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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult 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.

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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)

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION
CONDITIONAL SALE AND PURCHASE OF
THE ENTIRE ISSUED SHARE CAPITAL OF UAF HOLDINGS LIMITED**

Independent financial adviser to the independent board committee

AmCap

Ample Capital Limited
豐盛融資有限公司

A letter from the board of directors of Allied Properties (H.K.) Limited is set out on pages 5 to 19 of this circular.

A letter from the independent board committee containing its recommendation to the independent shareholders of Allied Properties (H.K.) Limited is set out on pages 20 and 21 of this circular. A letter from Ample Capital Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of Allied Properties (H.K.) Limited is set out on pages 22 to 37 of this circular.

A notice convening the extraordinary general meeting of Allied Properties (H.K.) Limited to be held at Plaza 4, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 10:00 a.m. is set out on pages 306 and 307 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the registered office of Allied Properties (H.K.) Limited at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment of the meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the meeting or any adjournment of the meeting if they so wish.

30th June, 2006

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	20
Letter from Ample Capital	22
Appendix I – Accountants’ Report of the UAF Holdings Group	38
Appendix II – Financial Information of the Group	74
Appendix III – Management Discussion and Analysis of the Group	156
Appendix IV – Management Discussion and Analysis of the UAF Holdings Group	178
Appendix V – Unaudited Pro Forma Financial Information of the Enlarged Group	185
Appendix VI – Business Valuation Report on the UAF Group	197
Appendix VII – Profit Forecast	217
Appendix VIII – Valuation Report on the Properties of the Enlarged Group	219
Appendix IX – General Information	296
Notice of the EGM	306

DEFINITIONS

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

“AG Capital”	AG Capital Holding Limited, a company incorporated in the Cayman Islands with limited liability, and a direct wholly-owned subsidiary of AGL
“AGL”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“AGL Directors”	directors of AGL
“Agreement”	the sale and purchase agreement dated 13th June, 2006 made between AG Capital, AGL, Swan Islands and SHK, relating to the sale and purchase of the Sale Share
“Ample Capital”	Ample Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement
“associates”	having the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“Bonds”	the bonds agreed to be created and issued by Swan Islands pursuant to the Agreement
“B.V.I.”	British Virgin Islands
“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
“connected person”	having the meaning ascribed to it under the Listing Rules
“C\$”	Canadian dollars, the lawful currency of Canada
“Directors”	directors of the Company

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be convened at Plaza 4, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated in it
“Enlarged Group”	the Group after the completion of the sale and purchase of the Sale Share
“Group”	the Company and its subsidiaries
“HIBOR”	the Hong Kong Interbank Offered Rate, at or about 11:00 a.m. (Hong Kong time) on the Telerate Screen Page 9898 or on the web page of The Hong Kong Association of Banks on the first day of the relevant period of interest payment in respect of the Bonds, for the offering of deposits in Hong Kong dollars for a period comparable to the relevant period of interest payment in respect of the Bonds and for the relevant amount
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKBLA”	The Hong Kong Building and Loan Agency Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the committee comprising Mr. Steven Samuel Zoellner, being an independent non-executive Director appointed by the Board under the Listing Rules to advise the Independent Shareholders in respect of the terms of the Agreement
“Independent Shareholders”	Shareholders (other than AGL and its respective associates) who are not required under the Listing Rules to abstain from voting at the EGM to approve the Agreement and the transactions contemplated in it

DEFINITIONS

“Latest Practicable Date”	30th 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
“Loan”	the shareholder’s loan advanced by AG Capital to UAF Holdings in the amount of HK\$39,590,815
“Norton Appraisals”	Norton Appraisals Limited, a firm of independent professional valuers
“Sale Share”	one share of US\$1.00 in the issued share capital of UAF Holdings, representing the entire issued share capital of UAF Holdings
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares of nominal value of HK\$2.00 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“SHK”	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange
“SHK Directors”	directors of SHK
“SHK Group”	SHK and its subsidiaries
“SHK Shares”	shares of nominal value of HK\$0.20 each in the share capital of SHK
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	having the meaning ascribed to it under the Listing Rules
“Swan Islands”	Swan Islands Limited, a company incorporated in the B.V.I. with limited liability, and a direct wholly-owned subsidiary of SHK

DEFINITIONS

“Takeovers Code”	Code on Takeovers and Mergers
“UAF”	United Asia Finance Limited, a company incorporated in Hong Kong with limited liability, and a direct non wholly-owned subsidiary of UAF Holdings
“UAF Group”	UAF and its subsidiaries
“UAF Holdings”	UAF Holdings Limited, a company incorporated in the B.V.I. with limited liability, and an indirect wholly-owned subsidiary of AGL
“UAF Holdings Group”	UAF Holdings and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America



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

30th June, 2006

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

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION**

**CONDITIONAL SALE AND PURCHASE OF
THE ENTIRE ISSUED SHARE CAPITAL OF UAF HOLDINGS LIMITED**

INTRODUCTION

On 19th June, 2006, the AGL Directors, the Directors and SHK Directors jointly announced that, on 13th June, 2006, AGL, AG Capital (a direct wholly-owned subsidiary of AGL), SHK and Swan Islands (a direct wholly-owned subsidiary of SHK) entered into the Agreement, pursuant to which AG Capital has conditionally agreed to sell the entire issued share capital of UAF Holdings and assign the Loan, and Swan Islands has conditionally agreed to purchase the entire issued share capital of UAF Holdings and accept assignment of the Loan, at an aggregate consideration of HK\$4,328,000,000.

LETTER FROM THE BOARD

The transactions contemplated in the Agreement constitute a very substantial acquisition and a connected transaction for the Company, on the basis that the calculation of the consideration ratio is over 100 per cent. and that AGL is a substantial shareholder of the Company and hence a connected person of the Company, and is therefore subject to the approval of the Independent Shareholders. AGL and its associates will abstain from voting at the EGM on the resolution for approving the Agreement and the transactions contemplated thereunder.

The Independent Board Committee has been constituted to consider the terms of the Agreement and to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the Agreement. As Messrs. Alan Stephen Jones and John Douglas Mackie, independent non-executive Directors, are also independent non-executive directors of AGL, they were not appointed as members of the Independent Board Committee. Mr. Steven Samuel Zoellner, being the remaining independent non-executive Director, has been appointed by the Board to form the Independent Board Committee.

Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in accordance with the Listing Rules regarding the Agreement.

The purpose of this circular is (i) to provide the Shareholders with details of the terms of the Agreement; (ii) to set out the advice of Ample Capital, the independent financial adviser, to the Independent Board Committee and the Independent Shareholders, and the recommendation of Independent Board Committee in respect of the terms of the Agreement; and (iii) to give the Shareholders notice of the EGM and other information in accordance with the requirements of the Listing Rules.

THE CONDITIONAL SALE AND PURCHASE

On 13th June, 2006, AGL, AG Capital (a direct wholly-owned subsidiary of AGL), SHK and Swan Islands (a direct wholly-owned subsidiary of SHK) entered into the Agreement, pursuant to which AG Capital has conditionally agreed to sell the entire issued share capital of UAF Holdings and assign the Loan, and Swan Islands has conditionally agreed to purchase the entire issued share capital of UAF Holdings and accept assignment of the Loan, at an aggregate consideration of HK\$4,328,000,000.

THE AGREEMENT

Date

13th June, 2006

Parties

(1) AG Capital as vendor

LETTER FROM THE BOARD

- (2) AGL as warrantor
- (3) Swan Islands as purchaser
- (4) SHK as guarantor

The Sale Share

The Sale Share represents the entire issued share capital of UAF Holdings as at the Latest Practicable Date.

The Sale Share and the Loan will be acquired free from any encumbrance and together with all rights and benefits attaching or accruing to it on or after the date of the Agreement (including, without limitation, any dividend, bonus and distribution to be declared, paid or made out of or in respect of the profits of UAF Holdings or UAF for the year ending 31st December, 2006), except that AG Capital will remain fully entitled to:-

- (i) all dividends, bonuses and distributions declared, paid or made or to be declared, paid or made out of or in respect of the profits after tax (after taking into account of the extraordinary and exceptional items) as shown in the audited accounts of UAF for the year ended 31st December, 1995;
- (ii) the final dividends declared by UAF for the year ended 31st December, 2005; and
- (iii) the interim dividends (if any) to be declared by UAF for the year ending 31st December, 2006.

AGL has agreed to give certain representations and warranties in relation to AG Capital and the UAF Holdings Group, and to guarantee the performance and observance by AG Capital of its obligations and undertakings under the Agreement.

SHK has agreed to guarantee the cash payment obligation of Swan Islands under the Agreement.

Net profits attributable to the Sale Share for the two financial years ended 31st December, 2005 were:-

- (i) approximately HK\$434,188,000 (before taxation and extraordinary items) or approximately HK\$356,413,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2004; and
- (ii) approximately HK\$551,505,000 (before taxation and extraordinary items) or approximately HK\$455,200,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2005.

LETTER FROM THE BOARD

Consideration

The aggregate consideration for the sale and purchase of the Sale Share and the assignment of the Loan is HK\$4,328,000,000, comprising HK\$4,288,409,185 for the Sale Share and HK\$39,590,815 for the Loan.

The consideration was arrived at after arm's length negotiations between AG Capital and Swan Islands, having regard to a valuation report prepared by Norton Appraisals, a firm of independent professional valuers, on the overall value of the UAF Group and to the 50.91 per cent. interest held by UAF Holdings in UAF. Such valuation report, containing details of the methodologies, bases and assumptions adopted for the valuation, is set out in Appendix VI to this circular. On the basis of the valuation report prepared by Norton Appraisals, the overall market valuation of the UAF Group falls within the range from HK\$8,550,000,000 to HK\$8,890,000,000. The methodologies used by Norton Appraisals in obtaining the fair market value of the UAF Group are:-

1. Regression Analysis – This method is forward looking and establishes company value by referring to the latest forecast with reference made to key ratios achieved over a long period of time. To establish the market value of the UAF Group, Norton Appraisals has to ascertain the appropriate price to book multiple.
2. Discounted Cash Flow Analysis – This method is widely used and accepted to determine market value of a business or a firm. It is based on a simple reversal calculation to restate all future cash flow as in present term by obtaining the cost of equity of a company as a basic discount rate.

The key bases and assumptions for the Regression Analysis and the Discounted Cash Flow Analysis are:-

- All relevant legal approvals and business certificates or licences to operate the business in the localities in which the UAF Group operates or intends to operate would be automatically renewable upon expiry.
- The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals.
- The financial projections provided will be materialised.
- There will be a sufficient supply of technical staff in the industry in which the UAF Group operates.
- The UAF Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major changes in the current taxation laws in the localities in which the UAF Group operates or intends to operate, and the rates of tax payable will remain unchanged, and all applicable laws and regulations will be complied with.

LETTER FROM THE BOARD

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the UAF Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the UAF Group.
- Interest rates and exchange rates in the localities in which the UAF Group operates or intends to operate will not differ materially from those presently prevailing.

The consideration will be settled:-

- (i) as to HK\$1,528,000,000 in cash, payable on completion; and
- (ii) as to the balance by way of the creation and issue by Swan Islands of the Bonds to AG Capital (or its nominees) on completion.

Payment of the cash portion of the consideration will be financed in full from the net proceeds of the placing and subscription of 248,000,000 SHK Shares as announced in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006. Swan Islands will use its best endeavours to redeem, within 12 months from the date of completion of the sale and purchase of the Sale Share, up to HK\$500,000,000 of the outstanding principal amount of the Bonds. Such arrangement is not a commitment. If any redemption of the outstanding principal amount of the Bonds gives rise to any implication under the Listing Rules for the Company, the Company will comply with all the applicable disclosure requirements under the Listing Rules.

AGL and AG Capital have, unconditionally and irrevocably, jointly and severally represented and warranted to SHK and Swan Islands that the audited net profit of the UAF Group for the year ending 31st December, 2006 will not be less than HK\$500,000,000. No party will have any claim against any of the other parties to the Agreement if the difference between the audited net profits of the UAF Group for the year ending 31st December, 2006 is less than or more than five per cent. of HK\$500,000,000. In the event that the audited net profits of the UAF Group for the year ending 31st December, 2006 is less than HK\$500,000,000, the consideration payable for the sale and purchase of the Sale Share under the Agreement will be adjusted downward and the amount of the adjustment will be negotiated between the parties in good faith.

Bonds

The principal terms of the Bonds will be as follows:-

Date of issue:	date of completion of the sale and purchase of the Sale Share
Issuer:	Swan Islands
Term:	three years from the date of issue
Total principal amount:	HK\$2,800,000,000

LETTER FROM THE BOARD

Form and denomination:	Bonds for the amount of HK\$2,800,000,000 in registered form in the denomination of HK\$100,000,000 each
Interest:	simple interest at the rate of one per cent. above HIBOR per annum, payable half-yearly in arrears from the date of issue
Redemption:	<ul style="list-style-type: none">– redeemable, at the option of Swan Islands, partially in an amount of not less than HK\$100,000,000 for each partial early redemption, at any time during the term of the Bonds (or as extended), by giving AG Capital one month's prior written notice of each partial early redemption– redeemable in full upon the occurrence of an event of default under the terms and conditions of the Bonds (including, without limitation, the liquidation or winding-up of Swan Islands), or upon expiration of the term of the Bonds (or as extended), if not already redeemed
Option to extend:	exercisable by SHK and Swan Islands on reasonable market terms above HIBOR prevailing at the time, for a further term of three years from the expiry date of the initial term of the Bonds
Voting right:	not entitling holders of Bonds to attend or vote at any general meeting of Swan Islands
Transferability:	transferable by mutual agreement
Security:	to be secured by a mortgage over the Sale Share
Non-recourse:	in the event of failure to redeem any of the Bonds, recourse only against the mortgage over the Sale Share
Listing:	not to be listed on any stock exchange

AGL has undertaken to SHK that AGL will, at the request of SHK, capitalise up to HK\$1,000,000,000 of the outstanding principal amount of the Bonds by procuring the Company to exercise its warrants in SHK (now in such number as would, if exercised, lead to the subscription of 186,839,778 new SHK Shares, at an initial subscription price of HK\$6.00 per SHK Share (subject to adjustments)) or by underwriting or procuring the underwriting of a rights issue or other agreed capital raising mechanisms which AGL and the Company deem appropriate at their sole discretion and in the best interests of AGL and the Company. If any capital raising mechanism agreed by AGL and the Company gives rise to any implication under the Listing Rules. AGL and the Company will comply with all the applicable disclosure requirements under the Listing Rules.

LETTER FROM THE BOARD

Conditions

Completion of the sale and purchase of the Sale Share is conditional upon fulfilment of a number of conditions, in particular:-

- (i) the Agreement being approved by the shareholders of AGL, the Independent Shareholders and the independent shareholders of SHK in accordance with all applicable requirements under the Listing Rules;
- (ii) the SFC confirming that no mandatory general offer obligation would arise under the Takeovers Code, or otherwise waiving all such mandatory general offer obligations, in respect of the shares in HKBLA, as a result of the transactions contemplated in the Agreement;
- (iii) completion of the subscription of the 248,000,000 new SHK Shares, as announced in the joint announcements of AGL, the Company and SHK of 17th and 18th May, 2006;
- (iv) all necessary approvals being obtained and maintained by AG Capital, Swan Islands and members of the UAF Group in respect of their licences in relation to their business activities, as a result of the transactions contemplated in the Agreement;
- (v) all necessary licences, authorisations, consents and approvals of all relevant governmental or regulatory authorities, agencies or bodies, or any other third party (including banks), required for the implementation of the transactions contemplated in the Agreement being obtained and maintained; and
- (vi) no matter, event, circumstance or change having occurred which has caused, causes or is likely to cause any material adverse effect on:-
 - (a) the business, operations, prospects or financial condition, or a material portion of the properties or assets, of any member of the UAF Holdings Group; or
 - (b) the ability of AG Capital to perform or observe any of its obligations, undertakings or covenants under the Agreement.

AGL, AG Capital, SHK and Swan Islands will each use their respective best endeavours to fulfil, or procure the fulfilment of, the conditions (to the extent such party is responsible for such fulfilment). If any of the conditions is not fulfilled (or waived by Swan Islands, except for conditions (i) and (ii) which cannot be waived) on or before 11th September, 2006 (or such earlier or later date as may be agreed by AG Capital and Swan Islands in writing) or any party fails to proceed to completion, no party will be obliged to complete the sale and purchase of the Sale Share, whereupon the Agreement will cease to be of any force or effect.

LETTER FROM THE BOARD

As a result of the sale and purchase of the Sale Share, AGL will have acquired or consolidated control of HKBLA (a listed subsidiary of UAF) for the purposes of the Takeovers Code and will be required to make a general offer under Rule 26 of the Takeovers Code for the issued shares in HKBLA not already owned by AGL or parties acting in concert with it. An application will be made by AGL to seek confirmation from the SFC that no mandatory general offer obligation would arise under the Takeovers Code, or otherwise all such mandatory general offer obligations will be waived, in respect of the shares in HKBLA, as a result of the transactions contemplated in the Agreement.

There will be no general offer for the shares of HKBLA.

The sale and purchase of the Sale Share is conditional and may or may not proceed. Accordingly, shareholders and prospective investors are reminded to exercise extreme caution when trading in the securities of AGL, the Company and SHK.

Completion

Subject to fulfilment of the conditions set out in the Agreement, completion of the sale and purchase of the Sale Share will take place on or before 15th September, 2006 (or such earlier or later date as may be agreed by AG Capital and Swan Islands in writing).

INFORMATION ABOUT UAF HOLDINGS AND UAF

UAF Holdings and UAF

UAF Holdings is a company incorporated in the B.V.I. with limited liability. It is an indirect wholly-owned subsidiary of AGL and a direct wholly-owned subsidiary of AG Capital.

UAF is a direct non wholly-owned subsidiary of UAF Holdings. As at the Latest Practicable Date, UAF was owned:–

- (i) as to approximately 50.91 per cent. by UAF Holdings;
- (ii) indirectly, through Swan Islands, as to approximately 7.27 per cent. by SHK; and
- (iii) by four other shareholders, none of whom had a controlling interest in UAF.

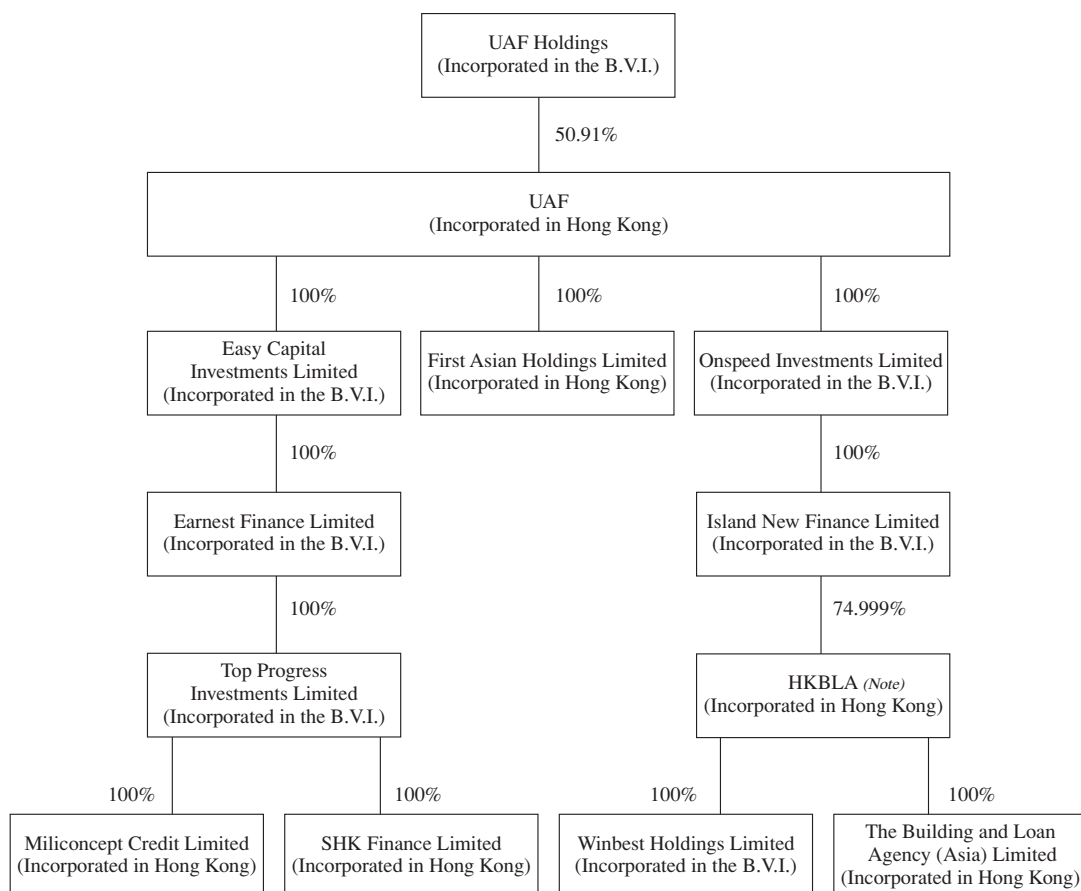
The four other shareholders and their respective ultimate owners are all independent third parties who are, other than at the level of UAF, not connected with AGL, the Company, SHK or any of their respective subsidiaries, or any of their respective associates, or any of the connected persons of AGL, the Company, SHK or any of their respective subsidiaries, or any of their respective associates.

LETTER FROM THE BOARD

The principal business activity of the UAF Group is consumer finance in Hong Kong. UAF is a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and as at the Latest Practicable Date, had 35 branches throughout Hong Kong. HKBLA (a listed subsidiary of UAF) is engaged in the businesses of provision of mortgage finance, investment holding and treasury investments.

Group Chart

An overview of the corporate structure of the UAF Holdings Group as at the Latest Practicable Date is set out below:–



Note: Listed on the Stock Exchange (Stock Code: 145)

INFORMATION ABOUT AGL, AG CAPITAL, THE COMPANY, SHK AND SWAN ISLANDS

AGL

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

LETTER FROM THE BOARD

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.

AG Capital

AG Capital is a company incorporated in the Cayman Islands with limited liability and a direct wholly-owned subsidiary of AGL.

As at the Latest Practicable Date, AG Capital was the beneficial owner of the entire issued share capital of UAF Holdings.

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 per cent. by AGL.

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 per cent. by the Company.

Swan Islands

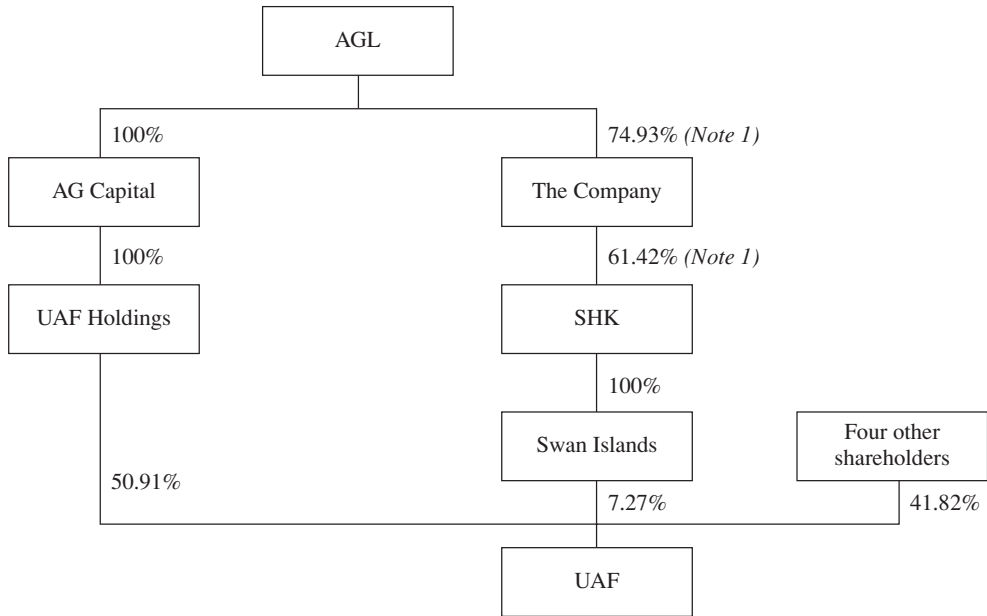
Swan Islands is a company incorporated in the B.V.I. with limited liability and is a direct wholly-owned subsidiary of SHK.

As at the Latest Practicable Date, it was the beneficial owner of approximately 7.27 per cent. of the issued share capital of UAF.

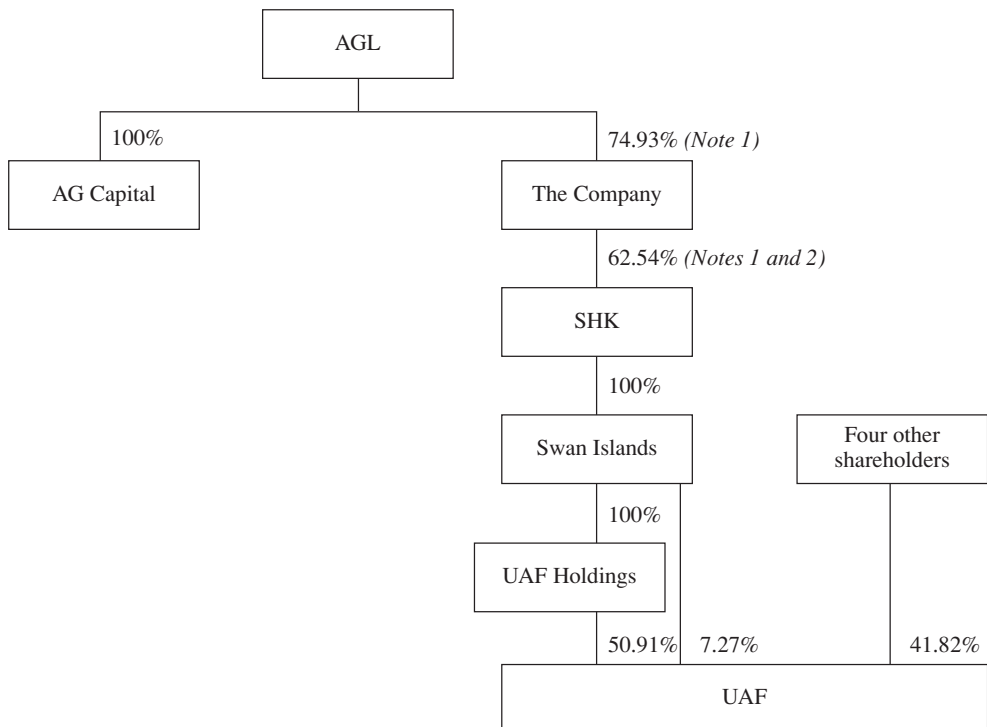
LETTER FROM THE BOARD

Group Charts

An overview of the shareholding structure of AGL, AG Capital, the Company, SHK, Swan Islands, UAF Holdings and UAF as at the Latest Practicable Date is set out below:–



An overview of the shareholding structure of AGL, AG Capital, the Company, SHK, Swan Islands, UAF Holdings and UAF after completion of the sale and purchase of the Sale Share is set out below:–



LETTER FROM THE BOARD

Notes:

1. These interests are held by AGL and the Company themselves or through their respective wholly-owned subsidiaries, or a combination of both.
2. This represents the shareholding percentage in SHK after the placing of 79,000,000 SHK Shares and the subscription of 248,000,000 new SHK Shares, as announced in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006.

REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE OF THE SALE SHARE

A plan has been formulated to effect an overall group reorganisation of the loan and financial services businesses of the AGL group of companies, which involves three listed companies within the group, namely, AGL, the Company and SHK. Such reorganisation is to be effected by way of the sale and purchase of the Sale Share and is intended to consolidate the loan and financial services businesses of the AGL group of companies into SHK, which is expected to achieve ongoing operational economies and other benefits.

In respect of its loan and consumer finance business, the SHK Group recorded:-

- (i) a turnover of approximately HK\$167,930,000 for the year ended 31st December, 2004, representing approximately 20.81 per cent. of the total turnover of the SHK Group for such year; and
- (ii) a turnover of approximately HK\$184,888,000 for the year ended 31st December, 2005, representing approximately 23.30 per cent. of the total turnover of the SHK Group for such year.

The SHK Group intends to increase its degree of participation in the continuing growth of the Hong Kong economy, by way of a further expansion of its loan and consumer finance business. This objective may be pursued by increasing its investments in the UAF Group, in which SHK currently has an approximately 7.27 per cent. interest.

It is expected that following completion of the sale and purchase of the Sale Share, SHK will be in a position to consolidate its loan and financial services businesses, thereby expanding its overall market share through the ability to provide a wide range of finance products and other related services. UAF Holdings will change from an indirect wholly-owned subsidiary of AGL into an indirect non wholly-owned subsidiary of AGL through AGL's indirect interest in SHK. Accordingly, AGL will continue to enjoy the success of the UAF Group.

Having regard to the nature of and the benefits resulting from such reorganisation, the AGL Directors, the Directors and the SHK Directors all believe that the terms of the sale and purchase of the Sale Share are fair and reasonable and in the interests of the shareholders of each of AGL, the Company and SHK taken as a whole.

As at 31st December, 2005 (being the date up to which the latest published audited consolidated accounts of AGL were made), the aggregate carrying value of the Sale Share and the Loan to AGL was approximately HK\$1,073,272,000. Accordingly, AGL will have

LETTER FROM THE BOARD

an estimated gain of approximately HK\$3,254,728,000 (before expenses of the sale). This gain will be eliminated against the goodwill arising on the acquisition of the Sale Share by Swan Islands in the consolidated accounts of AGL.

The sale of the Sale Share will generate net sale proceeds (before expenses) of HK\$4,328,000,000 for AGL, as to HK\$1,528,000,000 in cash and as to HK\$2,800,000,000 by way of the issue of the Bonds. The cash portion of the consideration will provide AGL with the capabilities to apply approximately HK\$805,000,000 to exercise its warrants in the Company as and when desirable and to apply the balance to reduce its overall corporate indebtedness, to fund new investments as and when opportunities arise, and for general working capital purposes. The portion of the consideration represented by the issue of the Bonds, which is not immediately required by AGL in cash, will generate a stable income of one per cent. over HIBOR per annum in the form of half-yearly interest payments.

The unaudited consolidated total asset value and the unaudited consolidated net asset value of UAF Holdings as at 31st December, 2005 were approximately HK\$2,951,010,000 and HK\$2,074,966,000, respectively.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Except for the bonus issue of warrants as described in the circular of the Company dated 11th May, 2006, no funds were raised by the Company on any issue of equity securities in the 12 months immediately preceding the Latest Practicable Date.

LISTING RULES IMPLICATIONS

The transactions contemplated in the Agreement constitute a very substantial acquisition and a connected transaction for the Company, on the basis that the calculation of the consideration ratio is over 100 per cent. and that AGL is a substantial shareholder of the Company and hence a connected person of the Company, and is therefore subject to the approval of the Independent Shareholders. AGL and its associates will abstain from voting at the EGM on the resolution for approving the Agreement and the transactions contemplated in it.

The Independent Board Committee has been constituted to consider the terms of the Agreement and to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the Agreement. As Messrs. Alan Stephen Jones and John Douglas Mackie, independent non-executive Directors, are also independent non-executive directors of AGL, they were not appointed as members of the Independent Board Committee. Mr. Steven Samuel Zoellner, being the remaining independent non-executive Director, has been appointed by the Board to form the Independent Board Committee.

Ample Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in accordance with the Listing Rules regarding the Agreement.

LETTER FROM THE BOARD

EGM

A notice convening the EGM is set out on pages 306 and 307 of this circular. Ordinary resolution in respect of the Agreement will be proposed at the EGM.

A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment of the meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the meeting or any adjournment of the meeting if they so wish.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 75 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

Under the Listing Rules, the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated in it is required to be voted on by poll, AGL and its associates will obtain from voting on the resolution to be proposed at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the Agreement are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Directors recommend all the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Ample Capital and 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the Agreement for inclusion in this circular.



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)

30th June, 2006

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION**

**CONDITIONAL SALE AND PURCHASE OF
THE ENTIRE ISSUED SHARE CAPITAL OF UAF HOLDINGS LIMITED**

I have been appointed to form this Independent Board Committee to consider and advise you on the terms of the Agreement, details of which are set out in the circular issued by the Company to the Shareholders dated 30th June, 2006 (the "Circular"), of which this letter forms part. Terms defined in the Circular will have the same meanings when used herein unless the context otherwise requires.

I wish to draw your attention to the letter from the Board and letter from Ample Capital set out on pages 5 to 19 and pages 22 to 37 of the Circular respectively.

Having taken into account the principal factors and reasons considered by Ample Capital, its conclusion and advice, I concur with the view of Ample Capital and consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, I recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated in it.

Yours faithfully,
For and on behalf of
**the Independent Board Committee of
Allied Properties (H.K.) Limited**
Steven Samuel Zoellner
Independent non-executive Director

LETTER FROM AMPLE CAPITAL

The following is the full text of the letter of advice from Ample Capital Limited in respect of the Agreement and is prepared for the purpose of incorporation into this circular.

AmCap

Ample Capital Limited

豐盛融資有限公司

Unit B, 9th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

30 June 2006

*To the Independent Board Committee and
the Independent Shareholders of
Allied Properties (H.K.) Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the conditional sale and purchase of the entire issued share capital of UAF Holdings, the particulars of which have been set out in a circular to the Shareholders dated 30 June 2006 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Ample Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to give our recommendation as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Details of the reasons for the proposed acquisition of the Sale Share are set out in the section headed "Letter from the Board" in the Circular (the "Board Letter").

On 19 June 2006, AGL, the Company and SHK announced by way of a joint announcement that AGL, AG Capital (a direct wholly-owned subsidiary of AGL), SHK and Swan Islands (a direct wholly-owned subsidiary of SHK) entered into the Agreement on 13 June 2006 (the "Date of Agreement"). Pursuant to the Agreement, AG Capital (as vendor) has conditionally agreed to sell the entire issued share capital of UAF Holdings and assign the Loan, and Swan Islands (as the purchaser) has conditionally agreed to purchase the entire issued share capital of UAF Holdings and accept assignment of the Loan, at an aggregate consideration of HK\$4,328,000,000.

LETTER FROM AMPLE CAPITAL

AGL is a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, and the provision of financial services.

The Company is incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange. The principal 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 is beneficially owned as to approximately 74.93% by AGL.

SHK is a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange. The principal 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 is beneficially owned as to approximately 61.42% by the Company. We note from the joint announcement by AGL, the Company and SHK dated 19 June 2006 that APL and its associates will abstain from voting on the resolution for approving the Agreement in the extraordinary general meeting to be held by SHK.

The transactions contemplated in the Agreement constitute a very substantial acquisition and a connected transaction for the Company, on the basis that the calculation of the consideration ratio is over 100% and that AGL is a substantial shareholder of the Company and hence a connected person of the Company, and is therefore subject to the approval of the Independent Shareholders. AGL and its associates will abstain from voting on the resolution for approving the Agreement.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Group and have assumed that all information and representations made by the Group and the Directors were true, accurate and complete at the time they were made and continue to be so as at the date of the Circular. We consider that we have obtained from the Company all of the necessary information on which to form a reasonable basis for our opinion. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the affairs of the Group nor have we carried out any independent verification of the information supplied.

LETTER FROM AMPLE CAPITAL

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Agreement, we have taken into consideration the following factors:

1. Background information

As mentioned earlier, the Group is principally engaged in property investment and development, hospitality related activities, and the provision of financial services. Upon a review of the Company's annual report for the year ended 31 December 2005 (the "Annual Report"), we note that the Group recorded a consolidated turnover of approximately HK\$1,144,153,000 for the year ended 31 December 2005, representing an approximately 1.42% increase when compared with the consolidated turnover of approximately HK\$1,128,169,000 recorded during the year ended 31 December 2004. During the year ended 31 December 2005, the Group also experienced a spectacular increase to its profit attributable to equity holders of the Company to approximately HK\$935,342,000, an amount which is approximately 66.13% higher than that of HK\$563,023,000 recorded during the year ended 31 December 2004. The Directors attribute this significant increase to the gain in fair value of the investment property portfolio of the Group. As at 31 December 2005, the Company had consolidated total assets, total liabilities and total equity of approximately HK\$11,924,513,000, HK\$3,372,237,000 and HK\$8,552,276,000 respectively.

2. Information on the UAF Group

As shown in the Board Letter, UAF Holdings is a Company incorporated in the B.V.I. with limited liability. It is an indirect wholly-owned subsidiary of AGL and a direct wholly-owned subsidiary of AG Capital.

UAF is a direct non wholly-owned subsidiary of UAF Holdings. As at the Latest Practicable Date, UAF is owned:

- (i) as to approximately 50.91% by UAF Holdings;
- (ii) indirectly, through Swan Islands, as to approximately 7.27% by SHK; and
- (iii) by four other shareholders, none of who has a controlling interest in UAF.

The four other shareholders and their respective ultimate owners are all independent third parties who are, other than at the level of UAF, not connected with AGL, the Company, SHK or any of their respective subsidiaries, or any of their respective associates, or any of the connected person of AGL, the Company, SHK or any of their respective subsidiaries, or any of their respective associates.

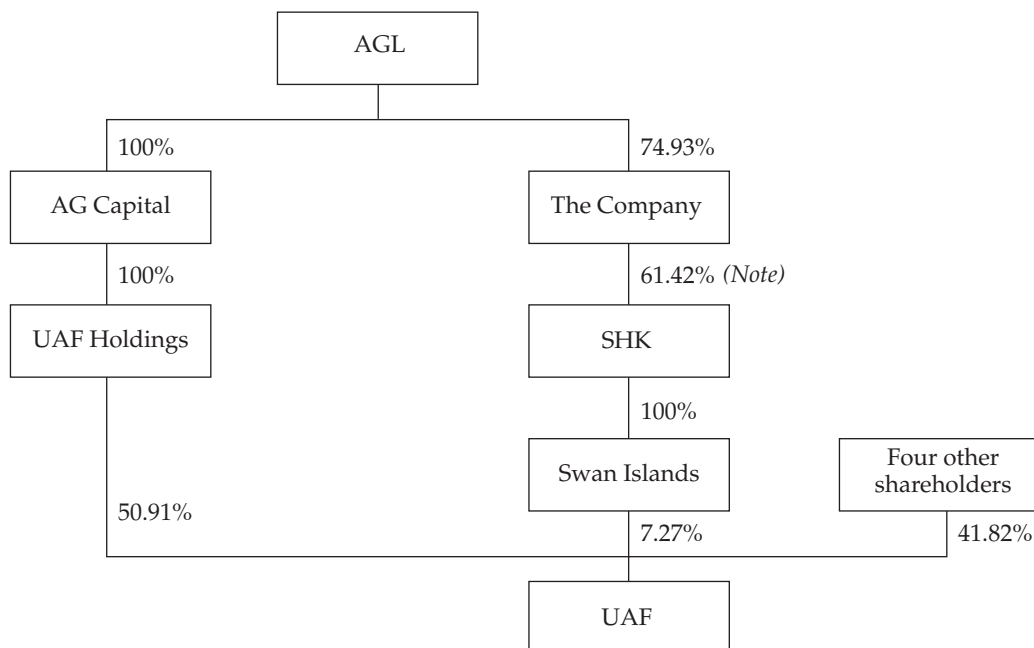
LETTER FROM AMPLE CAPITAL

The principal business activity of the UAF Group is consumer finance in Hong Kong. UAF is a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and has 35 branches throughout Hong Kong as at the Latest Practicable Date. HKBLA (a listed subsidiary of UAF) is engaged in the businesses of provision of mortgage finance, investment holding and treasury investments.

As illustrated in the audited financial statements of UAF Holdings Group in Appendix I to the Circular, UAF Holdings recorded revenue and profit attributable to equity holders of UAF Holdings of approximately HK\$870,275,000 and HK\$231,307,000 respectively during the year ended 31 December 2005. As at 31 December 2005, UAF Holdings had total equity (net assets) of approximately HK\$2,074,966,000.

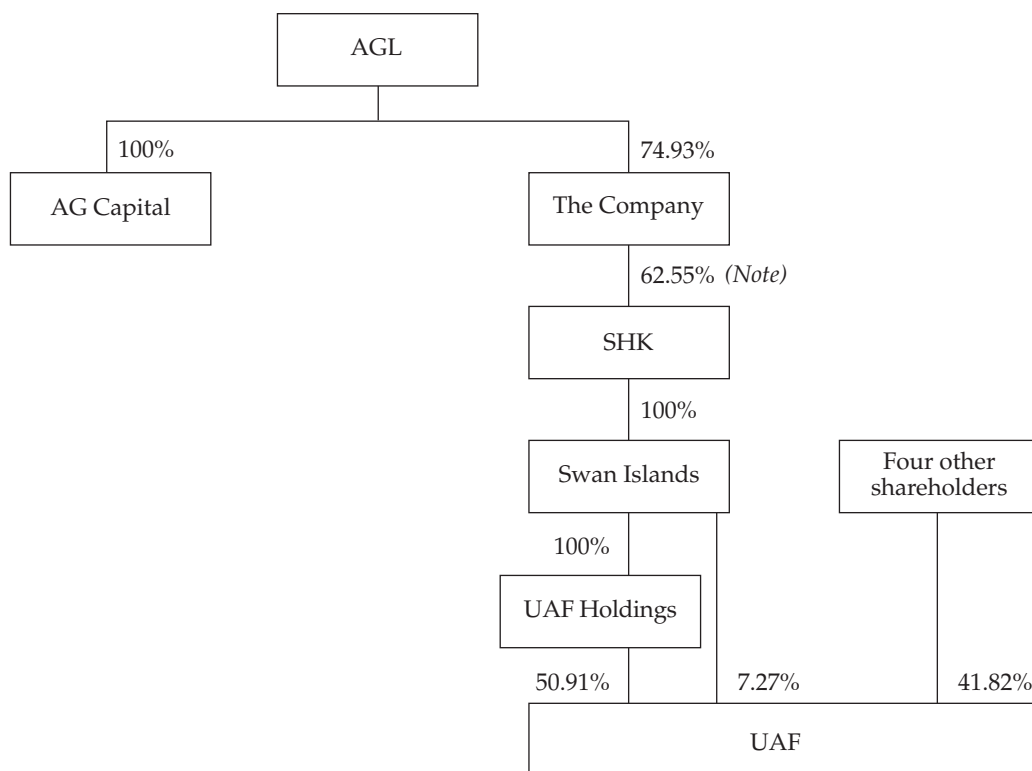
As mentioned in the Board Letter, AGL will have acquired or consolidated control of HKBLA (a listed subsidiary of UAF) as a result of the sale and purchase of the Sale Share for the purposes of the Takeovers Code and will be required to make a general offer under Rule 26 of the Takeovers Code for the issued shares in HKBLA not already owned by AGL or parties acting in concert with it. An application will be made by AGL to seek confirmation from the SFC that no mandatory general offer obligation would arise under the Takeovers Code, or otherwise all such mandatory general offer obligations will be waived, in respect of the shares in HKBLA, as a result of the transactions contemplated in the Agreement.

The shareholding relationship among AGL, the Company, SHK and UAF Holdings as at the Latest Practicable Date is set out below:



LETTER FROM AMPLE CAPITAL

The shareholding relationship among AGL, the Company, SHK and UAF Holdings following the acquisition of the Sale Share is set out below:



Note: This represents the shareholding percentage in SHK after the placing of 79,000,000 SHK Shares and the subscription of 248,000,000 new SHK Shares, as announced in the joint announcement of AGL, APL and SHK dated 17 May 2006 and 18 May 2006.

3. Reasons for the acquisition of the Sale Share and use of proceeds by AGL

3.1 Reasons for the acquisition

As mentioned in the Board Letter, a plan has been formulated to effect an overall group reorganization of the loan and financial services businesses of the AGL group of companies, which involves three listed companies within the group, namely, AGL, the Company and SHK. Such reorganization is to be effected by way of the sale and purchase of the Sale Share and is intended to consolidate the loan and financial services businesses of the AGL group of companies into SHK, which is expected to achieve ongoing operational economies and other benefits such as the avoidance of conflict of interest in the provision of consumer finance among AGL, APL and SHK.

The SHK Group intends to increase its degree of participation in the continuing growth of the Hong Kong economy, by way of a further expansion of its loan and consumer finance business. This objective may be pursued by increasing its investments in the UAF Group, in which SHK currently has an approximately 7.27% interest.

LETTER FROM AMPLE CAPITAL

The Board Letter further states that it is expected that following the completion of the sale and purchase of the Sale Share, SHK will be in a position to consolidate its loan and financial services businesses, thereby expanding its overall market share through the ability to provide a wide range of finance products and other related services. UAF Holdings will change from an indirectly wholly-owned subsidiary of AGL into an indirect non-wholly owned subsidiary of AGL through AGL's indirect interest in SHK. Accordingly AGL will continue to enjoy the success of the UAF Group. APL, through its equity interest in SHK, will be able to increase its share of financial contribution from UAF Holdings following the completion of the acquisition of the Sale Share.

During discussions with the management of SHK, we have learnt that SHK currently has not concluded any concrete plan in relation to the integration of UAF's business into that of SHK. The management of SHK further represented that both units will carry on their existing mode of operation immediately following the completion of the acquisition of the Sale Share.

We note from the Board Letter that having regard to the nature of and the benefits resulting from such reorganization, the AGL Directors, the Directors and the SHK Directors all believe that the terms of the sale and purchase of the Sale Share are fair and reasonable and in the interests of the shareholders of each of AGL, the Company and SHK taken as a whole.

As at 31 December 2005 (being the date up to which the latest published audited consolidated accounts of AGL were made), the aggregate carrying value of the Sale Share and the Loan to AGL was approximately HK\$1,073,272,000. Accordingly, AGL will have an estimated gain of approximately HK\$3,254,728,000 (before expenses of the sale). This gain will be eliminated against the goodwill arising on the acquisition of the Sale Share by Swan Islands in the consolidated accounts of AGL. We have learnt from the management of SHK that the goodwill arising out of the contemplated acquisition will be treated according to the prevailing accounting standards, i.e. test against fair market value of the goodwill and make impairment as and when necessary.

3.2 Possible application of proceeds by AGL to exercise warrants in the Company

The sale of the Sale Share, which will generate net sale proceeds (before expenses) of HK\$4,328,000,000 for AGL, as to HK\$1,528,000,000 in cash and as to HK\$2,800,000,000 by way of issue of the Bonds. The cash portion of the consideration will provide AGL with the capabilities to apply approximately HK\$805,000,000 to exercise its warrants in the Company (the "APL Warrants") as and when desirable and to apply the balance to reduce its overall corporate indebtedness, to fund new investments as and when opportunities arise, and for general working capital purposes.

4. Terms of the Agreement

4.1 The consideration

The aggregate consideration for the sale and purchase of the Sale Shares and the assignment of the Loan is HK\$4,328,000,000, comprising HK\$4,288,409,185 for the Sale Share and HK\$39,590,815 for the Loan.

The consideration was arrived at after normal commercial negotiations between AG Capital and Swan Islands, having regard to a valuation report (the "Valuation Report") prepared by Norton Appraisals, a firm of independent professional valuers, on the overall value of the UAF Group and to the 50.91% interest held by UAF Holdings in UAF. The Valuation Report, containing details of the methodologies, bases and assumptions adopted for the valuation, is included in Appendix VI to this Circular. On the basis of the Valuation Report, the overall market valuation of the UAF Group falls within the range from HK\$8,550,000,000 to HK\$8,890,000,000.

Based on the consideration of the Sale Share of HK\$4,288,409,185 for an effective 50.91% interest in UAF through UAF Holdings, the valuation of a 100% interest in UAF is approximately HK\$8,424,000,000 which is slightly less than the lower end of the valuation of the UAF Group demonstrated in the Valuation Report.

To determine the fairness and the reasonableness of the aggregate consideration, we have examined the following areas.

4.1.1 The Valuation Report

As illustrated in the Valuation Report, the valuation of UAF of HK\$8,710,000,000 as at 30 April 2006 was derived using (1) market approach which includes comparable companies analysis, precedent transaction analysis and regression analysis and (2) income approach which includes the use of discounted cash flow. Having discussed with Norton Appraisals the underlying reasons to adopt these two approaches, we concur these two approaches are appropriate methods to appraise the business value of UAF.

LETTER FROM AMPLE CAPITAL

4.1.2 Financial ratios of UAF and other comparables

For our analysis, we have identified two comparable companies, namely Aeon Credit Service (Asia) Company Limited (“Aeon”) (stock code: 900) and JCG Holdings Limited (“JCG”) (stock code: 626 and now known as Public Financial Holdings Limited). Aeon is principally engaged in consumer credit finance services which include the issuance of credit cards, provision of personal loan financing, hire purchase financing and vehicle financing while JCG’s principal businesses include personal and consumer lending, deposit taking, mortgage financing, stockbroking, the letting of investment properties, the provision of finance to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences and the leasing of taxis.

Company	Valuation/ Market capitalization (A) HK\$	Net profit after tax and extraordinary items attributable to all shareholders (B) HK\$	Net asset attributable to all shareholders (C) HK\$	(A)/(B) Times	(A)/(C) Times
UAF Holdings	8,710.0 million (Note 1)	455.2 million	2,449.7 million (Note 4)	19.13	3.56
Aeon	2,721.9 million (Note 2)	186.1 million	1,389.8 million (Note 5)	14.62	1.96
JCG	5,761.2 million (Note 3)	446.3 million	2,393.4 million (Note 5)	12.91	2.41

- Note: 1. On a 100% basis.
2. As of 13 June 2006, the date of the Agreement.
3. As of 14 February, 2006, the last trading day immediately preceding to the announcement of proposed acquisition of Asia Commercial Bank.
4. Projected value as of 31 December 2006 in section 9.1.3 of the Valuation Report.
5. Sourced from the latest annual report.

The above analysis demonstrates that (1) the ratio of “Valuation/Market capitalization” to “Net profit after tax and extraordinary items attributable to all shareholders” and (2) the ratio of “Valuation/Market capitalization” to “Net asset attributable to all shareholders” for UAF Holdings are higher than that of Aeon and JCG.

LETTER FROM AMPLE CAPITAL

We consider a higher valuation for UAF is justifiable by its desirable operating performance compared with its peers, in terms of growth in loan portfolio, control of bad debts (as depicted by the ratio of loans and advances of more than 30 days overdue to total loan and advances) and return of net assets. Our analysis of UAF's operating performance in terms of these parameters are set out below:

For the year ended 31 December 2004 compared to the year ended 31 December 2003

- A growth in gross loans and advances as at respective financial year ending dates by 22% mainly due to the acquisition from a credit card operator of its credit card loan portfolio and the increase in loan business.
- The ratio of loans and advances of more than 30 days' overdue to total loans and advances improved to 2.1% from 3.3%.

For the year ended 31 December 2005 compared to the year ended 31 December 2004

- A growth in gross loans and advances as at respective financial year ending dates by 23.2%.
- The ratio of loans and advances of more than 30 days' overdue to total loans and advances improved from 2.1% to 1.5%.

Company	Growth in gross loans and advances		The ratio of loans and advances of more than 30 days' overdue to total loans and advances	
	The year preceding latest	Latest	The year preceding latest	Latest
	financial year	financial year	financial year	financial year
UAF Holdings Group	22%	23.2%	2.1%	1.5%
Aeon	16.4% (Note 1)	59.1% (Note 1)	8.6%	4.7%
JCG	3.7%	10.3%	>5.8% (Note 2)	>5.8% (Note 2)

Source: annual reports

LETTER FROM AMPLE CAPITAL

- Note: 1. including installments and credit card receivables
2. only figures overdue for over three months are available

From the above analysis, comparing with its peers, being Aeon and JCG, UAF Holdings recorded a relatively steady yet impressive growth in gross loans and advances of around 22 - 23% in the past two financial years, and a much lower ratio of "loans and advances of more than 30 days' overdue to total loans and advances" of 1.5% against 4.7% and not less than 5.8% for Aeon and JCG respectively.

Company	Return on net assets for latest financial year %
UAF Holdings Group	21.94
Aeon	13.39
JCG	18.65

In addition, UAF Holdings Group recorded a higher return on net asset which generally indicates a better utilization of shareholders' funds.

4.1.3 The Loan

Pursuant to the Agreement, AG Capital has conditionally agreed to assign and Swan Islands has conditionally agreed to accept assignment of the Loan in the amount of HK\$39,590,815. Based on representation from the management of the Company, the Loan carries no interest and has no fixed term of payment. We are of the view that the assignment of the Loan simply arose out of the transfer of the shareholders' loan to UAF Holdings from its current shareholder, AG Capital, to Swan Islands which is in line with normal business practice in similar acquisitions of equities in companies.

4.2 The Bonds

As partial settlement of the aggregate consideration in the amount of HK\$4,328,000,000, Swan Islands will issue the Bonds with a principal amount of HK\$2,800,000,000 and a term of three years from the date of issue. The Bonds carries simple interest of 1% above HIBOR per annum, payable half-yearly in arrears from the date of issue. At the option of SHK and Swan Islands, the term of the Bonds can be extended for a further term of three years from the expiry date of the initial term of the Bonds.

In determining the fairness and reasonableness of the Bonds, we have decided not to make a direct comparison with bonds issued by other listed companies on the Stock Exchange due to the fact that the interest payable

LETTER FROM AMPLE CAPITAL

under a given bond depends greatly on factors such as the principal amount of the bonds, the term of the bonds, the borrower's credit rating, the relationship between the borrower and the lender, whether the bond is secured or not, etc. These parameters are highly variable and most companies have unique situations which would make a direct comparison difficult. Accordingly we have conducted a cost-benefit analysis studying the cost (i.e. interest expense payable attributable to SHK) versus benefit (i.e. dividend payable by UAF Holdings attributable to SHK) arising out of the acquisition of the Sale Share, and then analyze the potential financial commitment to SHK from the Company as a result of any excess of cost over benefit arising out of the Bonds.

For the cost component, we shall try to determine the estimated annual interest payable under the Bonds attributable to the Company. From the website of the Hong Kong Monetary Authority, the 6-month HIBOR on 30 May 2006 (the latest figure available as at the Latest Practicable Date) was approximately 4.73% per annum. On the assumption that no redemption is made for the Bonds during the first year and the interest rate of 1% above HIBOR per annum is 5.73% per annum, the estimated interest payable by SHK, based on the prevailing 6-month HIBOR at the end of the first year following the issue of the Bonds is calculated as follows.

$$\begin{aligned} \text{interest payable} &= \text{principal} \times \text{interest rate} \\ &= \text{HK\$2,800,000,000} \times 5.73\% \\ &= \underline{\underline{\text{HK\$160,440,000}}} \end{aligned}$$

As for the dividend payable by UAF Holdings which is attributable to SHK's acquisition of the Sale Share, we shall begin with the estimated dividend calculated based on UAF's profit attributable to equity holders of UAF Holdings and a dividend payout policy of 40% as represented by the management of UAF. As per section 4.7 of the Valuation Report, the UAF Group is estimated to have net profit of approximately HK\$517,407,000 during the year ending 31 December 2006. With the aforementioned dividend payout policy of 40%, the estimated dividend entitled to SHK's proposed acquisition of the Sale Share is approximately HK\$105,426,000. The Independent Shareholders should note that according to UAF Holding Group's financial statements reproduced in Appendix I to the Circular, the actual dividend payout ratio in respect of profit and dividend attributable to equity holders of UAF Holdings were approximately 60.25%, 66.14% and 66.00% for each of the 3 years ended 31 December 2005 respectively.

Assuming there is no redemption of the Bonds, it is estimated that the UAF Holdings' dividend payable for the financial year ending 31 December 2006 attributable to SHK's proposed acquisition of the Sale Share is insufficient to cover the interest payable by SHK under the Bonds. This is in part due to the size of the Bonds which is directly related to the amount of interest payable. The Independent Shareholders should note that the above analysis is for

LETTER FROM AMPLE CAPITAL

illustrative purposes only, and it is stated in the Board Letter that AG Capital will be entitled to the interim dividend, if any, to be declared by UAF Holdings in respect of the year ending 31 December 2006.

As discussed with management of the Group and mentioned in the Board Letter, AGL has undertaken to SHK that AGL will, at the request of SHK, procure the Company to exercise its warrants in SHK (the "SHK Warrants") into 186,839,778 new SHK Shares at an exercise price of HK\$6.00 per SHK Share. With the exercise of the SHK Warrants, SHK will receive fresh capital of approximately HK\$1,121,039,000, of which up to HK\$1,000,000,000 can be applied to the repayment of the outstanding principal amount of the Bonds. According to SHK's circular dated 10 May 2006, the subscription period of the SHK Warrants was expected to be from 1 June 2006 to 31 May 2009. It is stated in the Board Letter that completion of the sale and purchase of the Sale Share will take place on or before 15 September 2006 (or such earlier or later date as may be agreed by AG Capital and Swan Islands in writing). Assuming that the Bonds will be issued on the expected completion date mentioned above, the 3-year term of the Bonds is expected to end on 14 September 2009. Accordingly, the proceeds to be raised by SHK from the exercise of the SHK Warrants by the Company may be applied to the redemption of the Bonds before the end of its term.

As represented by management of the Company, the exercise of the SHK Warrants by the Company is intended to be partially funded by AGL's exercise of 80,508,008 APL Warrants at an exercise price of \$10.00 per APL Warrant, raising additional funds in the amount of approximately HK\$805,080,000 as mentioned in section 3.2 of this letter. As stated in the Company's circular dated 11 May 2006, the subscription period of the APL Warrants was expected to be from 7 June 2006 to 6 June 2009. With the expiry of the SHK warrants expected to take place on 31 May 2009 as mentioned above, the proceeds to be raised by the Company through AGL's exercise of the APL Warrants may be applied towards the exercise of the SHK Warrants by the Company. The Company's management intends to obtain the remaining sum of approximately HK\$315,959,000 by way of bank financing. The Independent Shareholders should note that their shareholding in the Company may be diluted in the event that the APL Warrants are exercised by AGL, or should they not wish or not have a chance to participate in any subsequent fund raising exercise that may be conducted by APL in response to SHK's cash flow requirement in respect of the interest and/or principal repayment of the Bonds. Based on information provided by the Company, the number of Shares held by AGL and its subsidiaries before and after the exercise of the APL Warrants are 402,540,059 Shares and 483,048,067 Shares respectively, representing approximately 74.94% and 78.21% of the Company's existing issued share capital and share capital as enlarged by the exercise of the APL Warrants respectively. The exercise of the APL Warrants by AGL would result in a dilution of the shareholding of the Independent Shareholders by approximately 13.05%.

LETTER FROM AMPLE CAPITAL

In addition, it is mentioned in the Board Letter that Swan Islands will use its best endeavors to redeem, within 12 months from the date of completion of the sale and purchase of the Sale Shares, up to HK\$500,000,000 of the outstanding principal amount of the Bonds. As represented by management of SHK, the aforementioned redemption of the principal of the Bonds, if materialized, is intended to be partially financed by the net proceeds in the amount of approximately HK\$1,685,500,000 raised from the Subscription, after deducting the cash consideration of the acquisition of the Sale Shares of HK\$1,528,000,000, resulting in a remaining balance of approximately HK\$157,500,000. The remaining balance of the redemption is intended to be satisfied by the SHK's internally generated resources.

In any event, the Independent Shareholders are reminded that if SHK and Swan Islands elect to extend the term of the Bonds for a further three years, the interest spread over HIBOR payable by Swan Islands under the Bonds during the extended term is uncertain as the interest will be calculated based on reasonable market terms above HIBOR prevailing at the time. This inevitably leads to a potential risk of increased interest expenditure should SHK and Swan Islands extend the term of the Bonds during a period of higher interest rate than at present.

5. Financial effects of the Agreement

5.1 Earnings

In the audited financial statements reproduced in Appendix II to the Circular, the Group recorded profit attributable to equity holders of the Company of approximately HK\$935,342,000 during the year ended 31 December 2005. According to the section headed "Unaudited pro forma financial information of the enlarged Group" in Appendix V to the Circular, the pro forma adjustment to the profit attributable to equity holders of the Company in relation to the acquisition of the Sale Share is a negative amount of approximately HK\$181,001,000. Together with a positive effect of approximately HK\$231,307,000 on profit attributable to equity holders of the Company from the inclusion of UAF Holding's results into the Group, it is expected that there will be a net positive net effect in the amount of approximately HK\$50,306,000. As the Bonds are gradually redeemed by Swan Islands via its own internal resources and/or through the measures discussed in the second and third last paragraphs of section 4.2 of this letter, the interest payable under the Bonds will decrease as the size of the Bonds is reduced. On the assumption that UAF can maintain its profitability in the future, we expect that the acquisition of the Sale Share will bring in positive contributions to the Group's future earnings.

LETTER FROM AMPLE CAPITAL

5.2 *Net asset value*

The consolidated audited net assets (total equity) of the Group amounted to approximately HK\$8,552,276,000 as at 31 December 2005. As illustrated in the section headed “Unaudited pro forma financial information of the enlarged Group” in Appendix V to the Circular, the pro forma adjustments in relation to the acquisition of the Sale Share is a reduction in net assets by approximately HK\$1,379,177,000. This effect, when netted off with the positive contribution of the inclusion of UAF Holding Group’s net assets in to Group of approximately HK\$2,074,966,000, is expected to have an overall positive contribution to the Group’s total assets of approximately HK\$695,789,000. Based on the aforesaid, the Group’s net asset value is expected to improve immediately following the completion of the acquisition of the Sale Share. On the assumption that UAF can maintain its profitability in the future, we expect that the acquisition of UAF will have a positive effect on the Group’s net asset value in the long run through the accumulation of retained earnings from the contribution in profits as mentioned in section 5.1 above.

5.3 *Gearing*

The Group had consolidated audited total equity of approximately HK\$8,552,276,000 and audited total debts of approximately HK\$1,890,248,000 (comprised of (i) bank borrowings due within one year of approximately HK\$950,233,000, (ii) bank borrowings due after one year of approximately HK\$875,763,000 and (iii) loan notes of approximately HK\$64,252,000) as at 31 December 2005, translating into a debt-to-equity ratio (total debts / total equity x 100%) of approximately 22.10%. As illustrated in the section headed “Unaudited pro forma financial information of the enlarged Group” in Appendix V to the Circular, the pro forma adjustments in relation to the acquisition of the Sale Share and the inclusion of UAF Holding Group’s equity are a decrease in total equity of approximately HK\$1,379,177,000 and a rise in total equity by approximately HK\$2,074,966,000 respectively, resulting in a pro forma total equity of approximately HK\$9,248,065,000. The pro forma adjustments to total debts in relation to the acquisition of the Sale Share and the inclusion of UAF Holding Group’s debt are the addition of the Bonds in the amount of HK\$2,800,000,000, and additional debts of approximately HK\$762,000,000 (comprised of (i) bank borrowings due within one year of approximately HK\$262,000,000 and (ii) bank borrowings due after one year of approximately HK\$500,000,000) respectively. These pro forma adjustments would result in pro forma total debts of approximately HK\$5,452,248,000. With these pro forma adjustments, the Group’s debt-to-equity ratio is expected to increase to approximately 58.96% following the completion of the acquisition of the Sale Share. According to the Company, the expected increase in the Company’s gearing should not have any material effect on the Company’s borrowing power as (i) the majority of the increase in debt will be attributable to the Bonds issued by SHK (through Swan Islands) to AGL (through AG Capital) and in the event that Swan Islands fails to redeem any of the Bonds,

LETTER FROM AMPLE CAPITAL

the recourse of AG Capital is only against the mortgage over the Sale Share and (ii) the Company and SHK have separate credit facilities with their respective bankers.

5.4 *Liquidity*

The Group had audited current assets and audited current liabilities of approximately HK\$3,812,171,000 and HK\$2,198,864,000 respectively as at 31 December 2005, translating into a current ratio (current assets/current liabilities) of approximately 1.73. As per the section headed "Unaudited pro forma financial information of the enlarged Group" in Appendix V to the Circular, the pro forma adjustments in relation to the acquisition of the Sale Share and the taking up of the current assets and liabilities of the UAF Holdings Group are a net increase in current assets in the amount of approximately HK\$293,292,000 and a net increase in current liabilities in the amount of approximately HK\$336,453,000 respectively. These pro forma adjustments result in pro forma current assets and pro forma current liabilities of approximately HK\$4,105,463,000 and HK\$2,535,317,000. Accordingly, it is expected that the current ratio will decline to approximately 1.62 immediately following the completion of the acquisition of the Sale Share. A current ratio of above 1 indicates that a company will be able to meet its obligations under the current liabilities as they become due. We consider that the Company's liquidity position is still healthy as the adjusted current ratio is still above 1 by a large margin.

CONCLUSION

Having considered the above principal factors and in particular:

- SHK is principally engaged in the provision of a broad range of financial services;
- the principal business activity of the UAF Group is consumer finance in Hong Kong;
- it is stated that the sale and purchase of the Sale Share is intended to consolidate the loan and financial services businesses of the AGL group of companies into SHK, which is expected to achieve ongoing operational economies and other benefits;
- the Board Letter further states that SHK will be in a position to consolidate its loan and financial services businesses following completion of the sale and purchase of the Sale Share, thereby expanding its overall market share through the ability to provide a wide range of finance products and other related services;

LETTER FROM AMPLE CAPITAL

- the consideration was arrived at after commercial terms negotiations between AG Capital and Swan Islands, having regard to the Valuation Report, in which we concur with Norton Appraisals that the approaches adopted are appropriate;
- the valuation of UAF derived from the consideration under the Agreement is higher than its listed peers on the Stock Exchange but is justified by its desirable operating performance as discussed in section 4.1.2 of this letter;
- the estimated interest payable by SHK under the Bonds is larger than the estimated dividend payable by UAF Holdings which is attributable to SHK's acquisition of the Sale Share as illustrated in section 4.2 of this letter;
- the acquisition contemplated under the Agreement is expected to have an immediate effect of improving the Group's earnings and net asset value but weaken the Group's gearing and liquidity positions as discussed in section 5 of this letter; and
- on the assumption that UAF can maintain its profitability in the future, we expect that the long term financial effect of the acquisition of the Sale Share to be positive with the gradual redemption of the Bonds by Swan Islands which will result in decreasing interest expense and debts arising out of the Bonds,

we are of the opinion that the acquisition of the Sale Share the issue of the Bonds are in the interests of the Group and the Shareholders so far as the Independent Shareholders as a whole are concerned and the terms of the Agreement are fair and reasonable. Accordingly, we would recommend (1) the Independent Board Committee to advise the Independent Shareholders and (2) the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Agreement at the EGM.

Yours faithfully,
For and on behalf of
Ample Capital Limited
Andrew Cheng
Director

Deloitte.

德勤

30th June, 2006

The Directors
Allied Properties (H.K.) Limited
22nd Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding UAF Holdings Limited ("Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 2005 ("Relevant Periods") for inclusion in a circular issued by Allied Properties (H.K.) Limited dated 30th June, 2006 (the "Circular") in connection with the very substantial acquisition in respect of the proposed acquisition of the Group.

The Company was incorporated in the British Virgin Islands ("BVI") on 8th April, 1999. The Company is an investment holding company.

As at the date of this report, the Company has direct and indirect interest in the following subsidiaries, all of which are private limited companies except for The Hong Kong Building and Loan Agency Limited which is a public listed company.

<u>Name of subsidiary</u>	<u>Place and date of incorporation</u>	<u>Paid up issued ordinary share capital</u>	<u>Proportion of nominal value of issued capital held by the Company*/ subsidiary directly</u>	<u>Proportion of nominal value of issued capital attributable to the Group</u>	<u>Principal activities</u>
Easy Capital Investments Limited (<i>note a</i>)	British Virgin Islands 10th May, 2000	US\$1	100%	50.91%	Investment holding
First Asian Holdings Limited (<i>note b</i>)	Hong Kong 21st January, 2004	HK\$2	100%	50.91%	Asset management
Earnest Finance Limited (<i>note a</i>)	British Virgin Islands 12th April, 2000	HK\$100	100%	50.91%	Investment holding

<u>Name of subsidiary</u>	<u>Place and date of incorporation</u>	<u>Paid up issued ordinary share capital</u>	<u>Proportion of nominal value of issued capital held by the Company*/ subsidiary directly</u>	<u>Proportion of nominal value of issued capital attributable to the Group</u>	<u>Principal activities</u>
Top Progress Investments Limited (<i>note a</i>)	British Virgin Islands 20th November, 1995	US\$50,000	100%	50.91%	Investment holding
SHK Finance Limited (<i>note b</i>)	Hong Kong 11th May, 1990	HK\$150,000,000	100%	50.91%	Money lending
Miliconcept Credit Limited (<i>note a</i>)	Hong Kong 30th August, 2000	HK\$2	100%	50.91%	Dormant
Onspeed Investments Limited (<i>note a</i>)	British Virgin Islands 12th April, 2005	US\$1	100%	50.91%	Investment holding
Island New Finance Limited (<i>note a</i>)	British Virgin Islands 12th May, 2005	US\$1	100%	50.91%	Investment holding
The Hong Kong Building and Loan Agency Limited (<i>note b</i>)	Hong Kong 28th November, 1964	HK\$225,000,000	74.9%	38.13%	Treasury investments and provision of mortgage finance
United Asia Finance Limited (<i>note b</i>)	Hong Kong 29th January, 1991	HK\$137,500,000	50.91%*	50.91%	Money lending
Winbest Holdings Limited (<i>note a</i>)	British Virgin Islands 11th July, 2001	US\$1	100%	38.13%	Investment holding
The Building and Loan Agency (Asia) Limited (<i>note b</i>)	Hong Kong 12th March, 1999	HK\$2	100%	38.13%	Money lending

From 1st January, 2006 to 17th January, 2006, the Group acquired a further 3,452,475 shares (approximately 1.5 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited. On 18th January, 2006, the Group disposed of 6,018,000 shares (approximately 2.7 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited to independent third parties through a placing arrangement. Following the completion of the placing arrangement, the Group holds approximately 74.9 per cent of the issued share capital of The Hong Kong Building and Loan Agency Limited and its subsidiaries.

Notes:

- (a) No audited financial statements have been prepared for these companies or the Company, which were incorporated in a country where there is no statutory audit requirement or which was dormant.
- (b) We have acted as auditors of these companies for each of the Relevant Periods or since their respective dates of incorporation or acquisition, where this is a shorter period. Audited financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong for these companies for each of the three years ended 31st December, 2005 or from their respective dates of incorporation, where this is a shorter period.

We have examined the audited consolidated financial statements of United Asia Finance Limited and the management accounts of the Company for each of the Relevant Periods ("Underlying Financial Information"). Our examination was made in accordance with the Auditing Guideline 3.340 "Circular and the Reporting Accountant" as recommended by the Hong Kong Institute Certified Public Accountants ("HKICPA").

The Financial Information of the Group for the Relevant Periods set out in this report have been prepared from the Underlying Financial Information on the basis set out in note 4 to the Financial Information, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Information are the responsibility of the Directors of the Company who approve their issue. The Directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Information, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2003, 2004, 2005 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

CONSOLIDATED INCOME STATEMENTS

	NOTES	2003 HK\$	2004 HK\$	2005 HK\$
Revenue	7	754,835,933	790,692,164	870,275,339
Financing costs	9	(4,817,758)	(5,936,489)	(21,733,582)
Other income	10	750,018,175 3,312,129	784,755,675 5,297,901	848,541,757 6,508,230
Operating income		753,330,304	790,053,576	855,049,987
Operating expenses		(173,401,289)	(206,513,868)	(223,590,032)
Restructuring costs	11	(5,776,874)	–	–
Operating profit before impairment allowances/allowance for bad and doubtful debts for loans and advances and loss on partial disposal of subsidiaries		574,152,141	583,539,708	631,459,955
Impairment allowances/allowance for bad and doubtful debts for loans and advances	12	(246,568,221)	(149,351,499)	(78,531,121)
Loss on partial disposal of subsidiaries	33	–	–	(1,423,572)
Goodwill written off		(155,087)	–	–
Share of results of associates		555,483	–	–
Profit before taxation	14	327,984,316	434,188,209	551,505,262
Taxation	15	(56,352,626)	(77,775,534)	(96,305,143)
Profit for the year		<u>271,631,690</u>	<u>356,412,675</u>	<u>455,200,119</u>
Attributable to:				
Equity holders of the Company		138,014,701	181,444,346	231,306,573
Minority interests		133,616,989	174,968,329	223,893,546
		<u>271,631,690</u>	<u>356,412,675</u>	<u>455,200,119</u>
Dividends:				
Interim dividend paid		<u>83,160,000</u>	<u>120,000,000</u>	<u>152,670,000</u>

CONSOLIDATED BALANCE SHEETS

	NOTES	2003 HK\$	2004 HK\$	2005 HK\$
NON-CURRENT ASSETS				
Property and equipment	16	7,874,362	7,876,781	10,199,208
Goodwill	17	–	–	27,632,567
Available-for-sale financial assets	19	–	–	2,000
Investment securities	19	756,806	756,806	–
Loans and advances to consumer finance customers due after one year	20	569,206,326	804,304,553	1,055,690,902
Deferred tax assets	28	25,889,674	32,835,086	36,192,861
		<u>603,727,168</u>	<u>845,773,226</u>	<u>1,129,717,538</u>
CURRENT ASSETS				
Loans and advances to consumer finance customers	20	1,098,364,139	1,221,501,847	1,485,498,800
Investments held-for-trading	22	–	–	41,494,700
Prepayments, deposits and other receivables	23	37,649,456	38,133,796	46,013,933
Tax receivable		–	213,257	–
Cash and bank balances	24	132,147,121	165,281,251	248,285,098
		<u>1,268,160,716</u>	<u>1,425,130,151</u>	<u>1,821,292,531</u>
CURRENT LIABILITIES				
Creditors and accruals	23	19,856,948	31,232,217	43,734,185
Bank loans and other borrowings	26	15,000,000	211,000,000	262,000,000
Amount due to immediate holding company	25	47,467,165	39,581,455	39,586,135
Taxation		30,638,441	42,074,200	30,724,119
		<u>112,962,554</u>	<u>323,887,872</u>	<u>376,044,439</u>
NET CURRENT ASSETS		<u>1,155,198,162</u>	<u>1,101,242,279</u>	<u>1,445,248,092</u>
		<u><u>1,758,925,330</u></u>	<u><u>1,947,015,505</u></u>	<u><u>2,574,965,630</u></u>

	NOTES	2003 HK\$	2004 HK\$	2005 HK\$
CAPITAL AND RESERVES				
Share capital	27	8	8	8
Reserves		<u>895,722,119</u>	<u>957,166,465</u>	<u>1,033,686,195</u>
Equity attributable to equity holders of the Company		895,722,127	957,166,473	1,033,686,203
Minority interests		<u>863,203,203</u>	<u>914,849,032</u>	<u>1,041,279,427</u>
Total equity		<u>1,758,925,330</u>	<u>1,872,015,505</u>	<u>2,074,965,630</u>
NON-CURRENT LIABILITIES				
Bank loans and other borrowings due after one year	26	<u>–</u>	<u>75,000,000</u>	<u>500,000,000</u>
		<u>1,758,925,330</u>	<u>1,947,015,505</u>	<u>2,574,965,630</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital	Non-distributable reserve (note)	Goodwill arising on consolidation	Retained profits	Total	Minority interests	Total Equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2003	8	28,000,000	(9,316,181)	822,183,599	840,867,426	809,776,214	1,650,643,640
Interim dividend paid	-	-	-	(83,160,000)	(83,160,000)	-	(83,160,000)
Dividend distributed to minority interests	-	-	-	-	-	(80,190,000)	(80,190,000)
Profit for the year	-	-	-	138,014,701	138,014,701	133,616,989	271,631,690
At 1st January, 2004	8	28,000,000	(9,316,181)	877,038,300	895,722,127	863,203,203	1,758,925,330
Interim dividend paid	-	-	-	(120,000,000)	(120,000,000)	-	(120,000,000)
Dividend distributed to minority interests	-	-	-	-	-	(123,322,500)	(123,322,500)
Profit for the year	-	-	-	181,444,346	181,444,346	174,968,329	356,412,675
At 31st December, 2004	8	28,000,000	(9,316,181)	938,482,646	957,166,473	914,849,032	1,872,015,505
Opening balance adjustments arising from changes in accounting policies	-	-	9,316,181	(11,433,024)	(2,116,843)	(2,041,242)	(4,158,085)
At 1st January, 2005, as restated	8	28,000,000	-	927,049,622	955,049,630	912,807,790	1,867,857,420
Acquisition of subsidiaries	-	-	-	-	-	14,159,680	14,159,680
Partial disposal of subsidiaries	-	-	-	-	-	37,635,911	37,635,911
Interim dividend paid	-	-	-	(152,670,000)	(152,670,000)	-	(152,670,000)
Dividend distributed to minority interests	-	-	-	-	-	(147,217,500)	(147,217,500)
Profit for the year	-	-	-	231,306,573	231,306,573	223,893,546	455,200,119
At 31st December, 2005	<u>8</u>	<u>28,000,000</u>	<u>-</u>	<u>1,005,686,195</u>	<u>1,033,686,203</u>	<u>1,041,279,427</u>	<u>2,074,965,630</u>

Note: Non-distributable reserve represents transfer from retained profits arising from capitalisation of retained profits of a subsidiary.

CONSOLIDATED CASH FLOW STATEMENTS

	2003	2004	2005
NOTES	HK\$	HK\$	HK\$
OPERATING ACTIVITIES			
Profit before taxation	327,984,316	434,188,209	551,505,262
Adjustments for:			
Goodwill written off	155,087	–	–
Amortisation of prepayments	4,285,717	4,285,716	–
Premium on acquisition of loan receivables of consumer finance customers	–	12,015,816	–
Depreciation	5,958,617	5,061,128	6,075,369
Net realised gain on disposal of available-for-sale financial assets	–	–	(726,009)
Loss on disposal of property and equipment	2,638,060	63,728	12,691
Loss on partial disposal of subsidiaries	–	–	1,423,572
Unrealised gain on investments held-for-trading	–	–	(315,264)
Provision for impairment loss of investment in securities	188,701	–	–
Share of results of associates	(555,483)	–	–
Written back of impairment allowances for loans and advances	–	–	(7,724,154)
Interest expenses	2,142,338	3,299,604	17,454,733
Loans and advances written off	274,982,981	146,480,777	127,725,419
(Written back) Allowance for bad and doubtful debts	(2,617,554)	40,062,944	–
Operating cash flow before movements in working capital	615,162,780	645,457,922	695,431,619
Increase in loans and advances to consumer finance customers	(240,607,576)	(404,012,594)	(639,075,069)
Decrease in investments held-for-trading	–	–	1,555,964
Decrease (Increase) in prepayments, deposits and other receivables	10,028,594	(4,770,056)	(7,319,340)
Increase in creditors and accruals	8,010,255	11,375,269	11,192,645
Increase (Decrease) in amount due from immediate holding company	4,290	(7,885,710)	4,680
Cash generated from operations	392,598,343	240,164,831	61,790,499
Hong Kong Profits Tax paid	(36,770,458)	(73,498,444)	(106,521,335)
Interest paid	(2,142,338)	(3,299,604)	(17,454,733)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	353,685,547	163,366,783	(62,185,569)

	NOTES	2003 HK\$	2004 HK\$	2005 HK\$
INVESTING ACTIVITIES				
Purchase of property and equipment		(5,378,715)	(5,131,975)	(8,463,625)
Acquisition of subsidiaries	32	(65,510,153)	–	(65,272,191)
Acquisition of loan receivables of consumer finance customers		–	(152,782,878)	–
Purchase of investments in securities		(2,000)	–	–
Proceeds on partial disposal of subsidiaries	33	–	–	41,278,779
Proceeds on disposal of property and equipment		97,888	4,700	53,138
Proceeds on disposal of available-for-sale financial assets		–	–	1,480,815
		<u> </u>	<u> </u>	<u> </u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(70,792,980)</u>	<u>(157,910,153)</u>	<u>(30,923,084)</u>
FINANCING ACTIVITIES				
New bank loans and other borrowings raised		130,000,000	474,000,000	816,000,000
Repayments of bank loans and other borrowings		(245,000,000)	(203,000,000)	(340,000,000)
Dividends paid		(83,160,000)	(120,000,000)	(152,670,000)
Dividend paid by a subsidiary to minority interests		(80,190,000)	(123,322,500)	(147,217,500)
		<u> </u>	<u> </u>	<u> </u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(278,350,000)</u>	<u>27,677,500</u>	<u>176,112,500</u>
INCREASE IN CASH AND CASH EQUIVALENTS				
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		4,542,567	33,134,130	83,003,847
		<u>127,604,554</u>	<u>132,147,121</u>	<u>165,281,251</u>
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER				
		<u>132,147,121</u>	<u>165,281,251</u>	<u>248,285,098</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		<u>132,147,121</u>	<u>165,281,251</u>	<u>248,285,098</u>

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL**

The Company is a private limited company incorporated in British Virgin Islands. Its immediate holding company is AG Capital Holding Limited, a limited company incorporated in the Cayman Islands. Its ultimate holding company is Allied Group Limited, a limited company incorporated in Hong Kong and its shares listed on The Stock Exchange of Hong Kong Limited. The Company has its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and principal place of business at 22/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong. The Financial Information are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries as at 31st December, 2005 are investment holding, assets management, money lending and treasury investment.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the year 2005, 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 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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The application 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 year 2005 and prior accounting years are prepared and presented:

Business combinations

In the year 2005, 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 effect on the application of HKFRS 3 to the Group is 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 of HK\$9,316,181 has been transferred to the Group's retained earnings on 1st January, 2005. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

Financial instruments

In the year 2005, 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 Information. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the application 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 the 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

Until 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 equity securities were classified as "trading securities" or "investment securities" as appropriate. Both "trading securities" and "investment securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "investment 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 net profit or loss for that period. From 1st January, 2005 onwards, the Group has classified and measured 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. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

Following the application of HKAS 39, the Group has reclassified its investments in non-trading unlisted equity securities of HK\$756,806 which are previously grouped under "investment securities" to "available-for-sale financial assets" on 1st January, 2005. There is no material effect on remeasurement as the accounting policy on measurement of the Group's investment securities as at 31st December, 2004 is the same as that for the available-for-sale financial assets.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured 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 "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Bad and doubtful debts

Prior to the year 2005, allowance for bad and doubtful debts was 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. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and prior loan loss experience.

On application of HKAS 39 in the year 2005, impairment allowances for advances assessed individually are calculated using a discounted cash flow analysis at original effective interest rate. Collective assessment of impairment for individual insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment allowances for advances will be presented as individually assessed and collectively assessed instead of specific and general allowances.

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 relevant years 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. The Directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the Financial Information.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts ²
HKFRS 6	Exploration for and Evaluation of Mineral Resources ²
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease ²
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds ²
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment ³
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁵
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁶

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 Effective for annual periods beginning on or after 1st December, 2005.

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

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

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

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

The effect of the changes in the accounting policies described in note 2 above on the results of the Group for the relevant years are presented by line items according to their function as follows:

	2003 HK\$	The Group 2004 HK\$	2005 HK\$
Decrease in bad and doubtful debts	-	-	33,486,990
Decrease in deferred tax credit arising from decrease in bad and doubtful debts	-	-	(6,107,723)
Increase in share of results of associates	142,081	-	-
Increase in taxation	(142,081)	-	-
	<u> </u>	<u> </u>	<u> </u>
Increase in net profit for the year	-	-	27,379,267
	<u> </u>	<u> </u>	<u> </u>
Attributable to			
Equity holders of the Company	-	-	13,938,536
Minority interests	-	-	13,440,731
	<u> </u>	<u> </u>	<u> </u>
	-	-	27,379,267
	<u> </u>	<u> </u>	<u> </u>

The effect on the application of the new HKFRSs on the consolidated balance sheet at 1st January, 2003 and 1st January, 2004 were that minority interests of HK\$809,776,214 and 863,203,023 respectively were reclassified and included within equity. Apart from these, there was no other effects on the assets, liabilities and reserves at 1st January, 2003 and 1st January, 2004. The cumulative effects of the application of the new HKFRSs on the consolidated balance sheet at 31st December, 2004 and 1st January, 2005 are summarised below:

	As originally stated at 31st December, 2004 HK\$	Adjustments HK\$	As restated at 1st January, 2005 HK\$
Balance sheet items			
Impact of HKAS 39			
Investment securities	756,806	(756,806)	-
Available-for-sale financial assets	-	756,806	756,806
Loans and advances to consumer finance customers	2,025,806,400	(5,040,104)	2,020,766,296
Deferred tax assets	32,835,086	882,019	33,717,105
Other net liabilities	(187,382,787)	-	(187,382,787)
	<u> </u>	<u> </u>	<u> </u>
Total effects on assets and liabilities	1,872,015,505	(4,158,085)	1,867,857,420
	<u> </u>	<u> </u>	<u> </u>
Share capital	8	-	8
Non-distributable reserve	28,000,000	-	28,000,000
Impact of HKFRS 3			
Goodwill arising on consolidation	(9,316,181)	9,316,181	-
Retained profits	938,482,646	(11,433,024)	927,049,622
Minority interests	-	912,807,790	912,807,790
	<u> </u>	<u> </u>	<u> </u>
Total equity	957,166,473	910,690,947	1,867,857,420
	<u> </u>	<u> </u>	<u> </u>
Minority interests	914,849,032	(914,849,032)	-
	<u> </u>	<u> </u>	<u> </u>

4. SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Basis of consolidation

The Financial Information incorporate the financial statements of the Company and its subsidiaries.

The results of the subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination 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.

Goodwill

Goodwill arising on an acquisition of a subsidiary 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 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.

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, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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:

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

Property and equipment

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

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

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

Foreign currencies

In preparing the Financial Information of each individual group entity, transaction in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. 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, in which cases, the exchange differences are also recognised directly in equity.

Retirement benefit scheme contributions

Payments to defined contribution benefit plans and the Mandatory Provident Fund Scheme are charged as an expense when they fall due.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's 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 Information and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group 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 is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables 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 include investments held-for-trading. 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 loans and advances to consumer finance customers, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

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

The financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities 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

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

Impairment losses

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

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

Operating leases

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these Financial Information, 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to generate from the cash-generating units and a suitable effective interest rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill is HK\$27,632,567. Details of the recoverable amount calculation are disclosed in note 18.

Taxation

As at 31st December, 2005, a deferred tax asset of HK\$36,192,861 in relation to taxable temporary differences and unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a reversal or additional recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or additional recognition takes place.

Impairment allowances for loans and advances to consumer finance customers

The policy for impairment allowances for loans and advances to consumer finance customers of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and advances, including the current creditworthiness, and the past collection history of each loan. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make repayments, additional allowances may be required.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loans and advances and listed equity securities, bank deposits, bank loans and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk*(i) Currency risk*

As at the balance sheet date, all assets and liabilities of the Group are denominated in Hong Kong dollars and henceforth there was no exposure to exchange rate risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Fair value and cash flow interest rate risk

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

(iii) Equity price risk

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2003, 2004 and 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheets. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue loans. In addition, the Group reviews the recoverable amount of each individual loans and advances at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

7. REVENUE

	2003 HK\$	2004 HK\$	2005 HK\$
Loan interest (<i>note</i>)	754,522,298	790,644,125	867,439,165
Bank interest	313,635	48,039	2,836,174
	<u>754,835,933</u>	<u>790,692,164</u>	<u>870,275,339</u>

Note: The amount included effective interest on loans and advances for which impairment allowances are assessed on collective basis. No effective interest was accrued on those loans and advances with individual impairment as the loans and advances were fully impaired.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

During the relevant years, less than 10% of the operations of the Group in terms of revenue, segment results and assets were engaged in segment other than consumer finance. Accordingly, no business segmental information is shown.

Geographical segments

During the relevant years, 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. FINANCING COSTS

	2003 HK\$	2004 HK\$	2005 HK\$
Interest expense on borrowings wholly repayable within five years			
– bank loans	1,491,868	2,612,604	16,652,733
– other borrowings	650,470	687,000	802,000
Other financing costs	2,675,420	2,636,885	4,278,849
	<u>4,817,758</u>	<u>5,936,489</u>	<u>21,733,582</u>

10. OTHER INCOME

	2003 HK\$	2004 HK\$	2005 HK\$
Net realised gain on disposal of investments held-for-trading	–	–	650,162
Net realised gain on disposal of available-for-sale financial assets	–	–	726,009
Unrealised gain on investments held-for-trading	–	–	315,264
Dividend income	–	–	404,773
Other income	3,312,129	5,297,901	4,412,022
	<u>3,312,129</u>	<u>5,297,901</u>	<u>6,508,230</u>

11. RESTRUCTURING COSTS

In March 2003, SHK Finance Limited closed down its branch network and simultaneously set up an operation center to handle all existing loan businesses of the discontinued branches. Certain of the property and equipment were disposed. In addition, rental payments and related costs were paid to surrender the operating leases for office premises. To the extent that staff could not be deployed, staff redundancy costs were paid.

	2003
	<i>HK\$</i>
Loss on disposal of property and equipment	2,605,040
Rental payments and related costs	2,820,263
Staff redundancy costs	351,571
	<u>5,776,874</u>

12. IMPAIRMENT ALLOWANCES/ALLOWANCE FOR BAD AND DOUBTFUL DEBTS FOR LOANS AND ADVANCES

	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Amount written off from loans and advances	274,982,891	146,480,777	127,725,419
Bad debts recovered from loans and advances	(25,797,116)	(37,192,222)	(41,470,144)
Written back of impairment allowances			
– Individual	–	–	(63,341)
– Collective	–	–	(7,660,813)
(Written back) Allowance for bad and doubtful debts	(2,617,554)	40,062,944	–
	<u>246,568,221</u>	<u>149,351,499</u>	<u>78,531,121</u>

13. INFORMATION REGARDING EMPLOYEES' EMOLUMENTS

The combined emoluments of the five highest paid individuals are as follows:

	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Salaries and other benefits	9,418,061	9,614,733	6,085,206
Performance related incentive payments	6,297,704	9,805,961	11,347,798
Retirement benefit scheme contributions	490,678	558,375	567,648
	<u>16,206,443</u>	<u>19,979,069</u>	<u>18,000,652</u>

The emoluments of the above employees were within the following bands:

	2003	2004	2005
	Number of employees	Number of employees	Number of employees
Nil – HK\$1,000,000	2	2	1
HK\$1,000,001 – HK\$1,500,000	2	2	3
HK\$12,000,001 – HK\$12,500,000	1	–	–
HK\$13,000,001 – HK\$13,500,000	–	–	1
HK\$15,000,001 – HK\$15,500,000	–	1	–
	<u>5</u>	<u>5</u>	<u>5</u>

14. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	2003 HK\$	2004 HK\$	2005 HK\$
Auditors' remuneration			
– current year	520,355	520,000	866,842
– (over) under provision in prior years	(9,320)	12,285	182,211
Corporate service fee payable to the ultimate holding company	3,600,000	4,500,000	4,500,000
Depreciation	5,958,617	5,061,128	6,075,369
Directors' emoluments	–	–	2,219
Loss on disposal of property and equipment	33,020	63,728	12,691
Operating leases payments	21,465,315	18,734,745	21,781,750
Premium on acquisition of loan receivables of consumer finance customers	–	12,015,816	–
Staff costs	79,830,226	87,720,908	96,471,260
Staff retirement benefit scheme contributions	3,840,054	4,303,485	5,077,367
	<u>3,840,054</u>	<u>4,303,485</u>	<u>5,077,367</u>
15. TAXATION			

	2003 HK\$	2004 HK\$	2005 HK\$
Current tax:			
Hong Kong Profits Tax			
Current year	57,854,629	85,125,337	94,501,444
Under (over) provision in prior years	18,106	(404,391)	883,067
	<u>57,872,735</u>	<u>84,720,946</u>	<u>95,384,511</u>
Deferred tax (<i>note 28</i>):			
Current year	529,443	(6,945,412)	1,795,632
Over provision in prior year	–	–	(875,000)
Attributable to change in tax rate in Hong Kong	(2,049,552)	–	–
	<u>(1,520,109)</u>	<u>(6,945,412)</u>	<u>920,632</u>
Taxation attributable to the Company and its subsidiaries	<u>56,352,626</u>	<u>77,775,534</u>	<u>96,305,143</u>

Hong Kong Profits Tax is calculated at 17.5 per cent. (2004 & 2003: 17.5 per cent.) of the estimated assessable profits for the year.

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

	2003 HK\$	2004 HK\$	2005 HK\$
Profit before taxation	327,984,316	434,188,209	551,505,262
Less: share of results of associates	<u>(555,483)</u>	<u>–</u>	<u>–</u>
Profit attributable to the Company and its subsidiaries	<u>327,428,833</u>	<u>434,188,209</u>	<u>551,505,262</u>
Tax at the applicable tax rate of 17.5 per cent. (2004 & 2003: 17.5 per cent.)	57,300,046	75,982,937	96,513,420
Tax effect of expenses not deductible for tax purpose	1,138,912	2,205,394	155,674
Tax effect of income not taxable for tax purpose	(54,886)	(8,406)	(372,018)
Under (over) provision in prior years	18,106	(404,391)	8,067
Increase in opening deferred tax assets resulting from an increase in Hong Kong Profit Tax rate	<u>(2,049,552)</u>	<u>–</u>	<u>–</u>
Tax charge for the year	<u><u>56,352,626</u></u>	<u><u>77,775,534</u></u>	<u><u>96,305,143</u></u>

16. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
COST				
At 1st January, 2003	34,006,432	17,023,236	1,417,738	52,447,406
Acquisition of subsidiaries	9,764,399	3,948,876	-	13,713,275
Additions	1,634,695	3,744,020	-	5,378,715
Disposals	(10,467,989)	(3,566,158)	-	(14,034,147)
At 31st December, 2003	34,937,537	21,149,974	1,417,738	57,505,249
Additions	3,079,845	2,052,130	-	5,131,975
Disposals	-	(1,346,695)	-	(1,346,695)
At 31st December, 2004	38,017,382	21,855,409	1,417,738	61,290,529
Additions	3,850,469	4,613,156	-	8,463,625
Disposals	-	(2,603,499)	-	(2,603,499)
At 31st December, 2005	41,867,851	23,865,066	1,417,738	67,150,655
DEPRECIATION				
At 1st January, 2003	31,439,032	13,344,450	1,039,675	45,823,157
Acquisition of subsidiaries	6,814,393	2,332,919	-	9,147,312
Provided for the year	3,049,400	2,625,669	283,548	5,958,617
Eliminated on disposals	(8,017,027)	(3,281,172)	-	(11,298,199)
At 31st December, 2003	33,285,798	15,021,866	1,323,223	49,630,887
Provided for the year	2,156,087	2,810,526	94,515	5,061,128
Eliminated on disposals	-	(1,278,267)	-	(1,278,267)
At 31st December, 2004	35,441,885	16,554,125	1,417,738	53,413,748
Provided for the year	3,157,529	2,917,840	-	6,075,369
Eliminated on disposals	-	(2,537,670)	-	(2,537,670)
At 31st December, 2005	38,599,414	16,934,295	1,417,738	56,951,447
CARRYING VALUES				
At 31st December, 2005	<u>3,268,437</u>	<u>6,930,771</u>	<u>-</u>	<u>10,199,208</u>
At 31st December, 2004	<u>2,575,497</u>	<u>5,301,284</u>	<u>-</u>	<u>7,876,781</u>
At 31st December, 2003	<u>1,651,739</u>	<u>6,128,108</u>	<u>94,515</u>	<u>7,874,362</u>

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	over the lease term
Furniture, fixtures and equipment	20% – 33 1/3%
Motor vehicles	20%

17. GOODWILL

	<i>HK\$</i>
COST	
At 1st January, 2003, 1st January, 2004 and 1st January, 2005	–
Arising on acquisition of subsidiaries (<i>note 32</i>)	32,699,007
Eliminated on partial disposal of subsidiaries (<i>note 33</i>)	<u>(5,066,440)</u>
At 31st December, 2005	<u><u>27,632,567</u></u>

18. IMPAIRMENT TESTING OF GOODWILL WITH INDEFINITE USEFUL LIVES

In the year 2005, the Group acquired the group companies of The Hong Kong Building and Loan Agency Limited which are principally engaged in the business segments of mortgage finance and treasury investments. For the purpose of impairment testing, goodwill in the amount of HK\$27,632,567 as at 31st December, 2005 with indefinite useful lives has been allocated to the consumer finance segment.

The recoverable amount of the consumer finance segment has been determined based on a value in use calculation. Such calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period, and an effective interest rate of 4.3 per cent. Management of the Group believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the consumer finance segment to exceed the aggregate recoverable amount of the consumer finance segment.

As at 31st December, 2005, the management of the Group determines that there was no impairment of goodwill.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

Since the application of HKAS 39 on 1st January, 2005, all investment securities as at 31st December, 2004 have been reclassified as available-for-sale financial assets.

	2003	2004	2005
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Available-for-sale financial assets	–	–	2,000
Investment securities	<u>756,806</u>	<u>756,806</u>	<u>–</u>
	<u><u>756,806</u></u>	<u><u>756,806</u></u>	<u><u>2,000</u></u>

The above investments represent investments in unlisted equity securities issued by private entities. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

In the year 2005, the Group disposed of certain unlisted equity securities with carrying amount of HK\$754,806, which had been carried at cost less impairment before the disposal. A gain on disposal of HK\$726,009 has been recognised in profit or loss for the year 2005.

20. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	2003 <i>HK\$</i>	2004 <i>HK\$</i>	2005 <i>HK\$</i>
Fixed-rate loan receivables	1,640,235,479	1,964,939,075	2,392,566,929
Variable-rate loan receivables	27,334,986	60,867,325	148,622,773
	<u>1,667,570,465</u>	<u>2,025,806,400</u>	<u>2,541,189,702</u>

Carrying amount analysed for reporting purposes:

Current assets (receivables within 12 months from the balance sheet date)	1,098,364,139	1,221,501,847	1,485,498,800
Non-current assets (receivables after 12 months from the balance sheet date)	569,206,326	804,304,553	1,055,690,902
	<u>1,667,570,465</u>	<u>2,025,806,400</u>	<u>2,541,189,702</u>

The above carrying amounts of loans and advances are the gross balances net of allowances in note 21.

The aged analysis of the loans and advances, based on payment due date, and net of allowance, is as follows:

	2003 <i>HK\$</i>	2004 <i>HK\$</i>	2005 <i>HK\$</i>
0 – 30 days	1,612,522,465	1,982,728,400	2,502,403,702
31 – 180 days	55,048,000	43,078,000	38,786,000
	<u>1,667,570,465</u>	<u>2,025,806,400</u>	<u>2,541,189,702</u>

21. IMPAIRMENT ALLOWANCES/ALLOWANCE FOR BAD AND DOUBTFUL DEBTS FOR LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	Impairment allowances		Allowance for bad & doubtful debts		Total HK\$
	Individual HK\$	Collective HK\$	Specific HK\$	General HK\$	
At 1st January, 2003	-	-	-	123,707,124	123,707,124
Acquisition of subsidiaries	-	-	-	22,769,070	22,769,070
Written back during the year	-	-	-	(2,617,554)	(2,617,554)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>123,707,124</u>	<u>123,707,124</u>
At 1st January, 2004	-	-	-	143,858,640	143,858,640
Allowance during the year	-	-	5,000,000	35,062,944	40,062,944
	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>35,062,944</u>	<u>40,062,944</u>
At 31st December, 2004, as originally stated	-	-	5,000,000	178,921,584	183,921,584
Effect of application of HKAS 39	5,000,000	183,961,688	(5,000,000)	(178,921,584)	5,040,104
	<u>5,000,000</u>	<u>183,961,688</u>	<u>(5,000,000)</u>	<u>(178,921,584)</u>	<u>5,040,104</u>
At 1st January, 2005, as restated	5,000,000	183,961,688	-	-	188,961,688
Acquisition of subsidiaries	146,366	28,750	-	-	175,116
Written back during the year	(63,341)	(7,660,813)	-	-	(7,724,154)
	<u>5,083,025</u>	<u>176,329,625</u>	<u>-</u>	<u>-</u>	<u>181,412,650</u>

22. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading include:

	2003 HK\$	2004 HK\$	2005 HK\$
Equity securities listed in Hong Kong	-	-	41,494,700
	<u>-</u>	<u>-</u>	<u>41,494,700</u>

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES/CREDITORS AND ACCRUALS

The carrying amounts of prepayments, deposits and other receivables and creditors and accruals as at 31st December, 2005 approximate their corresponding fair values.

24. CASH AND BANK BALANCES

The amounts comprise cash and short-term bank deposits at market interest rates with an original maturity of three months or less. The carrying amount of these assets at 31st December, 2005 approximates to the corresponding fair value.

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

	2003 HK\$	2004 HK\$	2005 HK\$
Amount due to immediate holding company	<u>47,467,165</u>	<u>39,581,455</u>	<u>39,586,135</u>

The amount due to immediate holding company is unsecured, interest free and repayable on demand.

26. BANK LOANS AND OTHER BORROWINGS

	2003 HK\$	2004 HK\$	2005 HK\$
Unsecured borrowings			
– bank loans	10,000,000	280,000,000	755,000,000
– other borrowings	<u>5,000,000</u>	<u>6,000,000</u>	<u>7,000,000</u>
	<u>15,000,000</u>	<u>286,000,000</u>	<u>762,000,000</u>
Carrying amount repayable as follows:			
Within one year	15,000,000	211,000,000	262,000,000
More than one year but not exceeding two years	–	20,000,000	20,000,000
More than two years but not exceeding five years	<u>–</u>	<u>55,000,000</u>	<u>480,000,000</u>
	15,000,000	286,000,000	762,000,000
Less: Amounts due within one year and shown under current liabilities	<u>(15,000,000)</u>	<u>(211,000,000)</u>	<u>(262,000,000)</u>
Bank loans and other borrowings due after one year	<u>–</u>	<u>75,000,000</u>	<u>500,000,000</u>

The carrying amount of bank loans and other borrowings as at 31st December, 2005 approximates to its fair value.

The Group's bank loans and other borrowings are denominated in the Hong Kong dollars and most of the bank loans carry interest at effective market interest rates.

27. SHARE CAPITAL

	2003, 2004 & 2005 HK\$
Authorised:	
50,000 ordinary share of US\$1 each	<u>390,000</u>
Issued and fully paid:	
1 ordinary share of US\$1 each	<u>8</u>

28. DEFERRED TAXATION

The following are the major deferred tax assets recognised by the Group and movements thereon during the relevant years:

	Shortfall of tax allowances over depreciation HK\$	Allowance for bad and doubtful debts HK\$	Impairment allowances for loans and advances HK\$	Tax losses HK\$	Other temporary differences HK\$	Total HK\$
At 1st January, 2003	(1,452,266)	(19,793,140)	-	-	1,371,430	(19,873,976)
Effect of changes in tax rate	(155,178)	(2,022,945)	-	-	128,571	(2,049,552)
Acquisition of subsidiaries	(511,002)	(3,984,587)	-	-	-	(4,495,589)
Charged (credited) to income for the year	654,034	625,410	-	-	(750,001)	529,443
At 31st December, 2003	(1,464,412)	(25,175,262)	-	-	750,000	(25,889,674)
Credited to income for the year	(59,396)	(6,136,016)	-	-	(750,000)	(6,945,412)
At 31st December, 2004, as originally stated	(1,523,808)	(31,311,278)	-	-	-	(32,835,086)
Opening balance adjustments arising from changes in accounting policies (<i>note 3</i>)	-	31,311,278	(32,193,297)	-	-	(882,019)
At 1st January, 2005, as restated	(1,523,808)	-	(32,193,297)	-	-	(33,717,105)
Acquisition of subsidiaries	-	-	-	(3,396,388)	-	(3,396,388)
Charged to income for the year	170,585	-	750,047	-	-	920,632
At 31st December, 2005	(1,353,223)	-	(31,443,250)	(3,396,388)	-	(36,192,861)

29. CAPITAL COMMITMENTS

	2003 HK\$	2004 HK\$	2005 HK\$
Commitments for the acquisition of property and equipment contracted for but not provided in the Financial Information	289,752	2,148,960	2,171,962

30. OPERATING LEASE COMMITMENTS

At the balance sheet dates, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	2003 HK\$	2004 HK\$	2005 HK\$
Within one year	14,370,277	13,387,169	23,470,741
In the second to fifth year inclusive	5,534,645	4,746,859	17,124,581
Over five years	—	—	83,616
	<u>19,904,922</u>	<u>18,134,028</u>	<u>40,678,938</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and signboards. Operating leases are negotiated for terms ranging from one to five years.

31. RETIREMENT BENEFIT SCHEME

The Group participates in defined contribution schemes registered respectively under a Recognised Occupational Retirement Scheme (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December, 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

	2003 HK\$	2004 HK\$	2005 HK\$
Total cost charged to the income statement in respect of contributions paid/payable to the ORSO Scheme and the MPF Scheme by the Group	<u>3,840,054</u>	<u>4,303,485</u>	<u>5,077,367</u>

32. ACQUISITION OF SUBSIDIARIES

On 19th December, 2002, Easy Capital Investments Limited, an indirect non-wholly owned subsidiary of the Company holding 50% interest in Earnest Finance Limited ("Earnest Finance") entered into a Sale and Purchase Agreement with Upper Selection Investments Limited ("Upper Selection"), a fellow subsidiary, pursuant to which Upper Selection agreed to sell its entire 50% interest in Earnest Finance at an aggregate consideration of HK\$87,500,000. Earnest Finance directly or indirectly holds 100% of the issued share capitals of Top Progress Investments Limited, SHK Finance Limited and Miliconcept Credit Limited. Subsequent to the completion of the Sales and Purchase Agreement on 24th January, 2003, Earnest Finance, Top Progress Investments Limited, SHK Finance Limited and Miliconcept Credit Limited, which were previously associates, became the wholly-owned subsidiaries of Earnest Finance.

The principal activities of Earnest Finance and Top Progress Investments Limited are investment holding. The principal activity of SHK Finance Limited is money lending whereas Miliconcept Credit Limited is dormant.

The effect of this acquisition is accounted as follows:

	<i>HK\$</i>	<i>HK\$</i>
Purchase consideration		87,500,000
Acquisition costs		106,250
		<u>87,606,250</u>
Net assets of subsidiaries acquired on 24th January, 2003:		
Property and equipment	4,565,963	
Deferred tax assets	4,495,589	
Loans and advances to consumer finance customers	263,403,609	
Debtors, deposits and prepayments	9,681,075	
Cash and bank balances	22,096,097	
Bank loans and other borrowings	(125,000,000)	
Creditors and accruals	(3,636,070)	
Taxation	(703,938)	
	<u>174,902,325</u>	
50% thereof		87,451,163
Goodwill arising on acquisition		155,087
		<u>87,606,250</u>
Net cash outflow arising on acquisition:		
Cash consideration		(87,606,250)
Cash and bank balances acquired		22,096,097
		<u>(65,510,153)</u>

The Group acquired the following subsidiaries during the year 2005:

Name	Principal activities	Date of acquisition	Approximate % of the issued share capital acquired	Component of cost	Cost including capitalised expenses <i>HK\$</i>
The Hong Kong Building and Loan Agency Limited	Treasury investments & provision of mortgage finance	From 12th September, 2005 to 29th December, 2005	93.5%	Cash	236,507,809
Winbest Holdings Limited	Investment holding	From 12th September, 2005 to 29th December, 2005	93.5%	-	-
					<u>236,507,809</u>

The aggregate assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount before combination HK\$	Fair value HK\$
Cash and cash equivalents	171,235,618	171,235,618
Deferred tax asset	3,396,388	3,396,388
Loans and advances to consumer finance customers	1,349,602	1,349,602
Investments held-for-trading	42,735,400	42,735,400
Prepayments, deposits and other receivables	560,797	560,797
Creditors and accruals	(1,309,323)	(1,309,323)
Minority interests	(14,159,680)	(14,159,680)
Net assets acquired	<u>203,808,802</u>	203,808,802
Goodwill		<u>32,699,007</u>
Total consideration satisfied by cash		<u>236,507,809</u>
Net cash outflow arising on acquisition of subsidiaries:		
Cash consideration paid		(236,507,809)
Cash and cash equivalents acquired		<u>171,235,618</u>
		<u>(65,272,191)</u>

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 HK\$	Post acquisition attributable to the Group HK\$
Total revenue	<u>4,289,271</u>	<u>1,737,541</u>
Profit for the year	<u>1,234,663</u>	<u>2,641,640</u>

If the acquisition had been completed on 1st January, 2005, total group revenue for the year would have been approximately HK\$872,827,000 and profit for the year would have been approximately HK\$453,793,000.

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 statements of the Group, nor is it intended to be a projection of future results.

33. PARTIAL DISPOSAL OF SHAREHOLDINGS OF SUBSIDIARIES

On 19th October, 2005, the Group disposed of 39,070,000 shares (approximately 17.4 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited at a cash consideration net of costs of HK\$41,278,779 to independent third parties through a placing arrangement. Following the completion of the placing arrangement, the Group holds 76.1 per cent. of the issued share capital of The Hong Kong Building and Loan Agency Limited and its subsidiaries. The net assets attributable to the group companies of The Hong Kong Building and Loan Agency Limited at the date of disposal were as follows:

	<i>HK\$</i>
Net assets disposed of	37,635,911
Attributable goodwill	5,066,440
	<hr/>
Loss on partial disposal	42,702,351 (1,423,572)
	<hr/>
Total consideration satisfied by cash	<u>41,278,779</u>

34. RELATED PARTY TRANSACTIONS

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

A) Income and expense items:

	<i>Notes</i>	2003 <i>HK\$</i>	2004 <i>HK\$</i>	2005 <i>HK\$</i>
Loan arrangement fee paid to a fellow subsidiary	<i>(a)</i>	1,050,000	1,050,000	1,050,000
Administrative expenses paid to the ultimate holding company	<i>(b)</i>	3,665,367	4,561,147	4,532,626
Administrative expenses paid to a subsidiary of a jointly controlled entity of a fellow subsidiary	<i>(c)</i>	1,550,758	1,452,914	1,127,392
Administrative expense paid to a shareholder	<i>(c)</i>	360,000	480,000	510,000
Administrative expense paid to an associate of a fellow subsidiary	<i>(c)</i>	–	95,962	91,574
Commissions paid to a fellow subsidiary for the sales and purchase of listed securities	<i>(d)</i>	–	–	5,919
Financial advisory fee paid to a fellow subsidiary	<i>(e)</i>	–	–	375,000
Rental paid to the ultimate holding company	<i>(f)</i>	112,450	103,316	129,669
Rental paid to a subsidiary of a jointly controlled entity of a fellow subsidiary	<i>(f)</i>	4,607,542	2,881,697	3,584,361
Advertising services fee paid to a fellow subsidiary	<i>(g)</i>	400,000	400,000	400,000
Business referral fee paid to a fellow subsidiary of a shareholder	<i>(h)</i>	–	62,625	21,300
Business introductory fee paid to a fellow subsidiary	<i>(i)</i>	–	–	5,000,000
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

B) Key management personnel compensation

	2003 <i>HK\$</i>	2004 <i>HK\$</i>	2005 <i>HK\$</i>
Short-term benefits	13,955,044	16,442,965	14,666,239
Post-employment benefits	344,963	322,296	364,850
	<u>14,300,007</u>	<u>16,765,261</u>	<u>15,031,089</u>

C) During the year 2004, the Group acquired from a fellow subsidiary of a shareholder a portfolio of loan receivables of consumer finance customers at a consideration of HK\$152,782,878.

D) During the year 2005, the Group acquired an indirect non-wholly owned subsidiary from a fellow subsidiary of the ultimate holding company at a consideration of HK\$30,000.

Notes:

- (a) Loan arrangement fee is paid in respect of loan facility arrangement services provided by a fellow subsidiary.
- (b) Administrative expenses are allocated with reference to the costs incurred for certain administrative services provided by the ultimate holding company.
- (c) Administrative expenses are charged in accordance with market rates.
- (d) Commissions paid for the sales and purchase of listed securities are charged in accordance with market rates.
- (e) Financial advisory fee is charged in accordance with market rates.
- (f) Rental expenses are charged in accordance with market rates.
- (g) Advertising services fee is allocated with reference to the costs incurred for public relations and advertising services provided by a fellow subsidiary.
- (h) Business referral fee is charged in accordance with market rates.
- (i) Business introductory fee is determined based on arm's length negotiation.

Except for the above, details of balances with related parties are set out in the consolidated balance sheets and the related notes.

35. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group with maturity terms. Overdue assets are included as on demand.

	31st December, 2003					Total HK\$
	On demand HK\$	Within 3 months HK\$	3 months to 1 year HK\$	1 year to 5 years HK\$	After 5 years HK\$	
Assets						
Fixed deposits with banks	-	-	-	-	-	-
Loans and advances to consumer finance customers before allowance for bad and doubtful debts	<u>135,889,174</u>	<u>325,765,978</u>	<u>731,818,132</u>	<u>609,120,259</u>	<u>8,835,562</u>	<u>1,811,429,105</u>
Liabilities						
Bank loans and other borrowings	<u>15,000,000</u>	-	-	-	-	<u>15,000,000</u>
31st December, 2004						
	On demand HK\$	Within 3 months HK\$	3 months to 1 year HK\$	1 year to 5 years HK\$	After 5 years HK\$	Total HK\$
Assets						
Fixed deposits with banks	-	10,004,459	-	-	-	10,004,459
Loans and advances to consumer finance customers before allowance for bad and doubtful debts	<u>149,860,633</u>	<u>391,753,270</u>	<u>788,265,626</u>	<u>851,269,588</u>	<u>28,578,867</u>	<u>2,209,727,984</u>
Liabilities						
Bank loans and other borrowings	<u>11,000,000</u>	<u>185,000,000</u>	<u>15,000,000</u>	<u>75,000,000</u>	-	<u>286,000,000</u>
31st December, 2005						
	On demand HK\$	Within 3 months HK\$	3 months to 1 year HK\$	1 year to 5 years HK\$	After 5 years HK\$	Total HK\$
Assets						
Fixed deposits with banks	-	170,562,566	-	-	-	170,562,566
Loans and advances to consumer finance customers before impairment allowances	<u>182,606,752</u>	<u>387,773,811</u>	<u>1,019,601,253</u>	<u>1,060,669,862</u>	<u>71,950,674</u>	<u>2,722,602,352</u>
Liabilities						
Bank loans and other borrowings	<u>7,000,000</u>	<u>240,000,000</u>	<u>15,000,000</u>	<u>500,000,000</u>	-	<u>762,000,000</u>

36. EVENT AFTER THE BALANCE SHEET DATE

From 1st January, 2006 to 17th January, 2006, the Group acquired a further 3,452,475 shares (approximately 1.5 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited. On 18th January, 2006, the Group disposed of 6,018,000 shares (approximately 2.7 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited to independent third parties through a placing arrangement. Following the completion of the placing arrangement, the Group holds approximately 74.9 per cent. of the issued share capital of The Hong Kong Building and Loan Agency Limited and its subsidiaries.

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

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*For the three years ended 31st December, 2005*

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i> (Restated)
Revenue	1,144,153	1,128,169	862,783
Other income	95,029	19,564	43,257
	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>
Profit before taxation	1,115,748	740,336	293,410
Taxation	(79,306)	(80,108)	(24,295)
	<hr/>	<hr/>	<hr/>
Profit for the year	<u>1,036,442</u>	<u>660,228</u>	<u>269,115</u>
Attributable to:			
Equity holders of the Company	935,342	563,023	217,625
Minority interests	101,100	97,205	51,490
	<hr/>	<hr/>	<hr/>
	<u>1,036,442</u>	<u>660,228</u>	<u>269,115</u>
Dividend	<u>53,715</u>	<u>26,858</u>	<u>–</u>
Earnings per share			
Basic	<u>HK\$1.74</u>	<u>HK\$1.14</u>	<u>HK\$0.44</u>
Diluted	<u>N/A</u>	<u>HK\$1.12</u>	<u>HK\$0.44</u>

Consolidated Balance Sheet*At 31st December*

	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(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
	<u>8,112,342</u>	<u>6,609,394</u>	<u>5,730,378</u>
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
	<u>3,812,171</u>	<u>3,388,232</u>	<u>4,252,448</u>

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i> (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
	<u>2,198,864</u>	<u>1,987,242</u>	<u>3,010,473</u>
Net current assets	<u>1,613,307</u>	<u>1,400,990</u>	<u>1,241,975</u>
Total assets less current liabilities	<u><u>9,725,649</u></u>	<u><u>8,010,384</u></u>	<u><u>6,972,353</u></u>
Capital and reserves			
Share capital	1,074,303	1,074,303	978,768
Reserves	<u>5,996,232</u>	<u>4,302,155</u>	<u>3,536,314</u>
Equity attributable to equity holders of the Company	7,070,535	5,376,458	4,515,082
Minority interests	<u>1,481,741</u>	<u>1,270,428</u>	<u>1,144,764</u>
Total equity	<u>8,552,276</u>	<u>6,646,886</u>	<u>5,659,846</u>
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	<u>2,743</u>	<u>3,639</u>	<u>4,908</u>
	<u>1,173,373</u>	<u>1,363,498</u>	<u>1,312,507</u>
	<u><u>9,725,649</u></u>	<u><u>8,010,384</u></u>	<u><u>6,972,353</u></u>

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*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (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
		<hr/>	<hr/>
		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
		<hr/>	<hr/>
		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
		<hr/>	<hr/>
		2,198,864	1,987,242
Net current assets		<hr/>	<hr/>
		1,613,307	1,400,990
Total assets less current liabilities		<hr/> <hr/>	<hr/> <hr/>
		9,725,649	8,010,384

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Capital and reserves			
Share capital	35	1,074,303	1,074,303
Reserves	36	<u>5,996,232</u>	<u>4,302,155</u>
Equity attributable to equity holders of the Company		7,070,535	5,376,458
Minority interests		<u>1,481,741</u>	<u>1,270,428</u>
Total equity		<u>8,552,276</u>	<u>6,646,886</u>
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	<u>2,743</u>	<u>3,639</u>
		<u>1,173,373</u>	<u>1,363,498</u>
		<u><u>9,725,649</u></u>	<u><u>8,010,384</u></u>

Balance Sheet*at 31st December, 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Non-current assets			
Intangible assets	22	510	–
Interests in subsidiaries	23	3,231,983	2,696,497
Investments	27	–	510
		<u>3,232,493</u>	<u>2,697,007</u>
Current assets			
Accounts receivable, deposits and prepayments		475	1,473
Bank deposits, bank balances and cash		159	53,327
		<u>634</u>	<u>54,800</u>
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	–
		<u>12,079</u>	<u>8,025</u>
Net current (liabilities) assets		<u>(11,445)</u>	<u>46,775</u>
Total assets less current liabilities		<u><u>3,221,048</u></u>	<u><u>2,743,782</u></u>
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
		<u>3,221,048</u>	<u>2,743,782</u>

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
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'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

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	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 HK\$'000	2004 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

	<i>Note</i>	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 HK\$'000	2004 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	<u>36,409</u>	<u>(242,111)</u>
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	<u>540,349</u>	<u>479,328</u>
Cash and cash equivalents at the end of the year	<u><u>398,156</u></u>	<u><u>540,349</u></u>
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)
	<u><u>398,156</u></u>	<u><u>540,349</u></u>

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		As restated at		New designation on 1st January, 2005					
	stated at	Effect on	1st January,	Intangible	Available-	Statutory	Loans and	Financial	Accounts	Accounts
	31st December,	adoption of	2005	assets	for-sale			assets at		
	2004	HKAS 39	2005	assets	financial	deposits	receivables	through	deposits and	accrued
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	assets	HK\$'000	HK\$'000	profit or loss	prepayments	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)
				<u>9,195</u>	<u>747,363</u>	<u>26,624</u>	<u>123,240</u>	<u>48,535</u>	<u>3,156</u>	<u>(1,891)</u>
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 HK\$'000	Amounts due from HK\$'000	Total 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)
	<u>2,320,437</u>	<u>142,583</u>	<u>2,463,020</u>
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
	<u>2,483,685</u>	<u>142,583</u>	<u>2,626,268</u>
<i>Less: reclassification</i>			
– 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)
	<u>–</u>	<u>(282)</u>	<u>(282)</u>
	<u>2,481,216</u>	<u>64,301</u>	<u>2,545,517</u>

[#] *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 HK\$'000	2004 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)
	<u>(103,595)</u>	<u>(106,994)</u>
Decrease in profit for the year	<u>(103,595)</u>	<u>(106,994)</u>
Attributable to:		
Equity holders of the Company	(125,306)	(105,479)
Minority interests	21,711	(1,515)
	<u>(103,595)</u>	<u>(106,994)</u>

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)
	<u>(103,595)</u>	<u>(106,994)</u>

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		At 31st December, 2004 (Restated) HK\$'000		At 1st January, 2005 (Restated) HK\$'000
		Adjustments HK\$'000 (Note)		Adjustments 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	<u>7,094,574</u>	<u>(447,688)</u>	<u>6,646,886</u>	<u>563,070</u>	<u>7,209,956</u>
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	<u>5,818,635</u>	<u>828,251</u>	<u>6,646,886</u>	<u>563,070</u>	<u>7,209,956</u>
Minority interests	<u>1,275,939</u>	<u>(1,275,939)</u>	<u>–</u>	<u>–</u>	<u>–</u>

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) HK\$'000	Adjustments HK\$'000 (Note)	At 1st January, 2004 (Restated) 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	<u>6,038,243</u>	<u>(378,397)</u>	<u>5,659,846</u>

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 impairment 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 HK\$'000	In second year HK\$'000	In third year HK\$'000	In fourth year HK\$'000	In fifth year HK\$'000	More than 5 years HK\$'000	Total 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)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 HK\$'000	In second year HK\$'000	In third year HK\$'000	In fourth year HK\$'000	In fifth year HK\$'000	More than 5 years HK\$'000	Total 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%	<u>(612,193)</u>	<u>(606,939)</u>	<u>(36,119)</u>	<u>(100,473)</u>	<u>(74,622)</u>	<u>(57,610)</u>	<u>(1,487,956)</u>
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%	<u>(545,275)</u>	<u>(226,738)</u>	<u>(613,160)</u>	<u>(28,981)</u>	<u>(91,328)</u>	<u>(86,362)</u>	<u>(1,591,844)</u>

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 HK\$'000	2004 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
	<u>1,144,153</u>	<u>1,128,169</u>

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 <i>HK\$'000</i>	Property rental, hotel operations and management services <i>HK\$'000</i>	Sale of properties and property based investments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	987,628	177,957	-	1,165,585
Less: inter-segment revenue	(16,833)	(4,599)	-	(21,432)
	<u>970,795</u>	<u>173,358</u>	<u>-</u>	<u>1,144,153</u>
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				<u>1,036,442</u>
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				<u>11,924,513</u>
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				<u>(3,372,237)</u>
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			Total HK\$'000 (Restated)
	Investment, broking and finance HK\$'000 (Restated)	Property rental, hotel operations and management services HK\$'000 (Restated)	Sale of properties and property based investments HK\$'000 (Restated)	
Revenue	944,846	172,835	24,783	1,142,464
Less: inter-segment revenue	(11,395)	(2,900)	-	(14,295)
	<u>933,451</u>	<u>169,935</u>	<u>24,783</u>	<u>1,128,169</u>
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				<u>660,228</u>
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				<u>9,997,626</u>
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				<u>(3,350,740)</u>
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 HK\$'000	2004 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
	<u>608,686</u>	<u>121,957</u>

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 HK\$'000	Salaries, consultancy fees and other benefits HK\$'000	Performance related incentive payments HK\$'000 (Note)	Retirement benefit scheme contributions HK\$'000	Total emoluments 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
	<u>20</u>	<u>5,031</u>	<u>1,150</u>	<u>123</u>	<u>6,324</u>

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 <i>HK\$'000</i>	Salaries, consultancy fees and other benefits <i>HK\$'000</i>	2004		Total emoluments <i>HK\$'000</i>
			Performance related incentive payments <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	
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
	<u>20</u>	<u>2,996</u>	<u>250</u>	<u>86</u>	<u>3,352</u>

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

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
	<u>–</u>	<u>1</u>

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
	<u>96,778</u>	<u>47,343</u>
Less: Amount capitalised in respect of properties held for development	–	(135)
	<u>96,778</u>	<u>47,208</u>

12. PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 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)
	<u>4,464</u>	<u>4,595</u>
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
	<u>24,479</u>	<u>21,603</u>
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 HK\$'000	2004 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 (<i>note</i>)	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
	<u> </u>	<u> </u>

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

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 HK\$'000	2004 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)
	<u>860,062</u>	<u>555,390</u>
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
	<u>79,306</u>	<u>80,108</u>

Details of deferred taxation are set out in note 29.

14. DIVIDEND

A final dividend of HK10 cents (2004: HK 5 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 HK\$	2004 HK\$
Figure before adjustments	1.97	1.36
Adjustments arising from changes in accounting policies	<u>(0.23)</u>	<u>(0.22)</u>
As reported/restated	<u><u>1.74</u></u>	<u><u>1.14</u></u>

Diluted earnings per share

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

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	<u>(278,038)</u>	<u>(22,980)</u>	<u>(301,018)</u>
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	<u>–</u>	<u>2,784,100</u>	<u>2,784,100</u>

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	<u>43,400</u>	<u>–</u>
	<u>2,784,100</u>	<u>2,215,668</u>

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 HK\$'000	2004 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)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
At 31st December	<u>–</u>	<u>97,377</u>

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 HK\$'000	2004 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
	<hr/>	<hr/>
	<u>291,787</u>	<u>275,606</u>
Analysed for reporting purposes as:		
Non-current portion	287,367	271,505
Current portion included in current assets	4,420	4,101
	<hr/>	<hr/>
	<u>291,787</u>	<u>275,606</u>

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 <i>HK\$'000</i>	Exchange participation rights <i>HK\$'000</i>	Club debentures <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group				
Cost				
At 1st January, 2004	9,633	–	–	9,633
Additions	6,091	–	–	6,091
Write off	(120)	–	–	(120)
	<u>15,604</u>	<u>–</u>	<u>–</u>	<u>15,604</u>
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)
	<u>21,850</u>	<u>3,707</u>	<u>6,845</u>	<u>32,402</u>
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)
	<u>5,229</u>	<u>–</u>	<u>–</u>	<u>5,229</u>
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)
	<u>8,986</u>	<u>240</u>	<u>590</u>	<u>9,816</u>
At 31st December, 2005	8,986	240	590	9,816
Carrying amounts				
At 31st December, 2005	<u>12,864</u>	<u>3,467</u>	<u>6,255</u>	<u>22,586</u>
At 31st December, 2004	<u>10,375</u>	<u>–</u>	<u>–</u>	<u>10,375</u>
The Company				
Cost				
Opening balance adjustment arising from changes in accounting policies and at 31st December, 2005	–	–	510	510
	<u>–</u>	<u>–</u>	<u>510</u>	<u>510</u>

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 HK\$'000	2004 HK\$'000
Investment, at cost	14	14
Amounts due from subsidiaries, less allowance	3,231,969	2,696,483
	<u>3,231,983</u>	<u>2,696,497</u>

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 HK\$'000	2004 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
	<u>2,710,057</u>	<u>2,463,020</u>

	The Group	
	2005 HK\$'000	2004 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)
	<u>2,560,483</u>	<u>2,227,571</u>
Amount due from an associate	-	78,000
	<u>2,560,483</u>	<u>2,305,571</u>
Market value of listed securities	<u>1,301,161</u>	<u>1,109,200</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i> (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 <i>(note (vi))</i>	–	(787)
	<hr/>	<hr/>
	111,865	114,767
Less: impairment loss recognised	(26,873)	(21,892)
	<hr/>	<hr/>
	84,992	92,875
Amounts due from associates	64,582	64,574
	<hr/>	<hr/>
	<u>149,574</u>	<u>157,449</u>

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
	<i>HK\$'000</i>
Cost	
At 1st January, 2004	232,304
Acquisition of associates	3,469
Disposal of associates	(433)
	<hr/>
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)
	<hr/>
At 31st December, 2005	<u>98,556</u>
Amortisation	
At 1st January, 2004	119,899
Provided for the year	30,860
Disposal of associates	(417)
	<hr/>
At 31st December, 2004	150,342
Eliminated upon adoption of HKFRS 3	(150,342)
	<hr/>
At 31st December, 2005	<u>–</u>
Impairment	
Amount recognised during the year and at 31st December, 2005	<u>12,429</u>
Carrying amounts	
At 31st December, 2005	<u>86,127</u>
At 31st December, 2004	<u>84,998</u>

(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 <i>HK\$'000</i>
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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
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 HK\$'000	2004 HK\$'000 (Restated)
Unlisted shares		
Cost of investment	1,536	3,830
Share of post-acquisition reserves	882,480	831,590
	<hr/>	<hr/>
	884,016	835,420
Elimination of unrealised profit	(17,622)	(17,622)
	<hr/>	<hr/>
	<u>866,394</u>	<u>817,798</u>

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)
	<hr/>
At 31st December, 2004	627
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(121)
Disposal of a jointly controlled entity	(506)
	<hr/>
At 31st December, 2005	<u>–</u>
Amortisation	
Provided for the year	219
Released on deemed disposal	(98)
	<hr/>
At 31st December, 2004	121
Eliminated upon adoption of HKFRS 3	(121)
	<hr/>
At 31st December, 2005	<u>–</u>
Carrying amounts	
At 31st December, 2005	<u>–</u>
At 31st December, 2004	<u>506</u>

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 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets	<u>2,115,265</u>	<u>1,929,003</u>
Current assets	<u>319,212</u>	<u>409,289</u>
Non-current liabilities	<u>(575,870)</u>	<u>(567,377)</u>
Current liabilities	<u>(89,638)</u>	<u>(103,837)</u>
Revenue	<u>371,773</u>	<u>335,303</u>
Expenses	<u>(294,621)</u>	<u>(287,093)</u>
Increase in fair value of investment properties	<u>183,297</u>	<u>–</u>
26. AVAILABLE-FOR-SALE FINANCIAL ASSETS		

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

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
	<u>-</u>	<u>481,284</u>	<u>-</u>	<u>40,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>521,400</u>
Unlisted equity securities issued by corporate entities								
Hong Kong (<i>note (i)</i>)	-	183,501	-	-	-	-	-	183,501
Outside Hong Kong (<i>note (ii)</i>)	-	119,993	-	-	-	-	-	119,993
	<u>-</u>	<u>303,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>303,494</u>
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 (<i>note (ii)</i>)	-	-	-	-	-	90,883	-	90,883
	<u>-</u>	<u>784,778</u>	<u>-</u>	<u>48,263</u>	<u>-</u>	<u>126,702</u>	<u>-</u>	<u>959,743</u>
Carrying amount analysed for reporting purposes as:								
Non-current	-	784,778	-	-	-	126,702	-	911,480
Current	-	-	-	48,263	-	-	-	48,263
	<u>-</u>	<u>784,778</u>	<u>-</u>	<u>48,263</u>	<u>-</u>	<u>126,702</u>	<u>-</u>	<u>959,743</u>

	Investments in securities						Total	
	Non-trading securities		Trading securities		Other investments		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
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 (<i>note</i>)	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 HK\$'000	Revaluation of properties and other assets HK\$'000	Provisions HK\$'000	Unrealised profit HK\$'000	Un- distributed earnings and others HK\$'000	Tax losses HK\$'000	Total 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 HK\$'000	2004 HK\$'000 (Restated)
Deferred tax liabilities	230,615	183,653
Deferred tax assets	(4,143)	(10,279)
	<u>226,472</u>	<u>173,374</u>

At 31st December, 2005, the Group had unrecognised deductible temporary differences of HK\$5,880,000 (2004: HK\$6,023,000) 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>520,950</u>	<u>401,721</u>

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	–
	<u>55,704</u>	<u>–</u>
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	–
	<u>179,204</u>	<u>–</u>

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
	<u>1,340,428</u>	<u>1,032,052</u>
Allowance for doubtful debts	(159,073)	(198,146)
	<u>1,181,355</u>	<u>833,906</u>

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 HK\$'000	2004 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
	<u>848,151</u>	<u>921,363</u>

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	<u>3,000,000,000</u>	<u>6,000,000</u>
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	<u>47,767,684</u>	<u>95,535</u>
Ordinary shares of HK\$2.0 each at 31st December, 2004 and 31st December, 2005	<u>537,151,901</u>	<u>1,074,303</u>

36. RESERVES

	2005 HK\$'000	2004 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
	<u>5,996,232</u>	<u>4,302,155</u>

	Share premium HK\$'000	Special capital reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated profits (losses) HK\$'000	Dividend reserve HK\$'000	Total 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	<u>516,644</u>	<u>–</u>	<u>72,044</u>	<u>1,129,186</u>	<u>53,715</u>	<u>1,771,589</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>–</u>	<u>–</u>	<u>2,120</u>	<u>2,120</u>
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
	<u>79,888</u>	<u>(37,197)</u>	<u>(704)</u>	<u>41,987</u>
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
	<u>–</u>	<u>–</u>	<u>263</u>	<u>263</u>
At 31st December, 2005	<u>–</u>	<u>1,754</u>	<u>3,073</u>	<u>4,827</u>

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Stock borrowings	17,700	–
Stock option	56	–
	<u>17,756</u>	<u>–</u>

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	-
	<u>1,825,996</u>	<u>1,649,749</u>	<u>3,115</u>	<u>-</u>
Analysed as:				
Secured	1,792,881	1,649,749	-	-
Unsecured	33,115	-	3,115	-
	<u>1,825,996</u>	<u>1,649,749</u>	<u>3,115</u>	<u>-</u>
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	-	-
	<u>1,825,996</u>	<u>1,649,749</u>	<u>3,115</u>	<u>-</u>
Less: Amount repayable within one year and shown under current liabilities	<u>(950,233)</u>	<u>(603,180)</u>	<u>(3,115)</u>	<u>-</u>
Amount due after one year	<u>875,763</u>	<u>1,046,569</u>	<u>-</u>	<u>-</u>

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 HK\$'000	2004 HK\$'000
Principal		
At 1st January	129,637	231,637
Repurchased and cancelled	(60,000)	(102,000)
	<u>69,637</u>	<u>129,637</u>
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	–
	<u>(5,385)</u>	<u>–</u>
Carrying amounts at 31st December	<u><u>64,252</u></u>	<u><u>129,637</u></u>

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

41. OTHER LIABILITIES

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

Note:

	Employee benefits	The Group	
	<i>HK\$'000</i>	Other	Total
		<i>HK\$'000</i>	<i>HK\$'000</i>
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
<i>Less: Amount repayable within one year and shown under current liabilities</i>	(32,520)	(846)	(33,366)
	<u>977</u>	<u>792</u>	<u>1,769</u>

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 <i>HK\$'000</i>
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
					<u>78,174</u>

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

	Acquiree's carrying amount <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
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	<u>62,623</u>	78,106
Total consideration, satisfied by cash		<u>78,174</u>
Excess of net fair value over consideration recognised in consolidated income statement as other income		68 <u>199</u>
Goodwill		<u>267</u>
Net cash outflow arising on acquisition:		
Cash consideration paid		78,174
Bank balances and cash acquired		<u>(15,758)</u>
		<u>62,416</u>

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 <i>HK\$'000</i>	Post acquisition attributable to the Group <i>HK\$'000</i>
Total revenue	<u>46,695</u>	<u>43,743</u>
Profit for the year	<u>11,061</u>	<u>7,800</u>

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 HK\$'000	2004 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
	<u>19,603</u>	<u>15,724</u>

- (b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>17,220</u>	<u>18,032</u>

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	–
	<u>28,940</u>	<u>406</u>	<u>54,621</u>	<u>578</u>

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
	<u>107,253</u>	<u>58,233</u>

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 (<i>note</i>)	7,120	6,112
Share of administrative expenses (<i>note</i>)	661	6,935
Advertising income	(800)	(800)
Rent, property management and air-conditioning fees (<i>note</i>)	(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)
	<u> </u>	<u> </u>

(b) Key management personnel compensation

	2005	2004
	HK\$'000	HK\$'000
Short term benefits	11,437	5,879
Post-employment benefits	266	175
	<u> </u>	<u> </u>
	<u>11,703</u>	<u>6,054</u>

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)	-	-
	<u>244,671</u>	<u>(56,694)</u>	<u>(8,183)</u>	<u>(5,183)</u>

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)	-	-
	<u>244,671</u>	<u>(56,694)</u>	<u>(8,183)</u>	<u>(5,183)</u>

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					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years 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					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years 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 HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
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 HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
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 HK\$	Proportion of nominal value of issued capital		Principal activity
		held by the Company*/ subsidiaries %	attributable to the Group %	
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 attributable		Principal activity
			the Company*/ subsidaries %	to the Group %	
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 attributable		Principal activity
		held by subsidiaries %	to the Group %	
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 attributable		Principal activity
		held by subsidiaries %	to the Group %	
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 top up placing of the 248,000,000 shares of SHK, the issue of Bonds by the SHK Group, the Enlarged Group's current cash balance and resources as well as its available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

4. STATEMENT OF INDEBTEDNESS

Indebtedness of the Enlarged Group

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 Enlarged Group had outstanding borrowings of approximately HK\$2,574.7 million, comprising secured bank loans and overdrafts of approximately HK\$1,548.9 million, unsecured bank loans and overdrafts of approximately HK\$755.7 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\$39.6 million from a fellow subsidiary, unsecured borrowings of approximately HK\$2.5 million from investee companies, unsecured borrowing of approximately HK\$1.0 million from a minority shareholder and unsecured other borrowings of approximately HK\$8.0 million. The Enlarged 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 deposits and listed investments belonging to the Enlarged Group and margin clients, together with certain securities in respect of a listed subsidiary held by the Enlarged Group.

In addition, the Enlarged 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 IX 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 Enlarged 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. FINANCIAL AND TRADING PROSPECTS

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) FOR THE YEAR ENDED 31ST DECEMBER, 2003

The following is the management discussion and analysis principally extracted from the annual report of the APL Group for the year ended 31st December, 2003. Terms and definitions used below shall bear the same meanings as defined in such annual report.

OPERATIONAL REVIEW

Properties

Hong Kong

The Group's rental income increased during the year under review mainly due to the contribution from St. George Apartments. Other important contributors of rental income included China Online Centre and Century Court, which achieved rentals for the year as a whole about the same as 2002, despite difficulties caused by SARS in the first half. Allied Kajima Building and China Online Centre had average occupancy rates for 2003 at 90% and 85% respectively.

Mainland PRC

Properties sold in the PRC with a total gross floor area of about 291,000 sq.m. compared to 250,000 sq.m. in the year before contributed significantly to the satisfactory performance of Tian An, with an increase in its net profit by 17.7% to approximately HK\$102.4 million. During the year, Tian An has streamlined its operations and disposed of a number of non-core or non-strategic projects to concentrate its focus on the development of key projects in the major cities of the PRC. With a dynamic and proactive management team capable of taking advantage of the booming PRC economy, it is expected that Tian An's current development projects together with its significant landbank would substantially benefit the group in the years ahead.

Hospitality Related Activities

The performance of the Novotel Century Hong Kong hotel ("Century Hong Kong") was adversely affected by SARS in the first half of 2003. Benefiting from the implementation of the Individual Visit Scheme, Hong Kong's tourism related sector showed signs of recovery in the second half of 2003, especially in the later stages of the second half. The Westin Philippine Plaza Hotel ("Westin") became more competitive immediately after the completion of its renovation and refurbishment works. The Westin reported an increase in revenue notwithstanding the continued difficult tourism market conditions in the Philippines mainly attributable to the improvement of available rooms and effective cost control following the renovations.

Construction of the superstructure for phase two of Ibis North Point, the hotel in Java Road, has been completed. It is anticipated that this hotel extension will be operational before the end of this year.

Details of all major properties are contained in the schedule headed “Particulars of Major Properties”.

Financial Services

Sun Hung Kai recorded profit attributable to its shareholders of approximately HK\$241.9 million, an increase of 31.5% compared to the previous year. However, having completed its own share repurchase exercise, the increase in its earnings per share was actually 53.3%. Continuing efforts to diversify its products and service range enabled Sun Hung Kai to capitalise on the market rebound. The performance of Sun Hung Kai also benefited from lower provisioning for doubtful debts, resulting from the improved capital market and stringent credit control, together with the write-back of some provisions from past years.

The market rebound in the second half of the year resulted in a satisfactory increase of Sun Hung Kai’s margin loan book compared to the year of 2002. Net revenues were strongly positive through the substantial use of Sun Hung Kai’s shareholders’ funds in a low interest rate environment. Term lending levels trended downwards in 2003 as stronger capital markets provided potential borrowers with alternative funding opportunities. Net income levels, however, were still strongly positive.

New technologies such as IVRs, telephone order and inquiry systems, and online trading were added to the traditional account executive network in 2003 to enhance the services provided to securities clients. SHK Online Limited maintained its growth momentum from the previous year and captured significant increases in client base, volume, market share and revenue by the end of 2003. The launch of new online trading services for HSI futures contracts, and H-Share Index futures was well received by the clients.

Sun Hung Kai International Bank [Brunei] Limited, a newly incorporated wholly-owned subsidiary, was granted the first full international banking licence in Brunei under the International Banking Order 2000 issued by the Ministry of Finance, Brunei.

The acquisition of Shun Loong by Sun Hung Kai in June 2003 was a strategic move to further enhance Sun Hung Kai’s competitiveness as a dominant financial services provider in Hong Kong.

Investments

The Group has taken the opportunity during recent years to invest in several listed investments. The Group believes these acquisitions should complement its core businesses. These investments have delivered pleasing results.

Quality HealthCare Asia Limited (“QHA”)

QHA, a 28.85% associate of Sun Hung Kai, concentrated in 2003 on consolidation and focused its resources to the growth and development of its core healthcare businesses and achieved a profit of HK\$24.4 million. QHA is the largest listed healthcare company in Hong Kong. The group provides care for its private and corporate contract patients through a total of approximately 600 QHA and associated Western and Chinese medical centres, and 44 dental and physiotherapy centres. It also operates nine elderly care homes and Hong Kong’s longest established international nursing service.

Yu Ming Investments Limited (“Yu Ming”)

Yu Ming, a 21.53% associate of Sun Hung Kai, recorded a profit in 2003 of HK\$143.4 million. Yu Ming’s major investments were in Hong Kong equities, international debt instruments and the Argyle Centre, a fully leased shopping mall in a prime location in Mongkok. In August 2003, Yu Ming joined a private sector consortium to invest with the Hong Kong Government and the Airport Authority to develop and operate the Hong Kong International Exhibition Centre at the Hong Kong International Airport.

Shanghai Allied Cement Limited (“SAC”)

For the year ended 31st December, 2003, the SAC group, a 54.77% subsidiary of Tian An, reported a net profit of HK\$50.0 million. The principal activities of the SAC group are manufacturing and distribution of clinker, high-grade cement and natural stones, ceramic tiles, provision of engineering design and installation, and the distribution of other construction materials.

FINANCIAL REVIEW

The turnover of the Group for the year 2003 was approximately HK\$862.8 million, a decrease of 4.5% from last year due mainly to the reduction in interest income and sale of properties, partially offset by an increase in income from other financial services.

The Group’s profit attributable to shareholders was approximately HK\$311.0 million, compared to the loss of approximately HK\$400.9 million in 2002, representing a significant increase of 177.6%. The turnaround was primarily due to the major reduction in impairment losses and revaluation deficits in relation to the Group’s Hong Kong properties from HK\$564.5 million in 2002 to HK\$40.4 million, as well as the remarkable performance of Sun Hung Kai, a listed subsidiary of the Group, and the increase of the Group’s equity interest in Sun Hung Kai.

Financial Resources, Liquidity and Capital Structure

Other than the loan notes as mentioned below, the Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

Loan notes with principal amount of HK\$255.2 million were issued by Sun Hung Kai during the year as part of the consideration for repurchase of its own shares. Of the principal amount, HK\$23.6 million was subsequently repurchased during the year. The loan notes bear interest at 4% per annum and are due on 7th March, 2008.

There was no material change to the issued share capital of the Company during the year.

At 31st December, 2003, the current ratio (current assets/current liabilities) of the Group was 1.41 times, which decreased from the 1.80 times applicable at the end of 2002.

At 31st December, 2003, the Group's net borrowings amounted to HK\$1,602.3 million (2002: HK\$1,394.8 million), representing bank borrowings and loan notes of HK\$2,233.0 million (2002: HK\$1,774.1 million) less bank deposits, bank balances and cash of HK\$630.7 million (2002: HK\$379.3 million) and the Group had net assets of HK\$4,889.3 million (2002: HK\$4,497.1 million). Accordingly, the Group's gearing ratio of net borrowings to net assets was 32.8% (2002: 31.0%).

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	1,059,908	812,018
More than one year but not exceeding two years	70,760	259,669
More than two years but not exceeding five years	759,110	555,060
More than five years	111,565	147,310
	2,001,343	1,774,057
Loan notes repayable within five years	231,637	–
	2,232,980	1,774,057

The Group's bank borrowings were charged at floating rates. Finance costs decreased from HK\$72.2 million in 2002 to HK\$60.0 million during the year as a result of reduction in average bank loans being utilised during the year as compared to the year 2002 and continuing efforts made in reducing the interest rate margins payable.

Risk of Foreign Exchange Fluctuation

Other than the finance business (in regard to which, the foreign exchange risk will be mentioned later in this report), the Group's other operating activities are mainly denominated in Hong Kong dollars. Accordingly, the Group has no other significant exposure to foreign exchange fluctuations.

Additional Interest in Sun Hung Kai

The Group's equity interest in Sun Hung Kai increased from 61.67% to 74.95% at the year end mainly resulting from the completion of the repurchase by Sun Hung Kai of its own shares as announced by Sun Hung Kai on 27th February, 2003.

Acquisition of a Subsidiary

During the year, Sun Hung Kai acquired the entire issued share capital of Shun Loong Holdings Limited ("Shun Loong") for a consideration of HK\$36.5 million subject to adjustments as detailed in an announcement of Sun Hung Kai dated 25th June, 2003. Shun Loong provides a full range of traditional and online brokerage services through its subsidiaries.

Disposal of a Jointly Controlled Entity

During the year, the Group disposed of its 50% interest in a jointly controlled entity to a non wholly-owned subsidiary of the ultimate holding company at a consideration of HK\$87.5 million. A loss of HK\$5.5 million arose on disposal of the jointly controlled entity.

CONTINGENT LIABILITIES

(a) At 31st December, 2003, the Group had guarantees as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees for banking and loan facilities granted to a subsidiary of a jointly controlled entity	–	100,000
Guarantees for banking and loan facilities granted to an investee company	6,989	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540
Indemnities on letter of credit issued by a bank for a loan to a client	67,556	–
Other guarantees	913	1,734
	<u>79,998</u>	<u>113,294</u>

(b) On 9th September, 2002, Sun Hung Kai Investment Services Limited (“SHKIS”), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen PRC registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth HK\$40,567,000 at 31st December, 2003) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the management takes the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with. The plaintiffs have taken very few actions to progress their writ.

(c) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”), also an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS were served with a writ attaching a statement of claim by Shanghai Finance Holdings Limited, claiming, inter alia, an Order that the sale of the shares in Shun Loong Holdings Limited (“Shun Loong Shares”) by STCC as assignee to SHKIS (at a consideration of HK\$36,500,000 subject to additional amounts in a sum 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, as against STCC, damages and an account as to the money obtained 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 firmly believe there is no basis to the claim. Legal costs will be recorded in the income statement as incurred.

PLEDGE OF ASSETS

At 31st December, 2003, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,856,218,000 (2002: HK\$2,852,371,000), certain securities in respect of a listed subsidiary with a cost of HK\$1,740,628,000 (2002: HK\$1,607,866,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$792,489,000 (2002: HK\$761,412,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,627,516,000 (2002: HK\$3,876,202,000) granted to the Group. Facilities amounting to HK\$1,929,562,000 (2002: HK\$1,774,034,000) were utilised at 31st December, 2003.

At 31st December, 2003, a bank deposit of HK\$1,487,000 (2002: HK\$1,000,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (2002: HK\$1,000,000).

EMPLOYEES

The total number of staff of the Group as at 31st December, 2003 was 1,746 (2002: 1,463). Total staff costs, including Directors' emoluments, amounted to HK\$198.6 million (2002: HK\$174.3 million).

The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

(2) FOR THE YEAR ENDED 31ST DECEMBER, 2004

The following is the management discussion and analysis principally extracted from the annual report of the APL Group for the year ended 31st December, 2004. Terms and definitions used below shall bear the same meanings as defined in such annual report.

OPERATIONAL REVIEW*Properties**Hong Kong*

The Group's rental income increased moderately during the year under review. Major contributors of rental income included St. George Apartments, China Online Centre, Century Court and Allied Cargo Centre. Moreover, the Group completed the acquisition of the whole of the 22nd Floor of No. 9 Queen's Road Central in late 2004, thus adding a stable rental income stream to the Group's office portfolio. The Group will take advantage of the buoyant property market to review its Hong Kong rental property portfolio with a view to maximising yields.

Following the issuance of the occupation permit for phase two of Ibis North Point (“Ibis”), the hotel in Java Road, in December 2004 and the hotel licence, the hotel extension has been put into operation. After the completion of Ibis, all of the Group’s development projects in Hong Kong have been completed. The Group will continue to assess opportunities for appropriate property investments should they arise.

Allied Kajima reported a 15.9% increase in profit attributable to its shareholders from the year 2003. Both the Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel had improved performance from 2003 due to increased tourist arrivals in Hong Kong and the Philippines respectively, although the rental income from Allied Kajima Building decreased during the year resulting from lower occupancy rates and reduced rental rates.

Mainland PRC

Although total sales of gross floor area attributable to Tian An during the year under review decreased to 225,000 square metres from 291,000 square metres, profit attributable to its shareholders amounted to HK\$200.6 million for the year, representing a significant growth of 95.9% compared to the previous year. The sharp improvement in the results for the year was mainly attributable to stronger contributions from property sales and the focus by Tian An on products of higher profit margin.

In the longer term, Tian An aims at becoming one of the premier real estate companies in Mainland China and hopes to improve its performance by adoption of the following policies, namely: (a) retaining developed commercial properties with long-term capital appreciation potential for rental yield thereby providing a stable recurrent income base, (b) disposing of inventories of properties and land in non-core cities and concentrating on the development of its very substantial land bank in the major cities of the PRC, and (c) continuing to streamline its management and cost structure.

Details of all major properties (other than those in Mainland China held by associates) are contained in the schedule headed “Particulars of Major Properties”.

Financial Services

Sun Hung Kai achieved a profit attributable to its shareholders of HK\$384.8 million, representing a 59.1% increase from the previous year.

Sun Hung Kai’s broking commission income exceeded that of the previous year. Its experienced sales staff with their extensive client network capitalised on the buoyant stock market to expand its market share during the year. The income stream derived by Sun Hung Kai as a liquidity provider of derivative warrants and equity linked notes to warrant issuers continued to be strong.

SHK Online achieved significant growth during 2004. Continuing efforts to diversify its products, such as the new e-Option platform for locally listed HSI Options and additional e-Futures products should further provide growth momentum for the division.

In addition to the successful completion of the secondary placement of shares of two listed companies, the Corporate Finance division was involved in the placement of B shares of a PRC company which is listed on the Shenzhen Stock Exchange and a number of underwriting exercises for IPO issues.

Sun Hung Kai's margin loan book increased during the year. Net revenues were strongly positive through the substantial use of its shareholders' funds in a low interest rate environment.

With the continuing weakness in the U.S. dollar in 2004, Sun Hung Kai's foreign exchange volumes reflected a decline in investor interest. However, interest in commodities and precious metals increased significantly. Sun Hung Kai's business from Hang Seng Index Futures also rose substantially this year.

The Wealth Management division experienced strong growth in 2004. The "assets under management" and revenue almost doubled compared with 2003. For the Alternative Investments division, the second half of 2004 remained challenging because of the difficult environment in global financial markets. Nevertheless, all the funds experienced positive growth.

Despite the difficult environment, Sun Hung Kai's Insurance division performed well in 2004 and achieved slight profit growth compared to the preceding year. To meet the challenges ahead, the division continues to strengthen marketing activities, focus on the development of specialty products and markets, and pursue quality business partners and opportunities in the PRC.

After significant transformation of its business structure, management, compliance and control system following its acquisition by Sun Hung Kai in mid 2003, Shun Loong group is now positioning itself for growth with a range of marketing and promotional initiatives planned for Hong Kong and the PRC.

Sun Hung Kai International Bank [Brunei] Limited was officially opened in February 2004. The bank plans to develop international banking business including deposit taking from non-residents, extending credits, arranging money collections and transmissions, foreign exchange, issuance of guarantees as well as offering investment banking and other banking services.

Investments

Quality HealthCare Asia Limited (“QHA”)

QHA, a 33.01% owned listed associate of Sun Hung Kai, is Hong Kong’s largest listed healthcare company. It provides care for its private and corporate contract patients through a network of more than 560 Western and Chinese medical centres, and 44 dental and physiotherapy centres. In 2004, its network recorded more than 1.9 million healthcare visits. QHA operates eight elderly care homes and Hong Kong’s longest-established international nursing service. QHA was awarded “Superbrands Hong Kong 2004” by an independent Superbrands Council during the year in recognition of its well respected brand name.

QHA continued to deliver a substantial improvement in its operating profit, with its turnover in 2004 exceeding HK\$780 million. The encouraging results of QHA are a positive reflection of QHA’s determination to focus on the consolidation and development of its core businesses.

QHA will continue to develop its specialist medical network and its relationship with private hospitals. It is well positioned to be one of the participants in the public-private partnership initiative to improve the healthcare industry in Hong Kong and also to support the government in any initiatives it may wish to pursue in both reducing costs and providing improved quality of service.

QHA’s confidence in its future is reflected in a share repurchase offer which has recently been completed with 21,667,288 shares, representing 10% of its outstanding shares, repurchased and cancelled.

Yu Ming Investments Limited (“Yu Ming”)

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit of HK\$39.4 million for the year 2004. At 31st December, 2004, the major investments of Yu Ming included a 37.85% owned joint venture which held 13.5% interest in AsiaWorld-Expo, being a 66,000 square metre exhibition centre located at the Hong Kong International Airport, Argyle Centre Shopping Mall in Mongkok, a bond portfolio amounting to HK\$195 million and an investment in a Hong Kong based airline. Argyle Centre and the bond portfolio provided the bulk of recurrent income of Yu Ming in 2004. The AsiaWorld-Expo is scheduled to open in January 2006 and its bookings are well into 2008.

Shanghai Allied Cement Limited (“SAC”)

For the year ended 31st December, 2004, SAC, a 54.77% owned listed subsidiary of Tian An, reported a net profit of HK\$10.4 million, representing a decrease of 79.2% as compared to the year before. The decrease in profit resulted from: (a) the rising cost of raw materials, including coal, which is one of the major cost components of cement production, (b) with the Mainland government’s austerity measures taking

effect, the demand, and consequently prices, for cement in Mainland China have been falling, and (c) the construction of the new plant in Shandong with a daily clinker production capacity of 2,500 tonnes per day has been utilising substantial financial resources.

SAC's management is cautiously optimistic on the long-term prospects of the cement industry in the PRC and hopes to take advantage of the present competitive environment to improve efficiency and its cost structure so as to be in an improved position to take advantage of any significant upturn of the cement market.

FINANCIAL REVIEW

The turnover of the Group for the year 2004 was approximately HK\$1,128.2 million, an increase of 30.8% from the previous year due mainly to increase in income from investment, broking and financial services, increase in rental income and hotel revenue, partially offset by the decrease in interest income.

The Group's profit attributable to shareholders increased more than twofold by HK\$357.5 million to HK\$668.5 million from HK\$311.0 million of 2003. The 115.0% increase in profit was primarily due to revaluation surpluses and a reversal of impairment losses in relation to the Group's Hong Kong properties totalling HK\$158.0 million whilst in year 2003, the revaluation deficits and impairment losses charged to the income statement were HK\$40.4 million, as well as the stronger performance of Sun Hung Kai, a listed subsidiary of the Group.

Financial Resources, Liquidity and Capital Structure

The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

During the year, 47,767,684 warrants, representing approximately 97.6% of the total outstanding warrants, were converted into 47,767,684 ordinary shares at a subscription price of HK\$2.5 per share. A proceed of HK\$119.4 million was raised from the exercise of warrant subscription rights by warrant holders, and the Company's issued share capital increased from HK\$978.8 million to HK\$1,074.3 million accordingly. The remaining 1,157,975 warrants, representing 1,157,975 ordinary shares issuable lapsed at the close of business on 6th December, 2004.

At 31st December, 2004, the current ratio (current assets/current liabilities) of the Group was 1.70 times, which increased from the 1.41 times applicable at the end of the preceding year.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

At 31st December, 2004, the Group's net borrowings amounted to HK\$1,179.9 million (2003: HK\$1,602.3 million), representing bank borrowings and loan notes of HK\$1,779.4 million (2003: HK\$2,233.0 million) less bank deposits, bank balances and cash of HK\$599.5 million (2003: HK\$630.7 million) and the Group had net assets of HK\$5,818.6 million (2003: HK\$4,889.3 million). Accordingly, the Group's gearing ratio of net borrowings to net assets was 20.3% (2003: 32.8%).

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	603,180	1,059,908
More than one year but not exceeding two years	226,738	70,760
More than two years but not exceeding five years	733,469	759,110
More than five years	86,362	111,565
	1,649,749	2,001,343
Loan notes repayable within five years	129,637	231,637
	1,779,386	2,232,980

The bank borrowings of the Group were charged at floating interest rates. Finance costs decreased from HK\$60.0 million in 2003 to HK\$47.2 million during the year as a result of reduction of bank borrowings and continuing efforts made in reducing the interest rate margin payable, as well as a low interest rate environment in 2004.

Risk of Foreign Exchange Fluctuation

Other than the finance business (in regard to which, the foreign exchange risk will be mentioned later in this report), the Group's other operating activities are mainly denominated in Hong Kong dollars. Accordingly, the Group has no other significant exposure to foreign exchange fluctuations.

Acquisition of a Subsidiary

During the year, the Group acquired the entire issued share capital of and loans to Gilmore Limited ("Gilmore") for an aggregation consideration of HK\$125.4 million. Gilmore is a property holding company and holds the whole of the 22nd Floor, No. 9 Queen's Road Central, Hong Kong.

Acquisition of Additional Interest in Tian An

During the year, Sun Hung Kai exercised warrants to subscribe for 44,000,000 shares and purchased 2,196,000 shares in Tian An for a total consideration of HK\$92.8 million.

Contingent Liabilities

(a) At 31st December, 2004, the Group had guarantees as follows:

	2004 HK\$'000	2003 HK\$'000
Guarantee for banking facility granted to an investee company	7,000	6,989
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	4,540
Indemnities on letter of credit issued by a bank for a loan to a client	–	67,556
Other guarantees	3,184	913
	<u>15,724</u>	<u>79,998</u>

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”) and Sun Hung Kai Investment Services Limited (“SHKIS”), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching a statement of claim (“200/2004”) by Shanghai Finance Holdings Limited 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 the High Court of Hong Kong on 1st April, 2004 (“Judgment”) in HCA 3191/1999 between NWDC and Stapleton Development Limited 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 the Court found (“Oral Agreement”). As at 17th June, 2004, the date when the Judgment sum was to be paid, the Judgment amounted to 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 (“Appeal”) to the Court of Appeal. The Appeal has been set down for hearing commencing 7th June, 2005. The decision of the Court of Appeal is likely to be delivered some months after the Appeal.

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 1st 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 outcome of the 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 management 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 Appeal or the Further Writ. However, in note 20 the management has provided an analysis of the possible financial implications for the Group depending on the ultimate outcome of the Appeal.

Pledge of Assets

At 31st December, 2004, certain of the Group’s investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$3,083,285,000 (2003: HK\$2,856,218,000), certain securities in respect of a listed subsidiary with a cost of HK\$902,933,000 (2003:

HK\$1,740,628,000), and listed investments belonging to the Group and margin clients with an aggregate carrying value of HK\$1,074,406,000 (2003: HK\$792,489,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,404,144,000 (2003: HK\$3,627,516,000) granted to the Group. Facilities amounting to HK\$1,649,749,000 (2003: HK\$1,929,562,000) were utilised at 31st December, 2004.

At 31st December, 2004, a bank deposit of HK\$1,220,000 (2003: HK\$1,487,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (2003: HK\$2,000,000).

EMPLOYEES

The total number of staff of the Group as at 31st December, 2004 was 1,774 (2003: 1,746). Total staff costs, including Directors' emoluments, amounted to HK\$231.7 million (2003: HK\$198.6 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

(3) FOR THE YEAR ENDED 31ST DECEMBER, 2005

The following is the management discussion and analysis principally extracted from the annual report of the APL Group for the year ended 31st December, 2005. Terms and definitions used below shall bear the same meanings as defined in such annual report.

OPERATIONAL REVIEW

Properties

Hong Kong

The Group's investment property portfolio continued to record improving results, benefiting from the buoyant local property market. St. George Apartments, Century Court, Allied Cargo Centre, Park Place, 22nd Floor of No. 9 Queen's Road Central and China Online Centre all achieved higher rental income as and when leases were renewed during the year. Contribution from Ibis North Point continued to strengthen during the second half of the year. The hotel operating income almost doubled compared with that of last year due to the rise in the number of rooms and the increased average room rates.

With the application of the new Hong Kong Accounting Standards, the Group has adopted the fair value model for its investment properties. As at the year end, the investment properties of the Group were revalued by an independent professional firm of valuers, resulting in a valuation surplus of approximately HK\$522.3 million which was reported in the consolidated income statement for the year.

Allied Kajima, 50% indirectly owned by the Group and holding properties including Allied Kajima Building, Novotel Century Hong Kong hotel and the Philippine Plaza Hotel, contributed an increase in profit of 363.9% in 2005 as compared to that of 2004. The increase was mainly due to a revaluation of its investment property and a stronger performance by Novotel Century Hong Kong hotel, which recorded significantly higher average room rates.

Mainland PRC

Tian An, a listed associate of Sun Hung Kai and the Group's PRC property unit, registered a 10.2% increase in net profit attributable to its equity holders to HK\$202.5 million. The increase in profit for the year is largely the result of an increase in the valuation of Tian An's investment properties. Tian An as a whole registered lower sales of total gross floor area of approximately 138,000 m², as compared to 225,000 m² in 2004.

The decline in sales is the direct result of management's decision to maximise its profit margin from its development properties, and to retain for their rental income selected properties which Tian An believes will provide increasing rental streams with corresponding increases in value.

The major projects developed by the Tian An group that are expected to come on stream in the coming year comprise Shanghai Tian An Villa (Phase 2), Shanghai Tian An Place (Phase 1), Nantong Tian An Garden (Phase 3), Guangzhou Panyu Hi-Tech Ecological Park (Phase 3), and Shenzhen Tian An Cyber Park – Golf & Seaview Garden (Phase 3).

Tian An forecasts a positive outlook for the PRC economy and property market for the foreseeable future and accordingly its objectives for 2006 will be to continue to dispose of non-core assets, increase its land bank in major cities as and when opportunities arise, maximise its development profit, increase its recurrent rental income, streamline operating processes, and continue to strengthen the professional management team.

Financial Services

Sun Hung Kai, the Group's broking arm, recorded a profit attributable to its equity holders of HK\$401.5 million (2004: HK\$378.7 million, as restated).

Securities broking commissions formed the principal source of Sun Hung Kai's income in 2005. The company actively participated in numerous issues of new shares offerings, sub-underwriting and placements of equities and warrants for clients. Third-party execution provided to non-exchange participants continued to contribute sound revenues. While Sun Hung Kai was not as active as a liquidity provider for warrant issuers as in the past, the income growth from structured products was generally pleasing.

Securities financing recorded strong net revenues as a result of the expanded loan portfolio and active participation in IPO financing.

During the year, Sun Hung Kai's corporate finance division successfully sponsored three IPOs on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") and completed the secondary placement of shares in a number of listed companies. Furthermore, the division was appointed as the financial adviser on the repurchase offer/mandatory general offer for shares and the independent financial adviser on certain notifiable and connected transactions of several listed companies. It was also actively involved in a number of underwriting exercises for IPO issues and will continue to focus on securing IPO projects for medium-sized enterprises in both Hong Kong and China as well as performing financial advisory and placing services for listed companies in Hong Kong.

A hedge fund division was formed in 2005 and the first in-house hedge fund was launched in June 2005. The division also hopes to launch a number of new hedge funds in 2006. A subsidiary company in the alternative investments division was appointed as the replacement manager for an umbrella fund in January 2006. This appointment brings a further US\$410 million of investor funds under Sun Hung Kai's management.

The Shun Loong group of companies which was acquired in 2003 is being actively integrated with the overall operations of Sun Hung Kai.

Investments

Quality HealthCare Asia Limited ("QHA")

QHA, a 34.39% owned listed associate of Sun Hung Kai, was successful in delivering significantly improved results for 2005 with a 24.7% increase in net profit to HK\$56.1 million. The improved performance was a result of increases in visits from both contract and private paying clients and an overall growth in the total number of corporate clients served.

Major resources were dedicated towards renovation and upgrading some of the key medical centres, including the flagship centre at Prince's Building. The purposes of the renovation were to upgrade the facilities, enhance the operational efficiency and improve the ambience of the centres in order to deliver a better experience for clients.

At 7th April, 2006, the Company, Sun Hung Kai and Allied Group, being the ultimate holding company, jointly announced that Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, had entered into a conditional option agreement pursuant to which Wah Cheong was granted an option to acquire further 34,155,666 shares in QHA from CLSA Capital Limited ("CLSA") at an option consideration of HK\$27,752,291. Details of the transaction are set out in note 51 to the financial statements.

Yu Ming Investments Limited (“Yu Ming”)

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, recorded profit attributable to its equity holders of HK\$144.7 million (2004: HK\$39.4 million). The increase in profit was mainly as a result of share of profit from investment in Argyle Centre, which has appreciated significantly in value. However, Yu Ming’s performance was adversely affected by Oriental Cashmere Limited (“Oriental Cashmere”) and its high-yield bond portfolio.

At 31st December, 2005, Yu Ming’s major investments were in AsiaWorld-Expo, retail shops in Mongkok and Causeway Bay, CR Airways Limited, Oriental Cashmere, high-yield bonds and equity securities.

AsiaWorld-Expo, of which Yu Ming has an effective 8.1% equity interest and 40% in the management right, was officially opened in December 2005. Bookings have already been received for 2009, and revenue is exceeding original expectations.

Shanghai Allied Cement Limited (“SAC”)

SAC, a 54.77% owned listed subsidiary of Tian An, reported a loss attributable to its equity holders of HK\$35.2 million (2004: profit of HK\$10.4 million, as restated). The loss resulted from the low cement price and strong coal price throughout the year, as well as the fact that two new production lines of SAC only commenced production in 2005. SAC’s management is cautiously optimistic on the long-term prospects of the cement industry in the PRC and hopes to take advantage of the present competitive environment to review its businesses and improve its cost structure and efficiency.

FINANCIAL REVIEW

The profit attributable to the equity holders of the Company for the year was approximately HK\$935.3 million. (2004: HK\$563.0 million, as restated). The increase was mainly represented by the gain in fair value of the investment property portfolio of the Group partially reduced by the termination of release of negative goodwill and amortisation of negative goodwill from the beginning 2005. Earnings per share amounted to HK\$1.74 (2004: HK\$1.14, as restated). The effects of the changes in accounting policies are outlined in note 3 to the financial statements.

Financial Resources, Liquidity and Capital Structure

The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

At 31st December, 2005, the current ratio (current assets/current liabilities) of the Group was 1.73 times, which increased from the 1.70 times applicable at the end of the preceding year.

At 31st December, 2005, the Group's net borrowings amounted to HK\$1,408.0 million (2004: HK\$1,179.9 million), representing bank borrowings and loan notes of HK\$1,890.2 million (2004: HK\$1,779.4 million) less bank deposits, bank balances and cash of HK\$482.2 million (2004: HK\$599.5 million) and the Group had equity attributable to equity holders of the Company of HK\$7,070.5 million (2004: HK\$5,376.5 million, as restated). Accordingly, the Group's gearing ratio of net borrowings to equity attributable to equity holders of the Company was 19.9% (2004: 21.9%).

	2005	2004
	HK\$'000	HK\$'000
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	950,233	603,180
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
Loan notes repayable within five years	64,252	129,637
	1,890,248	1,779,386

Most of the bank borrowings of the Group are charged at floating interest rates.

Risk of Foreign Exchange Fluctuation

The fluctuation in exchange rates and market prices does not impose a significant risk to the Group as its level of foreign currency exposure is relatively immaterial.

Acquisitions and Disposals

During the year, Sun Hung Kai group acquired the entire interest in Hing Yip Holdings Limited and Sing Hing Investment Limited from a wholly-owned subsidiary of Tian An at a total consideration of HK\$52.3 million. These two subsidiaries are principally engaged in property investment in China and own certain office premises in the Tian An Centre in Shanghai. A portion of the office premises is occupied by Sun Hung Kai's Shanghai offices to facilitate expansion while some units not being occupied by the Sun Hung Kai group are leased out for rental income.

In March 2005, Sun Hung Kai group acquired the entire interest in Excalibur Futures Limited (“Excalibur Futures”) and Excalibur Securities Limited (“Excalibur Securities”) at a total consideration of HK\$25.9 million. Excalibur Futures is principally engaged in futures dealing and broking whereas Excalibur Securities is engaged in securities broking.

Other than the above acquisitions, there were no material acquisitions or disposals of subsidiaries, associates and jointly controlled entities during the year.

CONTINGENT LIABILITIES

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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
	<u>19,603</u>	<u>15,724</u>

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”) and Sun Hung Kai Investment Services Limited (“SHKIS”), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching 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.

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).

EMPLOYEES

The total number of staff of the Group at 31st December, 2005 was 1,662 (2004: 1,774). Total staff costs, including Directors' emoluments, amounted to HK\$224.5 million (2004: HK\$231.7 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

For the year ended 31st December, 2003

Business review

After the acquisition in January 2003 of the remaining 50% stake in SHK Finance Limited ("SHK Finance"), the entire SHK Finance operation, including its branch network and clientele, was merged with that of the UAF Holdings Group to reduce costs and improve the overall operational efficiency. Although the consumer finance market was affected by the outbreak of SARS in the first half of the year, the UAF Holdings Group's profit increased during the year due to a lower bad debt charge following the sign of bottoming out in economic activities.

As at 31st December, 2003, the UAF Holdings Group had 28 branches, with 7 located on Hong Kong Island, 13 in Kowloon and 8 in the New Territories.

Profit and loss analysis

The UAF Holdings Group recorded a profit after tax of HK\$271.6 million (2002: HK\$161.5 million), representing an increase of HK\$110.1 million or 68% over last year's profit. The increase in profit after tax was mainly attributed to the decrease in charge for bad and doubtful debts.

For the year ended 31st December, 2003, the UAF Holdings Group's revenue increased slightly by HK\$0.5 million to HK\$754.8 million, almost at par as the year 2002. The UAF Holdings Group's financing costs decreased by 80.7% or HK\$20.1 million to HK\$4.8 million mainly because the average balance of bank and other borrowings during the year was lower than that of last year.

The UAF Holdings Group's charge for bad and doubtful debts decreased by 34.9% or HK\$132.3 million to HK\$246.6 million during the year mainly due to the decrease in personal bankruptcies of the consumer loan customers and increase of bad debts recovery.

The UAF Holdings Group's operating expenses increased by 10.4% or HK\$16.4 million to HK\$173.4 million for the year when compared to last year. During the year, the UAF Holdings Group incurred restructuring cost of HK\$5.8 million to consolidate the loan business of newly acquired subsidiary, SHK Finance.

Balance sheet analysis

As at 31st December, 2003, the UAF Holdings Group's total gross loans and advances increased by 16.1% or HK\$251.8 million to HK\$1,811.4 million from HK\$1,559.6 million at the end of 2002.

The UAF Holdings Group's loans and advances which were more than 30 days' overdue, based on payment due date, amounted to 3.3% of the total loans and advances at the end of 2003 against 5.5% at the end of 2002.

Financial resources, liquidity and capital management

At 31st December, 2003, the total equity of the UAF Holdings Group amounted to HK\$1,758.9 million, representing an increase of HK\$108.3 million or approximately 6.6% from 2002. The UAF Holdings Group had cash and bank balances of approximately HK\$132.1 million as at 31st December, 2003 (2002: HK\$127.6 million). The UAF Holdings Group's bank loans and other borrowings, totalling HK\$15.0 million (2002: HK\$5.0 million) all of which was due on demand or within one year. The liquidity of the UAF Holdings Group as evidenced by the current ratio (current assets/current liabilities) was 11.2 times (2002: 19.1 times). The UAF Holdings Group's gearing ratio (the bank loans and other borrowings together with loan from immediate holding company of UAF Holdings as a % of total equity) increased to 3.6% (2002: 3.2%).

The UAF Holdings Group relied principally on its internally generated capital and bank loans to fund its business. The bank loans of the UAF Holdings Group are charged at floating rates. The principal source of internally generated capital is from retained earnings.

During 2003, the UAF Holdings Group did not incur or enter into commitments for any material capital expenditure commitment. There were also no charge over the UAF Holdings Group's assets.

Risk of foreign exchange fluctuation

The UAF Holdings Group's principal operations are transacted and recorded in Hong Kong dollars. During the year under review, the UAF Holdings Group has neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

At the balance sheet date, the UAF Holdings Group has no significant exposure to foreign exchange risk since most of the assets and liabilities of the UAF Holdings Group are denominated in Hong Kong dollars.

Employees

The total number of staff of the UAF Holdings Group at 31st December, 2003 was 360 (2002: 367). Total staff costs, including Directors' emoluments, amounted to HK\$83.7 million (2002: HK\$73.2 million). The UAF Holdings Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of risks of the UAF Holdings Group

The risks associated with the UAF Holdings Group's business and the policies on how to mitigate the risks are set out in note 6 of the Accountants' report in Appendix I.

For the year ended 31st December, 2004

Business review

The profit of the UAF Holdings Group increased substantially in 2004, with bad debt charges decreasing significantly in line with the lower number of personal bankruptcies.

The UAF Holdings Group's loan portfolio grew substantially during the year. This was due to: (a) aggressive advertising and promotional campaigns, and (b) the acquisition from a credit card operator of its credit card loan portfolio together with the related customer database, which acquisition enabled the UAF Holdings Group to substantially increase its customer base and provided opportunities for cross-selling of its products and services.

At 31st December, 2004, the UAF Holdings Group maintained 28 branches, with a number of branches being relocated to better locations during the year in order to improve overall customer traffic and operating efficiency.

Profit and loss analysis

The UAF Holdings Group recorded a profit after tax of HK\$356.4 million, representing a sharp growth of 31.2% or HK\$84.8 million when compared to HK\$271.6 million in last year. The increase in profit after tax was mainly attributed to the decrease in charges for bad and doubtful debts and the increase in revenue.

For the year ended 31st December, 2004, the UAF Holdings Group's revenue increased by 4.8% or HK\$35.9 million to HK\$790.7 million. The UAF Holdings Group's financing costs increased by 22.9% or HK\$1.1 million to HK\$5.9 million mainly due to the increase in bank and other borrowings to finance the increase in loan business.

For the year ended 31st December, 2004, the UAF Holdings Group's charges for bad and doubtful debts decreased sharply by 39.4% or HK\$97.2 million to HK\$149.4 million from HK\$246.6 million in 2003, mainly due to the decrease in personal bankruptcies of consumer loan customers, as well as the decrease in general provision for bad and doubtful debts.

The UAF Holdings Group's operating expenses increased by 19.1% or HK\$33.1 million to HK\$206.5 million for the year when compared to last year.

Balance sheet analysis

As at 31st December, 2004, the UAF Holdings Group's total gross loans and advances increased by 22% or HK\$398.3 million to HK\$2,209.7 million from HK\$1,811.4 million at the end of 2003. The growth in gross loans and advances arose mainly from the acquisition from a credit card operator of its credit card loan portfolio and the increase in loan business of the UAF Holdings Group.

The UAF Holdings Group's loans and advances which were more than 30 days' overdue, based on payment due date, to total loans and advances improved further to 2.1% at the end of 2004 as compared to 3.3% at the end of last year.

Financial resources, liquidity and capital management

At 31st December, 2004, the total equity of the UAF Holdings Group amounted to HK\$1,872.0 million (2003: HK\$1,758.9 million), representing an increase of HK\$113.1 million or approximately 6.4% from 2003. The UAF Holdings Group had cash and bank balances of approximately HK\$165.3 million as at 31st December, 2004 (2003: HK\$132.1 million). The UAF Holdings Group's bank loans and other borrowings, totalling HK\$286.0 million (2003: HK\$15.0 million) of which the portion due on demand or within one year increased to HK\$211.0 million (2003: HK\$15.0 million) and the remaining long-term portion increased to HK\$75.0 million (2003: Nil). The liquidity of the UAF Holdings Group as evidenced by the current ratio (current assets/current liabilities) was 4.4 times (2003: 11.2 times). The UAF Holdings Group's gearing ratio (the bank loans and other borrowings together with loan from immediate holding company of UAF Holdings as a % to total equity) increased to 17.4% (2003: 3.6%).

Most of the bank loans and other borrowings of the UAF Holdings Group are charged at floating interest rates.

The UAF Holdings Group relied principally on its internally generated capital, and bank loans to fund its business. The principal source of internally generated capital is from retained earnings.

During 2004, the UAF Holdings Group did not incur or enter into commitments for any material capital expenditure. There were also no charge over the UAF Holdings Group's assets.

Risk of foreign exchange fluctuation

The UAF Holdings Group's principal operations are transacted and recorded in Hong Kong dollars. During the year under review, the UAF Holdings Group has neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

At the balance sheet date, the UAF Holdings Group has no significant exposure to foreign exchange risk since most of assets and liabilities of the UAF Holdings Group are denominated in Hong Kong dollars.

Employees

The total number of staff of the UAF Holdings Group at 31st December, 2004 was 358 (2003: 360). Total staff costs, including Directors' emoluments, amounted to HK\$92.0 million (2003: HK\$83.7 million). The UAF Holdings Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of risks of the UAF Holdings Group

The risks associated with the UAF Holdings Group's business and the policies on how to mitigate the risks are set out in note 6 of the Accountants' report in Appendix I.

For the year ended 31st December, 2005

Business review

The UAF Holdings Group continued to register strong growth in both its loan book and in profitability. The UAF Holdings Group's profitability this year was the highest on record. This performance was assisted by the unemployment rate standing at 5.3% at the end of 2005 and bankruptcy petitions falling by 21% on a year-on-year basis.

The UAF Holdings Group will continue to expand its loan book and its branch network in Hong Kong if appropriate sites can be identified. Branches in Tseung Kwan O, Shek Tong Tsui, Admiralty and Central were opened in April, May, July and November 2005 respectively. At the end of 2005, the UAF Holdings Group operated 32 (2004: 28) branches throughout Hong Kong, providing a comprehensive range of personal loan products.

In September 2005, the UAF Holdings Group completed the acquisition of 74.8% of the issued share capital of The Hong Kong Building and Loan Agency Limited ("HKBLA"), a listed company in Hong Kong. The principal business activities of HKBLA comprise the provision of mortgage finance and investment holding and treasury investments. It is the intention of the UAF Holdings Group to maintain the existing business activities of HKBLA, in particular its mortgage finance business through the use of HKBLA brand name.

Profit and loss analysis

The UAF Holdings Group recorded a profit after tax of HK\$455.2 million, representing a substantial increase of HK\$98.8 million or 27.7%, when compared to HK\$356.4 million in 2004.

The increase in profit after tax for the year is mainly attributable to the decrease in bad debts charges and the increase in revenue which were partly offset by the increase in operating expenses as a result of more advertising placements and new openings in branch offices.

During the year, the UAF Holdings Group's revenue increased by 10.1% or HK\$79.6 million to HK\$870.3 million as compared to last year, mainly due to the growth in loans and advances. Financing costs increased by 267.8% or HK\$15.8 million to HK\$21.7 million mainly due to the increase in bank borrowings and successive increase in market interest rate.

During the year, the UAF Holdings Group's impairment allowances for loans and advances decreased by 47.4% or HK\$70.9 million to HK\$78.5 million (2004: HK\$149.4 million) mainly due to the write back of impairment allowances following a lower charge-off ratio in the year.

The UAF Holdings Group's operating expenses increased by 8.2% or HK\$17.1 million to HK\$223.6 million when compared to last year.

Balance sheet analysis

As at 31st December, 2005, the UAF Holdings Group's total gross loans and advances increased by 23.2% or HK\$512.9 million to HK\$2,722.6 million from HK\$2,209.7 million at the end of 2004.

The UAF Holdings Group's loans and advances which were more than 30 days' overdue, based on payment due date, to total loans and advances improved further to 1.5% at the end of 2005 as compared to 2.1% at the end of 2004.

Acquisitions

In June 2005, Island New Finance Limited ("INFL"), a subsidiary of the UAF Holdings Group, acquired 74.8% of the issued shares in HKBLA for a consideration of HK\$184.0 million. The acquisition was completed in September 2005. Pursuant to the Code on Takeovers and Mergers, the UAF Holdings Group had appointed an independent financial advisor to make a mandatory unconditional cash offer to acquire all the remaining issued shares in HKBLA. The offer was closed on 12th October, 2005 and INFL had accordingly acquired additional 39,507,750 shares in HKBLA, representing approximately 17.56% of the issued share capital of HKBLA. INFL placed 39,070,000 shares to independent third parties on 19th October, 2005 and the public float of HKBLA was restored to be above 25%. On 18th December, 2005, 1,691,895 shares in HKBLA were acquired by INFL pursuant to Section 168(1) and Part 2 of the Ninth Schedule of the Companies Ordinance. Subsequent to the balance sheet date, INFL placed 6,018,000 shares to independent third parties on 16th January, 2006 and the public float of HKBLA was restored to be above 25%.

Financial resources, liquidity and capital management

At 31st December, 2005, the total equity of the UAF Holdings Group amounted to HK\$2,075.0 million (2004: HK\$1,872.0 million), representing an increase of HK\$203.0 million or approximately 10.8% from 2004. The UAF Holdings Group had cash and bank balances of approximately HK\$248.3 million as at 31st December, 2005 (2004: HK\$165.3 million). The UAF Holdings Group's bank loans and other borrowings, totalling HK\$762.0 million (2004: HK\$286.0 million) of which the portion due on demand or within one year increased to HK\$262.0 million (2004: HK\$211.0 million) and the remaining long-term portion increased to HK\$500.0 million (2004: HK\$75.0 million). The liquidity of the UAF Holdings Group as evidenced by the current ratio (current assets/current liabilities) was 4.8 times (2004: 4.4 times). The UAF Holdings Group's gearing ratio (the bank loans and other borrowings together with loan from immediate holding company of UAF Holdings as a % of total equity) increased to 38.6% (2004: 17.4%).

Most of the bank loans and other borrowings of the UAF Holdings Group are charged at floating interest rates.

The UAF Holdings Group relied principally on its internally generated capital, and bank loans to fund its business. The principal source of internally generated capital is from retained earnings.

During 2005, the UAF Holdings Group did not incur or enter into commitments for any material capital expenditure. There were also no charge over the UAF Holdings Group's assets.

Risk of foreign exchange fluctuation

The UAF Holdings Group's principal operations are transacted and recorded in Hong Kong dollars. During the year under review, the UAF Holdings Group has neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

At the balance sheet date, the UAF Holdings Group has no significant exposure to foreign exchange risk since most of assets and liabilities of the UAF Holdings Group are denominated in Hong Kong dollars.

Employees

The total number of staff of the UAF Holdings Group at 31st December, 2005 was 389 (2004: 358). Total staff costs, including Directors' emoluments, amounted to HK\$101.5 million (2004: HK\$92.0 million). The UAF Holdings Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of risks of the UAF Holdings Group

The risks associated with the UAF Holdings Group's business and the policies on how to mitigate the risks are set out in note 6 of the Accountants' report in Appendix I.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**UNAUDITED PRO FORMA COMBINED BALANCE SHEET, INCOME STATEMENT AND CASH FLOW STATEMENT OF THE ENLARGED GROUP**

The accompanying unaudited pro forma combined balance sheet, income statement and cash flow statement (“Unaudited Pro Forma Financial Information”) of the Enlarged Group have been prepared to illustrate the effect of the placing of 248,000,000 SHK Shares and the subscription of 248,000,000 new SHK Shares at HK\$7 each (“Top up Placing”) as set out in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006 and the conditional acquisition of the entire issued share capital of UAF Holdings Limited (“UAFH”) shares by Swans Islands Limited, a wholly-owned subsidiary of SHK from AG Capital Holding Limited (“AGCHL”), a wholly-owned subsidiary of Allied Group Limited (“AGL”) (“Acquisition”) for an aggregated consideration of HK\$4,328,000,000, comprising of approximately HK\$4,288,000,000 for the sale of the shares of UAFH and the assignment of the amount to AGCHL by UAFH of approximately HK\$40,000,000. The consideration will be settled by:

- cash of HK\$1,528,000,000, and
- 3-year secured bonds of HK\$2,800,000,000 with a simple interest rate of HIBOR+1% per annum, payable half-yearly in arrears from the date of issue.

Introduction to pro forma combined balance sheet

The unaudited pro forma combined balance sheet of the Enlarged Group has been prepared to illustrate the effect of the Top up Placing and the Acquisition.

The unaudited pro forma combined balance sheet 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 Top up Placing and the Acquisition as if they took place on 31st December, 2005.

The unaudited pro forma combined balance sheet of the Enlarged Group is based on the audited consolidated balance sheet as at 31st December, 2005 of the Group and the UAFH and its subsidiaries (“UAFH Group”) after making pro forma adjustments relating to the Top up Placing and the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable.

The unaudited pro forma combined balance sheet is based on a number of assumptions. Accordingly, the accompanying unaudited pro forma combined balance sheet of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Top up Placing and Acquisition been completed on 31st December, 2005. The unaudited pro forma combined balance sheet of the Enlarged Group does not purport to predict the future position of the Enlarged Group.

The unaudited pro forma combined balance sheet has been prepared by the Directors for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group following completion of the Top up Placing and the Acquisition.

Pro forma combined balance sheet of the Enlarged Group

	The Group as at 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Top up Placing HK\$'000	Notes	Pro forma Group after the Top up Placing HK\$'000	The UAFH Group as at 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Acquisition HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Non-current assets								
Investment properties	2,784,100	-		2,784,100	-	-		2,784,100
Property, plant and equipment	209,419	-		209,419	10,199	-		219,618
Prepaid land lease payments	287,367	-		287,367	-	-		287,367
Goodwill	-	-		-	27,633	3,309,132	(e)	3,336,765
Intangible assets	22,586	-		22,586	-	-		22,586
Interests in associates	2,710,057	-		2,710,057	-	-		2,710,057
Interests in jointly controlled entities	866,394	-		866,394	-	-		866,394
Available-for-sale financial assets	993,139	-		993,139	2	(399,900)	(d)	593,241
Statutory deposits	32,831	-		32,831	-	-		32,831
Loans and receivables	202,306	-		202,306	1,055,691	-		1,257,997
Deferred tax assets	4,143	-		4,143	36,193	-		40,336
	<u>8,112,342</u>	<u>-</u>		<u>8,112,342</u>	<u>1,129,718</u>	<u>2,909,232</u>		<u>12,151,292</u>
Current assets								
Properties held for sale and other inventories	520,950	-		520,950	-	-		520,950
Financial assets at fair value through profit or loss	179,204	-		179,204	41,495	-		220,699
Prepaid land lease payments	4,420	-		4,420	-	-		4,420
Accounts receivable, deposits and prepayments	2,612,044	-		2,612,044	1,531,512	-		4,143,556
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	1,685,632	(a)	2,166,828	248,285	(1,528,000)	(c)	887,113
	<u>3,812,171</u>	<u>1,685,632</u>		<u>5,497,803</u>	<u>1,821,292</u>	<u>(1,528,000)</u>		<u>5,791,095</u>

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP

	The Group as at 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Top up Placing HK\$'000	Notes	Pro forma Group after the Top up Placing HK\$'000	The UAFH Group as at 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Acquisition HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Current liabilities								
Accounts payable and accrued charges	1,031,946	-		1,031,946	43,734	-		1,075,680
Financial liabilities at fair value through profit or loss	17,756	-		17,756	-	-		17,756
Amount due to AGL	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
Amount due to a subsidiary of AGL	-	-		-	39,586	(39,591)	(c)	(5)
Tax payable	13,489	-		13,489	30,724	-		44,213
Bank borrowings due within one year	950,233	-		950,233	262,000	-		1,212,233
Other liabilities due within one year	33,366	-		33,366	-	-		33,366
	<u>2,198,864</u>	<u>-</u>		<u>2,198,864</u>	<u>376,044</u>	<u>(39,591)</u>		<u>2,535,317</u>
Net current assets	<u>1,613,307</u>	<u>1,685,632</u>		<u>3,298,939</u>	<u>1,445,248</u>	<u>(1,488,409)</u>		<u>3,255,778</u>
	<u>9,725,649</u>	<u>1,685,632</u>		<u>11,411,281</u>	<u>2,574,966</u>	<u>1,420,823</u>		<u>15,407,070</u>
Capital and reserves								
Share capital	1,074,303	-		1,074,303	-	-		1,074,303
Reserves	5,996,232	327,758	(b)	6,323,990	1,033,686	(1,156,028)	(f)	6,201,648
Equity attributable to equity holders of the Company	7,070,535	327,758		7,398,293	1,033,686	(1,156,028)		7,275,951
Minority interests	1,481,741	1,357,874	(d)	2,839,615	1,041,280	(223,149)	(g)	3,657,746
Total equity	<u>8,552,276</u>	<u>1,685,632</u>		<u>10,237,908</u>	<u>2,074,966</u>	<u>(1,379,177)</u>		<u>10,933,697</u>
Non-current liabilities								
Bank borrowings due after one year	875,763	-		875,763	500,000	-		1,375,763
3-year bonds	-	-		-	-	2,800,000	(c)	2,800,000
Loan notes	64,252	-		64,252	-	-		64,252
Deferred tax liabilities	230,615	-		230,615	-	-		230,615
Other liabilities due after one year	2,743	-		2,743	-	-		2,743
	<u>1,173,373</u>	<u>-</u>		<u>1,173,373</u>	<u>500,000</u>	<u>2,800,000</u>		<u>4,473,373</u>
	<u>9,725,649</u>	<u>1,685,632</u>		<u>11,411,281</u>	<u>2,574,966</u>	<u>1,420,823</u>		<u>15,407,070</u>

Notes:

The Unaudited Pro Forma Financial Information has been prepared in accordance with the Group's accounting policies as set out in the annual report of the Group for the year ended 31st December, 2005 and on the basis of the assumptions and adjustments set out below.

The adjustments reflect the following:

- (a) Issue of 248,000,000 new SHK shares at HK\$7 each and the receipt of HK\$1,685,632 net of cost of issue in cash.
- (b) Gain on deemed disposal of 12.44% interest in SHK and increase in minority interests after the Top up Placing.
- (c) Being an aggregated consideration of HK\$4,328,000,000, comprising HK\$4,288,409,000 for the sale of shares of UAFH and the assignment of the amount owed to AG Capital Holding Limited by UAFH of approximately of HK\$39,591,000. The net consideration will be settled by:
 - cash of HK\$1,528,000,000, and
 - 3-year secured bonds of HK\$2,800,000,000 with a simple interest rate at HIBOR+1% per annum, payable half-year in arrears from the date of issue.
- (d) Reversal of the carrying amount of HK\$399,900,000 of United Asia Finance Limited ("UAF"), a direct non wholly-owned subsidiary of UAFH held by the Group as available-for-sale financial assets.
- (e) Goodwill arising from the difference between the consideration stated in Note (c) amounting to HK\$4,288,409,000 and the net asset value (reduced by the goodwill of HK\$27,633,000) amounting to HK\$1,006,053,000 of the UAFH Group as at 31st December, 2005 as if the fair value of identifiable net asset of the UAFH Group equals to its carrying amount; and (ii) the goodwill of HK\$54,409,000 which was arising from the acquisition of the 7.27% UAF shares which is recorded as available-for-sale financial assets in the consolidated financial statements of the Group.
- (f) Reversal of the pre-acquisition reserves of the UAFH Group, and netting off with the change in fair value of UAF as available-for-sale financial assets and the recognition of the post acquisition reserves after the acquisition of the 7.27% UAF shares.
- (g) Reversal of the 7.27% of minority interests in UAF held by SHK, and shared by 37.45% minority interests of the Group thereon.

Introduction to pro forma combined income statement and cash flow statement

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group have been prepared to illustrate the effect of the Top up Placing and the Acquisition.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group have been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Top up Placing and the Acquisition as if they took place at the beginning of the year ended 31st December, 2005.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group are based on the audited consolidated income statements and cash flow statements of the Group and UAFH Group for the year ended 31st December, 2005 after making pro forma adjustments relating to the Top up Placing and the Acquisition that are (i) directly attributable to the transactions; and (ii) factually supportable.

The unaudited pro forma combined income statement and cash flow statement are based on a number of assumptions. Accordingly, the accompanying unaudited pro forma combined income statement and cash flow statement of the Enlarged Group does not purport to describe the results and cash flow of the Enlarged Group that would have been attained had the Top up Placing and Acquisition been completed at the beginning of the year ended 31st December, 2005. The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group do not purport to predict the future results and cash flow of the Enlarged Group.

The unaudited pro forma combined income statement and cash flow statement have been prepared by the Directors for illustrative purposes only and because of their nature, they may not give a true picture of the results and cash flow of the Enlarged Group had the Top up Placing and the Acquisition actually occurred at the beginning of the year ended 31st December, 2005 or for any future period.

Pro forma combined income statement of the Enlarged Group

	The Group for the year ended 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Top up Placing HK\$'000	Note	Pro forma Group after the Top up Placing HK\$'000	The UAFH Group for the year ended 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Acquisition HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Revenue	1,144,153	-		1,144,153	870,275	(21,810)	(c)	1,992,618
Other income	95,029	433,453	(a)	528,482	6,508	-		534,990
Total income	1,239,182	433,453		1,672,635	876,783	(21,810)		2,527,608
Cost of sales	(219,524)	-		(219,524)	-	-		(219,524)
Brokerage and commission expenses	(141,463)	-		(141,463)	-	-		(141,463)
Selling and marketing expenses	(5,491)	-		(5,491)	-	-		(5,491)
Administrative expenses	(363,062)	-		(363,062)	-	-		(363,062)
Changes in value of properties	608,686	-		608,686	-	-		608,686
Bad and doubtful debts provided	(12,042)	-		(12,042)	(78,531)	-		(90,573)
Other operating expenses	(149,446)	-		(149,446)	(225,014)	-		(374,460)
Finance costs	(96,778)	-		(96,778)	(21,733)	(162,103)	(d)	(280,614)
Share of results of associate	150,388	-		150,388	-	-		150,388
Share of results of jointly controlled entities	105,298	-		105,298	-	-		105,298
Profit before taxation	1,115,748	433,453		1,549,201	551,505	(183,913)		1,916,793
Taxation	(79,306)	-		(79,306)	(96,305)	-		(175,611)
	<u>1,036,442</u>	<u>433,453</u>		<u>1,469,895</u>	<u>455,200</u>	<u>(183,913)</u>		<u>1,741,182</u>
Profit attributable to:								
Equity holders of the Company	935,342	384,020		1,319,362	231,307	(181,001)	(f)	1,369,668
Minority interests	101,100	49,433	(b)	150,533	223,893	(2,912)	(e)	371,514
	<u>1,036,442</u>	<u>433,453</u>		<u>1,469,895</u>	<u>455,200</u>	<u>(183,913)</u>		<u>1,741,182</u>

Notes:

- (a) Being gain on deemed disposal of 12.44% of SHK on Top up Placing.
- (b) Dilution effect on the results of SHK for the year ended 31st December, 2005 attributable to the Group upon deemed disposal of 12.44% of SHK on Top up Placing.
- (c) Reversal of dividend received from UAF during the year for the 7.27% interest held by the Group.
- (d) Being the interest expense of the 3-year bonds issued for financing the Acquisition at 6-month HIBOR of 4.79% plus 1%.
- (e) Reversal of profit attributable to 7.27% in UAF held by SHK group and shared by 37.45% minority interests of the Group.
- (f) Being the net effect of Notes (c), (d) and (e).

Pro forma combined cash flow statement of the Enlarged Group

	The Group for the year ended 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Top up Placing HK\$'000	Note	Pro forma Group after the Top up Placing HK\$'000	The UAFH Group for the year ended 31st December, 2005 HK\$'000	Pro forma adjustments relating to the Acquisition HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Net cash (used in) generated from operating activities	(232,994)	-		(232,994)	(62,186)	-		(295,180)
Net cash from (used in) investing activities	54,470	-		54,470	(30,923)	(1,384,529)	(b)	(1,360,982)
Net cash from (used in) financing activities	36,409	1,685,632	(a)	1,722,041	176,113	12,372	(c)	1,910,526
Net (decrease) increase in cash and cash equivalents	(142,115)	1,685,632		1,543,517	83,004	(1,372,157)		254,364
Effect of foreign exchange rate changes	(78)	-		(78)	-	-		(78)
Cash and cash equivalents at the beginning of the year	540,349	-		540,349	165,281	(165,281)	(b)	540,349
Cash and cash equivalents at the end of the year	<u>398,156</u>	<u>1,685,632</u>		<u>2,083,788</u>	<u>248,285</u>	<u>(1,537,438)</u>		<u>794,635</u>
Cash and cash equivalents at 31st December, 2005 represented by								
Bank deposits, bank balances and cash	481,196	1,685,632		2,166,828	248,285	(1,537,438)		877,675
Bank overdrafts	(83,040)	-		(83,040)	-	-		(83,040)
	<u>398,156</u>	<u>1,685,632</u>		<u>2,083,788</u>	<u>248,285</u>	<u>(1,537,438)</u>		<u>794,635</u>

Notes:

- (a) Being net cash received from the Top up Placing.
- (b) Reversal of HK\$21,810,000 dividend received from UAF as available-for-sale financial assets held by the Group, net cash outflow of HK\$1,362,719,000 after netting the cash and cash equivalents of HK\$165,281,000 acquired from the UAFH Group in the Acquisition.
- (c) Net effect of the reversal of HK\$174,475,000 dividend paid relating to the 58.18% shares held by the Group after the Acquisition and the interest payment for the 3-year bonds of HK\$162,103,000.

2. REPORT FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

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") and UAF Holdings Limited and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group").

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group set out in Appendix V on pages 185 to 194 of the circular dated 30 June 2006 (the "Circular") under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" in connection with the conditional sale and purchase of the entire issued share capital of UAF Holdings Limited (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the Directors 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 185 to 194 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 purposes 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 purpose 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 the future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2005 or any future date, or;
- the results and cash flows of the Enlarged Group for the year ended 31 December 2005 or any future period.

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

30 June 2006



Room 3830-32, Sun Kung Kai Centre
30 Harbour Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

30 June 2006

The Board of Directors
Allied Group Limited
22nd Floor, Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

The Board of Directors
Sun Hung Kai & Co. Limited
Level 12
One Pacific Place
88 Queensway
Hong Kong

Dear Sirs,

Re: The 100% equity interest in the business enterprise of United Asia Finance Group

In accordance with your instructions for us to carry out an appraisal of the market value of the 100% equity interest in the business enterprise of United Asia Finance Limited and its subsidiaries (hereinafter together referred to as the "UAF Group"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the UAF Group as at 30 April 2006 (hereinafter referred to as the "Date of Appraisal").

This report states the purpose of appraisal and scope of our works, identifies the business appraised, describes the basis and methodology of our appraisal, investigation and analysis, assumptions and limiting conditions, and presents our opinion of value.

1.0 PURPOSE OF APPRAISAL

This report is being prepared solely for the use of the directors and management of Allied Group Limited and Sun Hung Kai & Co. Limited (hereinafter referred to as the "Companies") and for the purpose of evaluating the proposed sale and purchase of the 50.91% issued shares of the UAF Group. In addition, Norton Appraisals Limited ("Norton Appraisals") acknowledge that this report may be made available to the independent financial advisors of the Companies and used by such advisors as one of the sources of information for formulating its advice to the independent directors and shareholders of the Companies, and, if requested, regulators (Stock Exchange).

Norton Appraisals assumes no responsibility whatsoever to any person other than the directors and management of the Companies in respect of, or arising out of, the contents of this report. If others choose to rely in any way on the contents of this report they do so entirely on their own risk.

2.0 SCOPE OF WORK

Our appraisal conclusions are based on the assumptions stated herein and on information provided by the management of the UAF Group or its representative (hereinafter referred to as the “Management”).

In preparing this report, we have had discussions with the Management and the Companies in relation to the development and prospects of the financial services industry in Hong Kong, and the development, operations and other relevant information of the UAF Group. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the UAF Group provided to us by the Management and the Companies and have considered such information and data as attainable and reasonable.

We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

We do not express an opinion as to whether the actual results of the business operation of the UAF Group will approximate those projected because assumptions regarding future events by their nature are not capable of independent substantiation.

In applying these projections to the appraisal of the market value of the UAF Group, we are making no representation that the business expansion will be successful, or that market growth and penetration will be realized.

3.0 MARKET OVERVIEW OF FINANCIAL SERVICES INDUSTRY

3.1 Financial Services Industry

The Financial Services Industry is composed of three primary sectors: banking, securities and commodities, and insurance. The banking sector as discussed in 3.3 is regulated by the Banking Ordinance and the non-authorized institutions are mainly money lenders licensed under the Money Lenders Ordinance.

Among other business, the unsecured loan market of banking sector is undergoing a strong growth period. At the end of 2005, the market size of unsecured loan is HK\$90 billion which account for approximately 12% of the loan market. The unsecured loan market comprised of HK\$40 billion in personal loan market, HK\$30 billion in credit card rollover and an estimated HK\$10 billion in unreported amount. Details of which will be discussed below.

3.2 Consumer Finance Market

The consumer finance market is a collective term referring to personal finance extended to consumers in the form of:

- Unsecured personal loan, with or without a specified purpose;

- Secured finance, such as property, motor vehicle, securities, etc; and
- Credit card and related card business.

The Hong Kong economy has changed substantially after 1997, which led to a change in the equilibrium of banking business. Most banks are shifting their focus from commercial property development financing and personal mortgage business to more comprehensive business coverage. This inevitably extends to a long neglected market, the consumer finance market, which provides a new source of revenue, a higher margin and sustained growth.

3.3 Market Competitors

Hong Kong maintains a three-tier banking system. These three-tier institutions are, namely, licensed banks, restricted license banks and deposit-taking companies. They are collectively known as authorized institutions (AI's) under the Banking Ordinance. The Hong Kong Monetary Authority (HKMA) is the licensing authority for all three types of AI's. As at December 2004, there were 133 licensed banks, 40 restricted license banks and 35 deposit-taking companies. Other than AI's, anyone wishing to carry on business as a Money Lender must apply to a licensing court for a license under the Money Lenders Ordinance. The Ordinance does not apply to AI's under the Banking Ordinance.

3.3.1 Direct Competitors

At the end of 2004, there were 748 licensed Money Lenders. Most of them are carrying a smaller scale business or associated with securities sector. While the UAF Group is one of the leading players in the market, it has a number of direct competitors include: Aeon Credit, GE Capital, Promise, Prime Credit, and Public Financial (formerly known as JCG).

3.3.2 Indirect Competitors

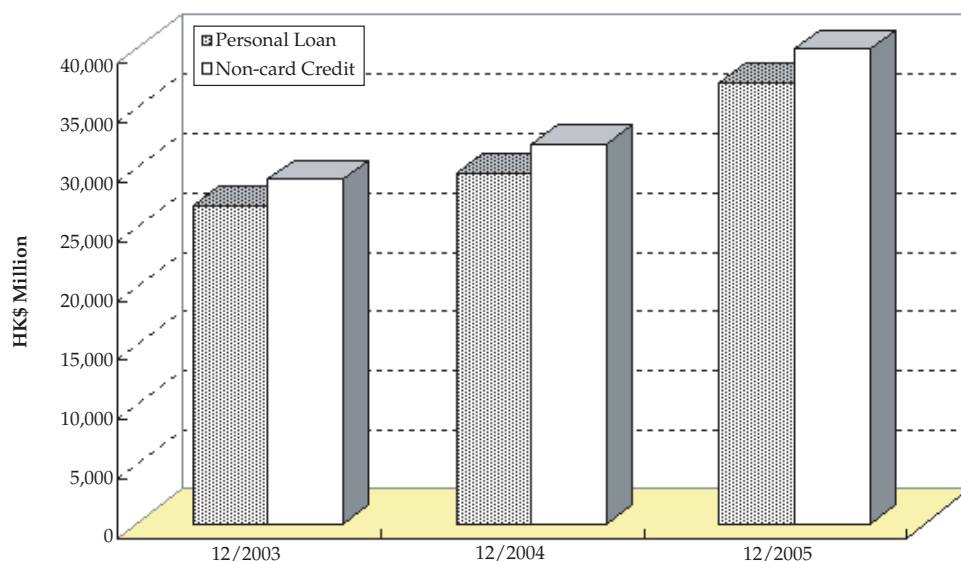
Most AI's can offer a more comprehensive product portfolio to their customers. They will even charge a more competitive rate than any Money Lender. However, the source of customers for these AI's is very different from those of Money Lenders.

These AI's mainly compete with UAF on the personal loan market while these institutions may compete with direct competitors of UAF on other fronts, such as, credit card business.

3.4 Market Findings

After the introduction of sharing positive consumer credit data, there emerged a significant market of low interest rate products to attract borrowers to consolidate their credit card outstanding amounts. From the statistics provided by TransUnion (as cited in the Hong Kong Monetary Authority Quarterly Bulletin, March 2006), the market share of non-bank financial institutions in these products increased from 25% in December 2003 to 30% in December 2005.

The non-card credit market expanded quickly and the aggregate amount increased by 38% from HK\$29 billion to HK\$40 billion from December 2003 to December 2005.



4.0 THE UAF GROUP

4.1 Brief History

United Asia Finance Limited (“UAF”) was incorporated on 29 January 1991 and licensed under the Hong Kong Money Lender Ordinance (Chapter 163) as a licensed Money Lender in Hong Kong.

UAF became a subsidiary of Allied Group Limited (“AGL”) after being acquired by a Joint Venture Company held by Allied Group Limited and Mr. Akihiro Nagahara in August 1993.

4.2 Shareholding and Corporation Structures

UAF Holdings (subsidiary of AG Capital)	50.91%
Swan Islands (subsidiary of Sun Hung Kai & Co. Ltd.)	7.27%
Four other shareholders	41.82%
	100.00%

4.3 Scope of Business

The UAF Group is a market leader in the consumer finance market. It operates a strong branch network (32 branches at the end of 2005) throughout Hong Kong with 389 staff and will continue to expand its network. It also extends its service through the internet in recent years.

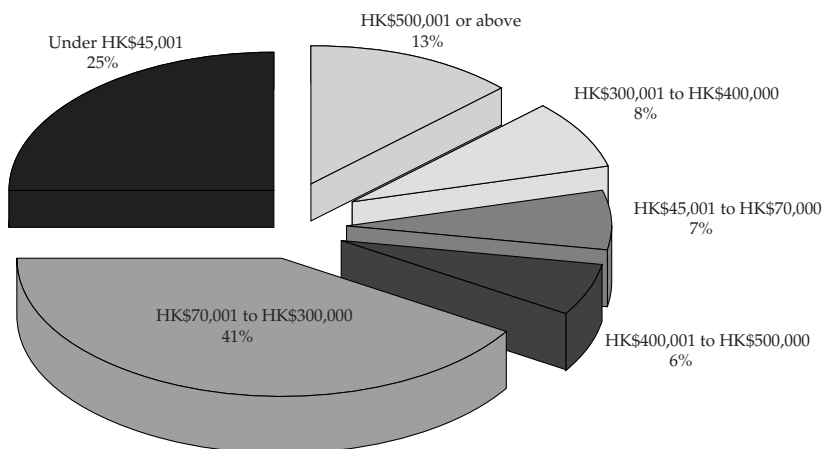
The UAF Group is innovative and addresses various financial needs of customers with a comprehensive range of personal loan products. Its product portfolio includes, unsecured personal installment loan, revolving loan, mortgage loan. While its present business is wholly Hong Kong based, it has also begun to explore new opportunities for expansion in Hong Kong and the PRC with initial focus in Shanghai and Shenzhen.

4.4 Operation of Business

The UAF Group has a strong client base with its existing market share of the consumer finance market, excluding card business, standing at 7.3%.

The UAF Group extends all size of loans to different customers to suit their specific needs. The following chart provides an analysis of percentage of business in term of original loan size extended to customers as of 31/12/2005.

Majority of its customers require a loan under HK\$300,000 and about 26.3% of them draw a loan above HK\$300,000.



Among these borrowers, around 83% of them came from private sector and the rest are civil servants, expatriates and overseas workers.



4.5 Competitive Advantage of the UAF Group

The UAF Group has 15 years presence in the consumer finance market and has its specialty in providing small amount personal loan promptly. Most of their staff has between 10 to 20 years experience in the industry. It has built its reputation of personalized service over the years and in particular dealing with its major categories of customers.

The marketing team of the UAF Group stays close to the market. This helps the team feel the latest beat of the market and know the market sentiments. The UAF Group can also respond to customer needs and offer loans under flexible terms with immediate approval if necessary.

Smaller loan size means that bad debt risk is spreading more evenly and helps minimize substantial write-offs if the borrower fails to repay. Although the risk exposure is low to the UAF Group, it maintains a prudent bad debt policy with provisions for impairment maintained at a level equals to 6.4% of outstanding loan balance, and an annual write-off at 4.7% on the outstanding loan balance at year end.

A sound risk management practice adheres to the latest industry standards also helps the UAF Group to prosper with bigger share of the market and increase its profitability over the last 4 years.

4.6 Source of Funding

The UAF Group has a strong internal financial resource and its loan book is mainly funded by such resource.

Where external funding is concerned, the UAF Group maintains good business relationship with Fubon Bank, Standard Chartered Bank, and Mizuho Corporate Bank as leading arranger for syndication loans.

The cost of funding is HIBOR linked and on the average HIBOR plus 100 basis points.

When the UAF Group continues to expand its loan book, more borrowings will be necessary to support such growth and the Management believes this can be arranged at similar terms.

4.7 Source of Revenue

The UAF Group is a licensed Money Lender with its business focuses on consumer finance. In 2005, the UAF Group generated 86.49% of its income from personal installment loan (approximate 40%) and revolving loan (approximate 60%) products, 12.75% from mortgage loan, and the remaining earned from other sources, including income contributed by subsidiaries.

<i>(in HK\$'000)</i>	2003	2004	2005	2006
Net Income from Money Lending	750,018	784,756	848,542	966,092
Other Operating Income	3,312	5,298	6,508	89,640
Total Operating Income	<u>753,330</u>	<u>790,054</u>	<u>855,050</u>	<u>1,055,732</u>

(Source: Audited financial statements for 2003 to 2005 and 4 months actual plus projections for 2006)

4.8 Actual Performance of the UAF Group Year 2003 – 2005

<i>(in HK\$'000)</i>	2003	2004	2005	2006
Total Operating Income	753,330	790,054	855,050	1,055,732
Operating Expenses	425,483	355,862	303,540	429,423
Profit Before Taxation	327,847	434,192	551,510	626,309
Taxation	56,211	77,775	96,305	108,902
Profit After Taxation	271,636	356,417	455,205	517,407
Minority Interests	–	–	843	1,700
Profit Attributable to Shareholders	<u>271,636</u>	<u>356,417</u>	<u>454,362</u>	<u>515,707</u>
Return on Equity	15.04%	18.64%	22.04%	21.53%
Income Growth over Last Year	3.19%	4.87%	8.23%	23.47%
Profit Growth over Last Year	68.24%	31.21%	27.72%	13.66%

(Source: Audited financial statements for 2003 to 2005 and 4 months actual plus projections for 2006)

4.9 Projections

The projected revenues of the UAF Group, according to the Management, for the financial years ending 31 December 2007, 2008, 2009, 2010 are as follows:

<i>(in HK\$'000)</i>	2007	2008	2009	2010
Total Operating Income	1,263,201	1,444,964	1,634,418	1,826,338
Operating Expenses	<u>472,931</u>	<u>517,078</u>	<u>565,387</u>	<u>610,320</u>
Profit Before Taxation	790,270	927,886	1,069,031	1,216,018
Taxation	<u>138,299</u>	<u>162,381</u>	<u>187,080</u>	<u>212,803</u>
Profit After Taxation	651,971	765,505	881,951	1,003,215
Minority Interests	<u>1,700</u>	<u>1,700</u>	<u>1,700</u>	<u>1,700</u>
Profit Attributable to Shareholders	<u><u>650,271</u></u>	<u><u>763,805</u></u>	<u><u>880,251</u></u>	<u><u>1,001,515</u></u>
Return on Equity	22.90%	22.85%	22.47%	21.93%
Income Growth over Last Year	19.65%	14.39%	13.11%	11.74%
Profit Growth over Last Year	26.01%	17.41%	15.21%	13.75%

(Source: Projections made and supplied by the Management of the UAF Group)

5.0 MAJOR RISK FACTORS

5.1 Cost of Financing

The UAF Group does not rely heavily on external financing currently, however, if the loan book continues to grow, it may have to increase the size of external financing in the future. Since its cost of financing is HIBOR based, it may be reasonably expected that its cost may still subject to the anticipated increase in interest rate in the second half of 2006 and all external factors that will affect the local interest rate development. Despite the uncertainty involved, the market expectation that the interest rate may approach its highest level in 2006 and a general downward trend will emerge.

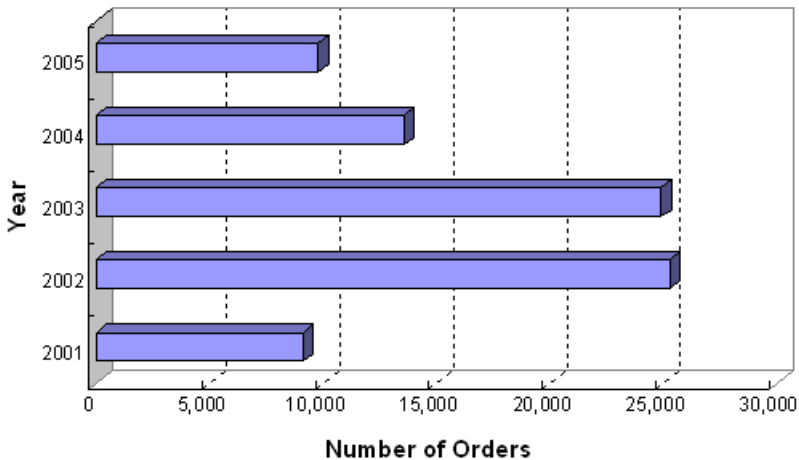
5.2 Unemployment Rate

While a higher unemployment rate may lead to higher risk of bad debt, it is possible that underemployment may induce more needs of personal loan for family to overcome the situation. Since 2005, the unemployment rate fall in the range between 5% to 6%, and the underemployment rate is within the range from 2% to 3%.

5.3 Numbers of Bankruptcy

Hong Kong has gone through a tough time since the Asian financial turmoil and is gradually recovering in the last couple years. The same has been evidenced by the increase in numbers of receiving/bankruptcy orders made in the bad time and a reduction of the same magnitude in the recovery period (*Source: Official Receiver's Office, The Hong Kong S.A.R. Government*).

Number of Receiving/Bankruptcy Orders Made



6.0 DEFINITION OF APPRAISAL

“Market Value” as used herein is defined as the estimated amount at which the business might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, and at arm’s length.

7.0 INVESTIGATION AND ANALYSIS

Our investigation included discussions with members of the management of the UAF Group in relation to the development and prospects of the financial services industry in Hong Kong, and the development, operations and other relevant information of the UAF Group. In addition, we have made relevant inquiries and obtained such further information/statistical figures regarding the financial services industry from external public sources as we consider necessary for the purpose of this appraisal. As part of our analysis, we have reviewed such financial information and other pertinent data concerning the UAF Group provided to us by the Management and the Companies and have considered such information and data as attainable and reasonable. We have also consulted other sources of financial and business information.

The appraisal of an interest in the UAF Group requires consideration of all pertinent factors, which affect the operation of the business and its ability to generate future investment returns. The factors considered in this appraisal include, but not limited to, the following:

- The nature and prospect of the UAF Group and its businesses in financial services industry.
- The financial condition of the UAF Group.
- The economic outlook in general and the specific economic environment and market elements affecting the business, industry and market of financial services.
- Licences and agreements.
- The projected business development schedule and future economic income stream of the business based on the assumptions made in the business plan.
- The business risk of the UAF Group such as the ability in maintaining competent technical and professional personnel.
- Investment returns and market transactions of entities engaged in similar lines of business.

8.0 GENERAL APPRAISAL APPROACHES

There are three generally accepted approaches to obtain the market value of the UAF Group, namely, the Market-Based Approach, the Asset-Based Approach and the Income-Based Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted in valuing business entities that is similar in nature.

8.1 Market-Based Approach

It values a business entity by comparison of the prices at which other similar business nature companies or interests changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to pay for an equally desirable alternative. By adopting this approach, the valuer will first look for valuation indication from the prices of other similar companies or equity interests in companies that were sold recently.

The right transactions employed in analyzing for indications of value need to be sold at an arm's length basis, assuming that the buyers and sellers are well informed and have no special motivations or compulsions to buy or to sell.

The derived multiples (most commonly used are: price to earnings, price to revenues and price to book multiple) based on analyses of those transactions are then to be applied to the fundamental financial variables of the subject business entity and to arrive at an indicated value of it.

8.2 Asset-Based Approach

The Asset-Based Approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets.

The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital (equity and long-term debt). In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity (equity) and investors who lend money to the business entity (debt). After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

From a valuation perspective, the valuer will restate the values of all types of assets of a business entity from book value, i.e. historical cost minus depreciation to appropriate standards of value. After the restatement, the valuer can identify the indicated value of the business entity, or, by applying the accounting principle “assets minus liabilities”, arrive at the value of the equity interests of the business entity.

8.3 Income-Based Approach

The Income-Based Approach focuses on the economic benefits generated by the income-producing capability of a business entity. The underlying theory of this approach is that the value of a business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits. Alternatively, this can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

9.0 APPRAISALS APPROACHES FOR THE UAF GROUP

In the process of valuing the UAF Group, we considered that the Asset-Based Approach is not appropriate to arrive at the market value of the UAF Group in the financial services industry based on the fact that its value is not solely determined by its tangible assets but determined by its uniqueness of running the business, we have therefore considered the adopting of both the two classical valuation approaches to value, namely the **Market-Based Approach** and the **Income-Based Approach**, and arrive at the Market Value of the UAF Group.

9.1 Market-Based Approach

9.1.1 Comparable Companies Analysis

Comparable companies analysis is one of the Market-Based Approach methodologies, which requires certain degree of subjectivity. Validity of valuation is largely depending on the availability of direct comparables and data. Market value can only be established on the grounds of disclosed financials of comparable companies and may be subject to bias introduced by the choice of different accounting policies.

To assess the market value of the UAF Group, reference could be made to other listed consumer finance companies and AI's serving the money lending market in Hong Kong.

APPENDIX VI BUSINESS VALUATION REPORT ON THE UAF GROUP

Appended is a summary of these companies. These data will also be used in 9.1.3 and discussed further.

Name	Market	Market	Price as % of		Price to:		RONA	Dividend Yield	Beta vs HSI
	Price 08/06/06	Cap (HK\$Mn)	52-wks High	52-wks Low	EPS FY05A	BVPS FY05A	FY05A		
Consumer Finance									
Public Financial Holdings Ltd, excl. ACB ^(b)	7.70 ^(a)	5,615	86%	124%	12.58	2.35	18.6%	9.7%	N/A
Public Financial Holdings Ltd, incl. ACB ^(b)	5.85	6,399	69%	101%	12.01	1.27	10.5%	12.8%	0.309
Aeon Credit Service (Asia) Co. Ltd	6.40	2,680	91%	134%	14.40	1.93	13.4%	2.8%	0.439
Authorized Institutions (AI's) based in Hong Kong									
HSBC Holdings PLC	134.00	1,538,023	94%	112%	13.07	2.13	16.3%	4.2%	0.794
Standard Chartered PLC	187.50	247,529	87%	132%	16.31	2.67	16.4%	2.7%	0.941
Hang Seng Bank Ltd.	96.05	183,632	89%	102%	16.19	4.31	26.6%	5.4%	0.620
BOC Hong Kong (Holdings) Ltd.	14.85	157,006	88%	105%	11.64	1.98	17.0%	5.4%	0.932
Bank of East Asia, Ltd.	30.55	46,957	91%	137%	17.08	1.94	11.4%	4.1%	0.792
Wing Hang Bank, Ltd.	69.90	20,556	90%	138%	15.24	2.47	16.2%	3.3%	0.795
Wing Lung Bank Ltd.	69.20	16,068	91%	128%	14.49	1.59	10.9%	3.9%	0.637
Dah Sing Banking Group Ltd.	13.80	12,854	85%	110%	13.13	1.49	11.3%	4.4%	0.854
CITIC International Financial Holdings Ltd.	4.43	14,166	89%	159%	12.84	1.50	11.7%	3.9%	0.689
Liu Chong Hing Bank Ltd.	15.95	6,938	86%	141%	17.43	1.19	6.8%	3.8%	0.703
Fubon Bank (Hong Kong) Ltd.	2.88	3,370	87%	114%	13.96	0.90	6.4%	5.9%	0.899

(a) Market price as of 14/02/2006

(b) ACB means Asia Commercial Bank

Max	94%	159%	17.43	4.31	26.6%	12.8%	0.94
Average	87%	124%	14.31	1.98	13.8%	5.2%	0.72
Median	88%	126%	14.18	1.93	12.5%	4.2%	0.79
Min	69%	101%	11.64	0.90	6.4%	2.7%	0.31

(Source: The Hong Kong Exchange, disclosures made by respective companies, and www.bloomberg.com)

9.1.2 Precedent Transactions Analysis

Another method under Market-Based Approach is to analyze similar transactions recently concluded, and determine an applicable price multiple to arrive at a market value. We have searched the disclosure database of the Hong Kong Exchange and referred to other public sources, and obtained the following completed transactions in the last three years.

These transactions are listed as follows:

Completion	Target Name	% of Share Acquired	Consideration (HK\$'Mn)	Price/LTM Earnings	Price to Book Value
27/08/2004	Advantage Limited	100%	980	41.9x	1.98x
31/12/2004	Niaga Finance	100%	148	N/A	0.94x
30/09/2005	Pacific Finance	100%	936	13.8x	1.76x
30/05/2006	Asia Commercial Bank	100%	4,500	47.4x	2.48x

(Source: The Hong Kong Exchange and disclosures made by respective companies)

9.1.3 Regression Analysis

Prospective valuation methods are forward looking and establish company value by referring to latest forecast with reference made to key ratios achieved over a longer period of time. To establish the market value of the UAF Group, we have to determine an appropriate price to book multiple or price to earnings multiple. This may be approximated from price to book multiple from suitable proxies.

It is understandable that price to book (P/B) ratio and price to book value per share (P/BVPS) ratio should vary across firms according to differences in their: future return on equity (ROE), or return on net assets (RONA); growth in book value; and risk, which drives the differences in discount rate.

Among these determinants, we may use different discount rate to reflect the underlying risk in discounted cash flow analysis, but it is difficult to estimate the growth element and the future return. Therefore, we use last reported financials of 10 selected comparables to test whether some form of co-relation exists between P/BVPS and RONA. From the study, we find that price to book multiple and price to earnings multiple are both significantly co-related with the RONA, that is the performance of a company.

This responded to the general understanding and assertion of premium may be added to a company's book value because of its outstanding performance, which is in the form of abnormal earnings in excess of earnings level normally expected by rational investors.

To verify our assumption, we have conducted two regression analyses based on the same set of data as below:

Name	Market Cap (HK\$'Mn)	Profit (HK\$'Mn)	Net assets (HK\$'Mn)	Price/BVPS (FY05A)	RONA (FY05A)
CITIC International	14,166	1,103	9,455	1.50	11.7%
Hang Seng Bank	183,632	11,342	42,571	4.31	26.6%
Bank of East Asia	46,957	2,749	24,197	1.94	11.4%
Public Financial (Note)	5,615	446	2,393	2.35	18.6%
Aeon Credit Service	2,680	186	1,390	1.93	13.4%
Wing Hang Bank	20,556	1,349	8,316	2.47	16.2%
Wing Lung Bank	16,068	1,109	10,136	1.59	10.9%
Dah Sing Banking Group	12,854	979	8,649	1.49	11.3%
Liu Chong Hing Bank	6,938	398	5,833	1.19	6.8%
Fubon Bank (HK)	3,370	241	3,749	0.90	6.4%

(Note: Closing price of 14/02/2006 is used, date immediately before acquisition of ACB announced.)

We have excluded data for HSBC, Standard Chartered, and BOC in the analyses as they are of an incomparable larger size and very different market focus as those of UAF. After careful consideration, we have included HASE to help cover a wider range of RONA and help the later estimated figures being interpolated instead of extrapolated.

Based on a regression analysis, we have determined a price to book multiple of 3.49x. According to the projected net book value of HK\$2,449,711,000 at 2006 year end, the market value shall be estimated at HK\$8,549,491,390.

9.2 Income-Based Approach

9.2.1 Discounted Cash Flow

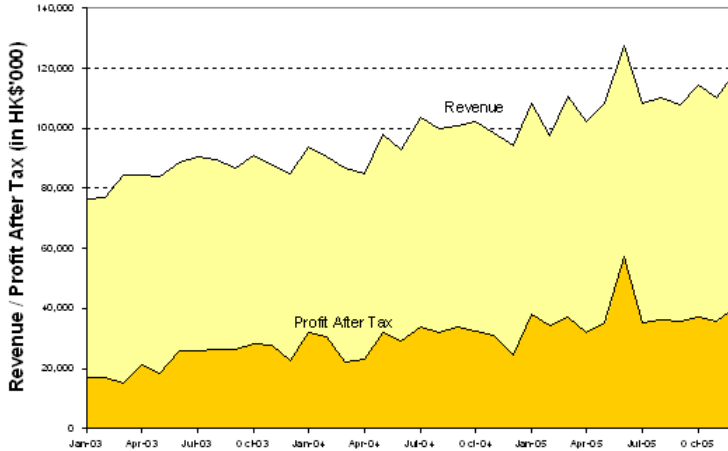
It is a simple method adopting Income-Based Approach to state the value of a company in present value term. This method is simple and easy to understand. It is well accepted by most analysts and practitioners. A variety of basis has emerged in numerous attempt of establishing true value of a company. The latest attempt was looking from a non-controlling shareholder's perspective. That is the free cash flow available to them as an equity holder.

This is a widely used and accepted method to determine market value of a business or a firm, which is based on a simple reversal calculation to restate all future cash flow as in present term. To adopt this method, we must however, first obtain the cost of equity of the company as a basic discount rate. Since the UAF Group is not listed, we can only obtain their cost of equity based on the capital asset pricing model (CAPM) using beta of its proxies. We have considered the nature of business, risk and etc of the two companies: Aeon Credit and Public Financial.

Based on beta estimate of these two direct comparables, we have arrived at a beta estimate of 0.2291 for the UAF Group. Hence, we have arrived at a CAPM risk adjusted discount rate of 6.145%.

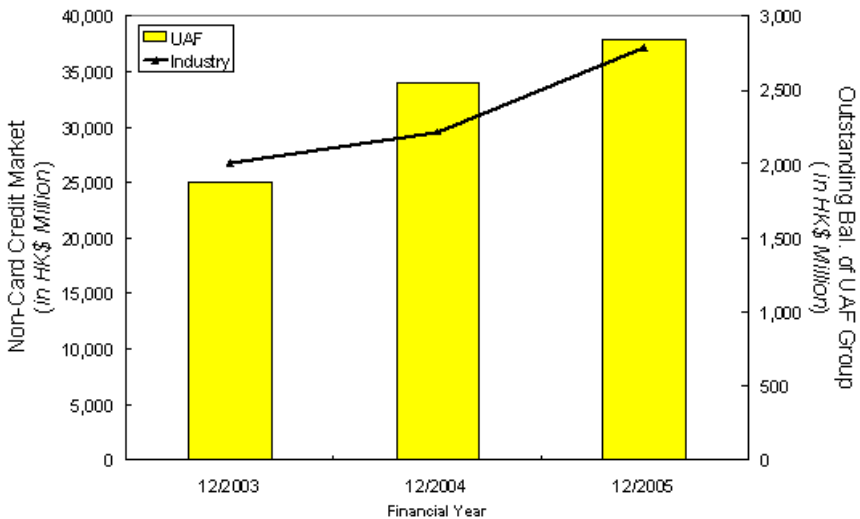
9.2.2 Growth Rate

The most difficult part of this methodology is to ascertain the discount rate and the growth rate. While the Management asserts a constant dividend payout ratio of 40%, the previous payout pattern shows a higher payout ratio than that of projected which may indicate the Management prefer to retain a larger part of its earnings to support future growth. The growth achieved in previous year can be visualized in the following chart showing the revenue and profit after taxation trend over 2003 to 2005 on a monthly basis.



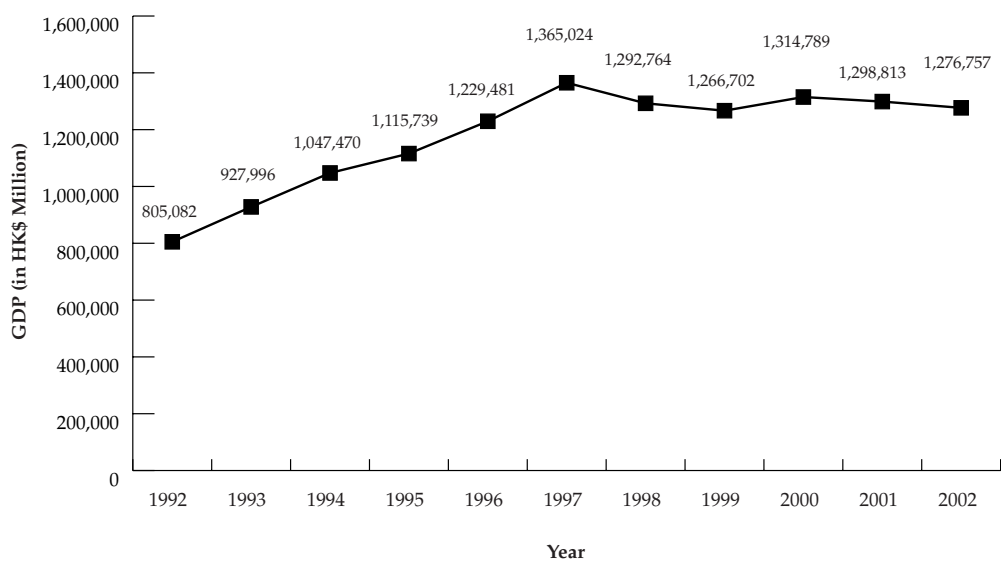
This represents a 9.88% annualized growth rate over the period.

This can be further supported by the growth of the outstanding portfolio of the UAF Group and the market. The UAF Group has achieved an annualized growth of 22.8% in its loan book, while the industry recorded a 17.8% growth. The chart shows the development of the personal loan market for the same period.



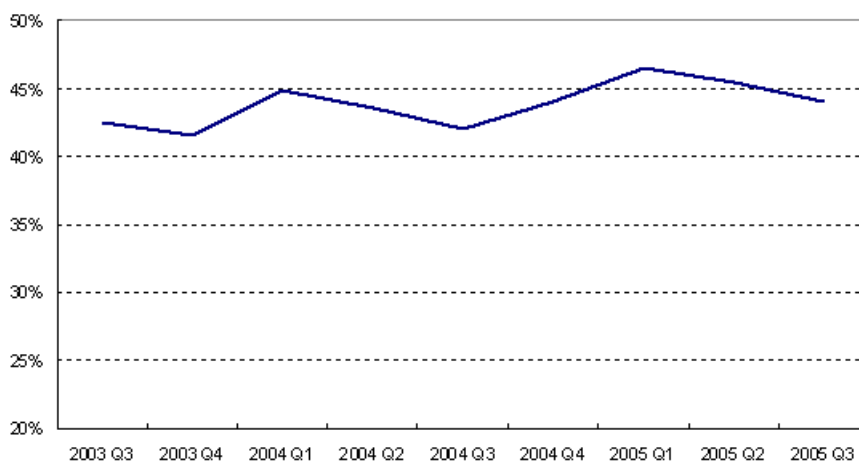
APPENDIX VI BUSINESS VALUATION REPORT ON THE UAF GROUP

A modest sustainable growth rate of 4.72% (1992: HK\$805 billion and 2002: HK\$1,277 billion) can be ascertained based on the historical GDP development over the 10 years period from 1992 to 2002, which covers good years and bad years in general. We have excluded 2003 to 2005 in our estimation as we do not expect similar crisis SARS will be recurring and have the same extent of effect in the future.



After due consideration given to these growth rates so obtained, we have adopted the GDP linked growth rate as it is more representative and linked with the development of our economy. This can be evidenced by a recent study made by the Banking Development Department of the Hong Kong Monetary Authority and published in their Quarterly Bulletin in March 2006. The chart reproduced below demonstrated a strong linkage between GDP and the personal loan market.

Ratio of Total Personal Loans to Nominal Quarterly GDP



(Reproduced from Chart 9 on page 9 of the HKMA Quarterly Bulletin, March 2006)

9.2.3 Sensitivity Analysis

A sensitivity analysis was conducted to study the dispersion caused by changes in these two variables, and found to fall within a reasonable range.

DCF of FCF	Growth Rate					
		4.50%	4.60%	4.72%	4.80%	4.90%
Discount Rate	6.000%	8,461,546,078	9,029,666,521	9,828,342,518	10,449,377,111	11,352,505,773
	6.100%	7,959,720,349	8,456,659,701	9,147,828,847	9,679,352,350	10,443,239,983
	6.145%	7,753,764,460	8,222,964,069	8,872,711,794	9,370,148,179	10,081,671,149
	6.200%	7,516,815,751	7,955,153,482	8,559,140,103	9,019,186,267	9,673,704,310
	6.300%	7,123,012,779	7,512,530,834	8,044,841,960	8,446,907,961	9,013,957,483
% Change in DCF of FCF		-4.66%	2.54%	0.00%	1.69%	3.81%
	Percentage Change in Discount Rate	-2.360%	-4.63%	1.77%	10.77%	17.77%
-0.732%		-10.29%	-4.69%	3.10%	9.09%	17.70%
0.000%		-12.61%	-7.32%	0.00%	5.61%	13.63%
0.895%		-15.28%	-10.34%	-3.53%	1.65%	9.03%
2.522%		-19.72%	-15.33%	-9.33%	-4.80%	1.59%

10.0 APPRAISAL ASSUMPTIONS

We have adopted certain specific assumptions in this appraisal and the major ones are as follows:

- All relevant legal approvals and business certificates or licences to operate the business in the localities in which the UAF Group operates or intends to operate would be officially obtained and renewable upon expiry.
- The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals.
- The financial projections provided will be materialized.
- There will be sufficient supply of technical staff in the industry in which the UAF Group operates.
- The UAF Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major changes in the current taxation laws in the localities in which the UAF Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with.

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the UAF Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the UAF Group.
- Interest rates and exchange rates in the localities for the operation of the UAF Group will not differ materially from those presently prevailing.
- Risk-adjusted discount rate for the UAF Group is 6.145%.
- Perpetual dividend growth of 4.72% for the UAF Group from 2007 onward.
- Constant dividend payout ratio of the UAF Group maintain at 40% per annum.

11.0 LIMITING CONDITIONS

This appraisal reflects facts and conditions existing at the date of appraisal. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management and the Companies in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

We have not investigated the title to or any legal liabilities of the UAF Group and have assumed no responsibility for the title to the business enterprise appraised.

We would particularly point out that our appraisal was based on the information such as company background, business nature, market share, future prospecting and in particular the cash flow projections of the UAF Group provided to us.

Our conclusion of the market value is derived from generally accepted appraisal procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We assume no responsibility whatsoever to any person other than the directors and management of the Companies in respect of, or arising out of, the content of this report. If others choose to rely in any way on the contents of this report, they do so entirely on their own risk.

12.0 REMARKS

Unless otherwise stated, all monetary amounts stated in this appraisal report are in Hong Kong Dollars.

We hereby confirm that we have neither present nor prospective interests in the UAF Group and its holding companies, subsidiaries and associated companies, or the value reported herein.

13.0 CONCLUSION

13.1 In section 9, we attempted to use different methodologies to arrive at the market value of the UAF Group. In 9.1.1 and 9.1.2, we have compared various companies and their ratios, which provide no clear indication of the most appropriate price multiples. Nevertheless, we have observed in 9.1.3 a very strong co-relationship between the P/BVPS to RONA. Thus, we used a price to book multiple of 3.49x to estimate the market value of the UAF Group, which is HK\$8.55 billion.

13.2 To cross-examine the validity of the figure, we have adopted another method to arrive at a value of HK\$8.87 billion in section 9.2, which corresponds with the valuation made in 9.1.3 and both fall within a close margin.

13.3 Therefore, the market value of the UAF Group shall be in the range of HK\$8.55 billion to HK\$8.87 billion, with a mean value of HK\$8.71 billion.

14.0 OPINION OF VALUES

Based on the investigation and analysis stated above and on the appraisal methods employed, we are of the opinion that the market value of the 100% equity interest of the UAF Group, as at 30 April 2006 is in the sum of HK\$8,710,000,000 (HONG KONG DOLLARS EIGHT BILLION SEVEN HUNDRED AND TEN MILLION ONLY). The arithmetic breakdown of the market value of the 50.91% issued share of the UAF Group as at 30 April 2006 is in the sum of HK\$4,434,261,000 (HONG KONG DOLLARS FOUR BILLION FOUR HUNDRED THIRTY FOUR MILLION TWO HUNDRED AND SIXTY ONE THOUSAND ONLY).

Yours faithfully,

For and on behalf of

Norton Appraisals Limited

Teddy T. M. Iu

FCMA, FCPA

Director

Paul M. K. Wong

MRICS, MHKIS, RPS (G.P.)

Director

Note: Mr. Teddy T. M. Iu is a Chartered Management Accountant and Certified Public Accountant who has more than 10 years' experience in business valuation.

Mr. Paul M. K. Wong is a Registered Professional Surveyor who has more than 13 years' experience in properties valuation and more than 8 years' experience in business valuation.

Set out below are texts of the letters, prepared for inclusion in this circular, received by Directors from the Company's reporting accountants, Deloitte Touche Tohmatsu, and received by the Stock Exchange from the Board in connection with the forecast of the profit attributable to equity holders of UAF Group for the year ending 31st December, 2006.

(i) Letter from Deloitte Touche Tohmatsu

Deloitte.

德勤

The Board of Directors
Allied Properties (H.K.) Limited
22nd Floor,
Allied Kajima Building,
138 Gloucester Road,
Wan Chai, Hong Kong

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the profit attributable to equity holders of United Asia Finance Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2006 (the "Profit Forecast Memorandum"), for which the directors of the Company are solely responsible. The Profit Forecast Memorandum is prepared based on the result shown in the unaudited management accounts of the Group for the 4 months ended 30 April 2006, and a forecast of the results for the remaining 8 months ending 31 December 2006.

In our opinion the Profit Forecast Memorandum, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the Group's audited financial statements for the year ended 31 December 2005 dated 27 March 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

12 June 2006

(ii) Letter from the Board

The Stock Exchange of Hong Kong Limited
11th Floor
One International Finance Centre
1 Harbour View Street
Hong Kong

19th June, 2006

Dear Sirs,

RE: PROFIT FORECAST OF UNITED ASIA FINANCE LIMITED

We confirm that the forecast of the profit attributable to equity holders of United Asia Finance Limited and its subsidiaries contained in the joint announcement to be issued by the Company, Allied Group Limited and Sun Hung Kai & Co. Limited on or about 20th June, 2006 is made after due and careful enquiry.

Your faithfully,
For and on behalf of
ALLIED PROPERTIES (H.K.) LIMITED
Li Chi Kong
Executive Director

The following is the text of a letter, summary of value and valuation certificate, prepared by Jack L. Hughey & Associates, an independent valuer, in connection with its valuation of the property held for sale by the Group in the United States of America as at 30th April, 2006 for the purpose of inclusion in this document. The property is owned by Lakewood Development Corporation, which was 100% held by the Enlarged Group as at 30th April, 2006.



JACK L. HUGHEY, MAI

JACK L. HUGHEY & ASSOCIATES

REAL ESTATE APPRAISERS—CONSULTANTS

2825 WILCREST
SUITE 553
HOUSTON, TEXAS 77042
713/780-4021
FAX 713/780-4538

June 30, 2006

The Directors

Allied Properties (H.K.) Limited
22/F, Allied Kajima Building
138 Gloucester Road
Wanchai, Hong Kong

Re: 3,432.03±acres located near FM 2100 Road and Diamond Head Boulevard, Harris County, Texas.

Dear Sirs:

At your request, I have inspected the above tract of land and reviewed a survey that was prepared by Century Engineering, Inc., dated June 20, 1996. As previously reported in prior appraisals on the subject property, Century Surveying Company mailed a letter to me, dated April 11, 1997, outlining the estimated acres located in the flood plain, flood way and wet lands, but did not indicate how many acres are affected by the various easements (utilities, pipeline, flood control, railroad, streets, and cemetery). I spoke with the surveyor and asked him about the easements and he said, "that his assignment was to provide a boundary line survey only and that he could not answer my questions about net usable acres." In his letter dated April 11, 1997, he gave an estimate of flood plain and flood way acres, which are as follows: approximately 557.48 acres are located in the flood plain and 390.79 acres are located in the flood way. The flood plain acres can be used for construction purposes by raising the elevation out of the flood plain. The flood way acres can be used only as, green belt, parks, golf course and parking areas, etc. However, the easements create a different situation. Not knowing where and what the easements are, the appraiser decided to make the appraisal based on gross acres, with the understanding that the market value could change when the appraiser is supplied with a survey identifying the various easements and locating the flood way and flood plain acres. Without a survey that shows this information, an accurate amount of net acreage cannot be determined. As in the past, this Limited Appraisal Report is based on gross acres and the market value as shown could change when a new survey is provided to the appraiser indicating the net usable acres. The subject tracts are legally described as:

Tract I, being 1,995.0 acres, minus a 53.17 acre tract of land that was sold out of this tract of land on 29th September, 2000, Tract II being 992.8 acres Tract III being 497.4 acres of land out of the William Wilson Survey, A-838 and the Humphrey Jackson Survey, A-37, Harris County, Texas.

A complete metes and bound legal description is included in the Addenda of this Limited Appraisal Report.

The purpose of this Limited Appraisal Report is to estimate the market value of the fee simple title, free and clear of all liens for the subject property in it's "As Is" condition as of April 30, 2006.

Assumptions and limiting conditions which may limit or qualify the value estimates are contained in the Addenda sections of this report.

The scope of this appraisal was to inspect the subject property, analyze those market forces affecting value, collect and analyze pertinent market data, and reach an opinion of final value of the subject's Market Value as defined in this report.

Market Value is the major focus of most real property appraisal assignments. Both economic and legal definitions of market value have been developed and refined. Continual refinement is essential to the growth of the appraisal profession. The current economic definition of market value can be stated as follows:

Market Value: The most probable price which a property should bring in a competitive and open market under all conditions requisite to fair sale, with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and are acting in what they consider their own best interest;
3. The property is exposed for a reasonable time on the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

"Market Value," as referenced in the Federal Register/Vol. 55, No. 165/Friday, August 24, 1990/Rules and Regulations, Part 34 – Real Estate Lending and Appraisals, Sub-part C Appraisals, 34.44f Definitions.

Fee Simple Estate: An absolute fee; a fee without limitations to any particular loss of heirs or restrictions, but subject to the limitation of eminent domain, escheat, police power and taxation. It is an inheritable estate.

The subject acres are heavily wooded and have approximately two and one-half miles fronting on Lake Houston. According to the City of Houston Water Division, Lake Houston is a 12,366±acre reservoir that provides the City of Houston water treatment plants, with fresh water to be treated for consumption by the citizens of Houston. The lake also provides recreation such as; boating, water skiing and fishing.

There are no utilities to the subject property, however, the subject tract could be annexed into an existing Newport Subdivision MUD district.

The real estate market in Metropolitan Houston, which includes the following Counties: Harris, Fort Bend, Galveston, Chambers, Waller, Brazoria and Montgomery, has been and continues to be very strong. Vacant land, especially large tracts, are becoming very hard to find and the sales price per acre continues to increase, especially tracts of land that have all of the utilities available and not located in the flood plain/flood way. In order for the appraiser to find comparable land sales and listings the size of the subject, it was necessary for the appraiser to research the market in adjoining counties.

The appraiser researched the general area of the subject property and found only a limited number of large tracts of land that have recently sold in this section of Harris County. Therefore, this appraiser researched the market in adjacent counties and found eight tracts of land that have sold recently or are on the market for sale. These tracts of land are considered to be similar to the subject as to size, but not to location. Therefore, the price per acre would be adjusted accordingly. These tracts of land are reasonably close to the subject tract land, as shown on the map located in the Addenda of this report. Information on these sales is located in the Addenda of this report.

The tracts of land described in the Addenda of this report were used to arrive at an Opinion of Market Value for the subject property. These comparable properties ranged in size from 300±to 7,500±acres. After adjustments were made to these comparables, an Opinion of Market Value for the subject's 3,432.03±gross acres of land as of April 30, 2006 was established to be:

$3,432.03 \pm \times \$5,000 \text{ per acre} = \$17,160,150.00$ Say \$17,000,000.00 (US Dollars)

SEVENTEEN MILLION DOLLARS
(\$17,000,000.00) (US Dollars)

Marketing/exposure time, based on evidence in the marketplace and discussions with local real estate brokers and others knowledgeable of real estate in the area, is estimated to be twelve (12) months or one (1) year.

The intended use of this Limited Restricted Appraisal Report is to arrive at an opinion of market value as of April 30, 2006 for the inclusion in the shareholders' circular of the addressee.

I hereby certify that I have no interest, present or contemplated in the ownership of the subject property and neither the employment to make the appraisal, nor the compensation, is contingent upon the value of the property. I certify that, according to my knowledge and belief, all statements and information contained in this report is true and correct subject to the assumptions and limiting conditions contained herein and that no information has knowingly been withheld.

Respectfully submitted,

Jack L. Hughey, MAI
62015 – LL

**CERTIFICATION
PREMISES AND STANDARD CONDITIONS**

The undersigned does hereby certify that, except as otherwise noted in this appraisal report, to the best of my knowledge and belief:

1. The appraisal report includes 7 sheets.
2. Employment in and compensation for making this report are in no way contingent upon the value reported.
3. We have no interest or bias with respect to the subject matter of this appraisal report or the parties involved.
4. We have no present or contemplated future interest in the real estate that is the subject of this appraisal report.
5. To the best of my knowledge and belief the statements of fact contained in this appraisal report, upon which the analysis, opinions and conclusions expressed herein are based, are true and correct.
6. This appraisal report sets forth all of the limiting conditions (imposed by the terms of my assignment or by the undersigned) affecting the analysis, opinions and conclusions contained in this report.
7. This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.
8. No one other than the undersigned prepared the analysis, conclusions and opinions concerning real estate that are set forth in this appraisal report.
9. The value of the property is expressed in dollars of the value as of the date specified and is subject to any future changes which may occur in the value of the dollar.
10. The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
11. No attempt has been made to render an opinion of title, survey, or of the status of easements or of any other matter of a legal character.

12. I/we have made a personal inspection of the property that is the subject of this report.

Jack L. Hughey

Signature

ADDENDA

STATEMENT
OF
ASSUMPTIONS AND LIMITING CONDITIONS

1. No investigations of legal title have been made, and no opinion is rendered as to ownership of the property and the condition of the title.
2. It is assumed that title to the subject property is merchantable.
3. For purposes of a fee simple valuation, it is assumed that the property is free and clear of all liens and encumbrances.
4. The property does not exist in violation of any applicable codes, ordinances, statutes or other government regulations.
5. It is assumed that the legal description in the Deed as recorded is correct.
6. It is assumed that the current survey is dimensionally correct.
7. The sketches and maps in this report are for aiding the reader in visualizing the properties and are based on field surveys prepared by the appraiser. Dimensions and descriptions are based on public records and information furnished by others and are not meant to be used as reference in matters of survey.
8. All information used in preparing this appraisal report was obtained from sources considered to be knowledgeable and reliable. Sales information and data considered reliable is reviewed and checked, but cannot be guaranteed for absolute accuracy.
9. It was assumed that there are no hidden unexpected conditions of the property which would adversely affect the value.
10. No responsibility is assumed for matters of a legal nature.
11. The distribution of value as between land and improvements applies only under the stated program of utilization. The separate values for land and improvements may not be used in conjunction with any other appraisal and are invalid if so used.
12. All opinions of market value are presented as the appraiser's considered opinion based on the facts and data appearing in this report. These appraisers assume no responsibility for changes in market conditions or for the inability of the owner to locate a purchaser at the appraised value.
13. Copies of the original report as rendered may not be reproduced without permission of the appraiser.

14. It is assumed that test boring conclusions, if necessary, will support the proposed structure.
15. It is assumed that all Ingress and Egress Permits, Sewer Easements, Flood Insurance Applications, Building Permits, and Utility Contracts will be met as scheduled.
16. The appraiser is not required to appear or testify in any court or before any commission in regard to the material covered in this report unless a prior special agreement has been made covering such appearance.
17. Disclosure of the contents of this report is covered by the By-laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm which he is connected, or any reference to the Appraisal Institute or to the MAI or RM designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication, without the prior written consent and approval of the author.
18. Mr. Jack L. Hughey, MAI, is currently certified under the Appraisal Institute's voluntary continuing education program, and is licensed in the State of Texas as a "General Real Estate Appraiser." Mr. Jack L. Hughey has more than 26 years' experience in valuation of properties in the State of Texas.
19. Special Report Conditions, Appraisers' Liability Limitations, and Client Agreements:

The acceptance of this report and its use by the client in any manner whatsoever or for any purpose is acknowledgment by him that this report is a satisfactory professional product, and that he has personally read the report, and specifically agrees that the data herein is accurate to the best of the Appraiser's ability.

The report remains the personal property of the signer and may not be transmitted to a third party without the signer's written permission. (Permission is granted to transmit to third party mortgages).

Jack L. Hughey and Associates, Inc., or the Appraiser's personal responsibility does not extend to a third party under any circumstances whatsoever.

As part of the Appraiser-Client employment agreement, the client agrees to notify the Appraiser of any error, omission, or invalid data herein within 15 days of receipt and return the report along with all copies to the Appraiser for correction prior to any use whatsoever.

Under no circumstances will the company's or appraisers' liabilities exceed the fee actually collected for this report, and then only in case of a gross error which would have materially affected the appraiser's value opinion as of the date of valuation. Thus, by acceptance of this report, you acknowledge that a value opinion is the

product of a professionally trained mind, but nevertheless is an opinion only and not a provable fact. As a personal opinion, valuation may vary between appraisers based on the same facts. Thus the appraisers warrant only that the value conclusion is their best opinion estimate as of the exact day of valuation.

20. This Appraisal is written to conform with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and to the Uniform Standards of Professional Appraisal Practice ("USPAP") adopted by the Appraisal Standards Board of the Appraisal Foundation.

To the best of our knowledge and belief, we hereby certify the following:

- A. The statements of fact contained in this report are true and correct.
 - B. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.
 - C. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
 - D. Our compensation is not contingent on an action or event resulting from the analysis, opinions, or conclusions in, or the use of, this report.
 - E. The appraisal assignment was not based on a requested minimum valuation, a specified valuation, or upon the approval of a loan.
 - F. Our analyses, opinions, and conclusions were developed and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
 - G. We have made a personal inspection of the property that is the subject of this report.
 - H. No one provided significant professional assistance to the persons signing this report.
 - I. No information has knowingly been withheld.
21. FIREA: The Appraiser certifies that the compensation for this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.

22. No Environmental Impact Studies were requested or made in conjunction with this appraisal. We reserve the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent Environmental Impact Studies, research or investigation.

Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property nor is the appraiser qualified to detect such substances. The presence of substances, such as, asbestos, urea-formaldehyde foam insulation, or other potentially hazardous material, may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

23. Opinions of value contained herein are estimates. This is the definition of an appraisal. There is no guarantee, written or implied, that the Subject Property will sell for such amounts.
24. It is assumed that all applicable zoning, use regulations, and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in this report.
25. This appraisal has been made in compliance with the rules of the Texas Real Estate Commission, and in accordance with the rules and professional ethics of the Appraisal Foundation.
26. Disclosure of the contents of this appraisal report is governed by the Bylaws and Regulations of the Appraisal Foundation.

Neither all nor any part of the contents of this report will be conveyed to the public through a prospectus for securities, advertising, public relations, news, sales, or other media, without the written consent and approval of the appraiser or appraisal firm represented, or any reference to an appraisal organization or any appraisal designation.

Possession of this report, or a copy thereof, does not carry with it the right of publication, nor may it be used for any purpose by any but the applicant without prior written consent of the appraiser or the applicant, and only then with proper qualification and only in its entirety.

27. The distribution of the total valuation of this report between land and improvements applies only under the existing or proposed program of utilization. The separate valuations for the land and building must not be used in conjunction with any other appraisal and are invalid if so used.

Thus, by acceptance of this report, you acknowledge that a value opinion is the product of a professionally trained mind, but nevertheless is an opinion only and not a provable fact. As a personal opinion, valuation may vary between appraisers based on the same facts. Thus the appraisers warrant only that the value conclusion is their best opinion estimate as of the exact day of valuation.

April 30, 2006
Date of Value

3,432.03 ± acres located adjacent to Newport Subdivision near
FM 2100 Road and Diamond Head Boulevard, Harris County, Texas
Property Identification

LAND COMPARABLES

Sale Number One

1,123 acres located on the west side of FM 1010 Road (Plum Grove Road), one mile± south of Plum, Texas and north of the subject property. This tract of land is located in Harris County. There are no utilities at this time. The Pending Sales Price is \$4,500 per acre.

Sale Number Two

7,544 acres located on the east side of FM 1010 (Plum Road) and across FM 1010 from Sale Comparable Number One. There are no utilities on the subject property. A \$4,500 per acre sales contract is pending on this tract of land.

Sale Number Three

361 acres located just west of the subject property. It sold on August 28, 2002. This tract of land is being included for information purposes. The sale price was \$812,802 or \$2,250 per acre. This sales price would require and adjustment for time.

Sale Numbers; Four, Five, Six, Seven, and Eight

These tracts of land are located next to each other. The five tracts of land are located in Walker County, west of Splendor, Texas and none of these properties have utilities and they do not have frontage on water like the subject property. Sale number four has 870 acres and sold for \$2,727,857 or \$3,135 per acre on July 30, 2005. Sale number five has 507 acres and sold for \$1,402,500 or \$2,764 per acre on August 15, 2005. Sale numbers, six, seven, and eight contained 1,711 acres and sold for \$5,255,770 or \$3,053 per acre on March 7, 2005. These tracts of land, at the time of sale, did not have any utilities and do not front on any water.

Sale Number Nine

Is located in Porter, Texas north of the subject property in Montgomery County. It is located on Gene Campbell Parkway in northwest Porter, Texas. The tract of land contains 1,008 acres and sold for \$2,773,237 or \$2,750 per acre on August 20, 2004.

Sale Number Ten

This sale is located 1.5 miles west and southwest of IH 45 on the west boundary of Highway 30 and FM 1791 and is located the Jurisdiction of Huntsville. All utilities are available. The tract of land contains 322.58 acres and the asking price is \$6,500 per acre. There is a sale pending.

All of the comparable sales are considered somewhat similar to the subject property, but require some adjustments for location.

Set out below is the valuation report received from Norton in connection with the valuation of the property interests of the Enlarged Group:



Room 3830-32, Sun Kung Kai Centre
30 Harbour Road
Wanchai Hong Kong
Tel: (852) 2810 7337 Fax: (852) 2810 6337

30th June, 2006

The Directors

Allied Properties (H.K.) Limited
22/F, Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Allied Properties (H.K.) Limited and its subsidiaries and UAF Holdings Limited and its subsidiaries (hereinafter together referred to as the "Enlarged Group") in Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC"), Macao Special Administrative Region ("Macau") and Philippines (details of the properties are more particular listed in the Summary of Values attached herewith), assuming the Sale Share transaction of UAF Holdings has been completed as at 30th April 2006. We confirm that we have carried out inspections, conducted land searches at the relevant Land Registries, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests in their existing states as at 30th April, 2006 (hereinafter referred to as the "date of valuation").

Our valuations are our opinion of value of the Property on the basis of "**Market Value**" which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion".

We have valued the property interests on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same as portfolio.

In valuing the property interests under Group I (except Property No. 16) which are held for investment purposes by the Enlarged Group in Hong Kong, we have adopted the Investment Approach by taking into account the current passing rents and the reversionary income potential of the tenancies.

In valuing the property interests under Groups II and III which are held for sale and owner-occupied by the Enlarged Group in Hong Kong, we have adopted the Direct Comparison Approach by making reference to comparable transactions as available in the relevant market.

In arriving at our opinion of the property interest of property No. 16 which is a hotel, we have also adopted the Direct Comparison Approach by making reference to comparable transactions as available in the relevant market.

We have not attributed any commercial value to the property interests in Group IV which are leased by the Enlarged Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the owners sell the property interests on the open market in their existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting sales of the properties and no forced sale situation in any manner is assumed in our valuations.

For those properties located in Hong Kong and Macau, we have, as agreed with the Enlarged Group, caused sampling title searches at the relevant Land Registries and no title search has been made for properties which are located in the PRC and Philippines. We have not, however, searched the original documents to verify ownership or to determine the existence of any lease amendments which do not appear on the copies handed to us.

We have relied to a considerable extent on the information given by the Enlarged Group and the legal opinion provided by its PRC legal adviser, Shanghai Shenhua Law Firm, regarding titles to the property Nos. 19 and 26 respectively.

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects.

We have not carried out site measurements to verify the correctness of the site and floor areas in respect of the relevant properties but have assumed that the site and floor areas shown on the documents and official site plans handed to us are correct. All dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us by the Enlarged Group and are therefore only approximations. Based on our valuation experience of similar property interests, we consider the assumptions so made to be reasonable.

We have relied to a considerable extent on the information provided by the Enlarged Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, tenancy summaries, site and floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Enlarged Group. We were also advised by the Enlarged Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In our valuations, we have complied with all the requirements contained in the Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition) published by The Hong Kong Institute of Surveyors ("HKIS").

Unless otherwise stated, all sums stated in our valuation certificates are in Hong Kong Dollars. The exchange rates adopted in our valuations are approximately HK\$1 = RMB1.03, HK\$1 = MOP1.03 which were approximately the prevailing exchange rates at the date of valuation

Our Summary of Values and the Valuation Certificates are enclosed herewith.

Yours faithfully,

For and on behalf of

Norton Appraisals Limited

M. K. Wong

MRICS, MHKIS, RPS (G.P.)

Director

C. L. Kung

MRICS, MHKIS, RPS (G.P.)

Director

Note: Mr. M. K. Wong is a Registered Professional Surveyor who has more than 13 years' experience in valuation of properties in Hong Kong, Macau, the PRC and the Asian Pacific Region.

Mr. C. L. Kung is a Registered Professional Surveyor who has more than 14 years' experience in valuation of properties in Hong Kong, Macau, the PRC and the Asian Pacific Region.

SUMMARY OF VALUES

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>	
Group I – Property interests held for investment by the Enlarged Group in Hong Kong and the PRC				
1	Apartments 1 on 1st to 5th Floors and 7th to 10th Floors Apartments 2 on 1st to 6th Floors of Block A and 26 Car Parking Spaces on the Podium Upper Level of Park Place No. 7 Tai Tam Reservoir Road Island South, Hong Kong	\$428,000,000	100%	\$428,000,000
2	Apartment 1 on 6th Floor of Block A and 8 Car Parking Spaces on the Podium Upper Level of Park Place No. 7 Tai Tam Reservoir Road Island South, Hong Kong	\$32,200,000	100%	\$32,200,000
3	Allied Cargo Centre Nos. 150-164 Texaco Road Tsuen Wan, New Territories	\$273,000,000	100%	\$273,000,000
4	House No. 2 and Garden, Terrace and Swimming Pool and Other Area No. 60 Plantation Road The Peak, Hong Kong	\$166,000,000	100%	\$166,000,000
5	House No. 2, Palm Drive The Redhill Peninsula, Site D No. 18 Pak Pat Shan Road Tai Tam, Hong Kong	\$37,900,000	100%	\$37,900,000
6	79 Car Parking Spaces on Carpark Levels 1 and 2 The Redhill Peninsula, Phase IV No. 18 Pak Pat Shan Road Tai Tam, Hong Kong	\$28,500,000	100%	\$28,500,000

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
7 House No. 168, Cedar Drive (also known as House T17) The Redhill Peninsula-Site B No. 18 Pak Pat Shan Road Tai Tam, Hong Kong	\$43,400,000	100%	\$43,400,000
8 China Online Centre (excluding the whole of 28th Floor) No. 333 Lockhart Road Wanchai, Hong Kong	\$759,000,000	100%	\$759,000,000
9 The whole of 28th Floor of China Online Centre No. 333 Lockhart Road Wanchai, Hong Kong	\$21,300,000	100%	\$21,300,000
10 Units A on 9th to 12th, 15th to 21st Floors, Units B on 9th to 12th, 15th to 22nd Floors Units C on 12th, 15th to 22nd Floors Units D on 12th, 15th to 22nd Floors and Duplex Units B and D on 28th Floor of St. George Apartments No. 81 Waterloo Road Ho Man Tin, Kowloon	\$415,000,000	100%	\$415,000,000
11 41 Car Parking Spaces St. George Apartments No. 81 Waterloo Road Ho Man Tin, Kowloon	\$18,400,000	100%	\$18,400,000
12 Shops 1 and 2 on Ground Floor Flats A on 5th, 6th, 15th, 16th and 17th Floors, Flats A, B and C on 21st, 22nd, 23rd, 25th, 26th and 27th Floors together with roofs Orchid Court, No. 38 Tung On Street Yau Ma Tei, Kowloon	\$33,000,000	100%	\$33,000,000

APPENDIX VIII

VALUATION REPORT ON THE PROPERTIES
OF THE ENLARGED GROUP

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
13 Century Court, No. 239 Jaffe Road Wanchai, Hong Kong	\$208,000,000	100%	\$208,000,000
14 Penthouse (Triplex) No. C and Car Parking Space Nos. 11, 12 and 13 on Level 3 of Tower 3, Tregunter No. 14 Tregunter Path, Mid-Levels Hong Kong	\$118,000,000	100%	\$118,000,000
15 The whole of 22nd Floor No. 9 Queen's Road Central, Central Hong Kong	\$177,000,000	100%	\$177,000,000
16 Ibis North Point, No. 138 Java Road North Point, Hong Kong	\$430,000,000	100%	\$430,000,000
17 Rooms 2803-2810 on 28th Floor Wing On House (formerly known as Realty Building) No. 71 Des Voeux Road Central, Central Hong Kong	\$39,000,000	62.54%	\$24,390,600
18 House C7, Hawaii Garden No. 18 Silver Cape Road, Sai Kung New Territories	\$14,000,000	62.54%	\$8,755,600
19 Rooms 1101-1109, 11th Floor of Tian An Centre No. 338 Nanjing Road West Huangpu District, Shanghai, the PRC	\$46,800,000	62.54%	\$29,268,720
Sub-total:	\$3,288,500,000		\$3,251,114,920

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>	
Group II – Property interests held for sale by the Enlarged Group in Hong Kong				
20	Units A on 22nd, 25th to 27th Floors Units B on 23rd, 27th Floors, Units C on 23rd, 25th to 27th Floors, Units D on 11th, 23rd, 26th to 27th Floors and Duplex Units A and C on 28th Floor A to D on 30th and 32nd Floors of St. George Apartments No. 81 Waterloo Road, Ho Man Tin Kowloon	\$354,000,000	100%	\$354,000,000
21	34 Car Parking Spaces St. George Apartments No. 81 Waterloo Road Ho Man Tin, Kowloon	\$16,000,000	100%	\$16,000,000
	Sub-total:	<u><u>\$370,000,000</u></u>		<u><u>\$370,000,000</u></u>

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$	
Group III – Property Interests held and occupied by the Enlarged Group in Hong Kong, Macau and the PRC				
22	The whole of 4th Floor of Tower II including Portion of the Roof of Podium, Admiralty Centre No. 18 Harcourt Road, Admiralty Hong Kong	\$48,000,000	62.54%	\$30,019,200
23	The whole of 11th Floor of Tower II Admiralty Centre No. 18 Harcourt Road Admiralty, Hong Kong	\$78,500,000	62.54%	\$49,093,900
24	Office Nos. 2201, 2201A and 2202 on 22nd Floor of Tower I, Admiralty Centre No. 18 Harcourt Road, Admiralty Hong Kong	\$79,700,000	62.54%	\$49,844,380
25	Shop E on Ground Floor Edifício da Associação Comercial de Macau (中華總商會大廈) No. 298-316 Avenida do Dr. Rodrigo Rodrigues (羅理基博士大馬路) No. 147-191 Rua de Xangai (上海街) and No. 111-123 Rua de Pequim (北京街) Macau	\$18,500,000	62.54%	\$11,569,900
26	Rooms 1901-1903, 19th Floor of Tian An Centre No. 338 Nanjing Road West Huangpu District, Shanghai, the PRC	\$18,200,000	62.54%	\$11,382,280
	Sub-total:	\$242,900,000		\$151,909,660

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$
Group IV – Property interests leased and occupied by the Enlarged Group in Hong Kong, the PRC and Philippines			
27 Room 405, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	65%	No Commercial Value
28 Cubicle Nos. 4, 6 & 8, 13/F Allied Cargo Centre, 150-164 Texaco Road Tsuen Wan, New Territories	No Commercial Value	65%	No Commercial Value
29 Room 2903, China Online Centre 333 Lockhart Road, Wanchai Hong Kong	No Commercial Value	65%	No Commercial Value
30 Units B, C & D, 3/F Queen's Centre 58-64 Queen's Road East, Wanchai Hong Kong	No Commercial Value	65%	No Commercial Value
31 Suites 1107-1111, 11/F One Pacific Place 88 Queensway, Admiralty, Hong Kong	No Commercial Value	62.54%	No Commercial Value
32 Suites 1101-1106 & 1112, 11/F and Level 12 One Pacific Place, 88 Queensway Admiralty, Hong Kong	No Commercial Value	62.54%	No Commercial Value
33 23/F, Siu On Centre 188 Lockhart Road, Wanchai Hong Kong	No Commercial Value	62.54%	No Commercial Value
34 Cubicle No. 9, 13/F Allied Cargo Centre Nos. 150-164 Texaco Road Tsuen Wan, New Territories	No Commercial Value	62.54%	No Commercial Value
35 Suites 2202, 2203, 2204 & 2205B, 22/F 9 Queen's Road Central, Central Hong Kong	No Commercial Value	62.54%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
36 Units 1, 2 & 3, 27/F, Jupiter Tower No. 9 Jupiter Street, North Point Hong Kong	No Commercial Value	62.54%	No Commercial Value
37 Units 902, 903 & 905, 9/F Bank of America Tower 12 Harcourt Road, Central Hong Kong	No Commercial Value	62.54%	No Commercial Value
38 2/F, Silvercorp International Tower 707-713 Nathan Road, Mongkok Kowloon, Hong Kong	No Commercial Value	62.54%	No Commercial Value
39 G/F No. 288 Sha Tsui Road, Tsuen Wan New Territories	No Commercial Value	62.54%	No Commercial Value
40 Portion A, Shop No. 2 G/F, Wah Hing Building 449-455 King's Road, North Point Hong Kong	No Commercial Value	62.54%	No Commercial Value
41 Shop No. 3, G/F No. 170 Jockey Club Road Sheung Shui, New Territories	No Commercial Value	62.54%	No Commercial Value
42 Unit 1804, 18/F Shenhua Commercial Building Nanhu Road, Luohu District Shenzhen, the PRC	No Commercial Value	62.54%	No Commercial Value
43 Room 815, 8/F, Peninsula Court 8735 Paseo De Roxas, Makati City Philippines	No Commercial Value	62.54%	No Commercial Value
44 Flats A-C, 3/F, East South Building 475-481 Hennessy Road, Causeway Bay Hong Kong	No Commercial Value	36.39%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$
45 G/F, 100 Shau Kei Wan Road Sai Wan Ho, Hong Kong	No Commercial Value	36.39%	No Commercial Value
46 1/F-2/F, China Travel Building 77 Queen's Road Central, Central Hong Kong	No Commercial Value	36.39%	No Commercial Value
47 Offices A & B, 2/F Hennessy Plaza 164-166 Hennessy Road, Wanchai Hong Kong	No Commercial Value	36.39%	No Commercial Value
48 G/F & Cockloft, Kong Kai Building 184 Aberdeen Main Road, Aberdeen Hong Kong	No Commercial Value	36.39%	No Commercial Value
49 G/F & Mezzanine Floor 255 Des Voeux Road West, Western Hong Kong	No Commercial Value	36.39%	No Commercial Value
50 Shops 201-2, Olympia Plaza 255 King's Road, North Point Hong Kong	No Commercial Value	36.39%	No Commercial Value
51 Shop 3, G/F, Pacific Plaza 410-424B Des Voeux Road West Western, Hong Kong	No Commercial Value	36.39%	No Commercial Value
52 Shop 1009B, 1/F, United Centre 95 Queensway, Admiralty Hong Kong	No Commercial Value	36.39%	No Commercial Value
53 2/F, Wincome Centre 39 Des Voeux Road Central, Central Hong Kong	No Commercial Value	36.39%	No Commercial Value
54 21/F, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	36.39%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$
55 20/F, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	36.39%	No Commercial Value
56 Room 802, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	36.39%	No Commercial Value
57 1/F, 595-599A Shanghai Street 6A-6C Argyle Street, Mongkok Kowloon	No Commercial Value	36.39%	No Commercial Value
58 G/F & Cockloft, 60 Hong Ning Road Kwun Tong, Kowloon	No Commercial Value	36.39%	No Commercial Value
59 1/F, Foon Shing Building 732 Nathan Road, Mongkok, Kowloon	No Commercial Value	36.39%	No Commercial Value
60 G/F, On Keung Building 51-65 Hong Keung Street, San Po Kong Kowloon	No Commercial Value	36.39%	No Commercial Value
61 2/F, Cheong Hing Building 72 Nathan Road, Tsimshatsui Kowloon	No Commercial Value	36.39%	No Commercial Value
62 Shop No. 43, 1/F, Kwai Chung Plaza 7-11 Kwai Foo Road, Kwai Chung Kowloon	No Commercial Value	36.39%	No Commercial Value
63 G/F, 270 Cheung Sha Wan Road Sham Shui Po, Kowloon	No Commercial Value	36.39%	No Commercial Value
64 G/F, 1/F and Flat Roof 124 Ma Tau Wai Road, Hung Hom Kowloon	No Commercial Value	36.39%	No Commercial Value
65 1/F, Double Set Commercial Centre 37A-37B Jordan Road, Jordan, Kowloon	No Commercial Value	36.39%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$
66 Unit 119, 1/F, Cheung Sha Wan Plaza 833 Cheung Sha Wan Road Cheung Sha Wan, Kowloon	No Commercial Value	36.39%	No Commercial Value
67 Shop D, G/F, Lee Fung Building 88-96 Argyle Street 19 Yim Po Fong Street 104 Hak Po Street, Mongkok Kowloon	No Commercial Value	36.39%	No Commercial Value
68 G/F, 271 To Kwa Wan Road To Kwa Wan, Kowloon	No Commercial Value	36.39%	No Commercial Value
69 G/F including Yard, 1/F Flat Roofs & Canopy 27 Lung Kong Road, Kowloon City Kowloon	No Commercial Value	36.39%	No Commercial Value
70 Shop A1, G/F Hamilton Commercial Building 558-560 Nathan Road, Yau Ma Tei Kowloon	No Commercial Value	36.39%	No Commercial Value
71 Room A, G/F Hamilton Commercial Building 558-560 Nathan Road, Yau Ma Tei Kowloon	No Commercial Value	36.39%	No Commercial Value
72 Shop E4f, G/F, Tai Yau Building No. 56-58 Ivy Street, Tai Kok Tsui Kowloon	No Commercial Value	36.39%	No Commercial Value
73 Shop No. G13-14, G/F Kwun Tong Plaza No. 68 Hoi Yuen Road, Kwun Tong Kowloon	No Commercial Value	36.39%	No Commercial Value
74 Workshop No. 1A, G/F International Plaza No. 20 Sheung Yuet Road Kowloon Bay, Kowloon	No Commercial Value	36.39%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 HK\$	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 HK\$
75 Units 1816B-1818A, 18/F, Nan Fung Centre 264-298 Castle Peak Road Tsuen Wan, New Territories	No Commercial Value	36.39%	No Commercial Value
76 Shops 15B-D, Level 1 Lucky Plaza, 1-15 Wang Pok Street, Shatin, New Territories	No Commercial Value	36.39%	No Commercial Value
77 Shop B2, Central Plaza 51-59 Kwong Fuk Road, Tai Po New Territories	No Commercial Value	36.39%	No Commercial Value
78 G/F, No. 195 Castle Peak Road Yuen Long, New Territories	No Commercial Value	36.39%	No Commercial Value
79 Shop No. 12, G/F, Ming Wai House 4-26 Tuen Mun Heung Sze Wui Road Tuen Mun, New Territories	No Commercial Value	36.39%	No Commercial Value
80 Shop No. 11, G/F, Ming Wai House 4-26 Tuen Mun Heung Sze Wui Road Tuen Mun, New Territories	No Commercial Value	36.39%	No Commercial Value
81 Flat A, G/F, Sun Fung House 113-119 San Fung Avenue Shek Wu Hui, Sheung Shui New Territories	No Commercial Value	36.39%	No Commercial Value
82 Shop 6, G/F & Cockloft 49 Tai Ho Road Tsuen Wan, New Territories	No Commercial Value	36.39%	No Commercial Value
83 Shop G31, G/F, Metro City Phase II, 8 Yan King Road Tseung Kwan O, New Territories	No Commercial Value	36.39%	No Commercial Value

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
84 Shop 134A, 1/F Kingswood Ginza, Phase 2 Tsin Shui Wai, New Territories	No Commercial Value	36.39%	No Commercial Value
Sub-total:	No Commercial Value		No Commercial Value
GRAND TOTAL:	<u>3,901,400,000</u>		<u>3,773,024,580</u>

Valuation Certificate

Group I – Property interests held for investment by the Enlarged Group in Hong Kong and the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
1 Apartments 1 on 1st to 5th Floors and 7th to 10th Floors, Apartments 2 on 1st to 6th Floors of Block A and 26 Car Parking Spaces on the Podium Upper Level of Park Place, No. 7 Tai Tam Reservoir Road, Island South, Hong Kong Certain parts or shares of and in Rural Building Lot No. 1055	Park Place (the "Development") is a 10-storey residential building erected over a 2-level car parking podium completed in 1985. The property comprises 15 apartment units and 26 car parking spaces of the Development having a total gross floor area of approximately 35,070 sq.ft. (3,258.08 sq.m.) (excluding Gross Floor Area of Car Parking Spaces). Rural Building Lot No. 1055 is held under Conditions of Sale No. 11536 for a term of 75 years from 28th August, 1981 renewable for a further term of 75 years.	The property is fully let to various tenants with the latest expiring on the 12th February, 2008 yielding a total monthly rental of \$978,100.	\$428,000,000 (100% interest attributable to the Enlarged Group: \$428,000,000)

Notes:

1. From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the property is Sierra Joy Limited vide Memorial No. UB2887556 dated 10th September, 1985.
2. 26 Car Parking Spaces comprise Car Park Nos. 1-10, 11, 13, 15-17, 20, 34, 35, 39, 40, 42, 57, 61, 75, 85 and 113 on the Podium Upper Level of the Development.
3. According to sample land searches, the property is subject to the following encumbrances:
 - i) Mortgage to secure general banking facilities in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) to whatever extent vide Memorial No. UB6636599 dated 16th May, 1996; and
 - ii) Assignment of Rentals in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) vide Memorial No. UB6636600 dated 16th May, 1996.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
2 Apartment 1 on 6th Floor of Block A and 8 Car Parking Spaces on the Podium Upper Level of Park Place, No. 7 Tai Tam Reservoir Road, Island South, Hong Kong	Park Place (the "Development") is a 10-storey residential building erected over a 2-level car parking podium completed in 1985. The property comprises 1 apartment unit and 8 car parking spaces of the Development having a total gross floor area of approximately 2,338 sq.ft. (217.21 sq.m.) (excluding Gross Floor Area of Car Parking Spaces).	The property is currently let for a term of 3 years commencing from 1st April, 2005 at a monthly rental of \$76,000.	\$32,200,000 (100% interest attributable to the Enlarged Group: \$32,200,000)
Certain parts or shares of and in Rural Building Lot No. 1055	Rural Building Lot No. 1055 is held under Conditions of Sale No. 11536 for a term of 75 years from 28th August, 1981 renewable for a further term of 75 years.		

Notes:

1. From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the property is Sierra Joy Limited vide Memorial No. UB2887556 dated 10th September, 1985.
2. 8 Car Parking Spaces comprise Car Park Nos. 54-56 and 80-84 on the Podium Upper Level of the Development.
3. According to sample land searches, the property is subject to the following encumbrances:
 - i) Mortgage to secure general banking facilities in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) to whatever extent vide Memorial No. UB6636599 dated 16th May, 1996; and
 - ii) Assignment of Rentals in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) vide Memorial No. UB6636600 dated 16th May, 1996.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
3 Allied Cargo Centre, Nos. 150-164 Texaco Road, Tsuen Wan, New Territories The Remaining Portion of Lot No. 285 in Demarcation District 446	<p>Allied Cargo Center is a 26-storey godown building together with 9 container parking spaces, 14 lorry parking spaces and 24 private car/van parking spaces on the Ground Floor and 1st Floor respectively, the property was completed in about 1991 with ceiling height of 16 feet and floor loading capacity of 300 lbs. per sq.ft.</p> <p>The total gross floor area of the property is approximately 501,530 sq.ft. (46,593.27 sq.m.) plus flat roofs of approximately 15,590 sq.ft. (1,448.35 sq.m.).</p> <p>Lot No. 285 in Demarcation District 446 is held under New Grant No. 3906 for a term of 99 years less the last three days from 1st July, 1898 with a right to renew the lease until 30th June, 2047. A government rent of three percent of the rateable value is charged per annum from the date of extension.</p>	<p>With the exception of a total gross floor area of approximately 3,621 sq.ft. (336.40 sq.m.) which is self-occupied by the Group, the property is let under various tenancies and licences yielding a total monthly income of \$1,633,020.</p> <p>Most of the tenancies are let from one to three years with the latest expiring on the 8th September, 2008.</p>	<p>\$273,000,000</p> <p>(100% interest attributable to the Enlarged Group: \$273,000,000)</p>

Notes:

1. The registered owner of the property is San Pack Properties Limited vide Memorial No. TW571699 dated 1st March, 1989.
2. The property is subject to the following encumbrances:
 - i) Undertaking in favour of Bank of China, Hong Kong Branch vide Memorial No. TW1102606 dated 29th November, 1996; and
 - ii) Legal Charge in favour of Wing Hang Bank Limited for all moneys vide Memorial No. TW1450289 dated 11th January, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
4 House No. 2 and Garden, Terrace and Swimming Pool and Other Area, No. 60 Plantation Road, The Peak, Hong Kong	The property comprises a 5-storey detached house completed in 1993. The gross floor area of the property is approximately 6,882 sq.ft. (639.36 sq.m.) with carport, garden/terrace and roofs of approximately 2,967 sq.ft. (275.64 sq.m.), 5,064 sq.ft. (470.46 sq.m.) and 787 sq.ft. (73.11 sq.m.) respectively.	The property is currently let for a term of 2 years commencing from 1st January, 2006 at a monthly rental of \$238,000.	\$166,000,000 (100% interest attributable to the Enlarged Group: \$166,000,000)
1/2th equal and undivided shares of and in Rural Building Lot No. 139	Rural Building Lot No. 139 is held under a Government Lease for a term of 75 years from 21st August, 1916 renewable for a further term of 75 years.		

Notes:

1. The registered owner of the subject property is Hillcrest Development Limited vide Memorial No. UB4345735 dated 2nd February, 1990.
2. The property is subject to the following encumbrances:
 - i) Mortgage Deed in favour of Asia Commercial Bank Limited for all moneys vide Memorial No. 05042602440126 dated 13th April, 2005; and
 - ii) Assignment of Rental in favour of Asia Commercial Bank Limited vide Memorial No. 05042602440133 dated 13th April, 2005.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
5 House No. 2, Palm Drive, The Redhill Peninsula, Site D, No. 18 Pak Pat Shan Road, Tai Tam, Hong Kong	<p>The property is a 3-storey semi-detached house within the development known as "The Redhill Peninsula" which was completed in 1990.</p> <p>The gross floor area of the property is approximately 3,082 sq.ft. (286.33 sq.m.) with yard, carport and roof of approximately 2,192 sq.ft. (203.64 sq.m.), 805 sq.ft. (74.79 sq.m.) and 207 sq.ft. (19.23 sq.m.) respectively.</p> <p>Rural Building Lot No. 1050 is held under Conditions of Sale No. 11461 for a term of 75 years from 2nd January, 1981 renewable for a further term of 75 years.</p>	The property is currently vacant.	<p>\$37,900,000</p> <p>(100% interest attributable to the Enlarged Group: \$37,900,000)</p>

Notes:

1. The registered owner of the property is Mightyton Limited vide Memorial No. 05080401760011 dated 16th July, 2005.
2. The property is subject to the following encumbrances:
 - i) Legal Charge in favour of Fubon Bank (Hong Kong) Limited and the consideration is all moneys vide Memorial No. 05080401760036 dated 20th July, 2005; and
 - ii) Assignment of Rent in favour of Fubon Bank (Hong Kong) Limited vide Memorial No. 0508041760046 dated 20th July, 2005.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
6 79 Car Parking Spaces on Carpark Levels 1 and 2, The Redhill Peninsula, Phase IV, No. 18 Pak Pat Shan Road, Tai Tam, Hong Kong Certain parts or shares of and in the Remaining Portion of Rural Building Lot No. 1050	The property comprises a total of 79 car parking spaces in a 2-storey car parking podium of Phase IV of a development known as "The Redhill Peninsula", which includes ten 5 to 18-storey residential buildings completed in 1992. Rural Building Lot No. 1050 is held under Conditions of Sale No. 11461 for a term of 75 years from 2nd January, 1981 renewable for a further term of 75 years.	Car parking spaces Nos. 20, 25, 42-46, 174, 198 and 246 on Level 1; Car parking spaces No. 160, 239 and 242 on Level 2 are subject to licences on monthly basis, yielding a total monthly licence fee of \$18,200 whilst the remaining car parking spaces are vacant.	\$28,500,000 (100% interest attributable to the Enlarged Group: \$28,500,000)

Notes:

- From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the property is Mightyton Limited vide Memorial No. UB4089710 dated 22nd May, 1989.
- 79 Car Parking Spaces comprise Car Park Nos. 20, 21, 24 to 33, 41 to 47, 173 to 205, 239 to 247 and 271 to 276 on Carpark Level 1 and Car Parking Space Nos. 45 to 48, 160, 162, 229, 230, 232, 234, 239 and 242 on Carpark Level 2.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
7 House No. 168, Cedar Drive (also known as House T17), The Redhill Peninsula-Site B, No. 18 Pak Pat Shan Road, Tai Tam, Hong Kong	The property comprises a 3-storey semi-detached house within the development known as "The Redhill Peninsula" which was completed in 1990.	The property is currently let for a term of 2 years commencing from 15th September, 2004 at a monthly rental of \$95,000.	\$43,400,000 (100% interest attributable to the Enlarged Group: \$43,400,000)
60/3,580th equal and undivided shares of and in Section C of Rural Building Lot No. 1050	The house area of the property is approximately 3,339 sq.ft. (310.20 sq.m.) with garden, yard, carport and flat roof of approximately 1,395 sq.ft. (129.60 sq.m.), 1,357 sq.ft. (126.07 sq.m.), 277 sq.ft. (25.73 sq.m.) and 1,476 sq.ft. (137.13 sq.m.) respectively.		
	Rural Building Lot No. 1050 is held under Conditions of Sale No. 11461 for a lease term of 75 years commencing on 2nd January, 1981 renewable for a further term of 75 years.		

Notes:

1. The registered owner of the property is Kalix Investment Limited vide Memorial No. UB7235892 dated 6th August, 1997.
2. The property is subject to the following encumbrances:
 - i) Legal Charge to secure general banking facilities in favour of International Bank of Asia Limited (renamed as Fubon Bank (Hong Kong) Limited) for all monies vide Memorial No. UB8841112 dated 6th December, 2002; and
 - ii) Assignment of Rent in favour of International Bank of Asia Limited (renamed as Fubon Bank (Hong Kong) Limited) vide Memorial No. UB8841113 dated 6th December, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
<p>8 China Online Centre (excluding the whole of 28th Floor), No. 333 Lockhart Road, Wanchai, Hong Kong</p> <p>Certain parts or shares of and in Section A of Sub-section 1 of Section A, the Remaining Portion of Section B of Sub-section 1 of Section A, Section C of Sub-section 1 of Section A, the Remaining Portion of Sub-section 1 of Section A and the Remaining Portion of Sub-section 2 of Section A of Marine Lot No. 439; Sub-section 1 of Section A, Sub-section 2 of Section A, Sub-section 4 of Section A, Section A of Sub-section 1 of Section B, the Remaining Portion of Sub-section 1 of Section B, the Remaining Portion of Section B, the Remaining Portion of Sub-section 1 of Section J and the Remaining Portion of Sub-section 3 of Section A of Marine Lot No. 440</p>	<p>China Online Centre is a 47-storey (4/F, 13/F, 14/F, 24/F, 34/F and 44/F omitted) composite commercial/office building with 60 car parking spaces completed in about 2000.</p> <p>The total gross floor area of the property is approximately 163,483 sq.ft. (15,187.94 sq.m.) (excluding Gross Floor Area of car parking spaces).</p> <p>Marine Lot No. 439 and Marine Lot No. 440 are held under two Government Leases for common terms of 99 years both commencing from 1st July, 1927 renewable for a further term of 99 years.</p>	<p>With the exception of a total gross floor area of approximately 1,230 sq.ft. (114.27 sq.m.) which is vacant, the property is let under various tenancies yielding a total monthly rental of \$3,218,135. Most of the tenancies are let from two to three years with the latest expiring on the 31st March, 2009.</p>	<p>\$759,000,000</p> <p>(100% interest attributable to the Enlarged Group: \$759,000,000)</p>

Notes:

1. From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the property is Jaffe Development Limited vide Memorial Nos. UB6328459 and UB6328460 both dated 30th May, 1995.
2. According to sample land searches, the property is subject to the following encumbrances:
 - i) Debenture in favour of Bank of China, Hong Kong Branch vide Memorial No. UB6692291 dated 28th June, 1996; and
 - ii) Supplemental and Further Debenture to secure overdraft facility in favour of Bank of China vide Memorial No. UB8068419 dated 27th April, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
9 The whole of 28th Floor of China Online Centre, No. 333 Lockhart Road, Wanchai, Hong Kong	China Online Centre (the "Development") is a 47-storey (4/F, 13/F, 14/F, 24/F, 34/F and 44/F omitted) composite commercial/office building with 60 car parking spaces completed in about 2000.	The property is currently let for a term of 2 years commencing from 22nd October, 2005 at a monthly rental of \$110,770.	\$21,300,000 (100% interest attributable to the Enlarged Group: \$21,300,000)
Certain parts or shares of and in Section A of Sub-section 1 of Section A, the Remaining Portion of Section B of Sub-section 1 of Section A, Section C of Sub-section 1 of Section A, the Remaining Portion of Sub-section 1 of Section A and the Remaining Portion of Sub-section 2 of Section A of Marine Lot No. 439; Sub-section 1 of Section A, Sub-section 2 of Section A, Sub-section 4 of Section A, Section A of Sub-section 1 of Section B, the Remaining Portion of Sub-section 1 of Section B, the Remaining Portion of Section B, the Remaining Portion of Sub-section 1 of Section J and the Remaining Portion of Sub-section 3 of Section A of Marine Lot No. 440	The property comprises the whole of 28th Floor of the Development with a total gross floor area of approximately 5,300 sq.ft. (492.38 sq.m.). Marine Lot No. 439 and Marine Lot No. 440 are held under two Government Leases for common terms of 99 years both commencing from 1st July, 1927 renewable for a further term of 99 years.		

Notes:

1. The registered owner of the property is Jaffe Development Limited vide Memorial Nos. UB6328459 and UB6328460 both dated 30th May, 1995.
2. The property is subject to the following encumbrances:
 - i) Debenture in favour of Bank of China, Hong Kong Branch vide Memorial No. UB6692291 dated 28th June, 1996; and
 - ii) Supplemental and Further Debenture to secure overdraft facility in favour of Bank of China vide Memorial No. UB8068419 dated 27th April, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
10 Units A on 9th to 12th, 15th to 21st Floors, Units B on 9th to 12th, 15th to 22nd Floors, Units C on 12th, 15th to 22nd Floors, Units D on 12th, 15th to 22nd Floors and Duplex Units B and D on 28th Floor of St. George Apartments, No. 81 Waterloo Road, Ho Man Tin, Kowloon	<p>The property comprises 43 residential units on various levels in a 25-storey residential building erected upon a 8-storey podium consisting of carparking, club house and refuge floors. The building was completed in 2002.</p> <p>The total gross floor area of the property is 58,683 sq.ft. (5,451.78 sq.m.).</p> <p>Inland Lot No. 2657 is held under Conditions of Sale No. 3121 for a term of 75 years commencing on 16th November, 1931 renewable for a further term of 75 years.</p>	<p>Except with 17 residential units which are vacant. The other 26 residential units are subject to various tenancies yielding a total monthly rental of \$841,500 (inclusive of rates, management fee and 28 carparks rent) with the latest expiring on the 17th July, 2008.</p>	<p>\$415,000,000</p> <p>(100% interest attributable to the Enlarged Group: \$415,000,000)</p>
Certain parts or shares of and in the Remaining Portion of Section H of Kowloon Inland Lot No. 2657			

Notes:

1. From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the subject property is AP Diamond Limited vide Memorial No. UB7285549 dated 12th September, 1997.
2. According to sample land searches, the property is subject to the following encumbrances:
 - i) Undertaking in favour of the Director of Buildings Hong Kong vide Memorial No. UB8003229 dated 25th February, 2000;
 - ii) Mortgage to Secure General Banking Facilities in favour of Bank of China (Hong Kong) Limited to whatever extent vide Memorial No. UB8700783 dated 29th May, 2002; and
 - iii) Assignment of Rentals in favour of Bank of China (Hong Kong) Limited vide Memorial No. UB8700784 dated 29th May, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
11 41 Car Parking Spaces, St. George Apartments, No. 81 Waterloo Road, Ho Man Tin, Kowloon	The property comprises a total of 41 car parking spaces in a 25-storey residential building erected upon a 8-storey podium consisting of carparking, club house and refuge floors. The building was completed in 2002.	33 carparking spaces are leased of which 5 carparking spaces yielding a total monthly license fee of \$12,200 whilst 28 carparking spaces are leased together with the apartment units of the building. 8 carparking spaces are currently vacant.	\$18,400,000 (100% interest attributable to the Enlarged Group: \$18,400,000)
Certain parts or shares of and in the Remaining Portion of Section H of Kowloon Inland Lot No. 2657	Inland Lot No. 2657 is held under Conditions of Sale No. 3121 for a term of 75 years commencing on 16th November, 1931 renewable for a further term of 75 years.		

Notes:

1. From our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the subject property is AP Diamond Limited vide Memorial No. UB7285549 dated 12th September, 1997.
2. 41 Car Parking Spaces comprise P1-5, P11, P13-15 and P17-21 on 1st Floor and P1-P27 on 2nd Floor of the building.
3. According to sample land searches, the property is subject to the following encumbrances:
 - i) Undertaking in favour of the Director of Buildings Hong Kong vide Memorial No. UB8003229 dated 25th February, 2000;
 - ii) Mortgage to Secure General Banking Facilities in favour of Bank of China (Hong Kong) Limited to whatever extent vide Memorial No. UB8700783 dated 29th May, 2002; and
 - iii) Assignment of Rentals in favour of Bank of China (Hong Kong) Limited vide Memorial No. UB8700784 dated 29th May, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
12 Shops 1 and 2 on Ground Floor, Flats A on 5th, 6th, 15th, 16th and 17th Floors, Flats A, B and C on 21st, 22nd, 23rd, 25th, 26th and 27th Floors together with roofs Orchid Court, No. 38 Tung On Street, Yau Ma Tei, Kowloon	Orchid Court is a 25-storey composite building with shops on the Ground Floor, podium garden on 1st Floor and 3 domestic units on each of 2nd to 27th Floors (excluding 4th, 14th and 24th Floors) completed in 1997. The property comprises two ground floor shops and 23 residential units within the development having a total gross floor area of approximately 13,048 sq.ft. (1,212.20 sq.m.), plus roofs of approximately 575 sq.ft. (53.42 sq.m.). Marine Lot No. 84 is held under a Government Lease for a term of 75 years from 18th September, 1899 renewable for a further term of 75 years.	Except with 2 residential units which are vacant, the remaining 21 residential units are subject to various tenancies with the latest tenancy expiring on the 1st April, 2008 at a total monthly rental of \$111,900. Shop 1 of the property is subject to a tenancy for a term of 3 years commencing from 15th October, 2004 at a monthly rental of \$21,500 whilst Shop 2 of the property is subject to a tenancy for a term of 3 years commencing from 16th May, 2005 at a monthly rental of \$15,000.	\$33,000,000 (100% interest attributable to the Enlarged Group: \$33,000,000)
Certain parts or shares of and in the Remaining Portions of Sub-sections 1 and 3 of Section E of Kowloon Marine Lot No. 84, the Remaining Portions of Sub-sections 1 and 2 of Section G of Kowloon Marine Lot No. 84 and the Remaining Portion of Section E of Kowloon Marine Lot No. 84			

Notes:

- 1 According to our sample searches and information provided by the Enlarged Group, we understand that the registered owner of the property is Alaston Development Limited vide Memorial No. 6965159 dated 21st April, 1994.
- 2 According to sample land searches, the property is subject to Mortgage to secure general banking facilities to the extent of an unlimited amount in favour of The Hongkong Chinese Bank, Limited (renamed as Citic Ka Wah Bank Limited) vide Memorial No. UB8075982 dated 20th April, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
13 Century Court, No. 239 Jaffe Road, Wanchai, Hong Kong	Century Court is a 21-storey (plus cockloft) composite building erected on a trapezium shaped site with a registered site area of approximately 4,002 sq.ft. (371.80 sq.m.) completed in about 1975.	Except with 3 residential units with a total gross floor area of approximately 1,605 sq.ft. (149.11 sq.m.) which is vacant, the property is let under various tenancies and licences yielding a total monthly income of \$1,075,350 with the latest commercial tenancy expiring on the 30th April, 2009.	\$208,000,000
Sub-section 1 of Section G, Section K, Section L and the Remaining Portion of Inland Lot No. 2756	The Ground to Third Floors of the building are designated for commercial uses whilst the remaining upper floors are devoted to domestic use. The total gross floor area of the property is approximately 42,014 sq.ft. (3,903.20 sq.m.). Inland Lot No. 2756 is held under a Government Lease for a term of 99 years commencing on 11th May, 1928 renewable for a further term of 99 years.	In addition, four sign boxes are subject to two monthly licences yielding a total monthly licence fees of \$10,100.	(100% interest attributable to the Enlarged Group: \$208,000,000)

Notes:

1. The registered owner of the property is King Policy Development Limited vide Memorial No. UB7001009 dated 15th March, 1997.
2. The property is subject to the following encumbrances:
 - i) Deed of Undertaking to execute a Second Legal Charge in favour of Sin Hua Bank Limited (renamed as Bank of China (Hong Kong) Limited) vide Memorial No. UB7906638 dated 30th October, 1999;
 - ii) Legal Charge to secure general banking facilities in favour of Hua Chiao Commercial Bank Limited (renamed as Bank of China (Hong Kong) Limited) to whatever extent vide Memorial No. UB8275656 dated 16th December, 2000; and
 - iii) Assignment of Rental Proceeds in favour of Hua Chiao Commercial Bank Limited (renamed as Bank of China (Hong Kong) Limited) vide Memorial No. UB8275657 dated 16th December, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
14 Penthouse (Triplex) No. C and Car Parking Space Nos. 11, 12 and 13 on Level 3 of Tower 3, Tregunter, No. 14 Tregunter Path, Mid-Levels, Hong Kong	Tower 3, Tregunter (the "Development") is a 56-storey residential building erected over a common podium and car parking podium completed in about 1993. A residents' club house and various recreational facilities are provided within the Development.	The triplex apartment unit and car parking space No. 13 is vacant whilst car parking spaces Nos. 11 and 12 are subject to two monthly licences yielding a total monthly licence fee of \$6,000.	\$118,000,000 (100% interest attributable to the Enlarged Group: \$118,000,000)
Certain parts or shares of and in Inland Lot No. 1929, Inland Lot No. 1627 and the Extension thereto, the Remaining Portion of Inland Lot No. 8306 and the Remaining Portion of Inland Lot No. 1626	The property comprises a triplex apartment unit together with 3 car parking spaces with a total gross floor area of approximately 8,018 sq.ft. (744.90 sq.m.) plus a flat roof of approximately 1,178 sq.ft. (109.44 sq.m.).		
	Inland Lot No. 1929 is held under a Government Lease for a term of 75 years from 2nd September, 1912 renewable for a further term of 75 years.		
	Inland Lot Nos. 1626 and 1627 and the Extension Thereto are held under two Government Leases for terms of 75 years from 4th February, 1901 renewable for a further term of 75 years.		
	Inland Lot No. 8306 is held under a Government Lease for a term of 999 years from 31st May, 1898.		

Notes:

1. The registered owners of the property are Best Melody Development Limited and Integrated Custodian Limited (Tenant in Common) vide Memorial No. UB8561783 dated 3rd December, 2001.
2. The property is subject to a Mortgage to secure general banking facilities in favour of Bank of China (Hong Kong) Limited for all moneys vide Memorial No. UB8561784 dated 11th December, 2001.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
15 The whole of 22nd Floor, No. 9 Queen's Road Central, Central Hong Kong	"No. 9 Queen's Road Central" is a 34-storey grade A commercial building plus a level of basement completed in 1991. The total gross floor area of the property is approximately 13,741 sq.ft. (1,276.57 sq.m.).	The property is currently subject to 3 separate tenancies with the latest expiring on the 31st March, 2007 yielding a total monthly rental of \$366,478.	\$177,000,000 (100% interest attributable to the Enlarged Group: \$177,000,000)
Certain parts or shares of and in the Remaining Portion of Section A of Marine Lot No. 102, Section C of Marine Lot No. 103, the Remaining Portion of Inland Lot No. 514 and Section A, Section B, the Remaining Portion of Section C and the Remaining Portion of Marine Lot No. 101	Marine Lot Nos. 101, 102 and 103 are held under three Government Leases for common terms of 999 years both from 16th November, 1855. Inland Lot No. 514 is held under a Government Lease for a term of 999 years from 21st January, 1857.		

Notes:

1. The registered owner of the subject property is Gilmore Limited vide Memorial No. UB8351631 dated 15th March, 2001.
2. The property is subject to the following encumbrances:
 - i) Legal Charge to secure general banking facilities in favour of Wing Hang Bank Limited and the consideration is all moneys vide Memorial No. UB9436619 dated 21st December, 2004; and
 - ii) Assignment of Rent in favour of Wing Hang Bank Limited vide Memorial No. UB9436620 dated 21st December, 2004.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
16 Ibis North Point, No. 138 Java Road, North Point, Hong Kong	“Ibis North Point” is a 29-storey hotel development accommodating a total of 275 guestrooms completed in 2 phases in 2000 and 2004 respectively. Recreational facilities and a swimming pool on roof top are provided within the development.	The property is currently operated by the Century International Hotels (HK) Limited.	\$430,000,000
The Remaining Portion of Section I of Inland Lot No. 3540, the Remaining Portion of Sub-Section 3 of Section I of Inland Lot No. 3540, the Remaining Portion of Section H of Inland Lot No. 3540, the Remaining Portion of Sub-Section 4 of Section H of Inland Lot No. 3540 and the Remaining Portion of Sub-Section 5 of Section H of Inland Lot No. 3540	The total gross floor area of the property is approximately 73,462 sq.ft. (6,824.79 sq.m.). The total floor area of the back of the house facilities is approximately 2,539 sq.ft. (235.88 sq.m.). Inland Lot No. 3540 is held under a Government Lease for a term of 75 years from 12th June, 1933 renewable for a further term of 75 years.		(100% interest attributable to the Enlarged Group: \$430,000,000)

Notes:

1. We have carried out sample land searches to the property only. However, we understand that the registered owner of the subject property is Ontone Limited.
2. The property ((except No. 144 Java Road) the Remaining Portion of Sub-Section 4 of Section H of Inland Lot No. 3540) is subject to the following encumbrances:
 - i) Legal Charge to secure general banking facilities in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) for all moneys vide Memorial No. UB8185480 dated 6th September, 2000; and
 - ii) Assignment of Gross Receipts and Charge Over Charged Account in favour of The China State Bank Limited (renamed as Bank of China (Hong Kong) Limited) vide Memorial No. UB8185481 dated 6th September, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
17 Rooms 2803-2810 on 28th Floor, Wing On House (formerly known as Realty Building), No. 71 Des Voeux Road Central, Central, Hong Kong	Wing On House is a 32-storey (including basement) commercial building completed in 1967. The property comprises portion of the office space on 28th Floor of the development having a total saleable area of approximately 5,733 sq.ft. (532.61 sq.m.).	The property was subject to two separate tenancies both for a term of 2 years and expiring on the 31st May, 2007 and 30th June, 2007 respectively yielding a total monthly rental of \$97,868.	\$39,000,000 (62.54% interest attributable to the Enlarged Group: \$24,390,600)
695/142,700th equal and undivided shares of and in Section A and the Remaining Portion of Marine Lot No. 381	Marine Lot No. 381 is held under a Government Lease for a term of 999 years commencing from 15th August, 1903.		

Notes:

1. The registered owner of the property is Bali International Finance Limited vide Memorial Nos. UB7593493 and UB7593494 both dated 30th September, 1998.
2. The property is subject to a Mortgage to secure general banking facilities in favour of Asia Commercial Bank Limited to an unlimited extent vide Memorial No. UB8756673 dated 1st August, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
18 House C7, Hawaii Garden, No. 18 Silver Cape Road, Sai Kung, New Territories	<p>"Hawaii Garden" is a low rise development comprising 19 detached/semi-detached houses completed in 1988.</p> <p>The property comprises a 2-storey semi-detached house within the development.</p> <p>The property has a gross floor area of approximately 2,350 sq.ft. (218.32 sq.m.), a garden area of approximately 917 sq.ft. (85.19 sq.m.) and a roof area of approximately 1,146 sq.ft. (106.47 sq.m.).</p> <p>Lot No. 384 in Demarcation District 224 is held under New Grant No. 6047 for a term of 99 years commencing on 1st July, 1898 which has been statutorily extended until 30th June, 2047.</p>	The property is currently vacant.	<p>\$14,000,000</p> <p>(62.54% interest attributable to the Enlarged Group: \$8,755,600)</p>

Notes:

1. The registered owner of the property is Quick Art Limited vide Memorial No. SK333118 dated 29th June, 1998.
2. As advised by the Group, the property is subject to a provisional agreement for sale and purchase dated 24th May, 2006 in favour of Dorshare Limited for a consideration of \$14,000,000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006																																	
19 Rooms 1101-1109, 11th Floor of Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	<p>Tian An Centre is a 30-storey commercial building on top of a 3-storey basement completed in 1994 and having a total gross floor area of approximately 57,893.07 sq.m. (623,161 sq.ft.) and approximately 164 car parking spaces are provided.</p> <p>The property comprises the whole of 11th Floor of Tian An Centre with a total gross floor area of approximately 1,359.54 sq.m. (14,634 sq.ft.) and the floor area breakdowns for 9 individual unit are as follow:</p> <table border="1"> <thead> <tr> <th>Unit</th> <th>Gross Floor <i>sq.m.</i></th> <th>Area <i>sq.ft.</i></th> </tr> </thead> <tbody> <tr><td>1101</td><td>204.70</td><td>2,203</td></tr> <tr><td>1102</td><td>155.47</td><td>1,673</td></tr> <tr><td>1103</td><td>154.17</td><td>1,659</td></tr> <tr><td>1104</td><td>187.53</td><td>2,019</td></tr> <tr><td>1105</td><td>138.35</td><td>1,489</td></tr> <tr><td>1106</td><td>158.65</td><td>1,708</td></tr> <tr><td>1107</td><td>102.45</td><td>1,103</td></tr> <tr><td>1108</td><td>102.45</td><td>1,103</td></tr> <tr><td>1109</td><td>155.77</td><td>1,677</td></tr> <tr><td>Total</td><td><u>1,359.54</u></td><td><u>14,634</u></td></tr> </tbody> </table>	Unit	Gross Floor <i>sq.m.</i>	Area <i>sq.ft.</i>	1101	204.70	2,203	1102	155.47	1,673	1103	154.17	1,659	1104	187.53	2,019	1105	138.35	1,489	1106	158.65	1,708	1107	102.45	1,103	1108	102.45	1,103	1109	155.77	1,677	Total	<u>1,359.54</u>	<u>14,634</u>	<p>The property is subject to two separate tenancies yielding a total monthly rental of RMB239,596 and expiring on 14th April, 2006 and 14th August, 2007 respectively.</p>	<p>\$46,800,000</p> <p>(62.54% interest attributable to the Enlarged Group: \$29,268,720)</p>
Unit	Gross Floor <i>sq.m.</i>	Area <i>sq.ft.</i>																																		
1101	204.70	2,203																																		
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1109	155.77	1,677																																		
Total	<u>1,359.54</u>	<u>14,634</u>																																		
	<p>The land use rights of the property have been granted for a term of 50 years from 8th July, 1994 to 7th July, 2044 for comprehensive use.</p>																																			

Note:

1. Pursuant to nine Certificates of Real Estate Ownership Nos. 005128, 005125, 005121, 005122, 005117, 005118, 005119, 005120 and 005115 issued by Shanghai Housing and Land Resources Administration Bureau on 21st April, 2005, the title of the property has been transferred to Sing Hing Investment Limited, a wholly owned subsidiary of the Group, with a land use rights term of 50 years from 8th July, 1994 for comprehensive use.
2. The opinion of the Enlarged Group's legal adviser on PRC law, ShangHai Shenhua Law Firm, states that:
 - i) According to the Certificates of Real Estate Ownership, Sing Hing Investment Limited has the land use rights of the subject property, with a total gross floor area of 1,359.54 sq.m., for a term of 50 years commencing from 8th July, 1994 for comprehensive use.
 - ii) Sing Hing Investment Limited is in possession of a proper legal title to the property and is freely transferable by way of transfer, mortgage or letting.
3. We have prepared our valuation on the following assumptions:
 - i) Sing Hing Investment Limited is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.
 - ii) All land premium and other costs of ancillary utility services have been settled in full.
 - iii) The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.

Group II – Property interests held for sale by the Enlarged Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
20 Units A on 22nd, 25th to 27th Floors, Units B on 23rd, 27th Floors, Units C on 23rd, 25th to 27th Floors, Units D on 11th, 23rd, 26th to 27th Floors and Duplex Units A and C on 28th Floor, A to D on 30th and 32nd Floors of St. George Apartments, No. 81 Waterloo Road, Ho Man Tin, Kowloon	<p>The property comprises 24 residential units on various levels in a 25-storey residential building erected upon a 8-storey podium consisting of carparking, club house and refuge floors. The building was completed in 2002.</p> <p>The total gross floor area of the property is 43,563 sq.ft. (4,047.10 sq.m.).</p> <p>Inland Lot No. 2657 is held under Conditions of Sale No. 3121 for a term of 75 years commencing on 16th November, 1931 renewable for a further term of 75 years.</p>	The property is currently vacant.	<p>\$354,000,000</p> <p>(100% interest attributable to the Enlarged Group: \$354,000,000)</p>
Certain parts or shares of and in the Remaining Portion of Section H of Kowloon Inland Lot No. 2657			

Notes:

1. We have carried out sample land searches to the property only. However, we understand that the registered owner of the subject property is AP Diamond Limited vide Memorial No. UB7285549 dated 12th September, 1997.
2. According to sample land searches, the property is subject to the following encumbrances:
 - i) Undertaking in favour of the Director of Buildings Hong Kong vide Memorial No. UB8003229 dated 25th February, 2000;
 - ii) Mortgage to Secure General Banking Facilities in favour of Bank of China (Hong Kong) Limited to whatever extent vide Memorial No. UB8700783 dated 29th May, 2002;
 - iii) Assignment of Rentals in favour of Bank of China (Hong Kong) Limited vide Memorial No. UB8700784 dated 29th May, 2002.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
21 34 Car Parking Spaces, St. George Apartments, No. 81 Waterloo Road, Ho Man Tin, Kowloon	The property comprises a total of 34 car parking spaces in a 25-storey residential building erected upon a 8-storey podium consisting of carparking, club house and refuge floors. The building was completed in 2002.	The property is currently vacant.	\$16,000,000 (100% interest attributable to the Enlarged Group: \$16,000,000)
Certain parts or shares of and in the Remaining Portion of Section H of Kowloon Inland Lot No. 2657	Inland Lot No. 2657 is held under Conditions of Sale No. 3121 for a term of 75 years commencing on 16th November, 1931 renewable for a further term of 75 years.		

Notes:

1. We have carried out sample land searches to the property only. However, we understand that the registered owner of the subject property is AP Diamond Limited vide Memorial No. UB7285549 dated 12th September, 1997.
2. 34 Car Parking Spaces comprise P6-10, P12 and P16 on 1st Floor, P1, P10-P16, P21-P23, P25, P27 on 3rd Floor and P1-P14 on 4th Floor the building.
3. According to sample land searches, the property is subject to the following encumbrances:
 - i) Undertaking in favour of the Director of Buildings Hong Kong vide Memorial No. UB8003229 dated 25th February, 2000;
 - ii) Mortgage to Secure General Banking Facilities in favour of Bank of China (Hong Kong) Limited to whatever extent vide Memorial No. UB8700783 dated 29th May, 2002; and
 - iii) Assignment of Rentals in favour of Bank of China (Hong Kong) Limited vide Memorial No. UB8700784 dated 29th May, 2002.

Group III – Property Interests held and occupied by the Enlarged Group in Hong Kong, Macau and the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
22 The whole of 4th Floor of Tower II including Portion of the Roof of Podium, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong 337/227,600th equal and undivided shares of and in Inland Lot No. 8423	The property comprises the entire office space on the 4th floor and portion of the roof of Podium of Tower II within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 23 office floors. The property has a saleable area of approximately 5,208 sq.ft. (483.84 sq.m.) and a flat roof area of approximately 13,910 sq.ft. (1,292.28 sq.m.). Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.	As advised, the property is currently owner-occupied by the Enlarged Group.	\$48,000,000 (62.54% interest attributable to the Enlarged Group: \$30,019,200)

Note:

The registered owner of the property is Texgulf Limited vide Memorial No. UB2059320 dated 24th March, 1981.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
23 The whole of 11th Floor of Tower II, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong 1,246/227,600th shares of and in Inland Lot No. 8423	<p>The property comprises the entire office space on 11th floor of Tower II within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 23 office floors.</p> <p>The property has a saleable area of approximately 9,161 sq.ft. (851.07 sq.m.).</p> <p>Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.</p>	<p>As advised, the property is currently owner-occupied by the Group.</p>	<p>\$78,500,000</p> <p>(62.54% interest attributable to the Enlarged Group: \$49,093,900)</p>

Notes:

1. The registered owner of the property is Texgulf Limited vide Memorial No. UB8260871 dated 23rd November, 2000.
2. The property is subject to an unlimited First Legal Charge to secure general banking facilities in favour of DBS Kwong On Bank Limited vide Memorial No. UB8260872 dated 23rd November, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006										
24 Office Nos. 2201, 2201A and 2202 on 22nd Floor of Tower I, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong	The property comprises three office units on 22nd floor of Tower I within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 28 office floors.	As advised, the property is currently owner-occupied by the Enlarged Group.	\$79,700,000										
1,390/227,600th shares of and in Inland Lot No. 8423	The property has a total saleable area of approximately 9,002 sq.ft. (836.32 sq.m.) and the breakdown are listed as follows:		(62.54% interest attributable to the Enlarged Group: \$49,844,380)										
	<table border="1"> <thead> <tr> <th>Unit</th> <th>Saleable Area <i>sq.ft.</i></th> </tr> </thead> <tbody> <tr> <td>2201</td> <td>3,038</td> </tr> <tr> <td>2201A</td> <td>1,487</td> </tr> <tr> <td>2202</td> <td><u>4,477</u></td> </tr> <tr> <td>Total:</td> <td><u><u>9,002</u></u></td> </tr> </tbody> </table>	Unit	Saleable Area <i>sq.ft.</i>	2201	3,038	2201A	1,487	2202	<u>4,477</u>	Total:	<u><u>9,002</u></u>		
Unit	Saleable Area <i>sq.ft.</i>												
2201	3,038												
2201A	1,487												
2202	<u>4,477</u>												
Total:	<u><u>9,002</u></u>												
	Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.												

Notes:

1. The registered owner of the property is Yee Li Ko Investment Limited vide Memorial Nos. UB8203614 dated 5th September, 2000, UB8723486 dated 10th June, 2002 and UB5770117 dated 28th July, 1993 respectively.
2. The property is subject to the following encumbrances:
 - i) Tripartite Legal Charge/Mortgage in favour of Standard Chartered Bank vide Memorial No. UB8874746 dated 10th February, 2003 and the consideration is all moneys (re: Office Nos. 2201 and 2201A);
 - ii) Mortgage to secure general banking facilities in favour of Wing Hang Bank Limited vide Memorial No. UB5770119 dated 28th July, 1993 (re: Office No. 2202); and
 - iii) Second Legal Charge in favour of Wing Hang Bank in favour of Memorial No. UB8124046 dated 20th June, 2000 and the consideration is all moneys (re: Office No. 2202).

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
25 Shop E on Ground Floor, Edifício da Associação Comercial de Macau (中華總商會大廈), No. 298-316 Avenida do Dr. Rodrigo Rodrigues (羅理基博士大馬路), No. 147-191 Rua de Xangai (上海街) and No. 111-123 Rua de Pequim (北京街), Macau	<p>The property comprises one of the various retail shops with a mezzanine on the ground floor of Edifício da Associação Comercial de Macau.. It is a 20-storey (plus mezzanine floor) office building and was completed in 1993 or thereabout. Ground floor is designated for retail purposes whereas the upper floors (4/F to 19/F) are for office uses. Car parking spaces are provided on the 1/F to 3/F.</p> <p>The total saleable area of the property is approximately 195.48 sq.m. (2,104 sq.ft.)</p> <p>The property is held under a Concessao Por Arrendamento (租賃批地) for a term of 25 years commencing on 29th July, 1988.</p>	The property is currently owner-occupied by the Group.	<p>\$18,500,000</p> <p>(62.54% interest attributable to the Enlarged Group: \$11,569,900)</p>

Notes:

1. The registered owner of the property under Conservatoria do Registo Predial is Sun Hung Kai Servicos e Consultadoria de Invesrimentos (Macau), Limitada vide 3284 F15K and 66044 G dated 27th April 1994 and 10th June 2003 respectively.
2. According to our recent title search, no material encumbrances is registered against the property.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
26 Rooms 1901-1903, 19th Floor of Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Tian An Centre is a 30-storey commercial building on top of a 3-storey basement completed in 2004 and having a total gross floor area of approximately 57,893.07 sq.m. (623,161 sq.ft.) and approximately 164 car parking spaces are provided.	The property is currently owner occupied by the Group.	\$18,200,000 (62.54% interest attributable to the Enlarged Group: \$11,382,280)

The property comprises 3 office units on 19th Floor of Tian An Centre and the gross floor area breakdown are as follow:

Unit	Gross Floor sq.m.	Area sq.ft.
1901	204.63	2,203
1902	155.17	1,670
1903	153.68	1,654
Total	<u>513.48</u>	<u>5,527</u>

The land use rights of the property have been granted for a term of 50 years from 8th July, 1994 to 7th July, 2044 for comprehensive use.

Notes:

1. Pursuant to three Certificates of Real Estate Ownership Nos. 003353, 003352 and 003351 issued by Shanghai Housing and Land Resources Administration Bureau on 15th March, 2005, the title of the property has been transferred to 興業控股有限公司, a wholly owned subsidiary of the Group, for a land use term of 50 years from 8th July, 1994 for comprehensive use.
2. The opinion of the Enlarged Group's legal adviser on PRC law, ShangHai Shenhua Law Firm, states that:
 - i) According to the Certificates of Real Estate Ownership, 興業控股有限公司 has the land use rights of the subject property, with a total gross floor area of 513.48 sq.m., for a term of 50 years commencing from 8th July, 1994 for comprehensive use.
 - ii) 興業控股有限公司 is in possession of a proper legal title to the property and is freely transferable by way of transfer, mortgage or letting.
3. We have prepared our valuation on the following assumptions:
 - i) 興業控股有限公司 is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.
 - ii) All land premium and other costs of ancillary utility services have been settled in full.
 - iii) The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.

Group IV – Property interests leased and occupied by the Enlarged Group in Hong Kong

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
27 Room 405, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	<p>Allied Kajima Building is a 24-storey commercial/office building with 2 levels of basement completed in 1990.</p> <p>The property comprises an office unit on the 4th floor of Allied Kajima Building with a gross floor area of approximately 229.47 sq.m. (2,470 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st February, 2005 to 31st January, 2007 at a monthly rent of HK\$39,420, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(65% interest attributable to the Enlarged Group: No Commercial Value)</p>
28 Cubicle Nos. 4, 6 & 8, 13/F, Allied Cargo Centre, 150-164 Texaco Road, Tsuen Wan, New Territories	<p>Allied Cargo Centre is a 26-storey godown building with car parking spaces on the ground and 1st floor completed in 1991.</p> <p>The property comprises three industrial units on the 13th floor of Allied Cargo Centre with a total gross floor area of approximately 157.56 sq.m. (1,696 sq.ft.) and is currently occupied by the Enlarged Group as warehouse use.</p> <p>The property is leased to the Enlarged Group at a monthly rent of HK\$8,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(65% interest attributable to the Enlarged Group: No Commercial Value)</p>
29 Room 2903, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong	<p>China Online Centre is a 47-storey composite commercial/office building with 60 car parking spaces completed in 2000.</p> <p>The property comprises an office unit on 29th floor of China Online Centre with a gross floor area of approximately 140.28 sq.m. (1,510 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st November, 2004 to 31st October, 2006 at a monthly rent of HK\$20,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(65% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
30 Units B, C & D, 3/F, Queen's Centre, 58-64 Queen's Road East, Wanchai, Hong Kong	<p>Queen's Centre is a 21-storey commercial building with basement completed in 1982.</p> <p>The property comprises three office units on the 3rd floor of Queen's Centre with a gross floor area of approximately 237.64 sq.m. (2,558 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 8th July, 2005 to 7th July, 2007 at a monthly rent of HK\$24,301, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(65% interest attributable to the Enlarged Group: No Commercial Value)</p>
31 Suites 1107-1111, 11/F, One Pacific Place, 88 Queensway, Admiralty, Hong Kong	<p>One Pacific Place is a 40-storey commercial/office complex erected over a 3-storey shopping podium completed in 1988.</p> <p>The property comprises five office units on the 11th floor of One Pacific Place with a total gross floor area of approximately 839.28 sq.m. (9,034 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of three and a half years from 1st June, 2004 to 31st December, 2007 at a monthly rent of HK\$219,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
32 Suites 1101-1106 & 1112, 11/F and Level 12, One Pacific Place, 88 Queensway, Admiralty, Hong Kong	<p>One Pacific Place is a 40-storey commercial/office complex erected over a 3-storey shopping podium completed in 1988.</p> <p>The property comprises seven office units on the 11th floor and the whole of Level 12 of One Pacific Place with a total gross floor area of approximately 2,790.60 sq.m. (30,038 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of three and a half years from 1st January, 2004 to 31st December, 2007 at a monthly rent of HK\$805,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
33 23/F, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong	<p>Siu On Centre is a 31-storey commercial/office complex erected over a 4-storey carparking podium completed in 1994.</p> <p>The property comprises the whole floor of 23rd floor of Siu On Centre with a gross floor area of approximately 433.57 sq.m. (4,667 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of three years from 1st September, 2003 to 31st August, 2006 at a monthly rent of HK\$42,003, exclusive of rates, management fees and other outgoings. A tenancy renewal is arranged for a term of three years from 1st September, 2006 to 31st August, 2009 at a monthly rent of HK\$51,337.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
34 Cubicle No. 9, 13/F, Allied Cargo Centre, Nos. 150-164 Texaco Road, Tsuen Wan, New Territories	<p>Allied Cargo Centre is a 26-storey godown building with car parking spaces on ground and 1st floors completed in 1991.</p> <p>The property comprises a unit on the 13th floor of Allied Cargo Centre with a gross floor area of approximately 58.71 sq.m. (632 sq.ft.) and is currently occupied by the Enlarged Group as warehouse use.</p> <p>The property is leased to the Enlarged Group from 1st May, 2002 at a monthly rental at HK\$2,100 with no expiry date and termination with one month notice.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
35 Suites 2202, 2203, 2204 & 2205B, 22/F, 9 Queen's Road Central, Central, Hong Kong	<p>"No. 9 Queen's Road Central" is a 34-storey commercial building with a basement completed in 1991. The property comprises the office unit nos. 2202, 2203, 2204 and 2205B on the 22nd floor of "No. 9 Queen's Road Central".</p> <p>The property has a total gross floor area of approximately 828.97 sq.m. (8,923 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$249,844, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
36 Units 1, 2 & 3, 27/F, Jupiter Tower, No. 9 Jupiter Street, North Point, Hong Kong	<p>Jupiter Tower is a 28-storey commercial/office complex with one level of basement completed in 1997.</p> <p>The property comprises three office units on the 27th floor of Jupiter Tower with a total gross floor area of approximately 144.27 sq.m. (1,553 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 15th September, 2005 to 14th September, 2007 at a monthly rent of HK\$15,996, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
37 Units 902, 903 & 905, 9/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong	<p>Bank of America Tower is a 38-storey commercial/office complex with one level of basement completed in 1975.</p> <p>The property comprises three office units on the 9th floor of Bank of America Tower with a total gross floor area of approximately 490.52 sq.m. (5,280 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of three years from 23rd March, 2006 to 22nd March, 2009 at a monthly rent of HK\$158,400, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
38 2/F, Silvercorp International Tower, 707-713 Nathan Road, Mongkok, Kowloon, Hong Kong	<p>Silvercorp International Tower is a 24-storey commercial/office complex with basement completed in 1994.</p> <p>The property comprises the whole of second floor of Silvercorp International Tower with a gross floor area of approximately 362.50 sq.m. (3,902 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st July, 2005 to 30th June, 2007 at a monthly rent of HK\$48,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
39 G/F, No. 288 Sha Tsui Road, Tsuen Wan, New Territories	<p>The property comprises a shop unit on the ground floor of a 4-storey composite building completed in 1960.</p> <p>The property has a saleable of approximately 157.93 sq.m. (1,700 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 6th December, 2005 to 5th December, 2007 at a monthly rent of HK\$80,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
40 Portion A, Shop No. 2, G/F, Wah Hing Building, 449-455 King's Road, North Point, Hong Kong	<p>The property comprises a shop unit on the ground floor of a 23-storey composite building. The building was completed in 1979.</p> <p>The property has a saleable area of approximately 139.35 sq.m. (1,500 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of three years from 1st July, 2003 to 30th June, 2006 at a monthly rent of HK\$40,800, exclusive of rates, management fees and other outgoings. A tenancy renewal is being arranged for a term of 2 years from 1st July, 2006 to 30th June, 2008 at a monthly rental of HK\$45,700.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
41 Shop No. 3, G/F, No. 170 Jockey Club Road, Sheung Shui, New Territories	<p>The property comprises a shop unit on the ground floor of a 3-storey composite building. The building was completed in 1973.</p> <p>The property has a saleable area of approximately 176.51 sq.m. (1,900 sq.m.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 13th June, 2004 to 12th June, 2006 at a monthly rent of HK\$41,000, exclusive of rates, management fees and other outgoings. A tenancy renewal is being arranged for a term of one year from 13th June, 2006 to 12th June, 2007 at a monthly rental of HK\$47,000.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
42 Unit 1804, 18/F Shenhua Commercial Building, Nanhu Road, Luohu District, Shenzhen, the PRC	<p>Shenhua Commercial Building is a 32-storey commercial/office building completed in 2001.</p> <p>The property comprises an office unit on the 18th floor of Shenhua Commercial Building with a gross floor area of approximately 104.59 sq.m. (1,125.82 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 18th March, 2006 to 31st March, 2008 at a monthly rent of HK\$5,063, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
43 Room 815, 8/F, Peninsula Court, 8735 Paseo De Roxas, Makati City, Philippines	<p>The property comprises an office unit on the 8th floor of a 8-storey building. The building was completed in 1969.</p> <p>The property has a gross floor area of approximately 65.00 sq.m. (699.66 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of one year from 1st August, 2006 to 31st July, 2007 at a monthly rent of HK\$2,627, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(62.54% interest attributable to the Enlarged Group: No Commercial Value)</p>
44 Flats A-C, 3/F, East South Building, 475-481 Hennessy Road, Causeway Bay, Hong Kong	<p>East South Building a 16-storey residential/commercial building completed in 1965.</p> <p>The property comprises three office units on the 3rd floor of East South Building with a gross floor area of approximately 371.61 sq.m. (4,000 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 9th April, 2006 to 8th April, 2008 at a monthly rent of HK\$98,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
45 G/F, 100 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	<p>The property comprises a shop unit on ground floor of a 12-storey composite building. The building was completed in 1967.</p> <p>The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 18th February, 2005 to 17th February, 2007 at a monthly rent of HK\$28,750, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
46 1/F-2/F, China Travel Building, 77 Queen's Road Central, Central, Hong Kong	<p>The property comprises the whole of 1st and 2nd floors of a 13-storey commercial building. The building was completed in 1973.</p> <p>The property has a gross floor area of approximately 156.73 sq.m. (1,687 sq.ft.) on 1st floor and 148.64 sq.m. (1,600 sq.ft.) on 2nd floor and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 21st October, 2004 to 20th October, 2006 at a monthly rent of HK\$40,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
47 Offices A & B, 2/F Hennessy Plaza, 164-166 Hennessy Road, Wanchai, Hong Kong	<p>The property comprises two office units on the 2nd floor of a 16-storey commercial building. The building was completed in 1977.</p> <p>The property has a total gross floor area of approximately 120.77 sq.m. (1,300 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st May, 2005 to 30th April, 2007 at a monthly rent of HK\$14,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
48 G/F & Cockloft, Kong Kai Building, 184 Aberdeen Main Road, Aberdeen, Hong Kong	<p>The property comprises a shop unit on the ground floor and cockloft thereto of a 24-storey composite building. The building was completed in 1990.</p> <p>The property has a gross floor area of approximately 92.90 (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$74,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
49 G/F & Mezzanine Floor, 255 Des Voeux Road West, Western, Hong Kong	<p>The property comprises a shop unit on the ground floor and mezzanine floor of a 6-storey composite building. The building was completed in 1979.</p> <p>The property has a gross floor area of approximately 88.26 sq.m. (950 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 15th May, 2005 to 14th May, 2007 at a monthly rent of HK\$20,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
50 Shops 201-2, Olympia Plaza, 255 King's Road, North Point, Hong Kong	<p>Olympia Plaza is a 26-storey commercial/office complex with three levels of basement completed in 1999.</p> <p>The property comprises two shop units on the 2nd floor of Olympia Plaza with a total gross floor area of approximately 99.59 sq.m. (1,072 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 16th June, 2005 to 15th June, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
51 Shop 3, G/F, Pacific Plaza, 410-424B Des Voeux Road West, Western, Hong Kong	<p>Pacific Plaza is a 28-storey commercial/office complex erected over a 4-storey shopping arcade completed in 1992.</p> <p>The property comprises a shop unit on the ground floor of Pacific Plaza with a gross floor area of approximately 68.09 sq.m. (733 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 16th February, 2005 to 15th February, 2007 at a monthly rent of HK\$27,854, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
52 Shop 1009B, 1/F, United Centre, 95 Queensway, Admiralty, Hong Kong	<p>United Centre is a 36-storey commercial/office complex erected over a 6-storey commercial podium completed in 1981.</p> <p>The property comprises a shop unit on the 1st floor of United Centre with a gross floor area of approximately 53.42 sq.m. (575 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st March, 2005 to 28th February, 2007 at a monthly rent of HK\$48,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
53 2/F, Wincome Centre, 39 Des Voeux Road Central, Central, Hong Kong	<p>The property comprises the whole of 2nd floor of a 24-storey commercial building. The building was completed in 1992.</p> <p>The property has a gross floor area of approximately 248.98 sq.m.(2,680 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 26th September, 2005 to 25th September, 2007 at a monthly rent of HK\$58,960, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
54 21/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	<p>Allied Kajima Building is a 24-storey commercial/ office building with 2 levels of basement completed in 1990.</p> <p>The property comprises the whole of 21st floor of Allied Kajima Building with a gross floor area of approximately 833.13 sq.m. (9,506 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st January, 2006 to 31st December, 2007 at a monthly rent of HK\$216,736.80, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
55 20/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	<p>Allied Kajima Building is a 24-storey commercial/ office building with 2 levels of basement completed in 1990.</p> <p>The property comprises the whole of 20th floor of Allied Kajima Building with a gross floor area of approximately 833.13 sq.m. (9,506 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two and a half years from 1st July, 2005 to 31st December, 2007 at a monthly rent of HK\$216,736.80, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
56 Room 802, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	<p>Allied Kajima Building is a 24-storey commercial/ office building with 2 levels of basement completed in 1990.</p> <p>The property comprises an office unit on the 8th floor of Allied Kajima Building with a gross floor area of approximately 130.99 sq.m. (1,410 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st February, 2005 to 31st January, 2007 at a monthly rent of HK\$28,200, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
57 1/F, 595-599A Shanghai Street, 6A-6C Argyle Street, Mongkok, Kowloon	<p>The property comprises an office unit on first floor of a 16-storey composite building. The building was completed in 1966.</p> <p>The property has a gross floor area of approximately 244.52 sq.m. (2,632 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$70,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
58 G/F & Cockloft, 60 Hong Ning Road, Kwun Tong, Kowloon	<p>The property comprises a shop unit on the ground floor and cockloft thereto of a 6-storey composite building. The building was completed in 1968.</p> <p>The property has a gross floor area of approximately 86.40 sq.m. (930 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 6th May, 2005 to 5th May, 2007 at a monthly rent of HK\$38,800, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
59 1/F, Foon Shing Building, 732 Nathan Road, Mongkok, Kowloon	<p>The property comprises the whole of first floor of a 12-storey composite building. The building was completed in 1975.</p> <p>The property has a gross floor area of approximately 148.83 sq.m. (1,602 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 16th January, 2005 to 15th January, 2007 at a monthly rent of HK\$23,700, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
60 G/F, On Keung Building, 51-65 Hong Keung Street, San Po Kong, Kowloon	<p>The property comprises a shop unit on the ground floor of a 8-storey composite building. The building was completed in 1963.</p> <p>The property has a gross floor area of approximately 111.48 sq.m. (1,200 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of four years from 3rd January, 2004 to 2nd January, 2008 at a monthly rent of HK\$30,800, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
61 2/F, Cheong Hing Building, 72 Nathan Road, Tsimshatsui, Kowloon	<p>The property comprises the whole of second floor of a 13-storey composite building. The building was completed in 1964.</p> <p>The property has a gross floor area of approximately 278.70 sq.m. (3,000 sq.ft.) and is currently occupied by the Enlarged Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$51,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
62 Shop No. 43, 1/F, Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, Kowloon	<p>Kwai Chung Plaza is a 27-storey residential/commercial complex erected over a 4-storey shopping podium completed in 1990.</p> <p>The property comprises a shop unit on the 1st floor of Kwai Chung Plaza with a gross floor area of approximately 133.13 sq.m. (1,433 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 16th October, 2004 to 15th October, 2006 at a monthly rent of HK\$41,392, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
63 G/F, 270 Cheung Sha Wan Road, Sham Shui Po, Kowloon	<p>The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1961 .</p> <p>The property has a gross floor area of approximately 109.62 sq.m. (1,180 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of three years from 8th February, 2004 to 7th February, 2007 at a monthly rent of HK\$31,972.50, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
64 G/F, 1/F and Flat Roof, 124 Ma Tau Wai Road, Hung Hom, Kowloon	<p>The property comprises the whole of ground floor, first floor and flat roof of a 10-storey composite building. The building was completed in 1987.</p> <p>The property has a total gross floor area of approximately 172.80 sq.m. (1,860 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st June, 2005 to 31st May, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
65 1/F, Double Set Commercial Centre, 37A-37B Jordan Road, Jordan Kowloon	<p>The property comprises an office unit on the first floor of a 18-storey commercial building. The building was completed in 1991.</p> <p>The property has a gross floor area of approximately 139.81 sq.m. (1,505 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 9th September, 2005 to 8th September, 2007 at a monthly rent of HK\$40,700, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
66 Unit 119, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon	<p>Cheung Sha Wan Plaza is a commercial/office complex comprising two towers with carparking spaces on 3/F and 4/F completed in 1989.</p> <p>The property comprises a shop unit on the first floor of Cheung Sha Wan Plaza with a gross floor area of approximately 215.35 sq.m. (2,318 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st June, 2004 to 31st May, 2006 at a monthly rent of HK\$51,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
67 Shop D, G/F, Lee Fung Building, 88-96 Argyle Street, 19 Yim Po Fong Street, 104 Hak Po Street, Mongkok, Kowloon	<p>The property comprises a shop unit on the ground floor of a 13-storey composite building. The building was completed in 1960.</p> <p>The property has a gross floor area of approximately 78.97 sq.m. (850 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st February, 2005 to 31st January, 2007 at a monthly rent of HK\$75,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
68 G/F, 271 To Kwa Wan Road, To Kwa Wan, Kowloon	<p>The property comprises a shop unit on the ground floor of a 8-storey composite buildings. The building was completed in 1960.</p> <p>The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$42,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
69 G/F including Yard, 1/F, Flat Roofs & Canopy, 27 Lung Kong Road, Kowloon City, Kowloon	<p>The property comprises a shop unit on the ground floor including yard, first floor, flat roofs and canopy of a 6-storey composite building. The building was completed in 1974.</p> <p>The property has a total gross floor area of approximately 185.80 sq.m. (2,000 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 25th September, 2005 to 24th September, 2007 at a monthly rent of HK\$46,000 exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
70 Shop A1, G/F, Hamilton Commercial Building, 558-560 Nathan Road, Yau Ma Tei, Kowloon	<p>The property comprises a shop unit on the ground floor of a 21-storey commercial building completed in 1987.</p> <p>The property has a gross floor area of approximately 95.69 sq.m. (1,030 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 18th February, 2006 to 17th February, 2008 at a monthly rent of HK\$49,500, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
71 Room A, G/F, Hamilton Commercial Building, 558-560 Nathan Road, Yau Ma Tei, Kowloon	<p>The property comprises a shop unit on the ground floor of a 21-storey commercial building completed in 1987.</p> <p>The property has a gross floor area of approximately 6.50 sq.m. (70.00 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 18th February, 2006 to 17th February, 2008 at a monthly rent of HK\$3,300, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
72 Shop E 4f, G/F, Tai Yau Building, No. 56-58 Ivy Street, Tai Kok Tsui, Kowloon	<p>The property comprises a shop unit on the ground floor of a 14-storey composite building. The building was completed in 1974.</p> <p>The property has a gross floor area of approximately 130.06 sq.m. (1,400 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 15th November, 2005 to 14th November, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
73 Shop No. G13-14, G/F, Kwun Tong Plaza, No. 68 Hoi Yuen Road, Kwun Tong, Kowloon	<p>Kwun Tong Plaza is a 14-storey (including a mezzanine floor) commercial/office complex with shopping arcade on 1/F to 3/F and car parking spaces on 5/F to 11/F completed in 1986.</p> <p>The property comprises a shop unit on the ground floor of Kwun Tong Plaza a gross floor area of approximately 46.08 sq.m. (496 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of five years from 24th January, 2006 to 23rd January, 2011 at a monthly rent of HK\$98,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
74 Workshop No. 1A, G/F, International Plaza, No. 20 Sheung Yuet Road, Kowloon Bay, Kowloon	<p>The property comprises a workshop unit on the ground floor of a 12-storey industrial building with car parking spaces on ground floor and one level of basement. The building was completed in 1987.</p> <p>The property has a gross floor area of approximately 89.19 sq.m. (960 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two and a half years from 1st June, 2006 to 30th November, 2008 at a monthly rent of HK\$68,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
75 Units 1816B-1818A, 18/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan, New Territories	<p>Nam Fung Centre is a 24-storey commercial/office complex erected over a 2-storey shopping podium completed in 1983.</p> <p>The property comprises two office units on 18th floor of Nam Fung Centre with a total gross floor area of approximately 164.90 sq.m. (1,775 sq.ft.) and is currently occupied by the Group as office use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st July, 2004 to 30th June, 2006 at a monthly rental of HK\$22,075 exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
76 Shops 15B-D, Level 1, Lucky Plaza, 1-15 Wong Pok Street, Shatin, New Territories	<p>Lucky Plaza is a residential/commercial complex erected over a 3-storey shopping podium completed in 1983.</p> <p>The property comprises a shop unit on Level 1 of Lucky Plaza with a total gross floor area of approximately 147.43 sq.m. (1,587 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$95,200, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
77 Shop B2, Central Plaza, 51-59 Kwong Fuk Road, Tai Po, New Territories	<p>Central Plaza is a 16-storey composite building completed in 1991.</p> <p>The property comprises a shop unit on the ground floor of Central Plaza with a gross floor area of approximately 120.77 sq.m. (1,300 sq.ft.) and is currently occupied by the Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st January, 2006 to 31st December, 2007 at a monthly rent of HK\$34,500, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
78 G/F, No. 195 Castle Peak Road, Yuen Long, New Territories	<p>The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1972.</p> <p>The property has a gross floor area of approximately 97.54 sq.m. (1,050 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 3rd July, 2004 to 2nd July, 2006 at a monthly rent of HK\$70,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
79 Shop No. 12, G/F, Ming Wai House, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories	<p>The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1972.</p> <p>The property has a gross floor area of approximately 74.32 sq.m. (800 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st September, 2005 to 31st August, 2007 at a monthly rent of HK\$45,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
80 Shop No. 11, G/F, Ming Wai House, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories	<p>The property comprises a shop unit on the ground floor of a 6-storey composite building erected over a 4-storey car parking podium. The building was completed in 1972.</p> <p>The property has a gross floor area of approximately 74.32 sq.m. (800 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$32,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
81 Flat A, G/F, Sun Fung House, 113-119 San Fung Avenue, Shek Wu Hui., New Territories	<p>The property comprises a shop unit on ground floor of a 4-storey composite building. The building was completed in 1966.</p> <p>The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 10th November, 2005 to 9th November, 2007 at a monthly rent of HK\$50,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
82 Shop 6, G/F & Cockloft, 49 Tai Ho Road, Tsuen Wan, New Territories	<p>The property comprises a shop unit on the ground floor of a 7-storey composite building. The building was completed in 1966.</p> <p>The property has a gross floor area of approximately 157.93 sq.m. (1,700 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$66,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>
83 Shop G31, G/F, Metro City, Phase II, 8 Yan King Road, Tseung Kwan O, New Territories	<p>The property comprises a shop unit on the ground floor of a 3-storey commercial podium with basement completed in 1999.</p> <p>The property has a gross floor area of approximately 132.38 sq.m. (1,425 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of two years from 6th January, 2005 to 5th January, 2007 at a monthly rent of HK\$32,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
84 Shop 134A, 1/F, Kingswood Ginza, Phase 2, Tsin Shui Wai, New Territories	<p>The property comprises a shop unit on the first floor of a 25-storey commercial/office building. The building was completed in 1997.</p> <p>The property has a gross floor area of approximately 62.15 sq.m. (669 sq.ft.) and is currently occupied by the Enlarged Group as shop use.</p> <p>The property is leased to the Enlarged Group for a term of three years from 16th November, 2005 to 15th November, 2008 at a monthly rent of HK\$34,000, exclusive of rates, management fees and other outgoings.</p>	<p>No Commercial Value</p> <p>(36.39% interest attributable to the Enlarged Group: No Commercial Value)</p>

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); (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 percentage 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)
	Quality HealthCare Asia Limited ("QHA") (Note 2)	102,000 (Note 6)	0.05	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, and which has an indirect interest in more than 20 per cent. of the issued share capital of QHA. A controlled corporation (within the meaning of Part XV of the SFO) of the Company has a direct interest in more than 20 per cent. of the issued share capital of SAC. Therefore, AGL, QHA, SHK and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.
3. These represented interests 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. This represented an interest in 102,000 shares of QHA.
7. 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 ten per cent. 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 and the underlying Shares

Name of Shareholder	Number of Shares and underlying Shares held	Approximate percentage of the issued share capital	<i>Notes</i>
AGL	483,048,065	89.92	1
Lee and Lee Trust	483,048,065	89.92	2, 3

Notes:

1. The interest included the holding of: (i) 167,061,619 Shares and an interest in 33,412,323 units of warrants of the Company held by Capscore Limited (“Capscore”); (ii) 4,186,632 Shares and an interest in 837,324 units of warrants of the Company held by Citiwealth Investment Limited (“Citiwealth”); (iii) 134,953,783 Shares and an interest in 26,990,756 units of warrants of the Company held by Sunhill Investments Limited (“Sunhill”); and (iv) 96,338,025 Shares and an interest in 19,267,603 units of warrants of the Company held by AGL. The said warrants of the Company (the “2009 Warrants”) held by Capscore, Citiwealth, Sunhill and AGL giving rise to an interest in an aggregate of 80,508,006 underlying Shares. The 2009 Warrants entitled the holders thereof to subscribe at any time during the period from 7th June, 2006 to 6th June, 2009 (both days inclusive) for the fully paid Shares at an initial subscription price of HK\$10 per Share (subject to adjustments). Capscore, Citiwealth and Sunhill are all wholly-owned subsidiaries of AGL. AGL was therefore deemed to have an interest in the Shares and the underlying Shares in which Capscore, Citiwealth and Sunhill were interested.
2. The figure referred to the same interest of AGL in 402,540,059 Shares and an interest in 80,508,006 units of warrants of the Company.
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 40.72% 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 percentage of the 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 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

- SHKIS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK\$14,783,090.86 and has been repaid. SHKS has 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 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 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 totaling 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 an aggregate amount of approximately HK\$34,909,446 for an aggregate consideration of HK\$124,887,296. Further details were disclosed in the joint announcement of AGL and the Company 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 cent. per annum. Further details were disclosed in a joint announcement of AGL, the Company and SHK dated 8th November, 2005 and their respective circulars dated 25th November, 2005.
- (c) An sale and purchase agreement dated 18th June, 2005 was entered into between (i) HKCB Corporation Limited as vendor; (ii) Lippo China Resources Limited as warrantor; (iii) Island New Finance Limited (“INFL”) as purchaser; and (iv) UAF in relation to the conditional acquisition of 168,313,038 ordinary shares in the issued share capital in HKBLA at a consideration of HK\$184,000,000.00. Further details were disclosed in a joint announcement of AGL and INFL dated 6th July, 2005 and the circular of AGL dated 28th July, 2005.
- (d) 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 AGL, the Company and SHK dated 8th November, 2005 and their respective circulars dated 25th November, 2005.

- (e) A call option agreement dated 3rd April, 2006 (as supplemented on 18th May, 2006) was entered into between (i) CLSA Capital Limited (“CLSA”) as grantor; and (ii) Wah Cheong Development (B.V.I.) Limited (“Wah Cheong”) as grantee in relation to an option granted by CLSA to Wah Cheong. Such option will entitle Wah Cheong to require CLSA to sell all the shares held by CLSA in QHA at an aggregate exercise price of HK\$99,908,248.05; and to exercise all or part of the number of warrants held by CLSA in QHA which would, if exercised, lead to the subscription of 7,056,232 shares in QHA at the adjusted subscription price of HK\$2.46 per share in QHA. Further details were disclosed in the joint announcements of AGL, the Company and SHK dated 7th April, 2006 and 18th May, 2006 and their respective circulars dated 29th June, 2006.
- (f) A placing agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) was entered into between 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 AGL, the Company and SHK dated 17th May, 2006 and the respective circulars of AGL and the Company dated 8th June, 2006.
- (g) 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 AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006 and the respective circulars of AGL and the Company dated 8th June, 2006.
- (h) 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 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 AGL, the Company and SHK dated 18th May, 2006 and the respective circulars of AGL and the Company on 8th June, 2006.
- (i) The Agreement.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2005, the date to which the latest published audited financial statements of the Company were made up.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Ample Capital	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
Deloitte Touche Tohmatsu ("Deloitte")	certified public accountants in Hong Kong
Norton Appraisals	professional valuers (with members of The Hong Kong Institute of Surveyors and the Hong Kong Institute of Certified Public Accountants)
Jack L. Hughey & Associates ("JHA")	professional valuers, member of the American Appraisals Institute

As at the Latest Practicable Date, none of Ample Capital, Deloitte, Norton Appraisals and JHA:–

- (a) had any 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 Group 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 any 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.

Each of Ample Capital, Deloitte, Norton Appraisals and JHA 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.

9. 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.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31st December, 2005 (being the date to which the latest published audited accounts of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

10. 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 Shops 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.

11. 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 the date of the EGM:-

- (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 annual reports on the Company for the two financial years ended 31st December, 2004 and 31st December, 2005;
- (d) the business valuation report on the UAF Group, the text of which is set out in Appendix VI;
- (e) the accountants' report of the UAF Holdings Group, the text of which is set out in Appendix I;
- (f) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V;
- (g) the valuation report on the properties of the Enlarged Group, the text of which is set out in Appendix VIII;
- (h) the letter from Ample Capital, the text of which is set out in this circular;
- (i) the letters of consent referred to under section headed "Experts and Consents" in this Appendix; and
- (j) (i) the circular issued by the Company on 8th June, 2006 regarding the discloseable transaction for the placing of existing SHK Shares and subscription of new SHK Shares; (ii) the circular issued by the Company on 29th June, 2006 regarding the major transaction for the conditional grant of option over the shares and warrants in QHA; and (iii) this circular.

NOTICE OF THE EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“Meeting”) of Allied Properties (H.K.) Limited (“Company”) will be held at Plaza 4, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modification, the following resolution of the Company:

ORDINARY RESOLUTION

“**THAT** (i) the agreement for sale and purchase dated 13th June, 2006 (“Agreement”) made between AG Capital Holding Limited as vendor, Allied Group Limited as warrantor, Swan Islands Limited as purchaser and Sun Hung Kai & Co. Limited as guarantor, relating to the sale and purchase of the entire issued share capital of UAF Holdings Limited (together with the assignment of the accompanying shareholder’s loan) at an aggregate consideration of HK\$4,328,000,000, a copy of which has been produced at the Meeting marked “A” and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified; (ii) the transactions contemplated in the Agreement be and are hereby approved; and (iii) the directors of the Company be and are hereby authorised to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Agreement.”

By Order of the Board
Allied Properties (H.K.) Limited
Phoebe Lau Mei Yi
Company Secretary

Hong Kong, 30th June, 2006

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

NOTICE OF THE EGM

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy in respect of the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
3. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the Company's registered office at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time fixed for the Meeting or any adjournment thereof.
4. Where there are joint holders of any share, any one of such joint holders may vote at the Meeting either personally or by proxy in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of such joint holders so present whose name stands first on the register of members of the Company shall alone be entitled to vote in respect of such share.