 (2004: HK$6,420,945,000).

33. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK$848,151,000 (2004: HK$921,363,000), the aged analysis of which is stated as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
0 to 30 days	820,787	855,672
31 to 180 days	4,336	9,787
181 to 365 days	508	1,296
over 365 days	22,520	54,608
	848,151	921,363

34. CURRENT ASSETS AND CURRENT LIABILITIES

The fair value of the Group's accounts receivable, amounts due from associates, amount due from a jointly controlled entity, short-term pledged bank deposit, bank deposits, bank balances and cash, accounts payable and accrued charges, amount due to Allied Group Limited, amounts due to associates and amount due to jointly controlled entity at 31st December was approximate to the corresponding carrying amounts.

The Group maintains trust and segregated accounts with licensed banks to hold clients' deposits arising from normal business transactions. At 31st December, 2005, trust and segregated accounts not otherwise dealt with in these accounts totalled HK$2,130,593,000 (2004: HK$2,178,901,000).

Amounts due from associates of the Group are unsecured, non-interest bearing and are expected to be settled within one year.

The fair value of the Company's accounts receivable, bank deposits, bank balances and cash, accounts payable and accrued charges and amount due to Allied Group Limited at 31st December was approximate to the corresponding carrying amount.

35. SHARE CAPITAL

	Number of shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$2.0 each at 31st December, 2004 and at 31st December, 2005	3,000,000,000	6,000,000
Issued and fully paid:		
Ordinary shares of HK$2.0 each at 1st January, 2004	489,384,217	978,768
Exercise of warrant subscription rights	47,767,684	95,535
Ordinary shares of HK$2.0 each at 31st December, 2004 and 31st December, 2005	537,151,901	1,074,303

36. RESERVES

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
The Group		
Share premium	516,644	516,644
Property revaluation reserve	–	149,913
Investment revaluation reserve	490,639	247,059
Capital redemption reserve	72,044	72,044
Translation reserve	(86,753)	(109,984)
Capital (goodwill) reserve *(note 36 (b))*	4,827	(39,177)
Accumulated profits	4,945,116	3,438,798
Dividend reserve	53,715	26,858
	5,996,232	4,302,155

	Share premium	Special capital reserve	Capital redemption reserve	Accumulated profits (losses)	Dividend reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The Company						
At 1st January, 2004	492,784	2,320,430	72,044	(1,485,404)	–	1,399,854
Transferred from special capital reserve to accumulated profits (losses) *(note 36(a))*	–	(2,320,430)	–	2,320,430	–	–
Premium on issue of shares	23,884	–	–	–	–	23,884
Share issue expenses	(24)	–	–	–	–	(24)
Final dividend	–	–	–	(26,858)	26,858	–
Loss attributable to equity holders	–	–	–	(197,844)	–	(197,844)
At 31st December, 2004	516,644	–	72,044	610,324	26,858	1,225,870
Dividend paid	–	–	–	–	(26,858)	(26,858)
Proposed final dividend	–	–	–	(53,715)	53,715	–
Profit attributable to equity holders	–	–	–	572,577	–	572,577
At 31st December, 2005	516,644	–	72,044	1,129,186	53,715	1,771,589

The Company's reserves available for distribution to shareholders at 31st December, 2005 are represented by accumulated profits and dividend reserve totalling HK$1,182,901,000 (2004: 637,182,000).

Notes:

(a) When sanctioning a reduction in nominal value of the Company's shares in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributable until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. There were no outstanding liabilities at 31st December, 2004 in respect of liabilities in existence at 14th July, 1998. Accordingly, the special capital reserve became distributable and was transferred to accumulated profits (losses) at 31st December, 2004.

(b)

	Goodwill	Capital reserve	Statutory reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
At 1st January, 2004	(79,888)	54,464	1,397	(24,027)
Released on dilution of interests in an associate	–	–	(3)	(3)
Amortisation of capital reserve	–	(17,267)	–	(17,267)
Transferred from accumulated profits	–	–	2,120	2,120
At 31st December, 2004	(79,888)	37,197	3,514	(39,177)
Opening balance adjustment arising from changes in accounting policies	79,888	(37,197)	(704)	41,987
Balance after opening balance adjustments	–	–	2,810	2,810
Share of post-acquisition reserve movements of associates	–	1,754	–	1,754
Transferred from accumulated profits	–	–	263	263
At 31st December, 2005	–	1,754	3,073	4,827

Statutory reserve represents reserve required under relevant rules and regulations of Mainland China.

37. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured. An amount of HK$156,016,000 (2004: HK$229,980,000) bears interest at 3.2% (2004: 2.5%) per annum and the remaining balances are non-interest bearing. The amounts due to subsidiaries are not repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

The interest-free amounts are considered as quasi-equity loans from subsidiaries to finance the Company's investment in other subsidiaries.

38. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Stock borrowings	17,700	–
Stock option	56	–
	17,756	–

39. BANK BORROWINGS

	The Group		The Company	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings comprise:				
Bank loans	1,742,956	1,591,844	–	–
Bank overdrafts	83,040	57,905	3,115	–
	1,825,996	1,649,749	3,115	–
Analysed as:				
Secured	1,792,881	1,649,749	–	–
Unsecured	33,115	–	3,115	–
	1,825,996	1,649,749	3,115	–
Bank loans and overdrafts are repayable as follows:				
Within one year or on demand	950,233	603,180	3,115	–
More than one year but not exceeding two years	606,939	226,738	–	–
More than two years but not exceeding five years	211,214	733,469	–	–
More than five years	57,610	86,362	–	–
	1,825,996	1,649,749	3,115	–
Less: Amount repayable within one year and shown under current liabilities	(950,233)	(603,180)	(3,115)	–
Amount due after one year	875,763	1,046,569	–	–

Most of the bank loans and overdrafts are in Hong Kong Dollars. Details of the interest rates and dates of maturity are disclosed in note 6.

Details of the assets of the Group pledged to secure bank borrowings are set out in note 48.

The fair value of the Group's bank borrowings was approximate to the corresponding carrying amount.

40. LOAN NOTES

The amount represents the loan notes issued in part consideration of the repurchase of shares by a listed subsidiary. The loan notes bear interest at 4% per annum and are due on 7th March, 2008. The effective interest rate is 7.9% per annum.

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Principal		
At 1st January	129,637	231,637
Repurchased and cancelled	(60,000)	(102,000)
	69,637	129,637
Difference using the effective interest method		
At 1st January	–	–
Adjustments to opening balance on the adoption of HKAS 39	(14,077)	–
Interest expense	8,692	–
At 31st December	(5,385)	–
Carrying amounts at 31st December	64,252	129,637

The fair value of the Group's loan notes was approximate to the corresponding amount.

41. OTHER LIABILITIES

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Provisions *(note)*	35,135	44,739
Advance from minority shareholders	974	1,022
	36,109	45,761
Less: Amount repayable within one year and shown under current liabilities	(33,366)	(42,122)
Amount due after one year	2,743	3,639

Note:

	The Group		
	Employee benefits	**Other**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2005	43,871	868	44,739
Provided for the year	33,449	846	34,295
Written back	(13,473)	–	(13,473)
Utilisation of provision	(11,428)	–	(11,428)
Amount paid during the year	(18,922)	(76)	(18,998)
At 31st December, 2005	33,497	1,638	35,135
Less: Amount repayable within one year and shown under current liabilities	(32,520)	(846)	(33,366)
	977	792	1,769

42. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries during the year:

Name	**Principal activities**	**Date of acquisition**	**Percentage acquired**	**Component of cost**	**Cost including capitalised expenses** *HK$'000*
Hing Yip Holdings Limited	Property investment	1st February, 2005	100%	Cash	13,811
Excalibur Futures Limited	Futures dealing and broking	17th March, 2005	100%	Cash	16,853
Excalibur Securities Limited	Securities broking	17th March, 2005	100%	Cash	9,033
Sing Hing Investment Limited	Property investment	18th April, 2005	100%	Cash	38,477
					78,174

The net assets acquired and the goodwill arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	HK$'000	*HK$'000*
Net assets acquired:		
Investment property	26,934	39,362
Property, plant and equipment	9,565	11,028
Prepaid land lease payments	6,408	8,900
Intangible assets	1,200	1,200
Statutory deposits	1,734	1,734
Accounts receivable, deposits and prepayments	17,723	16,823
Bank balances and cash	15,758	15,758
Accounts payable and accrued charges	(16,575)	(16,575)
Deferred tax liabilities	(124)	(124)
Net assets	62,623	78,106
Total consideration, satisfied by cash		78,174
		68
Excess of net fair value over consideration recognised in consolidated income statement as other income		199
Goodwill		267
Net cash outflow arising on acquisition:		
Cash consideration paid		78,174
Bank balances and cash acquired		(15,758)
		62,416

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of the subsidiaries.

The aggregate revenue and the profit for the year of the acquired subsidiaries are as follows:

	For the year ended 31st December, 2005	Post acquisition attributable to the Group
	HK$'000	*HK$'000*
Total revenue	46,695	43,743
Profit for the year	11,061	7,800

The subsidiary acquired in 2004 did not have any significant impact on the Group's revenue and profit for that year.

The information for the year 2005 is for illustrative purposes only and is not necessarily an indication of revenue and results of operation of the acquired subsidiaries that are included in the consolidated income statement of the Group, nor is it intended to be a projection of future results.

43. MAJOR NON-CASH TRANSACTION

During the year, dividend income declared by a jointly controlled entity of HK$60,000,000 (2004: HK$60,000,000) was recorded by setting off the amount against the current account of the jointly controlled entity.

44. CONTINGENT LIABILITIES

(a) At 31st December, 2005, the Group had guarantees as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Guarantees for banking facilities granted to an investee company	6,979	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	5,540
Other guarantees	7,084	3,184
	19,603	15,724

(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 a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts of HK$15,700,000 which may be 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 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 now been stayed until further order by the court.

While a provision has been made for legal costs, at this stage, the management is of the view that it is not appropriate for any other provision to be made with respect to this action.

(c) By the Judgment of High Court of Hong Kong on 1st April, 2004 ("Judgment") in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which was found by the court ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the amount was HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal has now handed down the 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 High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The Final Appeal will be heard on 19th June, 2006.

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of three further amounts for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS ("New Claims"):

(i) on 1st March, 2000 in the sum of HK$27,234,754;

(ii) on 2nd January, 2001 in the sum of HK$7,697,418 (Sun Hung Kai understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and

(iii) on 4th June, 2004 in the sum of HK$2,565,839 in respect of a bank loan by GUP. (a provision has been made with respect to this claim in the accounts of SHKS).

The Group understands that a second further writ including a statement of claim ("HCA 376/2006") was issued by NWDC and SDL in February 2006, claiming, inter alia, the sum of HK$37,498,011 being the aggregate of amounts of the New Claims, together with interest thereon at such rate and for such period as the Court considers appropriate. This second further writ has not been served on SHKS.

The outcome of the Final Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the Group takes the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Final Appeal or the Further Writ. An analysis as to the possible financial implications for the Group depending on the ultimate outcome of the Final Appeal was provided in note 28.

At 31st December, 2005, the Company had guarantees of HK$1,470,857,000 (2004: HK$1,559,800,000) given to banks in respect of credit facilities utilised by its subsidiaries.

45. CAPITAL COMMITMENTS

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided for in the financial statements	29,952	29,039
Capital expenditure authorised but not contracted for	2,259	2,209

The Company did not have any significant capital commitments at 31st December, 2005 and 2004.

46. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Minimum lease payments under operating leases recognised in the income statement for the year:		
Land and buildings	17,170	17,374
Others	50	658
	17,220	18,032

At 31st December, 2005, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group			
	2005		**2004**	
	Land and buildings	**Others**	**Land and buildings**	**Others**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	14,477	406	20,155	578
In the second to fifth year inclusive	14,463	–	34,466	–
	28,940	406	54,621	578

Operating leases are negotiated for terms ranging from one to two years.

The Group as lessor

Property rental income earned during the year was HK$87,210,000 (2004: HK$68,952,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next three years.

At 31st December, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	69,460	39,746
In the second to fifth years inclusive	37,793	18,487
	107,253	58,233

The Company did not have any significant lease commitments as lessee or lessor under non-cancellable operating leases at 31st December, 2005 and 2004.

47. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2005 and 2004, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The schemes have been closed in 2000 to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

From 1st December, 2000 onwards, new staff in Hong Kong joining the Group are required to join the Mandatory Provident Fund Scheme ("MPF Scheme"). The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the MPF Scheme.

48. PLEDGE OF ASSETS

At 31st December, 2005, certain of the Group's investment properties, land and buildings, properties held for development, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK$3,545,804,000 (2004: HK$3,026,237,000, as restated), certain securities in respect of a listed subsidiary with a cost of HK$902,933,000 (2004: HK$902,933,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK$1,387,659,000 (2004: HK$1,074,406,000) were pledged to secure loans and general banking facilities to the extent of HK$3,098,756,000 (2004: HK$3,404,144,000) granted to the Group. Facilities amounting to HK$1,792,881,000 (2004: HK$1,649,749,000) were utilised at 31st December, 2005.

At 31st December, 2005, a bank deposit of HK$972,000 (2004: HK$1,220,000) was pledged to secure a bank guarantee amounting to HK$2,000,000 (2004: HK$2,000,000).

At 31st December, 2005 and 2004, the Company had not pledged any assets.

49. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of transactions

	(Income)/Expense	
	2005	**2004**
	HK$'000	*HK$'000*
Ultimate holding company		
Share of management service expenses/corporate management service fee *(note)*	7,120	6,112
Share of administrative expenses *(note)*	661	6,935
Advertising income	(800)	(800)
Rent, property management and air-conditioning fees *(note)*	(3,437)	(3,464)
Fellow subsidiaries		
Management service fee	–	2,200
Advertising income	(400)	(400)
Dividend income	(21,810)	(7,270)
Jointly controlled entity		
Administration, management and consultancy fees	(3,775)	(4,860)
Dividend income	(60,000)	(60,000)
Property management and air-conditioning fees and other property related service fee	(13,996)	(14,020)
Associates		
Dividend income	(750)	(6,182)
Interest income	(6,754)	(7,287)
Insurance premium	(4,402)	(4,543)
Service fee income	(2,718)	(1,137)
Rent, property management, air-conditioning fees and other related service fees	(1,674)	(910)

(b) Key management personnel compensation

	2005	**2004**
	HK$'000	*HK$'000*
Short term benefits	11,437	5,879
Post-employment benefits	266	175
	11,703	6,054

Certain key management personnel of the Group received remuneration from the Company's ultimate holding company or its wholly-owned subsidiary. The ultimate holding company provided management services to the Group and charged the Group a fee, which is included in share of management service expenses/management service fee as disclosed above in part (a) of this note, for services provided by those personnel as well as others who are not key management personnel of the Group.

Prior to 2005, the management service fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management service fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which have been included in the key management personnel compensation above for 2005, is HK$4,400,000.

(c) During the year, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest-free loans from such jointly controlled entity. At 31st December 2005, the amounts lent to the Group totalling HK$81,000,000 (2004: HK$141,000,000) are unsecured, interest-free and repayable on demand.

(d) During the year, the Group acquired two companies from a subsidiary of a listed associate at a total consideration of HK$52,283,000.

(e) During the year, a loan facility to the extent of HK$280,000,000 was granted to a subsidiary of a listed associate for a term of 36 months from 7th November, 2005. The loan is charged at an interest rate of 1% over prime rate per annum and guaranteed by the listed associate. At 31st December, 2005, the loan drawn down amounted to HK$245,000,000.

Note: Apart from the tenancy agreement entered into by a subsidiary of the Company and the Sharing of Administrative Services and Management Services Agreement entered into by the Company with the ultimate holding company, none of the above related party transactions constitutes a discloseable connected transaction as defined in Listing Rules.

The net balances due from (to) related parties at 31st December, 2005 and 2004 are summarised as follows:

	The Group		**The Company**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Ultimate holding company	(8,235)	(6,115)	(8,183)	(6,094)
Associates	331,822	88,444	–	911
Jointly controlled entities	(78,916)	(139,023)	—	
	244,671	(56,694)	(8,183)	(5,183)

The above amounts are included in the balance sheets of the Group and the Company in the following ways:

	The Group		**The Company**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interests in associates	64,582	136,953	–	–
Loans and receivables from an associate	78,000	–	–	–
Accounts receivable, deposits and prepayments	245,116	979	–	911
Amounts due from associates	7,384	231	–	–
Amount due from a jointly controlled entity	2,159	2,040	–	–
Accounts payable and accrued charges	(496)	(480)	–	–
Amount due to Allied Group Limited	(8,183)	(6,094)	(8,183)	(6,094)
Amounts due to associates	(62,828)	(49,260)	–	–
Amount due to a jointly controlled entity	(81,063)	(141,063)	–	–
	244,671	(56,694)	(8,183)	(5,183)

50. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 31st December, 2005					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Fixed deposits with banks	–	110,902	–	–	–	110,902
Term loan of a listed associate	–	245,000	–	–	–	245,000
Loan note of a listed associate	–	–	–	78,000	–	78,000
Treasury bills	–	7,680	–	–	–	7,680
Term loans	183,630	66,200	5,667	–	–	255,497
Liabilities						
Bank loans and overdrafts	–	554,910	395,323	818,153	57,610	1,825,996
Loan notes	–	–	–	64,252	–	64,252

	At 31st December, 2004					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Fixed deposits with banks	–	144,181	–	–	–	144,181
Loans and receivables	–	–	–	3,200	–	3,200
Loan note of a listed associate	–	–	–	78,000	–	78,000
Term loans	232,911	61,145	34,600	–	–	328,656
Marketable debt securities	–	7,741	–	–	–	7,741
Liabilities						
Bank loans and overdrafts	–	76,247	526,933	960,207	86,362	1,649,749
Loan notes	–	–	–	129,637	–	129,637

51. EVENTS AFTER THE BALANCE SHEET DATE

(a) on 3rd April, 2006, Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, entered into a conditional option agreement with CLSA Capital Limited ("CLSA"), pursuant to which Wah Cheong was granted the option to acquire further 34,156,666 shares in Quality HealthCare Asia Limited ("QHA") from CLSA at an option consideration of HK$27,752,291. The option agreement will only take effect after the approval of the shareholders of the Company, Sun Hung Kai and Allied Group Limited, the ultimate holding company of the Company respectively, and the confirmation from the Securities and Futures Commission on terms that are not considered detrimental that Wah Cheong and CLSA will not be regarded as parties acting in concert and that Wah Cheong is not required to make a mandatory offer to all QHA's shareholders until it exercises the option.

The option will entitle Wah Cheong to:

– acquire all (but not part) of the option shares (being 34,156,666 QHA shares held by CLSA) at an aggregate exercise price of HK$83,256,873 (i.e. HK$2.4375 per option share), and

– exercise all or part of the option warrants (being such number of QHA warrants held by CLSA as would, if exercised, lead to the subscription of 6,943,333 QHA shares at HK$2.5 per share).

The option is exercisable by Wah Cheong, with respect to the option shares, at any time within a period of 4 years and, with respect to the option warrants, on or before 13th January, 2007.

At 7th April, 2006, Wah Cheong has an equity interest of approximately 34.39% in QHA. It also holds such number of warrants as would, if exercised, lead to the subscription of 12,544,632 shares. Exercise of such warrants in full would result in Wah Cheong holding an equity interest of approximately 38.36% in QHA.

Assuming that (i) no new shares are issued by QHA (other than those issued following exercise in full of the option warrants), (ii) the option is exercised in respect of the option shares and the option warrants as mentioned in the option agreement have been exercised, and (iii) Wah Cheong does not exercise any of the warrants held by it, Wah Cheong's equity interest in QHA will increase to approximately 53.54% of the enlarged capital. In case Wah Cheong exercises all the warrants held by it, Wah Cheong's equity interest in QHA will further increase to approximately 56.25%.

(b) On 6th April, 2006, the following agreements were entered into

– a placing agreement between Sun Hung Kai as vendor and 3V Capital Limited as a placing agent in respect of the placing of 175,000,000 existing shares in Tian An China Investments Company Limited ("Tian An") to independent investors at a price of HK$5.1 per share, and

– a subscription agreement between Sun Hung Kai and Tian An in respect of Sun Hung Kai's subscription for 175,000,000 new shares in Tian An ("Subscription Shares") at the same price on completion of the placing.

The placing agreement is unconditional and completion of the placing has taken place. However, the subscription agreement is conditional upon:

– the Stock Exchange granting listing of and permission to deal in the Subscription Shares.

– granting of a waiver from any obligation to make a general offer under Rule 26 of the Takeover Code arising as a result of the subscription, and

– completion of the placing.

The completion of the above will result in Sun Hung Kai's equity interest in Tian An reducing from approximately 48.60% to approximately 40.51%. The Board does not anticipate any significant gain or loss to the Group arising from this transaction.

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2005 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
	HK$	%	%	
Alaston Development Limited	US$1	100	100	Property trading
Allied Real Estate Agency Limited	2	100	100	Real estate agency
AP Administration Limited	2	100	100	Provision of management and consultancy services
AP Corporate Services Limited	2	100	100	Provision of corporate services
AP Development Limited	2	100*	100	Investment holding
AP Diamond Limited	US$1	100	100	Property trading and holding
AP Emerald Limited	US$1	100	100	Investment holding
AP Finance Limited	2	100	100	Money lending
AP Property Management Limited	2	100	100	Building management
Bali International Finance Limited	137,500,000	100	75	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	75	Securities dealer
Best Melody Development Limited	5,000	100	100	Property holding
Cheeroll Limited	2	100	75	Investment holding, securities and bullion trading
Cowslip Company Limited	2	100	75	Investment holding
Excalibur Futures Limited	20,000,000	100	75	Futures dealing and broking
Excalibur Securities Limited	20,000,000	100	75	Securities broking
Fame Arrow Company Limited	100,000	95	95	Loan financing
Florich Development Limited	10,000	100	100	Investment holding
Front Sail Limited	5,000	100	100	Property holding
Gilmore Limited	2	100	100	Property holding
Gloria (Nominees) Limited	200	100	75	Investment holding
Gloxin Limited	2	100	75	Investment holding
Grand Securities Company Limited	20,000,000	100	75	Securities broking
Hilarious (Nominees) Limited	10,000	100	75	Investment holding
Hillcrest Development Limited	20	100	100	Property holding
Hi-Link Limited	200	100	100	Investment holding
Integrated Custodian Limited	2	100	100	Property holding
Itso Limited	2	100	75	Securities trading
Jaffe Development Limited	US$1	100	100	Property holding
Kalix Investment Limited	2	100	100	Property holding
King Policy Development Limited	2	100	100	Property holding
Lexshan Nominees Limited	2	100	75	Nominee service
Macdonnell (Nominees) Limited	10,000	100	75	Investment holding
Maxplan Investment Limited	2	100	100	Securities trading
Mightyton Limited	10,000	100	100	Property holding
Oakfame Investment Limited	2	100	75	Investment holding
Ontone Limited	2	100	100	Hotel operations, property development and property holding

Subsidiaries	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
	HK$	*%*	*%*	
Pioneer Score Development Limited	2	100	75	Investment holding
Plentiwind Limited	2	100	75	Futures trading
Polyking Services Limited	2	100	65	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	65	Building management
Quick Art Limited	3,540,000	100	75	Property holding
Ranbridge Finance Limited	20,000,000	100	75	Money lending
San Pack Properties Limited	10	100	100	Property holding
Scienter Investments Limited	20	100	75	Share trading
SHK Consultancy Services Limited	2	100	75	Provision of consultancy service
SHK Financial Data Limited	100	51	38	Provision of financial information service
SHK Fund Management Limited	5,000,000	100	75	Funds marketing and management
SHK Investment Services Limited	1,000,000	100	75	Asset holding and leasing
SHK Online (Securities) Limited	30,000,000	100	75	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	75	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	75	Investment holding
Shun Loong Bullion Limited	6,000,000	100	75	Bullion dealing and broking
Shun Loong Capital Limited	6,500,000	100	75	Investment holding
Shun Loong Finance Limited	1,000,000	100	75	Money lending
Shun Loong Forex Company Limited	32,000,000	100	75	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	75	Futures and option dealing
Shun Loong Holdings Limited	200,000,000	100	75	Investment holding
Shun Loong Nominees Limited	100,000	100	75	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	75	Computer and marketing advisory services and securities trading
Shun Loong Securities Company Limited	50,000,000	100	75	Securities broking and share margin financing
Sierra Joy Limited	2	100	100	Property holding
Splendid Gain Limited	2	100	75	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	75	Bullion trading
Sun Hung Kai & Co. Limited**	249,140,631	75	75	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	75	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	75	Bullion trading and investment holding
Sun Hung Kai Commodities Limited	80,000,600	100	75	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	75	Foreign exchange dealing
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	75	Insurance broking and consultancy services
Sun Hung Kai International Limited	10,000,000	100	75	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	75	Securities, futures and options trading

Subsidiaries	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
	HK$	%	%	
Sun Hung Kai Investment Services Limited	290,000,000	100	75	Investment holding, share broking and margin financing
Sun Hung Kai Research Limited	100,000	100	75	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	75	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	75	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	75	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	75	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	75	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	75	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	75	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	75	Financial service
Texgulf Limited	20	100	75	Property holding
To Wan Development Company Limited	10,000	100	75	Investment holding
Tung Wo Investment Company, Limited	10,000	100	75	Investment holding
Wah Cheong Development Company, Limited	25,100,000	100	75	Investment holding
Wineur Secretaries Limited	2	100	75	Secretarial service
Yee Li Ko Investment Limited	58,330,000	100	75	Property holding

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

Particulars of the Company's principal subsidiaries at 31st December, 2005 which were incorporated and have their principal place of operations outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Allied Properties China Limited	Cayman Islands	US$1,000	100*	100	Investment holding
Best Decision Investments Limited	British Virgin Islands	US$50,000	65	49	Investment holding
Best Delta International Limited	British Virgin Islands	US$1	100	75	Investment holding
Boneast Assets Limited	British Virgin Islands	US$1	100	75	Investment holding
Constable Development S.A.	Panama	US$5	100	75	Investment holding
Hing Yip Holdings Limited	British Virgin Islands	US$1	100	75	Property holding
I-Market Limited	British Virgin Islands	US$1	100	75	Investment holding
Kenworld Corporation	Republic of Liberia	US$1	100	100	Investment holding
Lakewood Development Corporation	United States of America	US$1,000	100	100	Property held for sale
Ranbridge, Inc.	The Philippines	Peso5,385,000	100	75	Money lending
Shipshape Investments Limited	British Virgin Islands	US$1	100	75	Investment holding
SHK Absolute Return Managers Limited	Cayman Islands	US$10	100	75	Investment holding
SHK Global Managers Limited	British Virgin Islands	US$5,000	100	75	Funds management
SHK Quant Managers Limited	Cayman Islands	US$10	100	75	Funds management
Sing Hing Investment Limited	British Virgin Islands	US$1	100	75	Property holding
SL Meridian Holdings Limited	British Virgin Islands	HK$1,000,000	100	75	Investment holding
Sun Hung Kai International Bank (Brunei) Limited	Brunei Darussalam	SGD10,000,000	100	75	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US$50,000	100	75	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP1,000,000	100	75	Property holding
Sun Hung Kai Online Limited	British Virgin Islands	US$1	100	75	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US$12,000	100	75	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso 273,600,000	100	75	Investment holding
Swan Islands Limited	British Virgin Islands	US$1	100	75	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US$1	100	75	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US$1	100	75	Investment holding
Upstand Assets Limited	British Virgin Islands	US$1	100	75	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US$2,675,400	100	75	Investment holding
Zeal Goal International Limited	British Virgin Islands	US$1	100	75	Investment holding

** This subsidiary is listed in Hong Kong and further details about this subsidiary are available in its published audited accounts.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

53. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31st December, 2005 are set out below:

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
		%	%	
Chronicle Gain Limited	Hong Kong	45	34	Property holding
Drinkwater Investment Limited	Hong Kong	22	16	Property holding
Omicron International Limited	British Virgin Islands	44	33	Investment holding
Quality HealthCare Asia Limited**	Bermuda	34	25	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	30	Property development
Silver York Development Limited	Hong Kong	40	30	Investment holding
Start Hold Limited	Hong Kong	33	25	Investment holding
Tian An China Investments Company Limited**	Hong Kong	49	37	Investment holding
Yu Ming Investments Limited**	Hong Kong	22	16	Investment holding

** These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

54. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out below:

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
		%	%	
Allied Kajima Limited	Hong Kong	50	50	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	25	Corporate finance advisory

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

3. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the Group's current cash balance and resources as well as its available banking facilities, the Group has sufficient working capital for its present requirements.

4. INDEBTEDNESS

At the close of business on 30th April, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$1,772.1 million, comprising secured bank loans and overdrafts of approximately HK$1,548.9 million, unsecured bank overdrafts of approximately HK$0.7 million, 4% unlisted loan notes of approximately HK$65.0 million, unsecured borrowings of approximately HK$91.1 million from a jointly controlled entity, unsecured borrowings of approximately HK$62.9 million from associates, unsecured borrowings of approximately HK$2.5 million from investee companies, and unsecured borrowing of approximately HK$1.0 million from a minority shareholder. The Group's banking facilities were secured by charges over its assets, including investment properties, hotel property, land and buildings, prepaid land lease payments, properties held for sale, short-term bank deposit and listed investments belonging to the Group and margin clients, together with certain securities in respect of a listed subsidiary held by the Group.

In addition, the Group had contingent liabilities in the sum of approximately HK$20.8 million in respect of guarantees for a banking facility granted to an investee company, indemnities on bank guarantees made available to a clearing house and regulatory body and other guarantees. There were also claims arising from litigation with New World Development Company Limited and Shanghai Finance Holdings Limited, further particulars of which are set out in the section headed "Litigation" in Appendix V to this circular.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30th April, 2006.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 30th April, 2006.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 31st December, 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

6. FINANCIAL AND TRADING PROSPECTS

On 17th May, 2006 and 18th May, 2006, the Company, AGL and SHK jointly announced that AP Emerald Limited ("APE"), an indirect wholly-owned subsidiary of the Company, as vendor, had entered into a placing agreement (as amended) to place 169 million SHK shares ("1st Placing") and 79 million SHK shares ("2nd Placing") to independent investors at a price of HK$7.00 per SHK share respectively and APE would subscribe 248 million SHK shares at the same price of HK$7.00 per SHK share ("Subscription"). The placing of 169 million SHK shares was completed on 22nd May, 2006, while the placing of 79 million SHK shares and the Subscription will be subject to the relevant shareholders' approval of the Company, AGL and SHK respectively.

In view of the current market conditions, the Directors consider that the 1st Placing and the 2nd Placing, together with the Subscription, represent good opportunities to raise further working capital for SHK while at the same time broadening its shareholder and capital base. The net proceeds from the Subscription of approximately HK$1,685.5 million will be applied by SHK and its subsidiaries to fund the possible acquisition of the entire interest in UAF Holdings Limited as announced on 19th June, 2006, or if such acquisition does not proceed, to fund new investments and acquisitions in future as and when opportunities arise and require and for general working capital purposes.

As stated in the 2005 annual report, the Hong Kong economy is expected to continue to enjoy benefits from the stable local economic environment and the vigorous growth in the Mainland economy. With the improved employment situation, rising labour income and enhanced economic co-operation with the Pan-Pearl River Delta, the local economy is benefiting from solid growth in private expenditure. However, the persistently high global oil prices and interest rates are still the factors that may negatively influence the market sentiment in 2006.

The Group expects its office and residential portfolio will continue to benefit from the positive local property market, with occupancy rates of the Group's investment properties expected to remain high. The promising tourism industry in Hong Kong will be beneficial to the Group's hotel business. Barring any unexpected external factors, the Group takes a positive outlook on local business conditions in the year 2006. However, given the high oil prices and interest rates, the rate of economic growth is anticipated to be slower than that of last year. The Group will maintain its cautious strategy by maintaining healthy cash management, balanced capital structure and will seek viable business opportunities that will deliver long term and sustainable values to the Shareholders.

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE QHA GROUP

The following is a summary of the audited financial results of the QHA Group for each of the three years ended 31 December 2005 as extracted from the annual reports of QHA for the relevant years. Due to the adoption of new Hong Kong Financial Reporting Standards in 2005, the 2004 and 2003 financial information has been reclassified to conform with the presentation of 2005.

Consolidated Income Statement

	Year ended 31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
REVENUE	822,844	788,348	743,522
Other income and gains	9,836	8,692	7,591
Changes in inventories of finished goods and dispensary supplies consumed	(30,548)	(29,985)	(25,858)
Staff costs	(290,529)	(276,051)	(259,978)
Depreciation and amortisation expenses	(17,731)	(19,398)	(21,639)
Other operating expenses, net	(425,109)	(415,413)	(400,738)
Impairment of goodwill	(2,200)	(2,176)	–
Professional fees in connection with a takeover offer	–	–	(4,759)
Corporate restructuring expenses	–	–	(4,800)
Finance costs	(1)	(101)	(1,440)
Share of profits and losses of:			
Jointly-controlled entities	43	(7)	1,471
An associate	(165)	–	–
PROFIT BEFORE TAX	66,440	53,909	33,372
Tax	(10,300)	(8,891)	(8,933)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	56,140	45,018	24,439
DIVIDENDS			
Interim	4,883	2,167	–
Proposed final	6,348	3,250	4,874
	11,231	5,417	4,874
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	27.9 cents	20.8 cents	11.3 cents
Diluted	27.9 cents	20.7 cents	11.3 cents

Consolidated Balance Sheet

	31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	26,169	31,612	40,249
Unlisted equity investments	–	78	78
Loan to an investee company	–	102	342
Goodwill	3,527	5,727	8,394
Interests in jointly-controlled entities	819	225	–
Interest in an associate	2,281	–	–
Total non-current assets	32,796	37,744	49,063
CURRENT ASSETS			
Convertible note	–	–	7,000
Inventories	7,881	7,350	7,413
Accounts receivable	83,270	71,700	71,721
Prepayments, deposits and other receivables	21,748	22,151	28,371
Cash and bank balances	116,640	115,762	58,991
Total current assets	229,539	216,963	173,496
CURRENT LIABILITIES			
Interest-bearing bank borrowing	–	–	8,000
Accounts payable, other payables, accruals and deposits received	101,773	91,869	76,097
Deferred revenue	3,742	7,730	9,446
Hire purchase contract payable	5	5	–
Tax payable	5,458	8,145	19,458
Total current liabilities	110,978	107,749	113,001
NET CURRENT ASSETS	118,561	109,214	60,495
TOTAL ASSETS LESS CURRENT LIABILITIES	151,357	146,958	109,558
NON-CURRENT LIABILITIES			
Hire purchase contract payable	13	17	–
Deferred tax liabilities	1,057	1,057	1,728
Total non-current liabilities	1,070	1,074	1,728
Net assets	150,287	145,884	107,830
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	19,533	21,667	21,662
Reserves	124,406	120,967	81,294
Proposed final dividend	6,348	3,250	4,874
Total equity	150,287	145,884	107,830

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE QHA GROUP FOR THE YEAR ENDED 31 DECEMBER 2005

Set out below are the audited consolidated financial statements and notes to the financial statements of the QHA Group for the year ended 31 December 2005 extracted from the annual report 2005 of QHA.

Consolidated Income Statement
Year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000*
REVENUE	*5*	822,844	788,348
Other income and gains		9,836	8,692
Changes in inventories of finished goods and dispensary supplies consumed		(30,548)	(29,985)
Staff costs		(290,529)	(276,051)
Depreciation and amortisation expenses		(17,731)	(19,398)
Other operating expenses, net		(425,109)	(415,413)
Impairment of goodwill		(2,200)	(2,176)
Finance costs	*7*	(1)	(101)
Share of profits and losses of:			
Jointly-controlled entities		43	(7)
An associate		(165)	–
PROFIT BEFORE TAX	*6*	66,440	53,909
Tax	*10*	(10,300)	(8,891)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*11*	56,140	45,018
DIVIDENDS	*12*		
Interim		4,883	2,167
Proposed final		6,348	3,250
		11,231	5,417
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*13*		
Basic		27.9 cents	20.8 cents
Diluted		27.9 cents	20.7 cents

Consolidated Balance Sheet
31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	26,169	31,612
Unlisted equity investments	15	–	78
Loan to an investee company	16	–	102
Goodwill	17	3,527	5,727
Interests in jointly-controlled entities	19	819	225
Interest in an associate	20	2,281	–
Total non-current assets		32,796	37,744
CURRENT ASSETS			
Inventories	21	7,881	7,350
Accounts receivable	22	83,270	71,700
Prepayments, deposits and other receivables		21,748	22,151
Cash and bank balances		116,640	115,762
Total current assets		229,539	216,963
CURRENT LIABILITIES			
Accounts payable, other payables, accruals and deposits received	23	101,773	91,869
Deferred revenue		3,742	7,730
Hire purchase contract payable	24	5	5
Tax payable		5,458	8,145
Total current liabilities		110,978	107,749
NET CURRENT ASSETS		118,561	109,214
TOTAL ASSETS LESS CURRENT LIABILITIES		151,357	146,958
NON-CURRENT LIABILITIES			
Hire purchase contract payable	24	13	17
Deferred tax liabilities	25	1,057	1,057
Total non-current liabilities		1,070	1,074
Net assets		150,287	145,884
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	26	19,533	21,667
Reserves	28(a)	124,406	120,967
Proposed final dividend	12	6,348	3,250
Total equity		150,287	145,884

Consolidated Statement of Changes in Equity
Year ended 31 December 2005

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2004		21,662	139	81,155	4,874	107,830
Share options exercised	*26(iv)*	5	72	–	–	77
Profit for the year		–	–	45,018	–	45,018
Final 2003 dividend declared		–	–	–	(4,874)	(4,874)
Interim 2004 dividend	*12*	–	–	(2,167)	–	(2,167)
Proposed final 2004 dividend	*12*	–	–	(3,250)	3,250	–
At 31 December 2004 and 1 January 2005		21,667	211	120,756	3,250	145,884
Final 2004 dividend declared		–	–	–	(2,929)	(2,929)
Adjustment for final 2004 dividend		–	–	321	(321)	–
Share repurchased	*26(i)*	(2,167)	–	(41,168)	–	(43,335)
Share repurchase expenses	*26(i)*	–	–	(1,326)	–	(1,326)
Share options exercised	*26(ii)*	6	79	–	–	85
Warrants exercised	*26(iii)*	27	624	–	–	651
Profit for the year		–	–	56,140	–	56,140
Interim 2005 dividend	*12*	–	–	(4,883)	–	(4,883)
Proposed final 2005 dividend	*12*	–	–	(6,348)	6,348	–
At 31 December 2005		19,533	914*	123,492*	6,348	150,287

* These reserve accounts comprised the consolidated reserves of HK$124,406,000 (2004: HK$120,967,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement
Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		66,440	53,909
Adjustments for:			
Finance costs	7	1	101
Share of results of jointly-controlled entities and an associate		122	7
Negative goodwill recognised as income	6	–	(61)
Bank interest income	6	(1,455)	(507)
Dividend income from an unlisted investment	6	(485)	(189)
Depreciation	6	17,731	18,907
Amortisation	6	–	491
Impairment of goodwill	6	2,200	2,176
Provision for/(write-back of) impairment on accounts receivable	6	93	(3,294)
Loss on disposal/write-off of items of property, plant and equipment	6	458	968
Operating profit before working capital changes		85,105	72,508
Decrease/(increase) in inventories		(531)	63
Decrease/(increase) in accounts receivable		(11,663)	1,922
Decrease in prepayments, deposits and other receivables		403	5,824
Increase in accounts payable, other payables, accruals and deposits received		9,904	15,772
Decrease in deferred revenue		(3,988)	(1,716)
Cash generated from operations		79,230	94,373
Interest paid		(1)	(101)
Hong Kong profits tax paid		(12,987)	(19,783)
Net cash inflow from operating activities		66,242	74,489

	Notes	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(13,449)	(11,213)
Proceeds from disposal of items of property, plant and equipment		703	–
Proceeds from disposal of unlisted equity investment		78	–
Repayment of loan to an investee company		102	240
Additional capital contribution to a jointly-controlled entity		(390)	–
Investment in an associate		(2,100)	–
Advance of loan to an associate		(346)	–
Advance to jointly-controlled entities		(161)	(171)
Repayment of convertible notes		–	7,000
Dividend received		485	189
Interest received		1,455	1,204
Net cash outflow from investing activities		(13,623)	(2,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
Exercise of share options	*26(ii)*	85	77
Exercise of warrants	*26(iii)*	651	–
Repayment of an interest-bearing bank borrowing		–	(8,000)
Capital element of a hire purchase contract payable		(4)	(3)
Repurchase of shares		(43,335)	–
Share repurchase expenses	*26(i)*	(1,326)	–
Dividends paid		(7,812)	(7,041)
Net cash outflow from financing activities		(51,741)	(14,967)
NET INCREASE IN CASH AND CASH EQUIVALENTS		878	56,771
Cash and cash equivalents at beginning of year		115,762	58,991
CASH AND CASH EQUIVALENTS AT END OF YEAR		116,640	115,762
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		116,640	115,762

Balance Sheet
31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	547,329	580,959
CURRENT ASSETS			
Prepayments, deposits and other receivables		796	2,133
Cash and bank balances		22,273	22,219
Total current assets		23,069	24,352
CURRENT LIABILITIES			
Other payables and accruals		12,184	10,617
Total current liabilities		12,184	10,617
NET CURRENT ASSETS		10,885	13,735
Net assets		558,214	594,694
EQUITY			
Issued capital	26	19,533	21,667
Reserves	28(b)	532,333	569,777
Proposed final dividend	12	6,348	3,250
Total equity		558,214	594,694

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

Quality HealthCare Asia Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at 6/F, China Merchants Steam Navigation Building, 303–307 Des Voeux Road Central, Sheung Wan, Hong Kong.

During the year, the Group was involved in the following principal activities:

- provision of medical services
- provision of nursing agency, physiotherapy and dental services
- provision of elderly care services

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 27, 28, 31, 33, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39

In prior years, the Group classified its unlisted equity investments and a loan to an investee company as long term investments, which were intended to be held for a continuing strategic or long term purpose, and were stated at cost less any impairment losses, on an individual investment basis.

Upon the adoption of HKAS 39, the unlisted equity investments and the loan to an investee company held by the Group at 1 January 2005 in the amounts of HK$78,000 and HK$102,000, respectively, are designated as available-for-sale financial assets and loans and receivables, respectively, under the transitional provisions of HKAS 39. Available-for-sale financial assets are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. Loans and receivables are carried at amortised cost using the effective interest method, with gains or losses being recognised in the income statement when subsequent derecognised or impaired, as well as through the amortisation process. The adoption of HKAS 39 has not resulted in any material change in the measurement of these instruments at 1 January 2005 or during the current year. Comparative amounts have been reclassified for presentation purposes.

(b) HKFRS 2

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, or during the current year, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004 nor has it had an impact on the current year's profit.

(c) HKFRS 3 and HKAS 36

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against consolidated reserves remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(d) HKFRS 4

HKFRS 4 prescribes the financial reporting of contracts defined as insurance contracts under HKFRS 4, which include certain fixed-fee contracts in which the level of service depends on an uncertain future event. The Group has certain medical and dental services contracts, in which the Group agrees to provide specific medical/dental services over the terms of the contracts for a fixed-fee (the "Fixed-fee Contracts"). The financial reporting of these Fixed-fee Contracts have been disclosed and accounted for pursuant to certain provisions of HKFRS 4. The Fixed-fee Contracts in general are of short duration. The adoption of HKFRS 4 did not materially impact the measurement and recognition of any asset, liability, income or expense in the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments to HKAS 39 regarding financial guarantee contracts will result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to its subsidiaries and tenancy agreements entered into by its subsidiaries.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKAS 21 Amendment, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities to the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKASs 32# and 39* Change in classification of investments *HK$'000*
Assets	
Available-for-sale equity investments (accounted for in accordance with HKAS 39)	78
Loan receivable (accounted for in accordance with HKAS 39)	102
Long term investments (accounted for in accordance with Hong Kong Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities")	(180)
	–

At 31 December 2005

Effect of adopting HKFRS 3*

Had the amortisation of goodwill been made for the year ended 31 December 2005 and included in these financial statements, the goodwill and retained profits of the Group at 31 December 2005 would have been reduced by HK$491,000.

* Adjustments taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

(b) Effect of adopting HKFRS 3 on the consolidated income statement for the year ended 31 December 2005

	Discontinuation of amortisation of goodwill *HK$'000*
Effect of new policy	
Decrease in amortisation expense and increase in profit	491
Increase in basic earnings per share	0.24 cents
Increase in diluted earnings per share	0.24 cents

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of Hong Kong Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than, inter alia, inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	15% to $33^1/_3$% or over the lease terms, whichever is higher
Furniture, fixtures and office equipment	15% to $33^1/_3$%
Medical equipment	20%
Computer equipment and software	20% to $33^1/_3$%
Motor vehicles	20% to $33^1/_3$%

When parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is decognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity and debt investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments. Long term investments in unlisted equity and debt securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories, including medicine, dispensary supplies and consumables, are stated at the lower of cost and net realisable value, after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred in the process of disposal.

Cash and cash equivalents

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

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

Deferred revenue

Deferred revenue represents services fees received in advance. Deferred revenue is released to and recognised in the income statement when the corresponding services are rendered.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and same taxation authority.

Revenue recognition

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

(a) from the provision of services, including medical services, nursing agency, physiotherapy and dental services and elderly care services, upon the provision of the relevant services or on a time proportion basis over the terms of the service contracts, as further explained in the accounting policy for "Fixed-fee Contracts" below;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Fixed-fee Contracts

At each balance sheet date, tests are performed to ensure the adequacy of the contract liabilities under the Fixed-fee Contracts. In performing these tests, current best estimates of future contractual cash flows under the Fixed-fee Contracts are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses.

Fees received or receivable under the Fixed-fee Contracts are recognised on a time proportion basis over the terms of the Fixed-fee Contracts. Expenses incurred in connection with the Fixed-fee Contracts are charged to the income statement as incurred.

Employee benefits

Share-based payment transactions (applicable to options granted to employees on or before 7 November 2002)

The Company operates a share incentive plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Hong Kong Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Long service payments

The Group and Company had contingent liabilities in respect of possible future long service payments to employees under the Employment Ordinance, as further explained in the accounting policy for "Employee benefits" as set out in note 2.5 to the financial statements. Management has to consider whether it is appropriate to recognise the provision for long service payments.

In making its judgement, the Group considers (i) the number of current employees who have achieved the required number of years of service to the Group and Company, to the balance sheet date, in order to be eligible for long service payment under the Employment Ordinance if their employment is terminated in the circumstances specified; (ii) the average age of the employees; (iii) the turnover rate of its employees; and (iv) the possibility of the termination of employment of its employees that meets circumstances specified in the Employment Ordinance based on relevant economic and other factors. Management considers that no full provision for long service payments is required as it is not considered probable that the situation at the balance sheet date will result in a material future outflow of resources from the Group and the Company.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$3,527,000 (2004: HK$5,727,000). Further details are given in note 17.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the medical services segment engages in the provision of medical services;

(b) the nursing agency, physiotherapy and dental services ("nursing agency, physio & dental services") segment engages in the provision of nursing agency, physiotherapy and dental services;

(c) the elderly care services segment engages in the provision of elderly care services; and

(d) the corporate and other segment comprises the Group's intra-group management service businesses, which principally provides management and other services to group companies, together with other corporate income and expense items.

Intersegment sales and transfers are transacted at mutually agreed terms.

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group

	Medical services		Nursing agency, physio & dental services		Elderly care services		Corporate and other		Eliminations		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:												
Sales to external customers	649,246	623,754	76,040	65,280	97,558	99,314	–	–	–	–	822,844	788,348
Intersegment sales	3,196	2,933	14,592	10,355	5,759	5,699	68	–	(23,615)	(18,987)	–	–
Other income and gains	6,917	6,744	405	431	217	141	842	869	–	–	8,381	8,185
Total	659,359	633,431	91,037	76,066	103,534	105,154	910	869	(23,615)	(18,987)	831,225	796,533
Segment results	61,691	55,769	7,562	6,077	4,380	(341)	(8,525)	(7,995)	–	–	65,108	53,510
Unallocated interest income											1,455	507
Finance costs											(1)	(101)
Share of profits and losses of:												
Jointly-controlled entities	43	(7)	–	–	–	–	–	–	–	–	43	(7)
An associate	(165)	–	–	–	–	–	–	–	–	–	(165)	–
Profit before tax											66,440	53,909
Tax											(10,300)	(8,891)
Profit for the year attributable to equity holders of the Company											56,140	45,018

Group

	Medical services		Nursing agency, physio & dental services		Elderly care services		Corporate and other		Eliminations		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities												
Segment assets	183,233	169,459	28,024	21,162	31,435	37,392	16,543	24,817	–	–	259,235	252,830
Interests in jointly controlled entities and associates	3,100	225	–	–	–	–	–	–	–	–	3,100	225
Unallocated assets											–	1,652
Total assets											262,335	254,707
Segment liabilities	78,019	68,193	9,137	6,016	11,432	12,406	6,927	13,006	–	–	105,515	99,621
Unallocated liabilities											6,533	9,202
Total liabilities											112,048	108,823
Other segment information:												
Depreciation and amortisation	6,284	7,457	2,525	2,591	8,553	9,065	369	285	–	–	17,731	19,398
Goodwill impairment recognised in the income statement	–	–	–	–	2,200	2,176	–	–	–	–	2,200	2,176
Provision for/(write-back of) impairment on accounts receivable	–	(2,000)	36	36	57	(1,330)	–	–	–	–	93	(3,294)
Loss on disposal/write-off of items of property, plant and equipment	89	580	352	234	17	154	–	–	–	–	458	968
Capital expenditure	9,317	6,896	3,068	1,770	1,027	1,300	37	1,272	–	–	13,449	11,238

5. REVENUE

Revenue, which is also the Group's turnover, represents fees earned for the provision of medical services, nursing agency, physiotherapy and dental services, and elderly care services.

An analysis of revenue is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Revenue		
Medical services	649,246	623,754
Nursing agency, physiotherapy and dental services	76,040	65,280
Elderly care services	97,558	99,314
	822,844	788,348

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000
Cost of inventories sold/dispensary supplies consumed and services provided		663,144	650,785
Depreciation	14	17,731	18,907
Amortisation of goodwill*	17	–	491
Impairment of goodwill	17	2,200	2,176
		2,200	2,667
Negative goodwill recognised as income during the year**		–	(61)
Provision for/(write-back of) impairment on accounts receivable		93	(3,294)
Minimum lease payments under operating leases in respect of land and buildings		60,154	63,263
Employee benefits expenses (excluding directors' remuneration (note 8)):			
Salaries, wages, allowances and bonuses		278,416	264,251
Retirement benefits scheme contributions (defined contribution scheme)		6,521	6,198
		284,937	270,449
Auditors' remuneration		1,048	920
Foreign exchange differences, net		12	14
Loss on disposal/write-off of items of property, plant and equipment		458	968
Revenue attributable to the Fixed-fee Contracts		(86,706)	(84,224)
Expenses related to the Fixed-fee Contracts		77,201	80,453
Bank interest income		(1,455)	(507)
Gross rental income		(90)	(99)
Dividend income from an unlisted investment		(485)	(189)

* The amortisation of goodwill in the prior year was included in "Depreciation and amortisation expenses" on the face of the consolidated income statement.

** The negative goodwill in the prior year arose on the acquisition of a jointly-controlled entity during that year and was included in "Other operating expenses, net" on the face of the consolidated income statement. The amount was in respect of negative goodwill in anticipation of identified future losses and expenses.

7. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on:		
Bank loans and overdrafts wholly repayable within five years	–	100
Hire purchase contract	1	1
	1	101

8. DIRECTORS' REMUNERATION

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

	Group 2005 HK$'000	Group 2004 HK$'000
Fees	160	298
Other emoluments:		
Salaries, allowances and benefits in kind	5,408	5,280
Retirement benefits scheme contributions (defined contribution scheme)	24	24
	5,432	5,304
	5,592	5,602

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
Mr. Li Chak Hung	60	13
Mr. Chang Chu Fai Johnson Francis	50	9
Mr. Carlisle Caldow Procter	50	12
Mr. Cheng Mo Chi Moses	–	140
Mr. Ian Robert Strachan	–	124
	160	298

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and non-executive directors

	Fees	Salaries, allowance and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2005				
Executive directors:				
Mr. Arthur George Dew	–	369*	–	369
Dr. Chee Wang Jin, Lincoln	–	3,013	12	3,025
Mr. Wong Tai Chun, Mark	–	2,026	12	2,038
	–	5,408	24	5,432
Non-executive directors:				
Mr. Richard Owen Pyvis				
Mr. Brian Damian O'Connor	–	–	–	–
	–	–	–	–
	–	5,408	24	5,432

* In view of the fact that Mr. Arthur George Dew, an executive director and the chairman of the Company and the chairman of Sun Hung Kai & Co. Limited ("SHK"), has, since his appointment as an executive director and the chairman of the Company, devoted and will continue to devote part of his time and efforts to the affairs of the Company and its subsidiaries or its associated company in such capacities, the Company and SHK entered into an agreement dated 18 November 2005 (the "Reimbursement Agreement"), pursuant to which the Company agreed to reimburse SHK a portion of the salary of Mr. Dew (which is paid by SHK) for a period commencing from 20 May 2005 and ending on 31 December 2006. The fee payable by the Company to SHK under the Reimbursement Agreement is determined by reference to the percentage of time that Mr. Dew devotes to the affairs of the Company against the amount of time he devotes to the affairs of SHK, which is agreed at HK$50,000 per month and will be payable by the Company on a quarterly basis. The amount paid and payable to SHK under the Reimbursement Agreement for the year ended 31 December 2005 amounted to HK$369,000 (2004: Nil). Further details of the Reimbursement Agreement are also set out in a joint announcement issued by the Company and SHK dated 18 November 2005.

	Fees	Salaries, allowance and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2004				
Executive directors:				
Mr. Arthur George Dew	–	–	–	–
Dr. Chee Wang Jin, Lincoln	–	3,480	12	3,492
Mr. Wong Tai Chun, Mark	–	1,800	12	1,812
	–	5,280	24	5,304
Non-executive directors:				
Mr. Richard Owen Pyvis	–	–	–	–
Mr. Brian Damian O'Connor	–	–	–	–
	–	5,280	24	5,304

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any (2004: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of these five (2004: four) non-director, highest paid employees for the year are as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	26,100	22,089
Retirement benefits scheme contributions	71	60
	26,171	22,149

The number of non-director, highest paid employees or doctors practicing on their own accounts pursuant to an employee typed contract whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	**2004**
HK$3,000,001 - HK$3,500,000	1	–
HK$4,000,001 - HK$4,500,000	1	1
HK$4,500,001 - HK$5,000,000	1	2
HK$5,000,001 - HK$5,500,000	1	–
HK$7,500,001 - HK$8,000,000	–	1
HK$8,500,001 - HK$9,000,000	1	–
	5	4

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2005	**2004**
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	10,547	9,562
Overprovision in prior years	(247)	–
Deferred *(note 25)*	–	(671)
Total tax charge for the year	10,300	8,891

A reconciliation of the tax expense applicable to profit before tax using the Hong Kong statutory tax rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the Hong Kong statutory tax rate) to the effective tax rate, are as follows:

	Group			
	2005		**2004**	
	HK$'000	%	*HK$'000*	%
Profit before tax	66,440		53,909	
Tax at the Hong Kong statutory tax rate	11,627	17.5	9,434	17.5
Profits and losses attributable to jointly-controlled entities and an associate	21	–	–	–
Adjustments in respect of current tax of previous periods	(247)	(0.3)	–	–
Income not subject to tax	(408)	(0.6)	(5)	–
Expenses not deductible for tax	555	0.8	521	1.0
Tax losses for the year not recognised	60	0.1	393	0.7
Tax losses utilised from previous periods	(2,432)	(3.7)	(1,559)	(2.9)
Others	1,124	1.7	107	0.2
Tax charge at the Group's effective rate	10,300	15.5	8,891	16.5

As set out in the financial statements for the year ended 31 December 2004, the Hong Kong Inland Revenue Department was in dispute over certain tax issues related to prior years with certain medical practices in which the Group has business interests and had issued notices of additional assessments to the medical practices (the "Tax Disputes"). The Tax Disputes were settled in 2004 and the corresponding tax liabilities, which were fully provided for in the prior years, were also settled in 2004.

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$15,257,000 (2004: HK$16,705,000) (note 28(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim – HK2.5 cents (2004: HK1 cent) per ordinary share	4,883	2,167
Proposed final – HK3.25 cents (2004: HK1.5 cents) per ordinary share	6,348	3,250
	11,231	5,417

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The proposed final dividend for 2004 has been adjusted by HK$321,000, details of which are included in note 26(i).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$56,140,000 (2004: HK$45,018,000), and the weighted average number of 201,144,975 (2004: 216,649,775) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$56,140,000 (2004: HK$45,018,000). The weighted average number of ordinary shares used in the calculation is the 201,144,975 (2004: 216,649,775) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of 371,979 (2004: 334,697) ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential shares into ordinary shares.

The outstanding warrants during the year were not accounted for in the calculation of diluted earnings per share as they did not have a dilutive effect on the basic earnings per share for the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Medical equipment *HK$'000*	Computer equipment and software *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2005						
At 31 December 2004 and 1 January 2005:						
Cost	72,075	19,221	19,978	12,556	641	124,471
Accumulated depreciation	(52,757)	(14,733)	(15,040)	(10,227)	(102)	(92,859)
Net carrying amount	19,318	4,488	4,938	2,329	539	31,612
At 1 January 2005, net of accumulated depreciation	19,318	4,488	4,938	2,329	539	31,612
Additions	6,668	1,367	4,226	1,188	–	13,449
Disposals/write-off	(396)	(58)	(692)	(15)	–	(1,161)
Depreciation provided during the year	(10,567)	(2,139)	(3,503)	(1,328)	(194)	(17,731)
As 31 December 2005, net of accumulated depreciation	15,023	3,658	4,969	2,174	345	26,169
At 31 December 2005:						
Cost	74,075	19,174	23,073	13,268	641	130,231
Accumulated depreciation	(59,052)	(15,516)	(18,104)	(11,094)	(296)	(104,062)
Net carrying amount	15,023	3,658	4,969	2,174	345	26,169
31 December 2004						
At 1 January 2004:						
Cost	72,087	19,239	18,157	11,722	42	121,247
Accumulated depreciation	(47,918)	(13,238)	(11,230)	(8,604)	(8)	(80,998)
Net carrying amount	24,169	6,001	6,927	3,118	34	40,249
At 1 January 2004, net of accumulated depreciation	24,169	6,001	6,927	3,118	34	40,249
Additions	6,548	968	2,065	1,058	599	11,238
Disposals/write-off	(764)	(73)	(128)	(3)	–	(968)
Depreciation provided during the year	(10,635)	(2,428)	(3,926)	(1,824)	(94)	(18,907)
Reclassification	–	20	–	(20)	–	–
As 31 December 2004, net of accumulated depreciation	19,318	4,488	4,938	2,329	539	31,612
At 31 December 2004:						
Cost	72,075	19,221	19,978	12,556	641	124,471
Accumulated depreciation	(52,757)	(14,733)	(15,040)	(10,227)	(102)	(92,859)
Net carrying amount	19,318	4,488	4,938	2,329	539	31,612

The net book value of the Group's property, plant and equipment held under a hire purchase contract included in the total amount of furniture, fixtures and office equipment at 31 December 2005, amounted to approximately HK$17,000 (2004: HK$22,000).

15. UNLISTED EQUITY INVESTMENTS

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	–	78

The above investments were designated as available-for-sale financial assets on 1 January 2005. During the year, the Group disposed of all the above investments for an aggregate consideration of HK$78,000.

16. LOAN TO AN INVESTEE COMPANY

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Loan to an investee company	–	102

The loan to an investee company was unsecured, interest-free and was fully repaid during the year.

17. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of an elderly care home, is as follows:

Group

	HK$'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	10,192
Effect of adopting HKFRS 3 *(note 2.2 (c))*	(1,924)
Cost as restated	8,268
Accumulated amortisation and impairment as previously reported	(4,465)
Effect of adopting HKFRS 3 *(note 2.2 (c))*	1,924
Accumulated impairment as restated	(2,541)
Net carrying amount	5,727
Cost at 1 January 2005, net of accumulated impairment	5,727
Impairment during the year	(2,200)
Carrying amount at 31 December 2005	3,527
At 31 December 2005:	
Cost	8,268
Accumulated impairment	(4,741)
Net carrying amount	3,527

During the year, the Group recognised an impairment of goodwill in the amount of HK$2,200,000 (2004: HK$2,176,000), based on an assessment of the recoverable amount for the elderly care home. The impairment loss is included in the elderly care services segment.

Group

	HK$'000
31 December 2004	
At 1 January 2004:	
Cost	10,192
Accumulated amortisation and impairment	(1,798)
Net carrying amount	8,394
Cost at 1 January 2004, net of accumulated amortisation and impairment	8,394
Amortisation provided during the year	(491)
Impairment during the year	(2,176)
Cost at 31 December 2004, net of accumulated amortisation and impairment	5,727
At 31 December 2004:	
Cost	10,192
Accumulated amortisation and impairment	(4,465)
Net carrying amount	5,727

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of twenty years.

As further detailed in note 2.2 (c) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

The amount of goodwill remaining in the consolidated reserves as at 1 January 2005, arising from the acquisition of subsidiaries, businesses and elderly care homes, prior to the adoption of SSAP 30 in 2001, is as follows:

Group

	Goodwill eliminated against consolidated reserves
	HK$'000
31 December 2005	
At 1 January 2005	
Cost as previously reported	541,361
Accumulated impairment as previously reported	(541,361)
Net carrying amount at 1 January 2005 and 31 December 2005	–
31 December 2004	
Cost as at 1 January 2004	547,191
Closure of an elderly home	(5,830)
At 31 December 2004	541,361
At 31 December 2004:	
Cost	541,361
Accumulated impairment	(541,361)
Net carrying amount	–

Impairment testing of goodwill

Goodwill arising from the acquisition of an elderly care home in a business combination has been allocated to an elderly care home cash-generating unit (the "Cash-generating Unit") for impairment testing. The recoverable amount of the Cash-generating Unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period approved by senior management. The discount rate applied to cash flow projections is 11% (2004: 8.5%) and cash flows beyond the five-year period are extrapolated using a zero (2004: zero) percentage growth rate.

The net carrying amount of goodwill allocated to the Cash-generating Unit was approximately HK$3,527,000 at 31 December 2005 (2004: HK$5,727,000).

Key assumptions were used in the value in use calculation of the Cash-generating Unit for 31 December 2005 and 31 December 2004. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue and results of operation

The budgeted revenue and results of operation have been determined based on the past performance of the Cash-generating Unit and management's expected market development.

Discount rates

The discount rates used are before tax and reflect specific risks relating to the Cash-generating Unit.

Business environment

No major changes in the existing political, legal and economic conditions in Hong Kong.

18. INTERESTS IN SUBSIDIARIES

	Company 2005	Company 2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	35,443	35,443
Due from subsidiaries	1,223,866	1,229,375
Due to subsidiaries	(302,638)	(274,517)
	956,671	990,301
Impairment	(409,342)	(409,342)
	547,329	580,959

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Medical services					
Berkshire Group Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Provision of healthcare services
Marvellous Way Limited	Hong Kong	HK$10	100	100	Operation of Chinese medicine clinics
Quality HealthCare Medical Centre Limited	Hong Kong	HK$1,300	100	100	Medical facilities and services provider
Quality HealthCare Medical Services Limited	Hong Kong	HK$2	100	100	Provision of contract healthcare services
Quality HealthCare Professional Services Limited	Hong Kong	HK$2	100	100	Provision of professional services
Allied Medical Practices Guild Limited	Hong Kong	HK$2	100	100	Provision of contract healthcare services

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Nursing agency, physiotherapy and dental services					
Quality HealthCare Dental Services Limited	Hong Kong	HK$1,000	100	100	Provision of dental services
Quality HealthCare Nursing Agency Limited (formerly known as Quality HealthCare Nursing Services Limited)	Hong Kong	HK$10,000	100	100	Provision of nursing agency services
Quality HealthCare Physiotherapy Services Limited	Hong Kong	HK$1,000	100	100	Provision of physiotherapy services
Quality HealthCare Psychological Services Limited	Hong Kong	HK$1	100	–	Provision of psychological services
Dynamic People Group Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Provision of LASIK and optical surgical services
Elderly care services					
Quality HealthCare Nursing Home Limited (formerly known as Conifer Elderly Services Limited)	Hong Kong	HK$1,000	100	100	Provision of elderly care services
QHES Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Provision of elderly care services
Quality HealthCare Man Kee Elderly Limited	Hong Kong	HK$1,000	100	100	Provision of elderly care services
Corporate and other					
Quality HealthCare Investment Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
Sino Success (HK) Limited	Hong Kong	HK$2	100	100	Provision of corporate services

Except for Quality HealthCare Man Kee Elderly Limited, all the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2005	Group 2004
	HK$'000	*HK$'000*
Share of net assets	487	54
Due from a jointly-controlled entity	332	171
	819	225

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a jointly-controlled entity approximates to its fair value.

Particulars of the jointly-controlled entities are as follows:

Name	Place of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Women's Health Centres International Limited	Hong Kong	50	50	50	Inactive
Poltallock Limited*	Hong Kong	50	50	50	Provision of facilities and technical services to medical and dental practitioners

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

All of the above investments in jointly-controlled entities are indirectly held by the Company.

20. INTEREST IN AN ASSOCIATE

	Group 2005	Group 2004
	HK$'000	*HK$'000*
Share of net assets	1,935	–
Loan to an associate	346	–
	2,281	–

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the loan to an associate approximates to its fair value.

Particulars of the associate are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
SkinCentral Limited	Ordinary shares of HK$1 each	Hong Kong	30	Provision of dermatology, aesthetic and laser services

The above associate is indirectly held by the Company.

The above associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	2005	**2004**
	HK$'000	*HK$'000*
Assets	8,119	–
Liabilities	(1,669)	–
Revenue	3,297	–
Loss	(549)	–

21. INVENTORIES

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Medicine and dispensary supplies	7,334	6,836
Consumables	547	514
	7,881	7,350

22. ACCOUNTS RECEIVABLE

The Group generally allows an average general credit period of 30 to 90 days to its business-related customers, except for certain well established or major customers, where the terms are extended beyond 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Current–90 days	78,747	70,840
91–180 days	3,922	842
Over 180 days	601	18
	83,270	71,700

23. ACCOUNTS PAYABLE, OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

An aged analysis of the accounts payable included in accounts payable, other payables, accruals and deposits received as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Accounts payable:		
Current – 90 days	24,699	17,330
91 – 180 days	16	239
181 – 360 days	10	388
Over 360 days	364	439
	25,089	18,396
Other payables, accruals and deposits received	76,684	73,473
	101,773	91,869

The accounts payable are non-interest-bearing and are normally settled on 30-60 days terms.

24. HIRE PURCHASE CONTRACT PAYABLE

The Group leases certain office equipment for its medical services business under a hire purchase arrangement. The term of the hire purchase is five years.

At 31 December 2005, the total future minimum lease payments under the hire purchase arrangement and its present value were as follows:

Group	**Minimum lease payments**		**Present value of minimum lease payments**	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:				
Within one year	6	6	6	6
In the second year	6	6	6	4
In the third to fifth years, inclusive	11	17	6	12
Total minimum hire purchase contract payments	23	29	18	22
Future finance charges	(5)	(7)		
Total net hire purchase contract payable	18	22		
Portion classified as current liabilities	(5)	(5)		
Long term portion	13	17		

25. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

Group

	Accelerated tax depreciation	
	2005	**2004**
	HK$'000	*HK$'000*
At 1 January	1,057	1,728
Deferred tax credited to the income statement during the year *(note 10)*	–	(671)
At 31 December	1,057	1,057

The Group has tax losses arising in Hong Kong of HK$67,706,000 (2004: HK$81,258,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time or it is not considered probable that taxable profits will be available against which such tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2004: 3,000,000,000) ordinary shares of HK$0.10 each	300,000	300,000
Issued and fully paid:		
195,327,814 (2004: 216,672,884) ordinary shares of HK$0.10 each	19,533	21,667

The movements in share capital during the current and the prior years were as follows:

Year ended 31 December 2005

(i) The Company repurchased a total of 21,667,288 ordinary shares at a price of HK$2.00 in cash per ordinary share pursuant to a general offer made by Sun Hung Kai International Limited, a wholly-owned subsidiary of SHK, on behalf of the Company to repurchase up to 21,667,288 ordinary shares which was completed in April 2005 (the "Share Repurchase"). The repurchased shares, representing 10% of the then issued share capital of the Company, were subsequently cancelled. The premium paid and the expenses incurred on the Share Repurchase of approximately HK$41,168,000 and HK$1,326,000, respectively, were charged against the retained profits. Further details of the Share Repurchase are set out in a circular of the Company dated 3 March 2005.

Since the shares repurchased (the "Shares") under the Share Repurchase were subsequently cancelled, they did not rank for the 2004 final dividend, as the record date for the 2004 final dividend was 20 May 2005, which was after the repurchase and cancellation of the Shares.

(ii) The subscription rights attaching to 57,600 share options were exercised at an adjusted subscription price of HK$1.47 per ordinary share (note 27), resulting in the issue of 57,600 ordinary shares of the Company of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$85,000.

(iii) 264,618 shares of HK$0.10 each were issued for cash at an adjusted subscription price of HK$2.46 per ordinary share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of approximately HK$651,000.

Year ended 31 December 2004

(iv) The subscription rights attaching to 51,000 share options were exercised at the subscription price of HK$1.50 per ordinary share, resulting in the issue of 51,000 ordinary shares of the Company of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$77,000.

A summary of the transactions during the current year and the prior year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2004		216,621,884	21,662	139	21,801
Share options exercised	*iv)*	51,000	5	72	77
At 31 December 2004 and 1 January 2005		216,672,884	21,667	211	21,878
Shares repurchased	*i)*	(21,667,288)	(2,167)	–	(2,167)
Share options exercised	*ii)*	57,600	6	79	85
Warrants exercised	*iii)*	264,618	27	624	651
At 31 December 2005		195,327,814	19,533	914	20,447

Share options

Details of the Company's share incentive plan and the share options issued under the share incentive plan are included in note 27 to the financial statements.

Warrants

As at 1 January 2005, the aggregate amount of the outstanding warrants of the Company was HK$108,310,940, entitling the warrantholders to subscribe up to 43,324,376 ordinary shares of the Company of HK$0.10 each at a subscription price of HK$2.50 per ordinary share, payable in cash and subject to adjustment, for the period from 14 January 2004 to 13 January 2007. On 10 May 2005, as a result of the Share Repurchase (note 26(i)), the subscription price of the outstanding warrants of the Company was adjusted from HK$2.50 per ordinary share to HK$2.46 per ordinary share and thereby conferring rights to warrantholders to subscribe up to a total of 44,028,837 ordinary shares of the Company of HK$0.10 each. During the year, warrants in the amount of approximately HK$651,000 were exercise at an adjusted subscription price of HK$2.46 per ordinary share to subscribe for 264,618 ordinary shares of the Company of HK$0.10 each.

At the balance sheet date, the aggregate amount of the outstanding warrants of the Company was approximately HK$107,659,977. The exercise in full of such outstanding warrants would, under the present capital structure of the Company, result in the issue of 43,764,218 additional ordinary shares of the Company of HK$0.10 each and additional share capital of approximately HK$4,376,422 and share premium of approximately HK$103,283,555 (before issue expenses).

27. SHARE OPTION PLAN

The Company operates a share incentive plan (the "Share Incentive Plan") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Pursuant to the Share Incentive Plan, the board of directors of the Company may, at its discretion, invite any employees, executive or non-executive directors (including independent non-executive directors), officers, advisers, consultants or such other persons from time to time to be an eligible person to whom share options will be granted as an incentive to attract and retain them for their contributions to the business development of the Group. The Share Incentive Plan was approved and adopted by the Company on 7 June 2002 (the "Adoption Date") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of ordinary shares in respect of which options may be granted under the Share Incentive Plan (excluding options lapsed) is not permitted to exceed 10% of the shares of the Company in issue as at the Adoption Date, without a prior approval from the Company's ordinary shareholders. The maximum entitlement of each eligible participant under the Share Incentive Plan of the Group in any 12-month period up to the date of grant must not exceed 1% of the ordinary shares of the Company in issue at the date of grant, unless shareholders' approval has been obtained in a general meeting.

The offer of a grant of share options may be accepted within 14 business days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, but in any event such period may not go beyond 10 years from the Adoption Date.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of the Company's ordinary shares; (ii) the average Stock Exchange closing price of the Company's ordinary shares on the five consecutive trading days immediately preceding the date of the offer of the share option; and (iii) the closing price of the Company's ordinary shares on the Stock Exchange on the date of the offer of the share option (which must be a business day). Further details of the Share Incentive Plan are also set out in a circular of the Company dated 22 May 2002.

There were no share options granted under the Share Incentive Plan during the year (2004: Nil).

The following share options were outstanding under the Share Incentive Plan during the year:

Name or category of participant	Number of share options					Date of grant of share options *	Exercise period of share options (both dates inclusive)	Exercise price of share options*** (as adjusted for the Share Repurchase) HK$	Price of the Company's shares**	
	At 1 January 2005	Exercised during the year	Forfeited during the year	Adjustment arising from the Share Repurchase***	At 31 December 2005				Immediately before the exercise date HK$	At exercise date of share options HK$
Directors										
Mr. Brian Damian O'Connor****	200,000	–	(180,000)	(20,000)	–	16-10-2002	16-10-2003 to 15-10-2007	1.47	N/A	N/A
Mr. Wong Tai Chun, Mark	150,000	–	–	(15,000)	135,000	16-10-2002	16-10-2003 to 15-10-2007	1.47	N/A	N/A
	350,000	–	(180,000)	(35,000)	135,000					
Other employees										
In aggregate	1,277,500	(57,600)	(96,800)	(122,750)	1,000,350	16-10-2002	16-10-2003 to 15-10-2007	1.47	1.96	1.96
	1,627,500	(57,600)	(276,800)	(157,750)	1,135,350					

* *The vesting period of the share options under the Share Incentive Plan is from the date of the grant until the commencement of the exercise period.*

** *The price of the Company's shares disclosed immediately before and at the exercise date of the share options are the weighted average of the Stock Exchange closing price immediately before and at the dates on which the share options were exercised.*

*** *On 10 May 2005, the exercise price for ordinary shares under each outstanding share option was adjusted from HK$1.50 per ordinary share to HK$1.47 per ordinary share and the aggregate number of ordinary shares which can be subscribed for under the outstanding share options has been adjusted from 1,577,500 to 1,419,750 as a result of the repurchase and cancellation of 21,667,288 ordinary shares of the Company under a voluntary conditional cash offer announced by the Company on 24 January 2005. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

**** *Mr. Brian Damian O'Connor retired as a director of the Company on 20 May 2005 and his share options under the Share Incentive Plan were lapsed on 20 August 2005.*

The share options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

At 31 December 2005, the Company had 1,135,350 share options outstanding under the Share Incentive Plan, which represented approximately 0.58% of the Company's ordinary shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,135,350 additional ordinary shares of the Company of HK$0.10 each, additional share capital of HK$113,535 and share premium of HK$1,555,430 (before issue expenses).

Subsequent to the balance sheet date, a total of 15,750 share options granted to certain employees were lapsed.

At the date of approval of these financial statements, the Company had 1,119,600 share options outstanding under the Share Incentive Plan, which represented approximately 0.57% of the Company's ordinary shares in issue as at that date.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 101 to the financial statements.

(b) Company

	Notes	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004		139	558,278	558,417
Share options exercised	*26(iv)*	72	–	72
Profit for the year		–	16,705	16,705
Interim 2004 dividend	*12*	–	(2,167)	(2,167)
Proposed final 2004 dividend	*12*	–	(3,250)	(3,250)
At 31 December 2004 and 1 January 2005		211	569,566	569,777
Share repurchased	*26(i)*	–	(41,168)	(41,168)
Share repurchased expenses	*26(i)*	–	(1,326)	(1,326)
Adjustment for final 2004 dividend		–	321	321
Share options exercised	*26(ii)*	79	–	79
Warrants exercised	*26(iii)*	624	–	624
Profit for the year		–	15,257	15,257
Interim 2005 dividend	*12*	–	(4,883)	(4,883)
Proposed final 2005 dividend	*12*	–	(6,348)	(6,348)
At 31 December 2005		914	531,419	532,333

29. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(i) Corporate guarantees given by the Company to certain third parties in connection with tenancy agreements entered into by its subsidiaries with an aggregate amount of approximately HK$42,403,000 at 31 December 2005 (2004: HK$63,654,000).

(ii) Corporate guarantees given by the Company to banks in connection with banking facilities granted to its subsidiaries with an aggregate amount of HK$60,000,000 at 31 December 2005 (2004: HK$60,000,000).

As at 31 December 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$4,108,000 (2004: HK$3,526,000) for the issuance of bank guarantee letters.

(b) In the prior year, Quality HealthCare Medical Services Limited ("QHMS") and Quality HealthCare Medical Centre Limited ("QHMC"), indirect subsidiaries of the Company, were served with a writ attaching a statement of claim by Asia Pacific Lasik Centre Limited claiming, inter alia, damages of HK$900,000 for breaches of contract on the parts of QHMS and QHMC. The case is being defended and a cross action mounted. At this stage, based on the development to date and having taken legal advice, the directors take the view that no contingency arises for which a provision is required to be made.

As at 31 December 2005, the Group was engaged in other litigation and claims which have not been disclosed in detail, as the possibility of an outflow of resources embodying economic benefits is remote.

(c) The Group and the Company had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$7,648,000 (2004: HK$6,543,000) and HK$292,000 (2004: HK$250,000), respectively, as at 31 December 2005, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group and the Company in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group and the Company.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleases certain of its premises under operating lease arrangements with non-cancellable leases negotiated for terms ranging from twenty to twenty two months. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK$80,000 (2004: Nil).

(b) As lessee

The Group leases certain of its medical centres, office premises and elderly care homes under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	52,081	54,474
In the second to fifth years, inclusive	48,568	84,210
After five years	–	341
	100,649	139,025

31. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Leasehold improvements	600	–

At the balance sheet date, the Company did not have any significant capital commitments (2004: Nil).

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) The Group had certain transactions with various indirect wholly-owned subsidiaries of Sun Hung Kai & Co. Limited ("SHK"), a substantial shareholder of the Company during the years ended 31 December 2005 and 2004, based on mutually agreed terms, pursuant to relevant agreements dated 7 February 2005 and 2 February 2004, respectively, for a term of one year as summarised below.

(i) The Group paid insurance premiums of approximately HK$3,707,000 (2004: HK$3,400,000) to Sun Hung Kai Insurance Consultants Limited in accordance with the relevant insurance brokerage services agreements;

(ii) The Group paid corporate secretarial services fees of approximately HK$1,140,000 (2004: HK$1,083,000) to Wineur Secretaries Limited in accordance with the relevant corporate secretarial services agreements; and

(iii) The Group paid internal audit and compliance consultancy services fees of approximately HK$12,000 (2004: HK$54,000) to SHK Consultancy Services Limited in accordance with the relevant internal audit and compliance consultancy services agreements.

Further details of these transactions are also set out in the announcements of the Company dated 7 February 2005 and 2 February 2004. Subsequent to the balance sheet date, on 27 January 2006, the Group entered into a new set of agreements with the relevant parties to continue the above-mentioned services for a term of one year commencing from 1 February 2006, further details of which are also set out in an announcement of the Company dated 27 January 2006.

The above transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) The Group paid a financial advisory fee of approximately HK$325,000 (2004: Nil) to Sun Hung Kai International Ltd. The fee was charged based on terms agreed between both parties.

(c) The Group paid service fees for the provision of facilities and services to a jointly-controlled entity of HK$3,275,000 (2004: Nil) for its medical practices. The fee was charged based on terms agreed between both parties.

(d) The Group sold certain items of medical equipment at their carrying amounts totalling HK$701,000 (2004: Nil) to an associate.

(e) Outstanding balances with related parties:

(i) Included in the Group's accounts payable, other payables, accruals and deposits received are outstanding balances with SHK and its wholly-owned subsidiaries totalling HK$771,000 (2004: Nil).

(ii) Details of the Group's loan to its associate are included in note 20 to the financial statements, and details of the Group's loan to its jointly-controlled entity are included in note 19 to the financial statements.

(f) Compensation of key management personnel of the Group:

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	5,568	5,578
Post-employment benefits	24	24
Total compensation paid to key management personnel	5,592	5,602

Further details of directors' emoluments are included in note 8 to the financial statements.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group's principal financial instruments comprise cash and bank balances and hire purchase contract payable. The main purpose of these financial instruments is to finance the Group operations. The Group has various other financial assets and liabilities such as accounts and other receivable, accounts and other payables, and deferred revenue, which arise directly from its operations. The Group does not hold or issue any derivative financial instruments.

The main risks arising from the Group's financial instruments and the policies for managing each of these risks are summarised below.

Cash flow interest rate risk

Except for the Group's short term bank deposits, the Group has no significant interest-bearing assets or liabilities. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earns interest at the respective short term time deposit rates.

Liquidity risk

The Group's objective is to maintain sufficient cash and bank balances with the availability of flexible bank credit facilities for its operations and development.

Credit risk

The Group in general provides services on credit to customers with good credit history or of low risk profile and accordingly, there is no requirement for collateral. The major exposure to credit risk of the Group's financial assets, which comprise trade and other receivables, and cash and bank balances, arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets in the consolidated balance sheet.

At the balance sheet date, the Group had certain concentration of credit risk as 12% (2004: 8.4%) and 26.8% (2004: 23.3%) of the total accounts receivable were due from the Group's largest customer and the five largest customers, respectively.

Foreign currency risk

The Group's exposure to the risks of foreign currency is minimal, as the Group's revenue is derived from customers based in Hong Kong and it primarily purchases from suppliers based in Hong Kong. As at the balance sheet date, all cash and bank deposits of the Group were denominated in Hong Kong dollars.

Fair values

As at 31 December 2005, the carrying amounts of the Group's financial assets and liabilities approximate to their fair values.

34. MANAGEMENT OF THE FIXED-FEE CONTRACTS

The Group enters into the Fixed-fee Contracts, in which the Group uses its own centres, medical staff and other resources to provide medical/dental services covered by the contracts. The level of services to be rendered under the Fixed-fee Contracts is uncertain and depends on uncertain future events. The Group has to consider whether the cost of meeting its contractual obligations to provide the services under the Fixed-fee Contracts may exceed the revenue it will receive and the probability of such risk (the "Risk"), when assessing the pricing and provisioning for such contracts.

The frequency and severity of the Risk are affected by many factors, including, inter alia, the health status and awareness of the persons covered by the Fixed-fee Contracts and that of the general public in Hong Kong, the outbreak/potential outbreak of any epidemic, climatic changes, the duration of those contracts (which in general are of short duration), as well as a diversity of social, industrial and economic factors. The risk associated with such factors (including any undue concentration thereof and the probability of the occurrence of certain events affected by them) on the actual recovery rate for individual contracts is the key source of uncertainty that needs to be estimated.

The Group manages the Risk through periodic review of the estimated and actual recovery rate of individual contracts and includes such assessment in establishing its pricing and contract continuance policies.

As the related assets and liabilities of the Fixed-fee Contracts are non-interest-bearing and as the provisions of services on credit are in general only made to customers with good credit history or of low risk profile, the Group's exposure to interest rate risk and credit risk in respect of such contracts is considered to be minimal.

As at 31 December 2005, accounts receivable and deferred revenue of the Group attributable to its Fixed-fee Contracts amounted to approximately HK$8,752,000 (2004: HK$10,595,000) and HK$2,732,000 (2004: HK$6,447,000), respectively.

35. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised/ reclassified to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2006.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE QHA GROUP

(I) FOR THE YEAR ENDED 31ST DECEMBER, 2003

The following is the management discussion and analysis principally extracted from the annual report of the QHA Group for the year ended 31st December, 2003. Terms and definitions used below shall bear the respective meanings as defined in such annual report.

OPERATIONAL REVIEW

Quality HealthCare Medical Services ("QHMS")

Consolidation

Following the successful reorganization in 2002, QHMS continued to restructure and consolidate its business in 2003, leveraging on the increased efficiency of its network and infrastructure. Divisional profit of QHMS in 2003 was HK$50.0 million, showing a growth of 20% compared to HK$41.7 million in 2002. Revenue for 2003 showed a slight increase of 1% to HK$586.7 million, compared to HK$579.8 million in 2002. This is directly resulting from the reduction in service fees due to economic circumstances and SARS despite an increase in the number of contracts achieved in 2003. Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") for 2003 was HK$59.7 million (2002: HK$50.1 million).

Dedicated Infrastructure

The current network of 35 core medical centres together with an extensive affiliated doctor network provides a sound base for QHMS in Hong Kong, enabling QHMS clients to enjoy healthcare services that are efficient and professional. To support the network, QHMS has devoted significant resources to building dedicated teams of experts to maintain practice standards and quality assurance, transaction platforms, medical affairs, and customer servicing. This infrastructure has enabled QHMS to service sizeable contracts with widely differing requirements. It has also provided corporate clients with the option of outsourcing medical scheme management utilizing its experience and medical knowledge, and thereby reducing internal manpower costs.

Competence

QHMS has accepted the challenge of an extremely competitive market and is devoting additional resources to maintain its ability to deliver services of international standard and to satisfy the needs of its corporate clients and the community of Hong Kong. Initiatives to enhance service delivery include medical centre and practice audits, service training, appraisals for paramedical staff, and ongoing renovation projects for medical centres to upgrade its facilities. These initiatives are planned to distinguish QHMS from its competitors and assist it in further development of specialist care.

Platform for Growth

QHMS is planning diversification of its range of life enhancement services including establishment of a reproductive medicine centre and the provision of chronic disease management programs.

QHMS will maintain its focus on delivering services to corporate clients, but will also look to extend its reach into the consumer market, in an effort to capture opportunities offered by medical tourism and retail services.

Medical Scheme Management

The QHMS medical affairs team, comprising physicians, pharmacists, nurses, and other healthcare professionals is further developing its specialization in scheme management. The knowledge and experience accumulated by this team will assist QHMS to participate in the Government's public private partnership and service any outsourcing program in the future.

Proactive Care

Throughout the year and particularly during the SARS period, QHMS has supported Government programs as a private sector healthcare provider and has also provided clients with updated and timely information, services, and community programs in a flexible manner. Preventive healthcare services and programs such as comprehensive physical checkups, vaccination programs, and public education, will continue as top priorities for QHMS in the coming year.

Contributions to The Community

QHMS is aware of its social responsibility to contribute to the community in which it operates. In 2003, QHMS actively participated in the Operation Santa Claus program, and through support from staff, clients, and associates, has raised substantial funding for the beneficiaries of Children's Heart Foundation.

Quality HealthCare Chinese Medicine ("QHCM")

Care of Choice

QHCM now maintains a network of seven core centres and is seeking growth opportunities. It is working closely with QHMS to achieve greater appreciation of integrated holistic care and continues to benchmark against the academic bodies for quality assurance and accreditation. In 2003, QHCM has actively participated in various public exhibitions and health seminars with significant positive response.

Corporate Care

QHCM has worked closely with QHMS to incorporate traditional Chinese Medicine into corporate health plans and insurance plans to meet the growing demands of corporate clients. In 2003, QHCM signed its first prepaid contract with an insurance company.

Quality HealthCare Services ("QHS")

Dental, Physiotherapy and Nursing continued to deliver growth and achieved an increase in revenue of 4% in 2003. Divisional profit increased by 108% over the prior year, as a result of the successful re-engineering of manpower and contract management. EBITDA for 2003 was HK$5.6 million (2002: HK$3.7 million).

Quality HealthCare Nursing ("QHN")

The demand for private nursing services for patients in the hospitals decreased due to SARS. However the revenue for the Nursing division was supported by the growth of other existing and new lines of business. In 2003, QHN successfully launched its paramedical services for insurance companies. It also won tenders from non government organizations for the provision of nursing services. QHN also worked in conjunction with a number of public hospitals to provide relief nurses to cover staff shortages and voluntary leave. Cost effective home help and home care programs have been offered to corporate clients and insurance companies to suit the changing market needs.

Quality HealthCare Dental ("QHD")

QHD has remained profitable in 2003 despite the impact of SARS. The Division experienced growing demand in the New Territories. Second consultation rooms for two clinics were opened in 2003 and both have shown steady growth in utilization.

The range of cosmetic dentistry services provided by QHD was well received by clients, with the number of consultations increasing almost threefold in 2003. The annual client satisfaction survey for 2003 demonstrated that over 2,000 patients rated the services 97% excellent to good in all categories. Meanwhile, QHD has also established a committee of Standards & Compliance led by 5 senior dentists.

Quality HealthCare Physiotherapy ("QHP")

Utilization continued to improve for QHP in 2003 with an 11% growth in the number of visits. In addition to its core program for corporate clients, QHP has developed a number of consumer oriented products such as spinal and golf screening, onsite ergonomics evaluation, and exercise programs in order to provide holistic care for clients. QHP's physiotherapists have also been providing regular screening and consultative services for various organizations in the community to maximize the mobility and well being of their elderly members, with a view to minimising excessive hospitalization and premature health deterioration.

Quality HealthCare Elderly Services ("QHES")

SARS has unfortunately resulted in a longer term adverse impact on the elderly care industry, with average occupancy falling for many homes. The triple impact of economic circumstances, reduction in Comprehensive Social Security Assistance and the fear of institutional risk for SARS, has adversely affected the QHES occupancy rate.

An unfortunate result of the lower occupancy rate has been that the revenue of QHES decreased by 4% in 2003 and its divisional loss increased by 85%. EBITDA for 2003 was HK$7.1 million (2002: HK$8.6 million).

Throughout the SARS period, stringent infection control was enforced at all the elderly homes, successfully protecting all its staff and residents. In recognition of the contribution from private elderly homes during the SARS period, five outstanding homes were selected and representatives were invited by Social Welfare Department to join a post-SARS celebration attended by China's Premier Wen Jiabao. QHES's Man Kee home was one of the homes selected.

In compliance with the Social Welfare Department's guidelines, an infection control officer has now been appointed at each home and in 2004, an isolation room will be added to each home.

Initiatives to rebuild the division's performance are in progress, including intensive and focused marketing, liaison with landlords on rental reduction, and continuation of the delivery of quality and specialized nursing care for the residents of the homes.

FINANCIAL REVIEW

1. Capital Structure Treasury Policy

(a) Equity and debt structure

QHA issued 2,790,000 shares during the year as a result of the exercise of employee share options. Apart from the aforesaid, QHA has not issued any shares or made any share repurchase during the year.

A capital reorganization of QHA was implemented and became effective on 30th December, 2003 which involved, among others, the following:

(i) a reduction of the nominal value of each issued ordinary share of QHA from HK$0.10 to HK$0.01 each by the cancellation of HK$0.09 of the paid-up capital for each issued share and the credit arising from such reduction of approximately HK$194,960,000 was applied as a set off against the accumulated losses of QHA.

(ii) a share consolidation of every ten reduced shares of HK$0.01 each as set out in (i) above into one consolidated share of HK$0.10 each.

(iii) The cancellation of the entire amount standing to the credit of the share premium account of QHA as at 30th June, 2003 and the credit arising therefrom of approximately HK$293,094,000 was applied as a set off against the accumulated losses of QHA.

On 12th January, 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares (after the share consolidation) held by members on the register of members on 29th December, 2003. Each warrant entitles the holder to subscribe for one ordinary share of QHA at a subscription price of HK$2.50 per share (subject to adjustment), in cash, from 14th January, 2004 to 13th January, 2007.

The QHA Group's shareholders' funds increased from HK$93.8 million to HK$107.8 million mainly as a result of the profit retained for the year.

The QHA Group's financial position was strengthened in 2003. The QHA Group's bank borrowings reduced from approximately HK$67.1 million as at 31st December, 2002 to HK$8.0 million as at 31st December, 2003 because of the scheduled and early repayments of bank loans. By repaying old bank loans, the QHA Group was able to negotiate with various bankers for new facilities on more favourable terms.

(b) Debt maturity profile

	31st December 2003 HK$'000	31st December 2002 HK$'000
Repayable:		
Within one year and on demand	8,000	52,347
In the second year	–	14,754
	8,000	67,101

(c) Net cash position

	31st December 2003 HK$'000	31st December 2002 HK$'000
Shareholders' funds	107,830	93,790
Net Cash:		
Cash and bank balances	58,991	89,821
Bank borrowings	(8,000)	(67,101)
	50,991	22,720

The QHA Group was in a net cash position at 31st December, 2003. Gearing ratio comparing net debt (bank borrowings net of cash and bank balances available) to equity was not applicable at 31st December, 2003 and 2002.

(d) Currency and financial risk management

The QHA Group's main operating subsidiaries are located in Hong Kong and over 90% of the QHA Group's sales and purchases during the year were denominated in Hong Kong dollars.

All bank borrowings are denominated in Hong Kong dollars. During the year, interest was charged on a floating rate basis with reference to Hong Kong Best Lending Rate and HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Any surplus cash was placed in savings and short-term bank deposits to earn interest income.

The QHA Group's foreign currency assets are immaterial. The QHA Group's exposure to foreign exchange risk is minimal and as such the QHA Group did not have any requirement to use financial instruments for hedging purposes.

2. Pledge of Assets

The QHA Group's designated receivables and rights under certain medical services contracts at 31st December, 2002 were pledged to banks for certain loans and overdrafts under banking facilities granted to the QHA Group. During the year, the relevant loans under the banking facilities were repaid and the pledge of the designated receivables and rights under certain medical services was no longer required.

3. Contingent Liabilities

At 31st December, 2003, QHA had given guarantees in connection with the tenancy agreements entered into by its subsidiaries of approximately HK$55.3 million and guarantees given to a bank in connection with banking facilities granted to its subsidiaries of HK$100 million. The banking facilities, subject to guarantees given to the bank by QHA were utilized to the extent of approximately HK$2,645,000 at 31st December, 2003.

The QHA Group and QHA had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$7,113,000 (2002: HK$8,882,000) and HK$164,000 (2002: HK$521,000), respectively, as at 31st December, 2003. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the QHA Group and QHA in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the QHA Group and QHA.

4. Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the year, there has been no material acquisition or disposal of subsidiaries and associated companies by the QHA Group.

5. Management and Staff

At 31st December, 2003, the total number of employees was 950 (2002: 960). Total staff costs amounted to approximately HK$260.0 million (2002: HK$287.6 million). The staffing structure is under constant review as the shape of the QHA Group develops. Remuneration packages are calculated at market rates, with share options offered at the discretion of the board of directors. All executive directors' remuneration and option packages must first be recommended by QHA's Remuneration Committee which is composed of all the independent non-executive directors, namely, Messrs. Moses Cheng Mo Chi and Ian Robert Strachan.

(II) FOR THE YEAR ENDED 31ST DECEMBER, 2004

The following is the management discussion and analysis principally extracted from the annual report of the QHA Group for the year ended 31st December, 2004. Terms and definitions used below shall bear the respective meanings as defined in such annual report.

OPERATIONAL REVIEW

Quality HealthCare Medical Services ("QHMS")

Healthy Future

Divisional profit of QHMS in 2004 was HK$55.8 million, showing a growth of 11% compared to HK$50.0 million in 2003. Revenue for 2004 showed an increase of 8% to HK$633.4 million, compared to HK$586.7 million in 2003. Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") for 2004 was HK$63.2 million (2003: HK$59.7 million).

Listening to Clients

QHMS has emphasized a policy of actively seeking feedback from clients on their requirements. The information once collected is then analysed, and where appropriate, steps are taken to implement changes to improve any deficiencies. QHMS has, in conjunction with this initiative, completely upgraded its complaint monitoring and reporting system in order to more effectively identify and rectify any service deficiencies and enhance client and patient satisfaction.

Staff Training

QHMS is continuing to enhance its training programs in order to better equip staff to service its clients. Approximately 300 staff have attended a total of 58 training sessions in various areas including service protocols, first aid, occupational health and safety issues and regular continuous professional education. Professional consultants have been utilized and a full time training officer has been appointed. These initiatives will be enhanced in the coming year.

Medical Centre Refurbishments

A number of core medical centres have been refurbished and expanded to provide better patient comfort and service. Additional weekend operating sessions have also been utilized to reduce waiting times.

Preferred Health Partner

QHMS has been active in promoting its services as a preferred health partner for corporations and insurance companies. QHMS has undertaken promotions through public healthcare days and health seminars as well as health information on its website.

In addition QHMS has continued to develop its third party administrative skills and QHMS has a designated team to assist its clients in servicing their requirements for analysis and management of medical data and costings.

Information Technology

QHMS has continued the development of its information technology systems in order to improve the efficiency and reduce the costs of claim processing. QHMS's objective is also to improve its data management and analysis so as to improve its third party administrative capacity. QHMS has commenced a complete review of its information technology requirements and the various options to secure improved operational capacity in the future and enhanced ability to provide cashless and paperless transactions.

Expanded Services

QHMS is aware of the need to expand, where appropriate, its range of products to service all its client needs. Complementary services such as the Employees Assistance Program and Occupational Health and Safety Program have been developed to assist corporations manage their staff requirements. QHMS will continue to pursue these objectives.

Growth Initiatives

QHMS opened three new core medical centres in 2004 at Sheung Wan, Cyberport and Stanley Plaza. In addition, QHMS opened the Quality Women's Health and Reproductive Medicine Centre. QHMS will continue to seek expansion opportunities for new medical centres, to expand its specialist network and for the delivery of new systems. In addition, QHMS will actively pursue any potential suitable acquisitions or joint ventures.

Quality HealthCare Chinese Medicine ("QHCM")

Customizing Needs

In response to increasing demands for holistic and alternative medicine, QHCM is able to offer its range of services to corporates and insurers. It has introduced a range of herbal packaged products to provide patients who have time constraints with an alternative choice of prescription.

Quality HealthCare Services ("QHS")

QHS continued to deliver growth and achieved an increase in revenue of 14% in 2004. Divisional profit increased by 58% over the prior year. EBITDA for 2004 was HK$8.7 million (2003: HK$5.6 million).

Quality HealthCare Nursing ("QHN")

QHN achieved significant growth in profit in 2004 compared to 2003. Demand for private nursing services in both the private hospitals and public hospitals significantly increased in 2004. Demand for relief nurses in the hospitals and nursing homes also improved.

QHN has focused on enhancing its relationship with its pool of nurses and carers in order that it is perceived as their preferred nursing agency. At the same time, QHN is committed to identifying and meeting the needs and demands of its clients and seeks to build client loyalty through improved client servicing. QHN continues to explore new cross border opportunities and possible areas for servicing the needs of corporations.

Quality HealthCare Dental ("QHD")

QHD enjoyed a profitable year for 2004, with increased utilization of both general dental services and specialty dental services within its network. Despite a competitive market environment, QHD continues to perceive opportunities to expand its services at different locations.

Training has been a priority in 2004 and regular bi-monthly continuous dental education sessions have been arranged. Frontline staff, including dental nurses and receptionists, have been provided with courtesy training to improve telephone and interpersonal skills. Additional training will be undertaken to improve staff language skills in the coming year.

Quality HealthCare Physiotherapy ("QHP")

2004 has been a rewarding year for QHP with significant growth in profit. To service the growing demands for physiotherapy services, QHP opened one new centre and expanded two existing centres in 2004. Corporations are taking more interest in occupational health and safety issues and QHP's physiotherapists have been invited to deliver a series of workshops and onsite evaluation for their staff members.

QHP plans to continue expansion of the scope of services in occupational health and safety issues. In addition, QHP will continue to upgrade its facilities to enhance the delivery of lifestyle enhancement programs.

Quality HealthCare Elderly Services ("QHES")

QHES experienced a slight decrease in revenue in 2004 compared to 2003 whilst its net loss was reduced through continuous efforts in cost control, restructuring, and consolidation resulting in the closure of one redundant facility. EBITDA for 2004 was HK$8.7 million (2003: HK$7.1 million).

Core Competency

2004 continued to be a challenging year for the elderly care industry. QHES concentrated its efforts on cost reduction as well as improvement in its capacity to deliver quality care to the residents. The staff were provided with training in occupational safety and health and first aid courses to facilitate their daily work. Key staff at the homes were provided with client servicing training to improve their communications with the elders and their families. An influenza vaccination program was undertaken to improve protection for staff and residents.

Facilities Enhancement

QHES has added isolation rooms in all its homes with independent ventilation for better infection control. Its maintenance programs were reviewed and improved to maintain quality. QHES will continue to devote resources to maintenance of standards in the homes as well as to explore the feasibility of enhancement where appropriate.

Growth Opportunities

QHES will adopt a more targeted and structured marketing program to ensure that its homes are more likely to become the home of choice for elders. Training of staff in this regard has been commenced and results will be carefully monitored. QHES will continue to examine other areas where it may be possible to provide complementary products and services. QHES will also closely monitor any opportunities for public private co-operation that may be achievable.

FINANCIAL REVIEW

1. Capital Structure and Equity

QHA issued 51,000 ordinary shares during the year as a result of the exercise of staff share options. Apart from the aforesaid, QHA has not issued any shares or made any share repurchases during the year under review.

On 12th January, 2004, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members on the register of members on 29th December, 2003 resulting in 43,324,376 warrants being issued. Each warrant entitles the holder to subscribe for one ordinary share of QHA at a subscription price of HK$2.50 per share in cash, from 14th January, 2004 to 13th January, 2007. No ordinary shares of QHA have been issued pursuant to the exercise of warrants.

On 24th January, 2005, QHA announced a voluntary conditional cash offer made by Sun Hung Kai International Limited on behalf of QHA to repurchase up to 21,667,288 ordinary shares of QHA for HK$2.00 in cash per share (the "Share Repurchase"). If accepted in full, the total estimated costs of the Share Repurchase including total estimated expenses would be approximately HK$44.7 million which will be financed by internal resources of the QHA Group. The Share Repurchase is conditional upon, among other things, the approval of the independent shareholders at the special general meeting to be held on 23rd March, 2005. Details of the Share Repurchase are set out in a circular of QHA dated 3rd March, 2005.

The QHA Group's shareholders' funds increased from HK$107.8 million as at 31st December, 2003 to HK$145.9 million at 31st December, 2004 mainly as a result of profits retained for the year.

2. Financial Resources and Liquidity

During the year, the QHA Group's financial position was further strengthened. Short term bank borrowing amounted to HK$8.0 million at 31st December, 2003 was repaid during the year. As at 31st December, 2004, the QHA Group had outstanding borrowing comprising an obligation under a hire purchase contract of approximately HK$22,000.

The QHA Group's cash and bank balances increased to approximately HK$115.8 million as at 31st December, 2004 from about HK$59.0 million at 31st December, 2003. Net cash inflow from operating activities for the year 2004 amounted to approximately HK$74.5 million. During the year, the convertible note issued by Wanji Pharmaceutical Holdings Limited to a subsidiary of QHA together with the accrued interest were fully repaid in cash.

As at 31st December, 2004, the QHA Group was in a positive net cash position (cash and bank balances available was in excess of the total borrowing). Gearing ratio comparing net debt (bank borrowings net of cash and bank balances available) to equity was not applicable.

3. Currency and Financial Risk Management

The QHA Group's main operating subsidiaries are located in Hong Kong and over 90% of the QHA Group's sales and purchases during the year were denominated in Hong Kong dollars.

All bank borrowings are denominated in Hong Kong dollars. During the year, interest was charged on a floating rate basis with reference to Hong Kong dollar prime rate and HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Any surplus cash is placed in savings and short-term bank deposits to earn interest income.

The QHA Group's foreign currency assets are immaterial. The QHA Group's exposure to foreign exchange risk is minimal and as such did not have any requirement to use financial instruments for hedging purpose.

4. Pledge of Assets

At 31st December, 2004, the QHA Group had not pledged any of its assets.

5. Contingent Liabilities

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	QHA	
	2004	**2003**
	HK$'000	*HK$'000*
Guarantees given in connection with tenancy agreements entered into by subsidiaries	63,654	55,326
Guarantees given to banks in connection with banking facilities granted to subsidiaries	60,000	100,000
	123,654	155,326

As at 31st December, 2004, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by QHA were utilized to the extent of approximately HK$3,526,000 for the issuance of bank guarantee letters (2003: HK$2,645,000).

(b) On 10th August, 2004, Quality HealthCare Medical Services Limited ("QHMS") and Quality HealthCare Medical Centre Limited ("QHMC"), indirect subsidiaries of QHA, were served with a writ attaching a statement of claim by Asia Pacific Lasik Centre Limited claiming, inter alia, damages of HK$900,000 for breaches of contract on the parts of QHMS and QHMC. The case is being defended and a cross action mounted. At this early stage, having taken legal advice, the directors take the view that no contingency arises for which a provision is required to be made.

As at 31st December, 2004, the QHA Group was engaged in other litigation and claims which have not been disclosed in detail, as the possibility of an outflow of resources embodying economic benefits is remote.

(c) The QHA Group and QHA had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK$6,543,000 (2003: HK$7,113,000) and HK$250,000 (2003: HK$164,000), respectively, as at 31st December, 2004. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the QHA Group and QHA in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the QHA Group and QHA.

6. Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the year, there has been no material acquisition or disposal of subsidiaries and associated companies by the QHA Group.

7. Management and Staff

At 31st December, 2004, the total number of employees was around 990 (at 31st December, 2003: around 950). Total staff costs amounted to approximately HK$276.1 million (2003: HK$260.0 million). The staffing structure is under constant review as the shape of the QHA Group develops. Remuneration packages are calculated at market rates, with share options offered at the discretion of the board of directors. All executive directors' remuneration and option packages must first be recommended by the Remuneration Committee which is composed of all the independent non-executive directors, namely, Messrs. Li Chak Hung, Chang Chu Fai Johnson Francis and Carlisle Caldow Procter.

(III) FOR THE YEAR ENDED 31ST DECEMBER, 2005

The following is the management discussion and analysis principally extracted from the annual report of the QHA Group for the year ended 31st December, 2005. Terms and definitions used below shall bear the respective meanings as defined in such annual report.

REVIEW OF OPERATIONS

Quality HealthCare Medical Services ("QHMS")

Stable Growth

Divisional profit of QHMS in 2005 was HK$61.7 million, demonstrating a growth of 11% compared to HK$55.8 million in 2004. Revenue for 2005 demonstrating an increase of 4% to HK$659.4 million, compared to HK$633.4 million in 2004. Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") for 2005 was HK$68.0 million (2004: HK$63.2 million).

Customer Experience

Major renovation projects were undertaken in 2005 of a number of key medical centres of QHMS, including the flagship centre at Prince's Building. The objectives of the renovation were to upgrade the facilities, improve operational efficiency, and create the improved ambience for the centres. The key focus was on delivering the right customer experience, with the underlying philosophy being the cultivation of a life long relationship with loyal and satisfied customers. In spite of an increase in the number of patients visits in both contract and cash patients, the average number of complaints per month declined 30%. QHMS continues to be challenged by the requirement to be cost effective, with high patients volumes whilst maintaining a personal caring service.

Understanding Customer Needs

QHMS is sensitive to clients' need to be cost conscious. However QHMS will continue to seek to maintain an international standard of care while enhancing efficiencies and savings in other aspects of the delivery system. QHMS continues to expand its services and its geographic coverage in tandem with clients needs. Preventive health, travel and wellness, employee assistance, and vision care will be strengthened and structured in a direction that strives to meet the rising expectations of clients.

In 2005, QHMS was able to proactively respond to the demand for arrangement of on and off site vaccinations, health talks and contingency planning and advice for its corporate clients and insurance partners in response to the growing awareness and concerns over possible avian flu pandemic. These initiatives were rewarded by positive feedback and encouragement.

QHMS invested in its 24-hour Medical Call Centre in response to increased patient expectations with the objective of improving the capacity to handle more than 30,000 calls per month with a quality service. External consultants were engaged to benchmark the quality of handling such services as enquires, appointment bookings, emergency assistance, counseling and the like. Over 90% of the call centre staff received Call Centre Professional Certification, and the centre was awarded the "People Site Certification Award" from the Asia Pacific Customer Service Consortium, a leading customer service advocate.

QHMS client list and capability continues to grow in third party administration. Administrative skill and IT are vital as the delivery of employee plans increase. QHMS has now increased its capability to include pan-Asian advisory, work injury and disability case management and critical illness.

Training and Productivity

As a people-focused industry, QHMS believes in empowering staff through training and the cultivation of a learning culture to enhance knowledge, expertise and productivity at all levels. Consultants were employed in 2005 and will continue in 2006 to provide service training to its frontline supervisory staff and management training was arranged for its senior executives to enhance effective teamwork and communications. Over 90 classes were arranged in 2005 for continuous clinical training on occupational health and safety and first aid to the frontline staff.

QHMS will continue to strive for enhanced productivity at all levels through training, process reengineering and the setting of clear strategies and performance indicators for the staff. IT solutions and technology will continue to be employed to facilitate and support the process changes when driving for operational efficiency. Focused communication will be directed to customers, staff and partners to facilitate and sustain its growth initiatives. Employee services will be promoted to retain a base of loyal and experienced staff with their career and personal development in mind. A balanced scorecard approach will be adopted in 2006 as a basis for team and individual appraisal.

Quality HealthCare Chinese Medicine ("QHCM")

QHCM continued to gain popularity in the market, and the total number of visits for QHCM in 2005 increased by 26% as compared to 2004. The provision of Chinese medicine granules was launched in June 2005 as an alternative choice for clients, bringing to them a convenient and efficient way of using Chinese medicine. QHCM will continue to expand its network in conjunction with the growth of QHMS's Western medical centre network.

Quality HealthCare Services ("QHS")

QHS continued to deliver growth and achieved an increase in revenue of 20% in 2005. Divisional profit increased by 24% over the prior year. EBITDA for 2005 was HK$10.1 million (2004: HK$8.7 million).

Quality HealthCare Nursing Agency ("QHNA")

QHNA continued to deliver significant growth in profit in 2005 compared to 2004. There was a strong demand for nursing service from private patients in the private hospitals. In addition, staff relief for private hospitals and elderly homes was buoyant, bringing in a steady flow of revenue. QHNA also successfully filled the need for baby-sitting services in hotels and was able to generate regular orders from this new business area.

QHNA will continue to provide streamlined, strategic staffing solutions that result in cost-efficient care delivery to NGO homes and hospitals by delivering accountability for quality and proper credentialing of the nurses and the carers. Marketing activities will be focused on strengthening the brand name of the agency as the "HomeCare Services Provider" to the general public, hospital patients, ward nurses, insurance companies and doctors. QHNA will explore opportunities to work with statutory bodies and other corporations in providing training programs for care workers of elders at home and for sourcing of nurses in China as overseas recruitment.

Quality HealthCare Dental ("QHD")

QHD continued to enjoy growth in private and corporate revenue in 2005 and achieved increased revenue generated by the general practitioners and the specialists. The orthodontic and paedodontic services were expanded into the Kowloon and New Territories areas, and the dental centre at Prince's Building was expanded. New educational programs were broadcast at the Prince's Building centre to enhance client awareness of the different procedures available and to thereby enable clients to enjoy a more informed choice.

QHD plans to expand its network further with new centres while continuing to increase the capacities of the existing centres. Specialist services will continue to be the focus for growth, and internal processes will be reviewed including IT solutions in order to gain more efficiency.

Quality HealthCare Physiotherapy ("QHP")

QHP continued to achieve an increase in revenue and profit in 2005. The physiotherapy network was expanded with the addition of a new centre in New Territories North and a staff physiotherapy centre in Chek Lap Kok. One of the centres on the Kowloon side was also relocated and expanded, allowing easier access and more efficient administration.

QHP's physiotherapists continued to be active in providing health talks and ergonomic workshops to its corporate clients and insurance companies, and its wellness workshops by combining the training from the physiotherapists, dietitians, podiatrists, and psychologists were designed to deliver a holistic approach towards a healthy lifestyle and proper work posture.

Quality HealthCare Elderly Services ("QHES")

QHES achieved significant growth in 2005, with a divisional profit of HK$4.4 million, a significant turnaround despite a slight drop of 2% in revenue to HK$103.5 million. EBITDA for 2005 was HK$12.9 million (2004: HK$8.7 million).

Matching Market Needs

The successful growth in 2005 resulted from focused marketing, staff training and stringent quality control, and most importantly the introduction of changes in the facilities to match the needs of the market. One of the initiatives was to convert an open ward into a number of private rooms, which was welcomed by the clients with the rooms being taken up very quickly. These encouraging results reflect improved utilisation and client satisfaction. Similar projects will continue to be undertaken.

Focused Branding

More focused branding has been introduced with the alignment of the naming of its elderly homes. The operations manager and home managers pursued active communication with the medical doctors and nurses at the Hospital Authority to gather feedback on the performance of its homes and invited suggestions for improvement.

FINANCIAL REVIEW

1. Capital Structure and Equity

QHA repurchased 21,667,288 ordinary shares in April 2005 for a cash consideration of HK$2.00 per ordinary share through a voluntary conditional cash offer (the "Share Repurchase"). The shares repurchased represented 10% of the then issued share capital of QHA. Total consideration (before expenses) of approximately HK$43.3 million was paid from the QHA Group's internal resources. Details of the Share Repurchase are set out in a circular of QHA dated 3rd March, 2005.

As a result of the Share Repurchase, the subscription price of the outstanding warrants of QHA was adjusted from HK$2.50 per ordinary share to HK$2.46 per ordinary share on 10th May, 2005. The exercise price of the outstanding share options was also adjusted from HK$1.50 per ordinary share to HK$1.47 per ordinary share and the aggregate number of ordinary shares which can be subscribed for under the outstanding share options have been adjusted from 1,577,500 to 1,419,750.

Subsequent to the Share Repurchase, 264,618 ordinary shares of HK$0.10 each were issued as a result of the exercise of warrants and 57,600 ordinary shares of HK$0.10 each were issued as a result of the exercise of share options.

The QHA Group's shareholders' funds increased from HK$145.9 million as at 31st December, 2004 to HK$150.3 million as at 31st December, 2005 mainly as the result of the net profit retained for the year and the Share Repurchase.

2. Financial Resources and Liquidity

As at 31st December, 2005, cash and bank balances of the QHA Group amounted to approximately HK$116.6 million (31st December, 2004: HK$115.8 million). It is the QHA Group's objective to maintain sufficient cash with the availability of flexible bank credit facilities for its operations and development.

The QHA Group had outstanding borrowings as at 31st December, 2005 comprising an obligation under a hire purchase contract of approximately HK$18,000 (31st December, 2004: HK$22,000).

Since the QHA Group was in a positive net cash position (cash and bank balances available were in excess of borrowings), gearing ratio comparing net debt (bank borrowings net of cash and bank balances available) to equity was not applicable at 31st December, 2005 and 31st December, 2004.

3. Currency and Financial Risk Management

The QHA Group's main operating subsidiaries are located in Hong Kong and over 90% of the QHA Group's sales and purchases during the year were denominated in Hong Kong dollars.

All bank facilities are denominated in Hong Kong dollars. Interest is chargeable on a floating rate basis with reference to Hong Kong Best Lending Rate and HIBOR.

Most cash and bank balances are denominated in Hong Kong dollars. Any surplus cash is placed in savings and short term bank deposits to earn interest income. The QHA Group's foreign currency assets are immaterial.

The QHA Group's exposure to foreign exchange risk is minimal, and accordingly, it did not have any requirement to use financial instruments for hedging purposes.

4. Pledge of Assets

At 31st December, 2005, the QHA Group had fixed assets of net book value of HK$17,000 (31st December, 2004: HK$22,000) held under a hire purchase contract.

5. Contingent Liabilities

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(i) Corporate guarantees given by QHA to certain third parties in connection with tenancy agreements entered into by its subsidiaries with an aggregate amount of approximately HK$42,403,000 at 31st December, 2005 (2004: HK$63,654,000).

(ii) Corporate guarantees given by QHA to banks in connection with banking facilities granted to its subsidiaries with an aggregate amount of HK$60,000,000 at 31st December, 2005 (2004: HK$60,000,000). As at 31st December, 2005, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by QHA were utilized to the extent of approximately HK$4,108,000 (2004: HK$3,526,000) for the issuance of bank guarantee letters.

(b) In the prior year, Quality HealthCare Medical Services Limited ("QHMS") and Quality HealthCare Medical Centre Limited ("QHMC"), indirect subsidiaries of QHA, were served with a writ attaching a statement of claim by Asia Pacific Lasik Centre Limited claiming, inter alia, damages of HK$900,000 for breaches of contract on the parts of QHMS and QHMC. The case is being defended and a cross action mounted. At this stage, based on the development to date and having taken legal advice, the Directors take the view that no contingency arises for which a provision is required to be made.

As at 31st December, 2005, the QHA Group was engaged in other litigation and claims which have not been disclosed in detail, as the possibility of an outflow of resources embodying economic benefits is remote.

(c) The QHA Group and QHA had a contingent liability in respect of possible future long services payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$7,648,000 (31st December, 2004: HK$6,543,000) and HK$292,000 (2004: HK$250,000) respectively, as at 31st December, 2005. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of services to the QHA Group and QHA in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the QHA Group and QHA.

6. Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the year, the QHA Group invested HK$2.1 million for a 30% stake in a newly formed company, SkinCentral Limited. The principal activities of which consisted, primarily, of the provision of dermatology, aesthetic and laser services.

Other than the aforesaid acquisition, there has been no material acquisition or disposal of subsidiaries and associated companies by the QHA Group during the year.

7. Management and Staff

At 31st December, 2005, the total number of employees was around 980. Total staff costs amounted to approximately HK$290.5 million (2004: HK$276.1 million). The staffing structure is under constant review as the shape of the QHA Group develops. Remuneration packages are calculated at market rates, with share options offered at the discretion of the Board of Directors. All Executive Directors' remuneration and option packages must first be recommended by the Remuneration Committee which is composed of all the Independent Non-Executive Directors, namely, Messrs. Li Chak Hung, Francis J. Chang Chu Fai and Carlisle Caldow Procter.

1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma statement of assets and liabilities ("Unaudited Pro Forma Financial Information") of the Enlarged Group has been prepared to illustrate the effect of the purchase ("Purchase") and the exercise ("Exercise") of the Option over the Option Shares and the Option Warrants of Quality HealthCare Asia Limited ("QHA").

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Purchase and the Exercise as if they took place on 31st December, 2005.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on the audited consolidated balance sheet of the Group and QHA and its subsidiaries ("QHA Group") as at 31st December, 2005 after making pro forma adjustments relating to the Purchase and the Exercise that are (i) directly attributable to the transactions; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions. Accordingly, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to describe the actual financial position of the Group that would have been attained had the Purchase and the Exercise been completed on 31st December, 2005. The Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future position of the Enlarged Group.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only and because of its nature, it may not give a true picture of financial information of the Enlarged Group following completion of the Purchase and the Exercise.

	The Group	Pro forma adjustments relating to the Purchase of the Option	*Notes*	The Group after the Purchase of the Option	The QHA Group	Pro forma adjustments relating to the Exercise of the Option	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets								
Investment properties	2,784,100	–		2,784,100	–	–		2,784,100
Property, plant and equipment	209,419	–		209,419	26,169	–		235,588
Prepaid land lease payments	287,367	–		287,367	–	–		287,367
Intangible assets	22,586	–		22,586	–	–		22,586
Goodwill	–	–		–	3,527	173,550	*(g)*	177,077
Interests in associates	2,710,057	–		2,710,057	2,281	(136,612)	*(e)*	2,575,726
Interests in jointly controlled entities	866,394	–		866,394	819	–		867,213
Available-for-sale financial assets	993,139	–		993,139	–	–		993,139
Statutory deposits	32,831	–		32,831	–	–		32,831
Loans and receivables	202,306	–		202,306	–	–		202,306
Deferred tax assets	4,143	–		4,143	–	–		4,143
	8,112,342	–		8,112,342	32,796	36,938		8,182,076

	The Group	Pro forma adjustments relating to the Purchase of the Option	Notes	The Group after the Purchase of the Option	The QHA Group	Pro forma adjustments relating to the Exercise of the Option	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Current assets								
Properties held for sale and other inventories	520,950	–		520,950	7,881	–		528,831
Financial assets at fair value through profit or loss	179,204	11,101	*(b)*	190,305	–	(11,101)	*(c)*	179,204
Prepaid land lease payments	4,420	–		4,420	–	–		4,420
Accounts receivable, deposits and prepayments	2,612,044	–		2,612,044	105,018	(1,992)	*(h)*	2,715,070
Amounts due from associates	7,384	–		7,384	–	–		7,384
Amount due from a jointly controlled entity	2,159	–		2,159	–	–		2,159
Tax recoverable	3,842	–		3,842	–	–		3,842
Short-term pledged bank deposit	972	–		972	–	–		972
Bank deposits, bank balances and cash	481,196	–		481,196	116,640	17,358	*(f)*	615,194
	3,812,171	11,101		3,823,272	229,539	4,265		4,057,076
Current liabilities								
Accounts payable and accrued charges	1,031,946	–		1,031,946	105,520	(1,992)	*(h)*	1,135,474
Financial liabilities at fair value through profit or loss	17,756	–		17,756	–	–		17,756
Amount due to Allied Group Limited	8,183	–		8,183	–	–		8,183
Amounts due to associates	62,828	–		62,828	–	–		62,828
Amount due to a jointly controlled entity	81,063	–		81,063	–	–		81,063
Tax payable	13,489	–		13,489	5,458	–		18,947
Bank borrowings due within one year	950,233	11,101	*(b)*	961,334	–	117,266	*(d)*	1,078,600
Other liabilities due within one year	33,366	–		33,366	–	–		33,366
	2,198,864	11,101		2,209,965	110,978	115,274		2,436,217
Net current assets	1,613,307	–		1,613,307	118,561	(111,009)		1,620,859
	9,725,649	–		9,725,649	151,357	(74,071)		9,802,935
Non-current liabilities								
Bank borrowings due after one year	875,763	–		875,763	–	–		875,763
Loan notes	64,252	–		64,252	–	–		64,252
Deferred tax liabilities	230,615	–		230,615	1,057	–		231,672
Other liabilities due after one year	2,743	–		2,743	13	–		2,756
	1,173,373	–		1,173,373	1,070	–		1,174,443
Net assets	8,552,276	–		8,552,276	150,287	(74,071)		8,628,492

Notes:

The Unaudited Pro Forma Financial Information has been prepared in accordance with the Group's accounting policies as at 31st December, 2005 and on the basis of the assumptions and adjustments set out below. Upon the Purchase and the Exercise, the Group will acquire an additional ownership interest of 19.2% resulting in an increase in ownership interest from 34.4%, held through Wah Cheong, to 53.6%. The effect of the Purchase and the Exercise resulting in an ownership interest of 53.6% excludes the effect of warrants and options not exercised by the Group and other holders, which if exercised, will reduce the Group's effective interest to 50.4%. As the Group will have the ability to control the QHA Group on completion of the Purchase and the Exercise, it has been accounted for as a subsidiary using the purchase method.

(a) The following assumptions have been made in determining the Group's interest of 53.6% of QHA:

  (i) The Option is taken by the Group as at 31st December, 2005;

  (ii) The Option Shares are exercised on 31st December, 2005, resulting in an additional 34,156,666 QHA Shares being held by the Group;

  (iii) The Option Warrants are exercised in full by CLSA on 31st December, 2005 as requested by Wah Cheong pursuant to the Option and an additional 7,056,232 QHA Shares acquired by the Group;

  (iv) 12,544,632 QHA warrants that are presently held by Wah Cheong would not be exercised;

  (v) All other outstanding 24,163,354 warrants and 1,135,350 share options of QHA as at 31st December, 2005 would not be exercised.

The adjustments reflect the following:

(b) Consideration of HK$11,101,000 paid for the Purchase of the Option. It is assumed that the consideration would be financed through borrowings.

(c) Reversal of the carrying amount of the Option recorded as held for trading investment by the Group amounting to HK$11,101,000.

(d) Being the consideration of HK$99,908,000 and HK$17,358,000 paid on the Exercise of the Option Shares and Option Warrants respectively. It has been assumed that the consideration would be financed through borrowings.

(e) Reversal of the carrying amount of interest in QHA held as an associate by the Group.

(f) Being cash received by QHA following the Exercise of the Option Warrants.

(g) Goodwill is determined based on the total cost of HK$264,979,000. Goodwill includes HK$86,127,000 which was recorded on acquisition of QHA as an associate.

(h) Elimination of current account balances between the Group and QHA at 31st December, 2005.

2. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF ALLIED PROPERTIES (H.K.) LIMITED

ALLIED PROPERTIES (H.K.) LIMITED (THE "COMPANY") AND ITS SUBSIDIARIES (HEREINAFTER COLLECTIVELY REFERRED TO AS THE "GROUP"), QUALITY HEALTHCARE ASIA LIMITED AND ITS SUBSIDIARIES (TOGETHER WITH THE GROUP HEREINAFTER REFERRED TO AS THE "ENLARGED GROUP")

We report on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV on pages 170 to 172 of the circular dated 29 June 2006 (the "Circular") under the heading of "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in connection with the conditional grant of option over shares and warrants in Quality HealthCare Asia Limited (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages from 170 to 172 of the Circular.

Respective responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 June 2006

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to in such provisions of the SFO; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange:

Name of Director	Name of company	Number of Shares and underlying Shares held	Approximate% of the relevant issued share capital	Nature of interest
Patrick Lee Seng Wei	The Company	324,000 *(Note 1)*	0.06%	Personal interest (held as beneficial owner)
	AGL *(Note 2)*	550,000 *(Note 3)*	0.21%	Personal interest (held as beneficial owner)
Li Chi Kong	Shanghai Allied Cement Limited ("SAC") *(Note 2)*	600,000 *(Note 4)*	0.08%	Personal interest (held as beneficial owner)
Steven Samuel Zoellner	SHK *(Note 2)*	49,200 *(Note 5)*	0.00%	Personal interest (held as beneficial owner)

Notes:

1. This represented an interest in 270,000 Shares and an interest in 54,000 units of warrants of the Company giving rise to an interest in 54,000 underlying Shares. The said warrants of the Company entitled the holders thereof to subscribe at any time during the period from 7th June, 2006 to 6th June, 2009 (both days inclusive) for fully paid Shares at an initial subscription price of HK$10 per Share (subject to adjustments).

2. AGL is the ultimate holding company of the Company. SHK is an indirect non wholly-owned subsidiary of the Company. A controlled corporation (within the meaning of Part XV of the SFO) of the Company has a direct interest in more than 20% of the issued share capital of SAC. Therefore, AGL, SHK and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.

3. This represented an interest in 550,000 shares of AGL.

4. This represented an interest in 600,000 share options of SAC giving rise to an interest in 600,000 underlying shares of SAC. The share options were granted on 28th July, 2003 at a consideration of HK$10 and are exercisable at an exercise price of HK$0.70 at any time during the period from 28th January, 2004 to 27th July, 2013 (both days inclusive).

5. This represented an interest in 49,200 shares of SHK.

6. All interests stated above represented long positions.

(b) Substantial Shareholders' interests

Save as disclosed below, the Directors and the chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group.

(i) Interests in the Shares

Name of Shareholder	**Number of Shares held**	**Approximate % of the issued share capital**	*Notes*
AGL	402,540,059	74.93%	*1*
Lee and Lee Trust	402,540,059	74.93%	*2, 3*

Notes:

1. The interest included the holding of: (i) 167,061,619 Shares held by Capscore Limited ("Capscore"); (ii) 4,186,632 Shares held by Citiwealth Investment Limited ("Citiwealth"); (iii) 134,953,783 Shares held by Sunhill Investments Limited ("Sunhill"); and (iv) 96,338,025 Shares held by AGL. Capscore, Citiwealth and Sunhill are all wholly-owned subsidiaries of AGL. AGL was therefore deemed to have an interest in the Shares in which Capscore, Citiwealth and Sunhill were interested.

2. The figure referred to the same interest of AGL in 402,540,059 Shares.

3. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 40.66% interest in the issued share capital of AGL and were therefore deemed to have an interest in the Shares in which AGL was interested.

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

(ii) Interests in the shares of other members of the Group

Name of non wholly-owned subsidiaries of the Company	Name of shareholder	Number of shares held	Approximate % of the relevant issued share capital
Best Decision Investments Limited	Christophe Lee Kin Ping	17,500	35%
Dalian Allied First Financial Centre Co. Ltd.	大連商業集團總公司	N/A	30%
Dalian Lianhua Plaza Development Co. Ltd.	大連民興房地產發展有限公司	N/A	20%
Hardy Wall Limited	Betterhuge Limited	35	35%
SHK Financial Data Limited	Unison Information Limited	49	49%

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors (not being the independent non-executive Directors) or their respective associates (as defined in the Listing Rules) was considered to have interests in any competing businesses pursuant to the Listing Rules:

(a) Mr. Patrick Lee Seng Wei is a director of SHK which, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;

(b) Mr. Li Chi Kong is a director of AG Capital Limited, a subsidiary of AGL, which is partly engaged in the business of money lending;

(c) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Tian An China Investments Company Limited ("Tian An") which, through a subsidiary, is partly engaged in the business of money lending; and

(d) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Allied Kajima Limited which, through certain of its subsidiaries, is partly engaged in the businesses of property rental, management services and hospitality related activities.

As the Board is independent from the boards of the abovementioned companies and none of the above Directors can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

5. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group:

(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 Development Limited against Sun Hung Kai Securities Limited ("SHKS"), a direct wholly-owned subsidiary of SHK, 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 has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal has now handed down the Court of Appeal 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 High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,090.86 and has now 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. The Court of Final Appeal reserved its decision.

(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 SHK, were served with a writ attaching a 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 now been stayed until further order by the court.

(c) Shun Loong Finance Limited and SLHL (together the "Petitioners"), both indirect wholly-owned subsidiaries of SHK, 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.

(d) SHK, 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.

(e) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. On 31st March, 2005, the Court granted summary judgment to SHKIS ("Summary Judgment") in the amount of Canadian currency sufficient to purchase HK$10,533,000 plus prejudgment and postjudgment interest thereon. On 24th January, 2006, SHKIS received in partial satisfaction of the Summary Judgment order C$14,070.99 and US$1,288,555.31 (i.e. together HK$10,008,867.89) that had been held in the custody of the Superior Court of Justice.

(f) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited ("Sellon"), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) A provisional sale and purchase agreement dated 19th October, 2004 was entered into by Chilatin Pte Ltd. as vendor and AP Sapphire Limited (an indirect wholly-owned subsidiary of the Company) as purchaser in relation to the sale of two shares of HK$1.00 each in the share capital of Gilmore Limited and the associated companies loans in an aggregate amount of approximately HK$34,909,446 for an aggregate consideration of HK$124,887,296. Further details were disclosed in a joint announcement of the Company and AGL dated 28th October, 2004 and their respective circulars dated 18th November, 2004.

(b) A loan agreement dated 2nd March, 2005 was entered into between (i) Ranbridge Finance Limited ("Ranbridge") as lender; (ii) Join View Development Limited ("Join View") as the borrower; and (iii) Tian An as guarantor in relation to the granting of a revolving loan facility up to an amount of HK$100,000,000.00 for a period of 36 months at the interest rate of prime rate plus 1% per annum. Further details were disclosed in a joint announcement of the Company, AGL, and SHK dated 8th November, 2005 and their respective circulars dated 25th November, 2005.

(c) A supplemental loan agreement dated 7th November, 2005 was entered into between (i) Ranbridge as lender; (ii) Join View as borrower; and (iii) Tian An, Sky Full Enterprises Limited and Tian An Real Estate Agency (China) Limited collectively as guarantors in relation to amending the loan agreement dated 2nd March, 2005 and increasing the amount of the loan facility to HK$280,000,000.00. Further details were disclosed in a joint announcement of the Company, AGL, and SHK dated 8th November, 2005 and their respective circulars dated 25th November, 2005.

(d) The Option Agreement and the Supplemental Letter.

(e) A placing agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) was entered into by AP Emerald Limited ("APE", an indirect wholly-owned subsidiary of the Company) as vendor and 3V Capital Limited as placing agent in relation to the underwriting of the placing of 169,000,000 shares in SHK and the potential placing of 79,000,000 shares in SHK to independent investors at a price of HK$7.00 per share of SHK. Further details were disclosed in a joint announcement of the Company, AGL and SHK dated 17th May, 2006 and the respective circulars of the Company and AGL dated 8th June, 2006.

(f) A subscription agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) was entered into between APE as subscriber and SHK for the subscription, subject to the conditions as set out in the agreement, of 169,000,000 new shares of SHK on completion of the placing of 169,000,000 shares of SHK by APE to 3V Capital Limited as placing agent pursuant to a placing agreement entered into between the two parties on 12th May, 2006 (as supplemented on 17th May, 2006) and an additional of 79,000,000 new shares of SHK if the potential placing of 79,000,000 shares of SHK proceeds, at a price of HK$7.00 per share of SHK. Completion of the subscription agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in the joint announcements of the Company, AGL and SHK dated 17th May, 2006 and 18th May, 2006 and the respective circulars of the Company and AGL dated 8th June, 2006.

(g) A placing agreement dated 18th May, 2006 was entered into between APE as vendor and SHKIS as placing agent in relation to the underwriting of the placing of 79,000,000 shares of SHK at a price of HK$7.00 per share of SHK. Completion of the placing agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in a joint announcement of the Company, AGL and SHK dated 18th May, 2006 and the respective circulars of the Company and AGL dated 8th June, 2006.

(h) A sale and purchase agreement dated 13th June, 2006 was entered into between (i) AG Capital Holding Limited ("AG Capital") as vendor; (ii) AGL as warrantor; (iii) Swan Islands Limited, a direct wholly-owned subsidiary of SHK, as purchaser; and (iv) SHK as guarantor in relation to the conditional sale and purchase of the entire issued share capital of UAF Holdings Limited ("UAF Holdings") and assignment of the shareholder's loan advanced by AG Capital to UAF Holdings at an aggregate consideration of HK$4,328,000,000. Further details were disclosed in a joint announcement of the Company, AGL and SHK dated 19th June, 2006.

7. EXPERT AND CONSENT

Deloitte Touche Tohmatsu ("Deloitte"), certified public accountants in Hong Kong, has given an opinion or advice which is contained in this circular.

As at the Latest Practicable Date, Deloitte:–

(a) had no direct or indirect interest in any assets which have since 31st December, 2005 (being the date to which the latest published audited accounts of the Company were made up) been 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

(b) had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports or letters, as the case may be, and reference to its name in the form and context in which they respectively appear.

8. DIRECTORS' INTERESTS IN CONTRACT

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

9. GENERAL

(a) The registered office of the Company is 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

(b) The company secretary of the Company is Ms. Phoebe Lau Mei Yi. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(c) The qualified accountant of the Company is Mr. Wu Kwan Yet. He obtained a Master's Degree in Professional Accounting from The Hong Kong Polytechnic University in 2001 and is an associate member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

(d) The share registrar of the Company is Computershare Hong Kong Investor Services Limited of Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of P. C. Woo & Co. at 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including 14th July, 2006:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;

(c) the report from Deloitte on the unaudited pro forma statement of assets and liabilities of the Enlarged Group dated 29th June, 2006, the text of which is set out in Appendix IV;

(d) the letter of consent referred to in the paragraph headed "Expert and Consent" in this Appendix;

(e) the annual reports of the Company for the two financial years ended 31st December, 2004 and 31st December, 2005; and

(f) (i) the circular issued by the Company on 8th June, 2006 regarding the discloseable transaction for the placing of existing shares and subscription of new shares in SHK; and (ii) this circular.