THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus 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 (the "Company"), you should at once hand this prospectus and the accompanying application form and excess application form 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.

A copy of this prospectus, together with the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered with the Registrar of Companies in Hong Kong pursuant to Section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission in Hong Kong take no responsibility as to the contents of these documents.

Dealings in the securities in the Company may be settled through the Central Clearing and Settlement System and you should consult your licensed securities dealer, bank manager, solicitor, professional adviser for details of those settlement arrangements and how much arrangements may affect your rights and interests.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

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)

PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS ON THE BASIS OF ONE CONVERTIBLE BOND FOR EVERY TEN EXISTING SHARES HELD AS AT THE RECORD DATE

The latest time for acceptance and payment for the convertible bonds is 4:00 p.m. on Wednesday, 1st November, 2006. The procedures for acceptance are set out on page 9 of this prospectus.

Shareholders should note that the underwriting agreement contains provisions entitling the underwriter to terminate its obligations under it if at any time prior to 4:00 p.m. on the second business day following the latest day for acceptance of the convertible bonds if there occurs, amongst other things (i) any breach, considered by AGL in its absolute discretion to be material in the overall context of the Open Offer, of any of the warranties or any of other provisions of the Underwriting Agreement; or (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted an omission considered by AGL in its absolute discretion to be material in the overall context of the Open Offer; or (iii) any statement contained in this prospectus, considered by AGL in its absolute discretion to be material, is discovered to be or becomes untrue, incorrect or misleading in any respect; or (iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the Underwriting Agreement; or (v) any adverse change in the business or the financial or trading position of any member of the Group considered by AGL in its absolute discretion to be material; or (vi) any event or series of events, matter or circumstance concerning, relating to or resulting in: (a) any change in local, national, international, financial, political, economic, military, industrial, fiscal, regulatory or stock market conditions or sentiments in Hong Kong or any other relevant jurisdiction; or (b) the introduction of any new law, rule or regulation or any material change in existing laws, rules or regulations or any material change in the interpretation or application of such laws, rules or regulations by any court or other competent authority in Hong Kong or any other relevant jurisdiction; or (c) any event of force majeure affecting Hong Kong or any other relevant jurisdiction (including, without limitation, any act of God, fire, flood, explosion, war, strike, lock-out, civil commotion, interruption, riot, public disorder, act of government, economic sanction, epidemic, terrorism or escalation of hostilities involving Hong Kong or any other relevant jurisdiction); or (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or (e) any prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or any other relevant jurisdiction or affecting an investment in the Shares or the transfer or dividend payment in respect of the Shares; or (f) the imposition of any economic sanction, in whatever form, directly or indirectly, by or for the United States of America or by the European Union (or any of its members) on the People's Republic of China; or (g) any change in the system under which the value of Hong Kong dollars is pegged to that of the currency of the United States of America, considered by AGL in its absolute discretion to be material; or (h) any change in the exchange rate between the United States dollars and Renminbi (the lawful currency of the People's Republic of China), or between Hong Kong dollars and Renminbi, considered by AGL in its absolute discretion to be material; or (i) any litigation or claim of material importance being threatened or instigated against any member of the Group; or (j) any change in market conditions in Hong Kong (including without limitation suspension or material restriction on trading in securities); which, in the sole and absolute opinion of AGL: (1) is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or (2) has, or will have, or could be expected to have, a material adverse effect on the success of the Open Offer; or (3) makes it inadvisable, inexpedient or impractical to proceed with the Open Offer, then and in any such case AGL in its reasonable discretion may (but will not be bound to), upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect.

Except for all reasonable costs, fees, charges and expenses which may be incurred in connection with the Open Offer, upon the giving of notice of termination, all obligations of AGL under the Underwriting Agreement will cease and no party will have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If AGL exercises such right, the Open Offer will not proceed.

It should be noted that the shares in the Company have been dealt with in on an ex-entitlement basis commencing from 4th October, 2006. It should be noted that dealings in such shares will take place while the conditions to the Underwriting agreement is subject remain unfulfilled. Shareholders should note that such shares, up to the day on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be 3rd November, 2006), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any shareholder or other person contemplating selling or purchasing shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

12th October, 2006

CONTENTS

Record Date	Thursday, 12th October, 2006
Despatch of the Prospectus Documents	Thursday, 12th October, 2006
Register of members re-opens	Friday, 13th October, 2006
Latest time for acceptance of, and payment for, the Convertible Bonds	4:00 p.m. on Wednesday, 1st November, 2006
Open Offer expected to become unconditional on or before	5:00 p.m. on Friday, 3rd November, 2006
Announcement of results of the Open Offer to be published in newspapers on or before	Friday, 10th November, 2006
Certificates for fully-paid Convertible Bonds expected to be despatched on or before	Friday, 10th November, 2006
Despatch of refund cheques for wholly or partially unsuccessful excess applications	Friday, 10th November, 2006

Dates stated in this prospectus for events in the timetable are indicative only and may be extended or varied. Any changes to the expected timetable will be published in further announcements or notified to the Shareholders.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR CONVERTIBLE BONDS

The latest time for acceptance of and payment for Convertible Bonds will not take place if there is:–

(i) a tropical cyclone warning signal number 8 or above; or

(ii) a "black" rainstorm warning:–

- in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 1st November, 2006. Instead the latest time of acceptance of and payment for the Convertible Bonds will be extended to 5:00 p.m. on the same business day;

- in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 1st November, 2006. Instead the latest time of acceptance of and payment for the Convertible Bonds will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Convertible Bonds does not take place on 1st November, 2006, the dates mentioned in the expected timetable above may be affected. A press announcement will be made by the Company in such event.

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

"AGL"	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange and the substantial shareholder of the Company
"AGL Directors"	directors of AGL
"Bondholder"	a person in whose name a Convertible Bond is registered in the Register
"Business Day"	a day (other than a Saturday and Sunday and days on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"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
"Conversion Price"	conversion price for the Convertible Bond(s), being at the initial price of HK$10 per Convertible Bond (subject to adjustment)
"Convertible Bond(s)"	the convertible bond(s) to be issued at the Conversion Price under the Open Offer, a summary of the principal terms of which are set out in the Appendix I to this prospectus
"Directors"	directors of the Company
"Enlarged Group"	the Group after the completion of the sale and purchase of the entire issued share capital of UAF Holdings as disclosed in the Company's circular dated 30th June, 2006
"Excluded Shareholders"	the Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong where the Directors, after making enquiries, consider it necessary

	or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Convertible Bond(s) to such Shareholders
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Instrument"	the deed poll to be executed by the Company creating and constituting the Convertible Bonds
"Irrevocable Undertaking"	the irrevocable undertaking dated 20th September, 2006, pursuant to which AGL has irrevocably undertaken to subscribe for its full entitlements pursuant to the Open Offer
"Joint Announcement"	the joint announcement of the Company and AGL dated 21st September, 2006
"Latest Acceptance Time"	4:00 p.m. on 1st November, 2006, being the latest time for acceptance of the Convertible Bond(s)
"Latest Practicable Date"	9th October, 2006, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Latest Time for Termination"	5:00 p.m. (Hong Kong time) on the second Business Day after the Latest Acceptance Time
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Open Offer"	the proposed offer of the Convertible Bond(s), by way of an open offer, on the basis of one Convertible Bond for every ten existing Shares held by the Qualifying Shareholders as at the Record Date
"Prospectus Documents"	this prospectus, the application form and the excess application form in relation to the Open Offer
"Prospectus Posting Date"	12th October, 2006

"Qualifying Shareholders"	the Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date, other than the Excluded Shareholders
"Record Date"	12th October, 2006, being the date for the determination of entitlements of the Shareholders under the Open Offer
"Register"	a register in which the names and addresses of the holders of the Convertible Bonds and the particulars of the Convertible Bonds held by them and of all transfers of the Convertible Bonds will be entered
"SFC"	Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	holders of Shares
"Share(s)"	ordinary shares of HK$2 each in the share capital 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 and an indirect non wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"UAF Holdings"	UAF Holdings Limited, a company incorporated in the B.V.I. with limited liability, and an indirect non wholly-owned subsidiary of the Company
"UAF Holdings Group"	UAF Holdings and its subsidiaries
"Underwriting Agreement"	the underwriting agreement dated 20th September, 2006 entered into between the Company and AGL in relation to the underwriting of the Open Offer
"Warrantholders"	holders of the Warrants
"Warrants"	outstanding warrants of the Company conferring right in registered form to holders to subscribe for Shares at an initial subscription price of HK$10 per Share (subject to adjustments) at any time from 7th June, 2006 up to and including 6th June, 2009

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

12th October, 2006

To the Qualifying Shareholders and, for information only,
the Excluded Shareholders and the Warrantholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS
ON THE BASIS OF
ONE CONVERTIBLE BOND FOR EVERY TEN EXISTING SHARES
HELD AS AT THE RECORD DATE**

INTRODUCTION

Reference is made to the Joint Announcement. The Company proposes to raise not less than approximately HK$537 million, before expenses, by issuing not less than 53,715,304 Convertible Bonds but not more than 64,458,228 Convertible Bonds by way of the Open Offer to the Qualifying Shareholders, at the Conversion Price of HK$10 per Convertible Bond, on the basis of one Convertible Bond for every ten existing Shares held as at the Record Date.

As mentioned in the Joint Announcement, the latest time for lodging transfers of Shares or exercise of subscription rights attaching to the Warrants to qualify for the Open Offer was 4:00 p.m. on 5th October, 2006. Subsequent to the Joint Announcement, 146,403 Shares were issued on 6th October, 2006 upon the exercise of 146,403 Warrants before

4:00 p.m. on 5th October, 2006. The number of Shares in issue was increased from 537,153,043 as at the date of Joint Announcement to 537,299,446 as at the Latest Practicable Date.

The purpose of this prospectus is to provide Shareholders with further information regarding the Open Offer including application for the Convertible Bonds, and certain financial and other information in respect of the Group.

Issue statistics

Basis of the Open Offer:	one Convertible Bond for every ten existing Shares held by the Qualifying Shareholders as at the Record Date
Conversion Price:	HK$10 per Convertible Bond
Number of Shares in issue as at the Latest Practicable Date:	537,299,446 Shares
Number of Convertible Bonds to be issued:	53,729,944 Convertible Bonds

TERMS OF THE OPEN OFFER

Conversion Price for the Convertible Bonds

The Conversion Price of HK$10 per Convertible Bond is payable in full upon application is made for the Convertible Bonds.

The Conversion Price represents:–

(i) a premium of approximately 17.51 per cent. over the closing price of HK$8.51 per Share as quoted on the Stock Exchange on the last trading day, i.e. 18th September, 2006, of the Shares immediately before the date of the Joint Announcement; and

(ii) a premium of approximately 18.34 per cent. over the average closing price of HK$8.45 per Share as quoted on the Stock Exchange for the last ten trading days of the Shares immediately before the date of the Joint Announcement.

Terms of the Convertible Bonds

Term:	five years from the date of issue
Total principal amount:	HK$537,299,440
Form and denomination:	Convertible Bonds for the amount of HK$537,299,440 in registered form in the denomination of HK$10 each
Interest:	simple interest at the rate of:– (i) 7 per cent. per annum before the commencement of the conversion period; and (ii) 4 per cent. per annum after the commencement of the conversion period, in each case, payable half-yearly in arrears from the date of issue
Mandatory redemption:	redeemable in full, upon the occurrence of an event of default under the terms and conditions of the Convertible Bonds (including, without limitation, the liquidation or winding-up of the Company), or upon expiration of the term of the Convertible Bonds, if not already redeemed or converted
Early redemption:	redeemable, at the option of the Company, on the day falling every six months after the date of issue of the Convertible Bonds during the term of the Convertible Bonds, by giving one month's prior written notice of each early redemption
Redemption price:	the outstanding principal amount of the Convertible Bonds together with accrued interest
Conversion right:	right for holders of Convertible Bonds to convert all or any of their Convertible Bonds at any time during the conversion period into Shares at the initial rate of one Convertible Bond to one new Share Application for listing of, and permission to deal in, the new Shares falling to be issued upon conversion will be made to the Stock Exchange

Conversion period:	commencing on 1st July, 2009 and ending on the business day falling ten business days immediately preceding 9th November, 2011
Conversion Price:	HK$10 per Share
Transferability:	freely transferable
Listing:	not to be listed on any stock exchange

The Company undertakes to the Stock Exchange that it will disclose to the Stock Exchange any dealings by any of the connected persons (as defined under the Listing Rules) from time to time in the Convertible Bonds upon the Company becoming aware of such dealings.

The Conversion Price was determined with reference to the prevailing market prices of the Shares and the current subscription price of the Warrants of HK$10 per Share. The Directors consider the Conversion Price and the terms of the Open Offer to be fair and reasonable and in the interests of the Company and the Shareholders taken as a whole.

The Convertible Bonds and the new Shares falling to be issued upon conversion will be issued under the authority of a general mandate granted to the board of Directors by the Shareholders at the annual general meeting of the Company held on 26th May, 2006 to issue and allot new securities up to 20 per cent. of the issued share capital of the Company as at 26th May, 2006.

A summary of the terms and conditions of the Convertible Bonds, including the circumstances in which the Conversion Price may be adjusted, is set out in the Appendix I to this prospectus.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will despatch (i) the Prospectus Documents to the Qualifying Shareholders; and (ii) this prospectus, for information only, to the Excluded Shareholders and the Warrantholders. To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

(i) be registered on the register of members of the Company; and

(ii) not being the Excluded Shareholders.

Closure of register of members

The register of members of the Company was closed from 6th October, 2006 to 12th October, 2006, both days inclusive, to determine the eligibility for the Open Offer.

Fractions of Convertible Bonds

The Company will not issue fractions of Convertible Bonds. All fractions of Convertible Bonds will be aggregated and any Convertible Bonds resulting from the aggregation of fractions will be available for excess application.

Certificates for Convertible Bonds

Subject to the fulfilment (or waiver) of the conditions of the Open Offer set out in the section headed "Conditions of the Open Offer" below, certificates for all Convertible Bonds are expected to be posted on or before 10th November, 2006 to those who have applied and paid for the Convertible Bonds, at their own risk.

Rights of the Excluded Shareholders

The Prospectus Documents have not been registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong and Malaysia.

Having reviewed the register of members as at the Latest Practicable Date, the Company noted that 85 Shareholders maintained addresses located in Australia, Canada, China, the United Kingdom, Macau, Malaysia, New Zealand, Singapore, Thailand, Taiwan, the United States of America. The Company has made enquiries with its legal advisers regarding the feasibility of extending the Open Offer to the overseas Shareholders, and based on which the Directors have determined that (i) it is expedient for the Open Offer to be offered to the overseas Shareholders in the United Kingdom, Macau, Malaysia, New Zealand, Singapore, Thailand, China and Taiwan; and (ii) it is inexpedient for the Open Offer to be offered to the overseas Shareholders in Australia, Canada and the United States of America. Accordingly, the Open Offer will not be extended to the overseas Shareholders with registered addresses in Australia, Canada and the United States of America and will be extended to overseas Shareholders with registered addresses in the United Kingdom, Macau, Malaysia, New Zealand, Singapore, Thailand, China and Taiwan.

The Company will send this prospectus to the Excluded Shareholders and the Warrantholders for their information only but no application forms will be sent to them.

IRREVOCABLE UNDERTAKING

As at the Latest Practicable Date, AGL was interested in 402,540,059 Shares, representing approximately 74.91 per cent. of the existing issued share capital of the Company, and held Warrants, which upon exercise in full will entitle it to subscribe for 80,508,006 Shares. Pursuant to the Irrevocable Undertaking, AGL has irrevocably undertaken to take up or procure the taking up of all its entitlements (by itself or through its subsidiaries or nominees) under the Open Offer, being 40,254,001 Convertible Bonds given that none of the Warrants have been exercised by AGL from the date of the Joint Announcement up to the Record Date.

PROCEDURES FOR ACCEPTANCE

An application form is enclosed with this prospectus which entitles you to accept the number of Convertible Bonds less than or equal to your assured allotment shown on it. Qualifying shareholders should note that they may accept any number of Convertible Bonds but are assured of an allotment only up to the number set out in the application form. If you are a Qualifying Shareholder and you wish to accept your assured allotment of Convertible Bonds to which you are entitled as specified in the enclosed application form or you wish to accept any number less than your assured entitlement, you must complete, sign and lodge the application form in accordance with the instructions printed thereon, together with remittance for the aggregate Conversion Price in respect of such number of Convertible Bonds you have accepted with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Wednesday, 1st November, 2006. **All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Allied Properties (H.K.) Limited – Open Offer Account" and crossed "Account Payee Only".**

It should be noted that unless the application form, together with the appropriate remittance, have been lodged with the share registrar of the Company by not later than 4:00 p.m. on Wednesday, 1st November, 2006, that assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions, the subscription monies will be refunded, without interest, by sending a cheque made out to the relevant Shareholders named on the application form (or in the case of joint Shareholders, to the first named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholders to the address specified in the register of members of the Company on Friday, 10th November, 2006.

The application form contains full information regarding the procedures to be followed if you wish to accept only part of your assured entitlements under the Open Offer.

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any application form in respect of which the cheques or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The application form is for use only by the person(s) named therein and is not transferable.

No receipt will be issued in respect of any acceptance monies received.

APPLICATION FOR EXCESS CONVERTIBLE BONDS

In addition to their pro rata assured allotments of one Convertible Bond for every ten Shares held on the Record Date, Qualifying Shareholders who apply for their assured allotment will be able to apply at HK$10 per Convertible Bond for any excess entitlements, any Convertible Bonds created by adding together fractions of Convertible Bonds, and any Convertible Bonds not validly accepted by the Qualifying Shareholders including the Convertible Bonds which would have been offered to the Excluded Shareholders in Australia, Canada and the United States of America.

Application for excess Convertible Bonds may be made by completing the excess application form. Excess Convertible Bonds shall be allocated at the discretion of the Company on a fair and equitable basis to Qualifying Shareholders who have validly applied for their assured allotments and for excess Convertible Bonds.

The Shareholders whose shares are held by a nominee company should note that the board of Directors will regard the nominee company as a single shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the arrangement in relation to the allocation of the excess Convertible Bonds will not be extended to beneficial owners individually. The Shareholders with their shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant shares in the name of the beneficial owners prior to the Record Date.

If you are a Qualifying Shareholder and you wish to apply for excess Convertible Bonds in addition to your assured allotment of Convertible Bonds to which you are entitled as specified in the enclosed application form, you must complete, sign and lodge the excess application form in accordance with the instructions printed thereon, together with remittance for the aggregate Conversion Price in respect of such number of excess Convertible Bonds you have applied with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. on Wednesday, 1st November, 2006. **All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong and made payable to "Allied Properties (H.K.) Limited – Excess Application Account" and crossed "Account Payee Only".** Computershare Hong Kong Investor Services Limited will notify you of any allotment of the excess Convertible Bonds made to you, which allotment will be allocated on a fair and reasonable basis to be decided at the sole discretion of Directors.

It should be noted that unless the excess application form, together with the appropriate remittance, have been lodged with the share registrar of the Company by not later than 4:00 p.m. on Wednesday, 1st November, 2006, the excess application and all rights under it will be deemed to have been declined and will be cancelled.

If the conditions of the Underwriting Agreement are not fulfilled or the Underwriting Agreement is terminated in accordance with its terms and conditions or no excess Convertible Bonds are allotted to you, the subscription monies for excess Convertible

Bonds will be refunded, without interest, by sending a cheque made out to the relevant Shareholder named on the excess application form (or in the case of joint Shareholders, to the first named Shareholder) and crossed "Account Payee Only", through ordinary post at the risk of the relevant Shareholders to the address specified in the register of members of the Company on Friday, 10th November, 2006. If the number of excess Convertible Bonds allotted to you is less than that applied for, it is expected that the surplus subscription monies will also be refunded to you by means of a cheque dispatched by ordinary post to you, without interest, by not later than Friday, 10th November, 2006 at your own risk. Any such cheque will be drawn in favour of the relevant Shareholder named on the excess application form (or in the case of joint Shareholders, to the first named Shareholder) and crossed "Account Payee Only".

All cheques or cashier's orders will be presented for payment upon receipt and all interest earned on such moneys (if any) will be retained for the benefit of the Company. Any excess application form in respect of which the cheques or cashier's order is dishonoured on first presentation is liable to be rejected, and in that event the assured entitlement and all rights thereunder will be deemed to have been declined and will be cancelled.

The excess application form is for use only by person(s) named therein and is not transferable. No receipt will be issued in respect of any monies received for application of excess Convertible Bonds.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR CONVERTIBLE BONDS

The latest time for acceptance of and payment for Convertible Bonds will not take place if there is:–

(i) a tropical cyclone warning signal number 8 or above; or

(ii) a "black" rainstorm warning:–

- in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 1st November, 2006. Instead the latest time of acceptance of and payment for the Convertible Bonds will be extended to 5:00 p.m. on the same business day;

- in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 1st November, 2006. Instead the latest time of acceptance of and payment for the Convertible Bonds will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the Convertible Bonds does not take place on 1st November, 2006, the dates mentioned in the expected timetable above may be affected. A press announcement will be made by the Company in such event.

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Date:	20th September, 2006
Underwriter:	AGL
Number of Convertible Bonds underwritten:	13,475,943 Convertible Bonds being the total number of the Convertible Bonds excluding 40,254,001 Convertible Bonds to be subscribed by AGL pursuant to the Irrevocable Undertaking
Commission:	an underwriting commission of 2.5 per cent. of the aggregate Conversion Price of the Convertible Bonds underwritten by AGL

Underwriting Agreement

146,403 Warrants have been exercised from the date of the Joint Announcement up to the Record Date. Pursuant to the Underwriting Agreement, AGL has conditionally agreed to underwrite the balance of the Convertible Bonds (excluding the number of Convertible Bonds agreed to be taken up by AGL pursuant to the Irrevocable Undertaking) not subscribed by the Shareholders on a fully underwritten basis, being 13,475,943 Convertible Bonds in the event that no Qualifying Shareholders take up their respective entitlements, subject to and upon the terms and conditions of the Underwriting Agreement.

Termination of the Underwriting Agreement

AGL shall have the absolute right, after reasonable consultation with the Company as the underwriter of the Open Offer in its sole and absolute discretion sees fit, by giving notice to the Company, if there develops, occurs or comes into force at any time at or before the Latest Time for Termination:–

(i) any breach, considered by AGL in its absolute discretion to be material in the overall context of the Open Offer, of any of the warranties or any of other provisions of the Underwriting Agreement; or

(ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted an omission considered by AGL in its absolute discretion to be material in the overall context of the Open Offer; or

(iii) any statement contained in this prospectus, considered by AGL in its absolute discretion to be material, is discovered to be or becomes untrue, incorrect or misleading in any respect; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company pursuant to the Underwriting Agreement; or

(v) any adverse change in the business or the financial or trading position of any member of the Group considered by AGL in its absolute discretion to be material; or

(vi) any event or series of events, matter or circumstance concerning, relating to or resulting in:–

(a) any change in local, national, international, financial, political, economic, military, industrial, fiscal, regulatory or stock market conditions or sentiments in Hong Kong or any other relevant jurisdiction; or

(b) the introduction of any new law, rule or regulation or any material change in existing laws, rules or regulations, or any material change in the interpretation or application of such laws, rules or regulations by any court or other competent authority in Hong Kong or any other relevant jurisdiction; or

(c) any event of force majeure affecting Hong Kong or any other relevant jurisdiction (including, without limitation, any act of God, fire, flood, explosion, war, strike, lock-out, civil commotion, interruption, riot, public disorder, act of government, economic sanction, epidemic, terrorism or escalation of hostilities involving Hong Kong or any other relevant jurisdiction); or

(d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(e) any prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or any other relevant jurisdiction or affecting an investment in the Shares or the transfer or dividend payment in respect of the Shares; or

(f) the imposition of any economic sanction, in whatever form, directly or indirectly, by or for the United States of America or by the European Union (or any of its members) on the People's Republic of China; or

(g) any change in the system under which the value of Hong Kong dollars is pegged to that of the currency of the United States of America, considered by AGL in its absolute discretion to be material; or

(h) any change in the exchange rate between the United States dollars and Renminbi (the lawful currency of the People's Republic of China), or between Hong Kong dollars and Renminbi, considered by AGL in its absolute discretion to be material; or

(i) any litigation or claim of material importance being threatened or instigated against any member of the Group; or

(j) any change in market conditions in Hong Kong (including without limitation suspension or material restriction on trading in securities);

which, in the sole and absolute opinion of AGL:–

(1) is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole; or

(2) has, or will have, or could be expected to have, a material adverse effect on the success of the Open Offer; or

(3) makes it inadvisable, inexpedient or impractical to proceed with the Open Offer,

then and in any such case AGL in its reasonable discretion may (but will not be bound to), upon giving notice to the Company, terminate the Underwriting Agreement with immediate effect.

Except for all reasonable costs, fees, charges and expenses which may be incurred in connection with the Open Offer, upon the giving of notice of termination, all obligations of AGL under the Underwriting Agreement will cease and no party will have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement. If AGL exercises such right, the Open Offer will not proceed.

Conditions of the Underwriting Agreement

A number of the conditions to which the Underwriting Agreement is subject had been fulfilled prior to the despatch of this prospectus (for details of all the conditions to which the Underwriting Agreement is subject, please refer to the Joint Announcement). The Underwriting Agreement remains subject to the compliance by the Company with its obligation under clause 3 of the Underwriting Agreement at or before the Latest Acceptance Time.

In the event that the above condition has not been fulfilled (or waived by AGL) on the respective dates mentioned in the Underwriting Agreement (or such other date as AGL may agree with the Company), the Open Offer will lapse and will not proceed. The Open Offer is also subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon, amongst other things, the obligations of AGL under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated by either AGL or the Company in accordance with its terms and conditions as referred to under the sub-section headed "Termination of the Underwriting Agreement" above.

If the Underwriting Agreement does not become unconditional or is terminated, the Open Offer will not proceed. Shareholders and prospective investors of AGL and the Company and the Warrantholders are reminded to exercise extreme caution when dealing in the securities of AGL and the Company.

REASONS OF THE OPEN OFFER, THE UNDERWRITING OF THE CONVERTIBLE BONDS, THE GIVING OF THE IRREVOCABLE UNDERTAKING AND USE OF PROCEEDS

The Directors consider that the Open Offer provides a good opportunity for the Group to raise funds to strengthen its capital base, improve its financial position and to enable it to restore, to the extent possible, its shareholding percentage in SHK, which has been diluted in the top-up placing arrangement of SHK as announced in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006.

As SHK is a major subsidiary of the Company, it is in the interests of the Company and its shareholders taken as a whole to sustain a more significant shareholding in SHK, with a view to benefiting more from the future growth of SHK. The Open Offer provides the Shareholders with a fair and equal basis to participate in the future growth of the Company and, through the Company's shareholding in SHK, the future growth of SHK.

The AGL Directors consider that the underwriting of the Convertible Bonds and the giving of the Irrevocable Undertaking would signify its continuing support to its subsidiary, the Company, and in turn, benefit the AGL group as a whole. The Directors also consider that the terms offered by AGL as underwriter to the Company under the Underwriting Agreement are favourable to the Company.

146,403 Warrants have been exercised from the date of the Joint Announcement up to the Record Date. Assuming that all the Shareholders take up their entitlements, the estimated proceeds from the Open Offer will be approximately HK$532 million (after expenses and underwriting commission).

Before the top-up placing arrangement of SHK as announced in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006, the Company was interested in 934,198,892 shares in SHK, representing approximately 74.99 per cent. of the then issued share capital of SHK. After completion of such top-up placing arrangement and as at the date of the Joint Announcement, the Company was interested in 934,198,892 shares in SHK, representing approximately 62.53 per cent. of the issued share capital of SHK. As at the date of the Joint Announcement, the Company held 186,839,778 warrants in SHK.

The net proceeds of approximately HK$532 million are intended to be applied by the Company for funding the restoration, to the extent possible, of its shareholding percentage in SHK, which has been diluted in the top-up placing arrangement of SHK as announced in the joint announcements of AGL, the Company and SHK dated 17th May, 2006 and 18th May, 2006, at such time and in such manner as the Directors may consider appropriate, including (without limitation) the acquisition of shares in SHK through the open market. Any portion of the proceeds not immediately utilised for such purpose will be used temporarily as general working capital.

The estimated expense of the Open Offer is about HK$1.5 million (excluding underwriting commission), which will be borne by the Company.

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 date of the Joint Announcement.

Audited consolidated net profits before tax and after tax of the Group for the two financial years ended 31st December, 2005 were:–

(i) approximately HK$740,336,000 (before taxation and extraordinary items) or approximately HK$660,228,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2004; and

(ii) approximately HK$1,115,748,000 (before taxation and extraordinary items) or approximately HK$1,036,442,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2005.

The audited consolidated net asset value of the Company at 31st December, 2004 and 31st December, 2005 were approximately HK$6,646,886,000 and HK$8,552,276,000 respectively.

WARNING OF THE RISKS OF DEALINGS IN THE SHARES AND CONVERTIBLE BONDS

Pursuant to the expected timetable, the Shares have been dealt with on an ex-entitlement basis from 4th October, 2006. If AGL terminates the Underwriting Agreement, or any of the conditions of the Underwriting Agreement is not fulfilled (or waived by AGL), the Open Offer will not proceed. Any person dealing in the Shares on an ex-entitlement basis will accordingly bear the risk that the Underwriting Agreement may not become unconditional and the Open Offer may not proceed.

Any Shareholder or other person contemplating selling or purchasing the Shares from now up to the day on which the Underwriting Agreement becomes unconditional, who is in any doubt about his/her position, is recommended to consult his/her own professional advisers.

Shareholders, Warrantholders and prospective investors of the Company are reminded to exercise extreme caution when dealing in the securities of the Company.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the changes in the shareholding structure of the Company arising from the Open Offer based on the shareholding structure as at the Latest Practicable Date:–

	As at the Latest Practicable Date		**Immediately following completion of the Open Offer assuming all the Shareholders take up all their entitlements and convert them into Shares**		**Immediately following completion of the Open Offer assuming AGL takes up all its entitlement as a substantial shareholder and its underwriting commitment as an underwriter and convert them into Shares**	
	Number of Shares held	*Share-holding percentage*	*Number of Shares held*	*Share-holding percentage*	*Number of Shares held*	*Share-holding percentage*
AGL	402,540,059 *(Note)*	74.91	442,794,060	74.91	456,270,003	77.19
Other Shareholders	134,759,387	25.09	148,235,330	25.09	134,759,387	22.81
Total	537,299,446	100.00	591,029,390	100.00	591,029,390	100.00

Note: 402,540,059 Shares are held by AGL, by itself and through its direct wholly-owned subsidiaries, Capscore Limited, Sunhill Investments Limited and Citiwealth Investment Limited which in turn are directly interested in 167,061,619 Shares, 134,953,783 Shares and 4,186,632 Shares respectively.

AGL has undertaken to the Stock Exchange to place out its shareholding interest in the Company or to do or to procure the Company to do any other acts (subject to compliance with the Listing Rules) which are considered appropriate to maintain at all times the public float of the Shares in issue from time to time. AGL has also undertaken not to exercise the conversion rights of the Convertible Bonds if there is a shortfall in the public float of 25 per cent. or to the extent such conversion will lead to the public float of the Company falling below 25 per cent. unless arrangements have been made for the restoration of the public float of the Company immediately after such conversion.

Assuming that all the Convertible Bonds are converted, 53,729,944 new Shares representing 9.09 per cent. of the issued share capital as enlarged by the conversion of all the Convertible Bonds will be issued by the Company, upon which the issued share capital of the Company will be increased from 537,299,446 Shares to 591,029,390 Shares.

ADDITIONAL INFORMATION

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.

None of the securities of the Company are listed or dealt in any other stock exchange or on which listing or permission to deal is being or is proposed to be sought.

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

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

SUMMARY OF THE TERMS OF THE CONVERTIBLE BONDS

The Convertible Bonds (hereinafter defined as "Bonds") for the purpose of this Appendix are proposed to be created and constituted by the Instrument by way of deed poll to be executed by the Company and will be issued in registered form and will form one class and rank pari passu in all respects with each other.

1. Form, Denomination and Title

(A) Form and denomination

The Bonds are issued in registered form in the denomination of HK$10 each without coupons. A certificate (each a "Bond Certificate") will be issued to each Bondholder in respect of his/her/its registered holding of Bonds. Each Bond Certificate will be numbered serially with an identifying number which will be recorded on the relevant Bond Certificate and in the Register (as defined in condition 3(A) of the terms and conditions of the Bonds as set out in the Instrument (the "Conditions")).

(B) Title

Title to the Bonds passes only by registration as described in Condition 3. In the Conditions, "Bondholder" and (in relation to a Bond) "holder" shall mean the person in whose name a Bond is registered in the Register. The holder of a Bond will, except as otherwise required by any applicable law or regulation, be treated at all times by all persons and for all purposes as its absolute owner, whether or not it is overdue and notwithstanding any notice of ownership, trust or any interest in it or any writing on it or the loss or theft of the Bond Certificate issued in respect of it.

2. Status

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and will rank at all times *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, except for such exceptions as may be provided by mandatory provisions of any applicable law or regulation, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Company.

None of the Bonds will be listed on any stock exchange. None of the Bonds carry any voting right at any general meeting of the Company.

None of the Bonds, or the payment of any sum under any of the Bonds, are secured.

3. Registration and Transfers

(A) The Register

The Company will cause to be kept at the office (the "Specified Office") for the time being of its share registrar, Computershare Hong Kong Investor Services Limited (the "Registrar"), a register in which the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered (the "Register"). Each Bondholder will be entitled to receive only one Bond Certificate in respect of its entire holding.

(B) Transfers

A Bond may be transferred by delivering the Bond Certificate issued in respect of such Bond, with the form of transfer duly completed, signed by the Bondholder, witnessed and stamped, to the Specified Office. No transfer of title to any Bond shall be effective unless and until entered in the Register.

(C) Delivery of new Bond Certificates

Each new Bond Certificate to be issued upon a transfer of Bonds will, within 21 business days (or such longer period as may be required to comply with any applicable fiscal or other law or regulation) of receipt by the Company of the duly completed and signed form of transfer, be made available for collection at the Specified Office or, if so requested in the form of transfer, be mailed by ordinary mail at the risk and expense of the holder of the Bonds to the address specified in the form of transfer.

Where only some of the Bonds in respect of which a Bond Certificate is issued are to be transferred or converted, a new Bond Certificate in respect of the Bonds not so transferred or converted will, within 21 business days (or such longer period as may be required to comply with any applicable fiscal or other law or regulation) of the delivery of the original Bond Certificate to the Company, be made available for collection at the Specified Office or, if so requested by the holder, be mailed by ordinary mail at the risk and expense of the holder of the Bonds not so transferred or converted to the address of such holder appearing in the Register.

In the Conditions, "business day" means a day on which banks in Hong Kong are open for business, other than:–

(i) a Saturday or a Sunday; or

(ii) a day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.

(D) Charges for formalities

Registration of transfers of Bonds will be effected by the Registrar, but upon payment of such transfer charges as determined in accordance with the scale of charges of the Registrar as revised from time to time and upon payment in respect of any tax or other government charge which may be imposed in relation to it.

(E) Closure of Register

The registration of transfers may be suspended and the Register may be closed from time to time, subject to the same restrictions, mutatis mutandis, as applied to the closure of the register of members of the Company under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the articles of association of the Company. Any transfer or exercise of Conversion Right made while the Register is so closed shall, as between the Company and the relevant Bondholder, be considered as made immediately after the reopening of the Register.

4. Interest

(A) Interest rate

The Bonds bear simple interest from and including the date of issue up to and including the Maturity Date (as defined in Condition 7(A)), at the rate of:–

(i) seven per cent. per annum of the principal amount of the Bonds, before the commencement of the Conversion Period; and

(ii) four per cent. per annum of the principal amount of the Bonds, after the commencement of the Conversion Period.

Subject to Condition 4(C), a Bond will cease to bear interest from the date fixed for its redemption or conversion.

(B) Interest payment

Interest is payable half-yearly in arrears on 10th May and 10th November in each year commencing on 10th May, 2007 (each an "Interest Payment Date").

If the payment of any interest is not made in full in respect of any Bond on any Interest Payment Date, simple interest will continue to accrue, at the rate which is set out in Condition 4(A) as applicable to such period of time, until such payment (together with any further interest accrued on it by virtue of this Condition 4(B)) is or is deemed to be made in full.

(C) Interest accrual after date fixed for redemption or conversion

If the payment of any principal or interest is not made in full in respect of any Bond on the date fixed for redemption or if any Bond is not converted in full into Shares on the date fixed for conversion, such Bond shall continue to bear simple interest, at the rate which is set out in Condition 4(A) as applicable to such period of time, in respect of:–

(i) in the case of redemption, any outstanding amount of principal, until such payment (together with any further interest accrued on it by virtue of this Condition 4(C)) is or is deemed to be made in full; or

(ii) in the case of conversion, any outstanding amount of principal not so converted, until conversion of such Bond in full into Shares in accordance with these Conditions.

(D) Calculation of interest

If interest is required to be calculated for a period of less than one year, it shall be calculated on the basis of a 365 day year.

5. Conversion

(A) Conversion Right

Bondholders have the right (the "Conversion Right") to convert their Bonds into Shares at any time during the Conversion Period (as defined in Condition 5(B)).

In the Conditions, "Shares" means ordinary shares of HK$2.00 each in the share capital of the Company (or shares of any class or classes resulting from any subdivision, consolidation or re-classification of such shares), which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary winding-up or dissolution of the Company.

On conversion, the right of the converting Bondholder to repayment of the principal amount of the Bond being converted and all interest accrued or taken to be accrued on it under Condition 4 shall be extinguished and released, in consideration and in exchange for which the Company will allot and issue Shares credited as fully paid up in accordance with this Condition 5.

If there is default in making payment in full in respect of any Bond which has been called for redemption on the date fixed for redemption of such Bond, the Conversion Right attaching to such Bond will continue to be exercisable up to and including the close of business in Hong Kong on the day on which the full amount of the monies payable in respect of such Bond has been duly received by the relevant Bondholder.

(B) Conversion Period

Subject to the provisions of this Condition 5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder of such Bond, at any time from and including 1st July, 2009 up to and including the business day falling ten business days immediately preceding the Maturity Date (the "Conversion Period").

(C) Conversion Rate

On conversion, each Bond will be convertible into the number of Shares calculated by dividing the outstanding principal amount of such Bond by the Conversion Price.

A Conversion Right may only be exercised in respect of the whole unit of a Bond. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued on such conversion will be calculated on the basis of the aggregate number of Bonds to be converted.

Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect of such fractions. Any balance representing fractions of the Conversion Price (as defined in Condition 6(A)) shall be retained by the Company for its own benefit.

(D) Conversion Procedure

To exercise the Conversion Right attaching to any Bond, the holder of such Bond is required to complete, execute and deposit at its own expense during normal business hours at the Specified Office a notice of conversion (a "Conversion Notice"), together with the relevant Bond Certificate.

The date fixed for the conversion in respect of a Bond (the "Conversion Date") must fall at a time when the Conversion Right attaching to such Bond is expressed in the Conditions to be exercisable, and will be deemed to be the business day immediately following the day on which the Bond Certificate in respect of such Bond is surrendered and the relevant Conversion Notice is delivered. A Conversion Notice once delivered will be irrevocable.

(E) Automatic Conversion

There will be no automatic conversion for the Bonds.

(F) Registration

As soon as practicable, and in any event not later than 21 business days after the Conversion Date (or such longer period as may be required to comply with any applicable fiscal or other law or regulation), the Company will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice and the relevant Bond Certificate have been delivered, register the Bondholder as the holder of the relevant number of Shares in the register of members of the Company. Certificate or certificate for such Shares will be made available for collection at the Specified Office, or if so requested by such Bondholder, be mailed by ordinary mail at the risk and expense of the person to whom such certificate or certificates are sent.

Such Bondholder will become the holder of record of the number of Shares issued on conversion, with effect from the day on which its name is registered as such in the register of members of the Company (the "Registration Date"). The Shares issued on conversion of the Bonds will rank in all respects *pari passu* with the Shares in issue on the relevant Registration Date.

(G) Cancellation

Bonds which are converted will be cancelled by removal of the name of the relevant Bondholder from the Register on the relevant Registration Date, and may not be reissued.

(H) Covenants

The Company has given certain covenants in the Instrument for the protection of the Conversion Rights.

6. Conversion Price

(A) Initial Conversion Price

The price at which Shares will be issued on conversion (the "Conversion Price") shall initially be HK$10 per Share.

(B) Adjustments of Conversion Price

Subject as provided in the Conditions, the Conversion Price will from time to time be adjusted in accordance with the following provisions (but will however not be adjusted below the nominal value of Shares) and so that if the event giving rise to any such adjustment will be such as would be capable of falling within more than one of paragraphs (i) to (vii) of this Condition 6(B), it will fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:–

(i) If and whenever there is an alteration to the nominal amount of the Shares by reason of any consolidation or subdivision, the Conversion Price in force immediately prior to such alteration will be adjusted by multiplying it by the following vulgar fraction:–

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

where:–

A = the nominal amount of one Share immediately after such alteration

B = the nominal amount of one Share immediately before such alteration

Each such adjustment will be effective from the close of business in Hong Kong on the business day immediately preceding the day on which the relevant consolidation or subdivision (as the case may be) becomes effective, provided that, where the Conversion Date in respect of a particular exercise of the Conversion Right attaching to a Bond will fall on or before such business day but the Company has not by the close of business in Hong Kong on such business day allotted the relevant Shares in accordance with the Conditions, such adjustment will, for the purpose of determining the number of Shares to be allotted to the converting Bondholder, be deemed to have become effective before such Conversion Date.

(ii) If and whenever the Company issues (other than in lieu of a cash dividend) any Share credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{C}{C + D}$$

where:–

C = the aggregate nominal amount of the Shares in issue immediately before such issue

D = the aggregate nominal amount of Shares issued in connection with and as a result of such capitalisation

Provided that if the relevant issue of Shares is made as part of an arrangement involving a reduction of capital, the Conversion Price will be adjusted in such manner as an approved merchant bank or the Auditors (at the option of the Company) will certify to be appropriate, having regard to the relevant interests of the persons affected by it.

Each such adjustment will be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for such issue.

(iii) If and whenever the Company makes (whether on a reduction of capital or otherwise, except pursuant to any purchase by the Company of its own shares which is permitted by the laws of Hong Kong and the rules of the Stock Exchange and in accordance with the provisions of the memorandum and articles of association of the Company) any capital distribution to holders of Shares (in their capacity as such) or grants to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such capital distribution or grant (as the case may be) will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{E - F}{E}$$

where:–

E = the closing price per Share on the Stock Exchange on the dealing day immediately preceding the day on which the capital distribution or the grant (as the case may be) is publicly announced (whether or not such capital distribution or grant is subject to the approval of the holders of Shares or other persons) or, if there is no such announcement, immediately preceding the day on which the Share is traded ex such capital distribution or the grant (as the case may be), or, where there is no closing price on such dealing day, the closing price on the dealing day on which there was a closing price immediately preceding the relevant day)

F = the amount calculated by dividing the fair market value on the day of such announcement or (as the case may require) the day immediately preceding the day on which the Share is traded ex such capital distribution or such grant (as the case may be), as determined in good faith by either an approved merchant bank or the Auditors, at the option of the Company, of such capital distribution or of such grant (as the case may be) by the number of Shares participating in such capital distribution or in such grant (as the case may be)

Provided that:–

(a) if in the opinion of the relevant approved merchant bank or the Auditors (as the case may be), the use of the fair market value as mentioned above produces a result which, having regard to the relevant interests of the persons affected, is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if F meant) the portion of such closing price which should, in its opinion, properly be attributed to the value of the relevant capital distribution or rights; and

(b) the provisions of this Condition 6(B)(iii) will not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment will be effective (if appropriate, retrospectively) from the commencement of the day next following the record date for the relevant capital distribution or grant.

(iv) If and whenever the Company offers to holders of Shares new Shares for subscription by way of rights, or grants to holders of Shares any option or warrant to subscribe for new Shares, at a price per new Share which is less than 90 per cent. of the market price as at the date of the announcement of the terms of the offer or grant (whether or not such offer or grant is subject to the approval of the holders of Shares or other persons), the Conversion Price in force immediately before the date of the announcement of such offer or grant (as the case may be) will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{G + H}{G + I}$$

where:–

G = the number of Shares in issue immediately before the date of such announcement

H = the number of Shares which the aggregate of the two following amounts would purchase at such market price:–

(a) the total amount (if any) payable for the rights, options or warrants being offered or granted; and

(b) the total amount payable for all of the new Shares being offered for subscription or comprised in the options or warrants being granted

I = the aggregate number of Shares being offered for subscription or comprised in the options or warrants being granted

Provided that the provisions of this Condition 6(B)(iv) will not apply to any option or warrant granted, issued or existing prior to the date of the Instrument, or to any issue of Shares pursuant to the terms of any of such options or warrants.

Each such adjustment will become effective (if appropriate, retrospectively) from the commencement of the day next following the record date for the relevant offer or grant.

(v) (a) If and whenever the Company or any other company issues wholly for cash any securities which by their terms are convertible into or exchangeable for or carrying rights of subscription for new Shares, and the total effective consideration per new Share initially receivable for such securities is less than 90 per cent. of the market price as at the date of the announcement of the terms of issue of such securities (whether or not such issue is subject to the approval of the holders of Shares or other persons), the Conversion Price in force immediately prior to such issue will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{J + K}{J + L}$$

where:–

J = the number of Shares in issue immediately before the date of the issue of such securities

K = the number of Shares which the total effective consideration receivable for such securities would purchase at such market price

L = the maximum number of new Shares to be issued on full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative initial conversion or exchange rate or subscription price

Provided that the provisions of this Condition 6(B)(v)(a) will not apply to any securities issued or existing prior to the date of the Instrument, or to any issue of Shares pursuant to the terms of any of such securities.

Each such adjustment will become effective (if appropriate, retrospectively) from the close of business in Hong Kong on the business day immediately preceding the day on which the issuer of the relevant securities determines the conversion or exchange rate or subscription price in respect of such securities or, to the extent that the relevant issue is announced (whether or not subject to the approval of holders of Shares or other persons) and the date of such announcement is earlier than such day, the business day immediately preceding the date of such announcement.

(b) If and whenever the rights of conversion or exchange or subscription attached to any of the securities mentioned in Condition 6(B)(v)(a) are altered so that the total effective consideration per new Share initially receivable for such securities is less than 90 per cent. of the market price as at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price in force immediately prior to such modification will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{M + N}{M + O}$$

where:–

M = the number of Shares in issue immediately before the date of such modification

N = the number of Shares which the total effective consideration receivable for such securities at the modified conversion or exchange rate or subscription price would purchase at such market price;

O = the maximum number of new Shares to be issued on full conversion or exchange of, or the exercise in full of the subscription rights conferred by, such securities at their relative modified conversion or exchange rate or subscription price

Provided that a right of conversion or exchange or subscription will not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustments of conversion, exchange or subscription terms.

Each such adjustment will become effective from the day on which such modification takes effect.

(c) For the purposes of this Condition 6(B)(v):–

(1) the "total effective consideration" receivable for the relevant securities will be deemed to be the aggregate consideration receivable by the issuer of such securities for the issue of such securities, plus the additional minimum consideration (if any) to be received by such issuer or the Company (if not the issuer), or both, on (and assuming) full conversion or exchange of such securities or the exercise in full of the subscription rights attaching to such securities; and

(2) the effective consideration per new Share initially receivable for such securities will be such aggregate consideration divided by the maximum number of new Shares to be issued on (and assuming) full conversion or exchange of such securities at the initial conversion or exchange rate or the exercise in full of the subscription rights attaching to such securities at the initial subscription price, in each case without any deduction of any commission, discount or expense paid, allowed or incurred in connection with the issue of such securities.

(vi) If and whenever the Company issues wholly for cash any new Share at a price per Share which is less than 90 per cent. of the market price as at the date of the announcement of the terms of such issue, the Conversion Price in force immediately prior to the date of such announcement will be adjusted by multiplying it by the following vulgar fraction:–

$$\frac{P + Q}{P + R}$$

where:

P = the number of Shares in issue immediately before the date of such announcement

Q = the number of Shares which the aggregate amount payable for such issue would purchase at such market price

R = the number of Shares allotted pursuant to such issue

Each such adjustment will become effective on the date of the issue.

(vii) If and whenever:–

(a) the Company is permitted by the laws of Hong Kong and the rules of the Stock Exchange and in accordance with the provisions of its memorandum and the articles of association of the Company to purchase, and makes an offer or invitation to holders of Shares to tender for sale to the Company, any Share; or

(b) the Company purchases any Share or securities convertible into Shares or any right to acquire Shares (excluding any such purchase made on the Stock Exchange, or any stock exchange recognised for this purpose by the Securities and Futures Commission or equivalent authority and the Stock Exchange), and the directors of the Company consider that it may be appropriate to make an adjustment to the Conversion Price, at that time the directors of the Company will appoint either an approved merchant bank or the Auditors to consider whether, for any reason whatsoever as a result of such purchases, an adjustment should be made to the Conversion Price fairly and appropriately to reflect the relevant interests of the persons affected by such purchases. If such approved merchant bank or the Auditors (as the case may be) consider in their opinion that it is appropriate to make an adjustment to the Conversion Price, an adjustment to the Conversion Price will be made in such manner as such approved merchant bank or the Auditors (as the case may be) will certify to be, in their opinion, appropriate. Such adjustment will become effective (if appropriate, retrospectively) from the close of business in Hong Kong on the business day immediately preceding the day on which such purchase was made.

In addition to any determination which may be made by the directors of the Company under Condition 6(E), every adjustment to the Conversion Price will, except as otherwise expressly provided in this Condition 6(B), be certified either by an approved merchant bank or by the Auditors (at the option of the Company).

Any adjustment to the Conversion Price will be made to the nearest one cent, so that any amount under half a cent will be rounded down and any amount of half a cent or more will be rounded up. In no event will any adjustment (otherwise than on the consolidation of Shares into shares of a larger nominal amount or on a repurchase of Shares) involve an increase in the Conversion Price. Unless otherwise provided in the Conditions, no adjustment may be made to the Conversion Price which would result in the Shares being issued at a discount to their nominal value.

Notwithstanding anything contained in the Conditions or the Bond Certificates, no adjustment will be made to the Conversion Price in any case in which the amount by which the Conversion Price would be reduced in accordance with the provisions of this Condition 6 would be less than one cent and any adjustment that would otherwise be required then to be made will not be carried forward.

(C) Definitions used in Condition 6

For the purposes of this Condition 6:–

"announcement" includes the release of an announcement to the press or the delivery or transmission by telephone, telex, facsimile transmission or otherwise of an announcement to the Stock Exchange, "date of announcement" means the date of the day on which the announcement is first so released, delivered or transmitted, and "announce" will be construed accordingly;

"approved merchant bank" means an independent reputable merchant bank or other reputable financial institution in Hong Kong selected by the directors of the Company;

"Auditors" means the auditors for the time being of the Company;

"capital distribution" includes (without prejudice to the generality of such expression) distributions in cash or specie, and any dividend charged or provided for in the accounts for any financial period will (whenever paid and however described) be deemed to be a capital distribution, provided that any such dividend will not be so deemed if:–

(a) it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Shares for all financial periods after the financial period ended 31st December, 2005 as shown in the audited consolidated profit and loss accounts of the Company and its subsidiaries for each such financial period; or

(b) to the extent that (a) above does not apply, the rate of such dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period, and in computing such rates, such adjustments may be made as are in the opinion of the Auditors appropriate in the circumstances and will be made in the event that the lengths of such periods differ materially;

"issue" includes allot;

"market price" means the average of the closing prices of one Share on the Stock Exchange for the five consecutive dealing days on each of which there is a closing price ending on the last such dealing day immediately preceding the day on or as of which the market price is to be ascertained, provided that if the actual value of the price with which the market price is intended to be compared is for any reason affected, including (without limitation) by an alteration to the nominal amount of the Shares, by an issue of new Shares or by a payment of dividend, then appropriate adjustments will be made on a fair basis when ascertaining the market price;

"Shares" includes, for the purposes of Shares comprised in any issue, distribution, offer or grant pursuant to Conditions 6(B)(ii), 6(B)(iii), 6(B)(iv), 6(B)(v) or 6(B)(vi), such shares of the Company as, when fully paid, will be Shares;

"Stock Exchange" means The Stock Exchange of Hong Kong Limited;

"reserves" includes unappropriated profits; and

"rights" includes rights in whatsoever form issued.

(D) Exceptions

The provisions of Conditions 6(B)(ii), 6(B)(iii), 6(B)(iv), 6(B)(v) and 6(B)(vi) shall not apply to:–

(i) an issue of fully-paid Shares on the exercise of any conversion right attaching to securities convertible into Shares or on the exercise of any right (including the Conversion Rights) to acquire Shares;

(ii) an issue by the Company of Shares or by the Company or any of its subsidiaries of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration in whole or in part for the acquisition of any other securities, assets or business;

(iii) an issue of fully-paid Shares by way of capitalisation of all or part of any reserve which has been or may be established pursuant to the terms of any other securities convertible into, or carrying rights to acquire, Shares;

(iv) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares in aggregate is not more than 110 per cent. of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash, for which purpose the "market value" of a Share means the average of the closing prices on the Stock Exchange for the five consecutive dealing days on each of which there is a closing price ending on the last such dealing day immediately preceding the day on or as of which holders of Shares may, pursuant to such scrip dividend scheme, elect to receive or (as the case may be) not to receive the relevant dividend in cash; or

(v) an issue of Shares, or other securities of the Company or any of its subsidiaries, wholly or partly convertible into or exchangeable for, or carrying rights to acquire Shares pursuant to a share option scheme (being a scheme or arrangement approved by the members of the Company in general meeting under which Shares or securities convertible into or exchangeable for or carrying rights of subscription for Shares may be issued, or options or other rights to acquire any Share or any such securities by way of subscription or otherwise may be granted, by the Company or any of its subsidiaries to directors and employees of the Company or of any of its subsidiaries and such other persons as contemplated under such scheme or arrangement).

(E) Determinations by Directors

Notwithstanding the other provisions of this Condition 6, in any circumstances where the directors of the Company consider that:–

(i) an adjustment to the Conversion Price provided for under this Condition 6 should not be made or should be calculated on a different basis;

(ii) an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under this Condition 6; or

(iii) an adjustment should take effect on a different date or at a different time from that provided for under this Condition 6,

the Company may appoint either an approved merchant bank or the Auditors to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relevant interests of the persons affected by it and, if such approved merchant bank or the Auditors (as the case may be) consider this to be the case, the adjustment will be modified or nullified, or an adjustment made instead of no adjustment, in such manner (including, without limitation, making an adjustment calculated on a different basis), or the adjustment (or the modified adjustment) will take effect on a different date or time as will be certified by such approved merchant bank or the Auditors (as the case may be) to be in their opinion appropriate.

(F) Modification of Rights attaching to Share or Loan Capital

If the Company or any of its subsidiaries in any way modifies the rights attaching to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach to it any right to acquire, Shares, the Company will appoint an approved merchant bank or the Auditors to consider whether any adjustment to the Conversion Price is appropriate. If such approved merchant bank or the Auditors (as the case may be) certify that any such adjustment is appropriate, the Conversion Price will be adjusted accordingly.

(G) Notice to Bondholders

Whenever the Conversion Price is adjusted as provided in this Condition 6, the Company will give notice to the Bondholders that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of the adjustment).

7. Redemption

(A) Redemption at maturity

Unless previously redeemed or converted as provided in the Conditions, the Company will redeem the Bonds on 9th November, 2011 (the "Maturity Date") at the Redemption Price (as defined in Condition 7(E)). The date fixed for the redemption in respect of a Bond at maturity will be the Maturity Date.

(B) Redemption at the option of the Company

The Company may, at its option and by giving not less than one month's notice to the Bondholders, redeem all (but not some) of the Bonds on an Interest Payment Date at the Redemption Price.

(C) Redemption upon occurrence of Event of Default

Upon the occurrence of an Event of Default (as defined in Condition 11), the Company will, if so required by an Extraordinary Resolution, redeem the Bonds at the Redemption Price.

(D) Redemption at the option of Bondholder

No Bondholder may require the Company to redeem any of the Bonds prior to the Maturity Date.

(E) Redemption Price

The redemption price payable on redemption of a Bond (the "Redemption Price") will be the principal amount of such Bond, without any premium, together with all interest accrued on it up to and including the date fixed for its redemption.

(F) Cancellation

Bonds which are redeemed will be cancelled by removal of the name of the relevant Bondholder from the Register on the relevant date fixed for redemption, and may not be reissued.

8. Taxation

(A) Subject to Condition 8(B), all payments made by the Company under or in respect of the Instrument or the Bonds will be made without any deduction of, or withholding for, any present or future tax, levy, impost, duty, fee or charge of whatever nature levied or imposed in Hong Kong or by any authority in or of any such jurisdiction having power to tax, unless such deduction or withholding is required by any applicable law or regulation. In such event, the Company will pay such additional amounts as will result in the amounts receivable by the Bondholders after such deduction or withholding being equal to the amounts that would have been so receivable had no such deduction or withholding been made.

(B) The obligations of the Company under Condition 8(A) will not apply in respect of any tax which is levied on the overall net income of a Bondholder.

9. Payments

(A) Payment method

Payment of principal and accrued interest (other than interest payable on an Interest Payment Date) will be made against surrender of the relevant Bond Certificate at the Specified Office, by transfer to an account of the relevant Bondholder previously notified to the Registrar in writing, or by Hong Kong dollars cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder as shown in the Register if there is no such account.

Cheques for payments will be mailed by ordinary mail (at the risk and expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day).

(B) Interest

Interest on Bonds due on an Interest Payment Date will be paid to the holder shown in the Register at the close of business in Hong Kong on the fourth business day before the due date for such payment. Payment of interest on each Bond will be made by transfer to an account of the relevant Bondholder previously notified to the Registrar in writing, or by Hong Kong dollars cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder as shown in the Register if there is no such account.

Cheques for payments will be mailed by ordinary mail (at the risk and expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day).

(C) Fiscal laws

All payments are subject in all cases to all applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses will be charged to the Bondholders in respect of such payments.

(D) Delay in payment

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due:–

(i) if, and to the extent that, the due date is not a business day;

(ii) if the relevant Bondholder is late in surrendering its Bond Certificate (if required to do so); or

(iii) if a cheque mailed in accordance with the Conditions arrives after the due date for payment.

(E) Rounding

When making payments to Bondholders, fractions of one cent will be rounded down to the nearest cent.

(F) General

References in the Conditions to principal and interest will be deemed also to refer to any additional amount which may be payable under the Conditions and any undertaking or covenant given in addition to it or in substitution for it pursuant to the Instrument.

10. Prescription

Claims in respect of principal, interest and other sums payable in respect of the Bonds will become prescribed unless made within 12 years from the relevant due date of payment.

11. Events of Default

For the purpose of the Conditions, each of the following events will be an event of default (an "Event of Default"):–

(i) the Company fails to pay any amount payable in respect of (including, without limitation, the principal of, or premium or interest on) any of the Bonds within 21 business days from the due date for any such payment;

(ii) the Company defaults in the performance or observance of, or compliance with, any of its material obligations under the Conditions, the Instrument or the Bonds, or any such default, if capable of remedy, is not remedied within 30 days after notice of such default has been given to the Company by Bondholders by way of Extraordinary Resolution;

(iii) (a) a distress, execution is levied or enforced upon or against;

(b) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of, or an attachment order is issued in respect of;

(c) there is applied for, consented to or suffered the appointment of an administrator, liquidator or receiver over; or

(d) any mortgage, charge, pledge, lien or encumbrance created by the Company or any of its subsidiaries becomes enforceable in respect of,

any material part of the business, properties or assets of the Company or any of its subsidiaries and is not discharged or stayed within 30 days (or such longer period as is reasonably appropriate in relation to the jurisdiction concerned) of having been so levied, enforced, taken, appointed or issued or having become enforceable, unless and for so long as it is being contested in good faith and diligently;

(iv) the Company:–

(a) makes or enters into a general assignment, or an arrangement or composition, with or for the benefit of its creditors; or

(b) stops payment of all or a material part of its debts,

in each case, other than trade payables in the ordinary course of business;

(v) an order of a court of competent jurisdiction is made, or an effective resolution passed for, the winding-up or dissolution or administration of the Company, or the Company ceases to carry on all or substantially all of its business; or

(vi) proceedings have been initiated against the Company under any applicable bankruptcy, insolvency or reorganisation law and such proceedings are not discharged or stayed within a period of 30 days (or such longer period as is reasonably appropriate in relation to the jurisdiction concerned), unless and for so long as it is being contested in good faith and diligently.

12. Suit by Bondholders

The Instrument will be enforceable by the Company against each Bondholder, and by a Bondholder against the Company.

The benefit of the covenants, obligations and conditions on the part of or binding upon the Company contained in the Instrument will enure to each and every Bondholder. Each Bondholder will be entitled severally to enforce any of such covenants, obligations and conditions against the Company insofar as the Bonds of each of such Bondholders are concerned, without the need to join the person to whom any such Bond was originally issued by the Company or any intervening or other Bondholder in the proceedings for such enforcement.

13. Meetings of Bondholders

The Instrument contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of the Conditions or the provisions of the Instrument.

The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of Bonds so held or represented, unless the business of such meeting includes consideration of proposals, among other matters:–

(i) to modify the due date for any payment in respect of the Bonds;

(ii) to reduce or cancel the amount of principal or the rate of interest payable in respect of the Bonds;

(iii) to change the currency of payment of the Bonds;

(iv) to modify or cancel the conversion provisions;

(v) to modify the status of the Bonds;

(vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution;

(vii) to do anything which is required to be done by the Bondholders by Extraordinary Resolution under the Instrument or the Conditions; or

(viii) to amend this list of matters,

in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding.

An Extraordinary Resolution duly passed in accordance with the provisions of the Instrument at any meeting of Bondholders will be binding on all Bondholders (whether or not they are present at the meeting and whether or not they vote in favour).

14. Notices

Any notice to the Bondholders will be validly given if mailed to them at their respective addresses as shown in the Register. Any such notice will be deemed to have been given at the expiration of two business days after being so mailed.

15. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office, upon payment of the expenses, taxes and duties incurred in connection with such replacement and on such terms as to evidence, indemnity or security as may be reasonably required by the Company and the Registrar.

16. Governing Law

The Instrument and the Bonds are governed by and will be construed in accordance with the laws of Hong Kong. The Company has in the Instrument submitted to the exclusive jurisdiction of the courts of Hong Kong.

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following full conversion are as follows:–

(i) As at the Latest Practicable Date:–

	Number of Shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$2.0	3,000,000,000	6,000,000
Issued and fully paid:		
Ordinary shares of HK$2.0	537,299,446	1,074,599

(ii) Immediately following full conversion of the Convertible Bonds:–

	Number of Shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$2.0	3,000,000,000	6,000,000
Issued and fully paid:		
Ordinary shares of HK$2.0	537,299,446	1,074,599
conversion shares *(Note)*	53,729,944	107,460
	591,029,390	1,182,059

Note: Based on the initial Conversion Price of HK$10 per conversion share and the aggregate principal amount of Convertible Bonds of HK$537,299,440, 53,729,944 conversion shares will be issued upon full conversion.

Save for the outstanding 107,282,835 Warrants, the exercise of which will result in issue of 107,282,835 Shares, the Company has no other share options, warrants, derivatives or other securities convertible into or exchange for Shares as at the Latest Practicable Date.

2. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

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

Consolidated Income Statement
Year ended 31st December

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

Consolidated Balance Sheet
At 31st December

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

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

3. 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 2005 annual report of the Company.

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

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

Consolidated Balance Sheet
at 31st December, 2005

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

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

Balance Sheet
at 31st December, 2005

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

Consolidated Statement of Changes in Equity

for the year ended 31st December, 2005

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 31st December, 2005

1. GENERAL

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

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

Business combinations

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

Goodwill

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

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

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

Interests in jointly controlled entities

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

Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

Financial assets and financial liabilities other than debt and equity securities

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

Bad and doubtful debts

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

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

Owner-occupied leasehold interest in land

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

Investment properties

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

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

Hotel properties

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

Intangible assets

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

Deferred taxes related to investment properties

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

Effect of the changes in accounting policies

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

Potential impact arising on the new accounting standards not yet effective

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Basis of consolidation

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

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

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

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

Business combinations (after 1st January, 2005)

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

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

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

Investments in subsidiaries

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

Interests in associates

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

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

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

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

Interests in jointly controlled entities

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

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

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

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

Goodwill and negative goodwill (capital reserve)

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

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

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

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

Impairment testing on capitalised goodwill

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

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

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

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

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

Revenue recognition

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

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

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

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

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

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

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

Commission income is recognised as income on trade date basis.

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Foreign currencies

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

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

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

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

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

Borrowing costs

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

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

Employee benefits

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

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

Taxation

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

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

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

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

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

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

Investment properties

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

Property, plant and equipment

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

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

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

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

Properties held for development

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

Prepaid land lease payments

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

Intangible assets

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

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

Exchange participation rights and club debentures

They comprise:

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

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

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

Computer software

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

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

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

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

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

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Fair value measurement principles

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

Equity instruments

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

Properties held for sale

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

Inventories

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimate of fair value of investment properties

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

Impairment allowances on loans and receivables

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

Impairment of available-for-sale financial assets

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

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

Estimated impairment of goodwill

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

Deferred tax

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

Provisions and contingent liabilities

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

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

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

Depreciation and amortisation

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

Litigation

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

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Market risk

(i) Trading Risk

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

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

(ii) Foreign Exchange Risk

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

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

Credit risk

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

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

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

Liquidity risk

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

Interest rate risk

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

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

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

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

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

	Interest rates	In first year 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%	(612,193)	(606,939)	(36,119)	(100,473)	(74,622)	(57,610)	(1,487,956)
At 31st December, 2004								
Secured margin loans	4.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,441,056
Term loans	5.00% to 26.82%	181,310	3,200	–	–	–	–	184,510
Bank overdrafts	5.5%	(57,905)	–	–	–	–	–	(57,905)
Bank loans	1.15% to 3.00%	(545,275)	(226,738)	(613,160)	(28,981)	(91,328)	(86,362)	(1,591,844)

7. REVENUE#

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

	2005 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
	1,144,153	1,128,169

Revenue is also the Group's turnover.

8. SEGMENTAL INFORMATION

The Group has the following main business segments:

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

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

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

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

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

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

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

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

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

9. CHANGES IN VALUES OF PROPERTIES

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

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

10. INFORMATION REGARDING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

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

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

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

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

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

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

(b) Employees' emoluments

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

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

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

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

11. FINANCE COSTS

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

12. PROFIT BEFORE TAXATION

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

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

Note:

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

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

SHKS appealed against the Judgment to the Court of Appeal. The Court of Appeal has handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

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

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

13. TAXATION

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

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

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

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

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

Details of deferred taxation are set out in note 29.

14. DIVIDEND

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

Diluted earnings per share

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

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

16. INVESTMENT PROPERTIES

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

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

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

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

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

18. PROPERTIES HELD FOR DEVELOPMENT

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

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

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

19. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments comprise:

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

20. GOODWILL

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

21. NEGATIVE GOODWILL

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

22. INTANGIBLE ASSETS

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

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

23. INTERESTS IN SUBSIDIARIES

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

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

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

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

24. INTERESTS IN ASSOCIATES

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

Notes:

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

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

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

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

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

(iii) Goodwill on acquisition of listed associates

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

(iv) Negative goodwill on acquisition of listed associates

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

(v) Goodwill on acquisition of unlisted associates

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

(vi) Negative goodwill on acquisition of unlisted associates

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

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

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

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

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

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

Note: Goodwill on acquisition of a jointly controlled entity

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

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

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

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

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

27. INVESTMENTS

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

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

Notes:

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

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

28. LOANS AND RECEIVABLES

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

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

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

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

29. DEFERRED TAXATION

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

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

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

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

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

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

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

30. PROPERTIES HELD FOR SALE AND OTHER INVENTORIES

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

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

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

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

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

32. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

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

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

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

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

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

33. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

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

34. CURRENT ASSETS AND CURRENT LIABILITIES

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

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

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

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

35. SHARE CAPITAL

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

36. RESERVES

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

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

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

Notes:

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

(b)

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

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

37. AMOUNTS DUE TO SUBSIDIARIES

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

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

38. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

39. BANK BORROWINGS

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

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

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

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

40. LOAN NOTES

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

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

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

41. OTHER LIABILITIES

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

Note:

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

42. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries during the year:

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

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

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

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

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

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

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

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

43. MAJOR NON-CASH TRANSACTION

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

44. CONTINGENT LIABILITIES

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

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

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts of HK$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have now been stayed until further order by the court.

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

(c) By the Judgment of High Court of Hong Kong on 1st April, 2004 ("Judgment") in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which was found by the court ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the amount was HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal has now handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

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

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

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

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

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

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

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

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

45. CAPITAL COMMITMENTS

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

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

46. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

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

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

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

The Group as lessor

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

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

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

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

47. RETIREMENT BENEFIT SCHEMES

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

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

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

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

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

48. PLEDGE OF ASSETS

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

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

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

49. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Summary of transactions

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

(b) Key management personnel compensation

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

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

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

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

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

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

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

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

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

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

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

50. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

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

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

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

51. EVENTS AFTER THE BALANCE SHEET DATE

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

The option will entitle Wah Cheong to:

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

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

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

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

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

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

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

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

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

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

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

– completion of the placing.

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

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

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

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

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

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

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

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

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

53. PARTICULARS OF PRINCIPAL ASSOCIATES

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

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

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

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

54. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

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

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

4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

Set out below are the unaudited condensed consolidated financial statements and notes to the financial statements of the Group for the six months ended 30th June, 2006 extracted from the 2006 interim report of the Company.

Condensed Consolidated Income Statement
For the six months ended 30th June, 2006

		Six months ended 30th June,	
		2006	**2005**
		Unaudited	Unaudited
	Notes	*HK$'000*	*HK$'000*
			(Restated)
Revenue	*3*	1,061,309	546,795
Other income		99,643	26,282
Total income		1,160,952	573,077
Cost of sales		(396,040)	(101,102)
Brokerage and commission expenses		(114,469)	(70,611)
Selling and marketing expenses		(577)	(405)
Administrative expenses		(224,124)	(162,789)
Profit on deemed disposal of partial interests in a listed subsidiary	*4*	216,461	–
Changes in values of properties	*5*	96,618	357,416
Net loss on deemed disposal of listed associates	*6*	(80,784)	–
Impairment loss recognised in respect of an available-for-sale financial asset	*7*	(58,203)	–
Bad and doubtful debts written back (provided)		6,178	(6,687)
Other operating expenses		(64,820)	(64,851)
Finance costs		(98,609)	(38,033)
Share of results of associates		71,502	82,238
Share of results of jointly controlled entities		57,914	58,116
Profit before taxation	*8*	571,999	626,369
Taxation	*9*	(32,359)	(44,062)
Profit for the period		539,640	582,307
Attributable to			
Equity holders of the Company		498,299	532,825
Minority interests		41,341	49,482
		539,640	582,307
		HK$	*HK$*
Earnings per share	*10*		
Basic		0.93	0.99
Diluted		0.93	N/A

Condensed Consolidated Balance Sheet
At 30th June, 2006

	Notes	At 30th June, 2006 Unaudited HK$'000	At 31st December, 2005 Audited HK$'000
Non-current assets			
Investment properties	12	2,777,507	2,784,100
Property, plant and equipment		318,162	209,419
Prepaid land lease payments		285,323	287,367
Intangible assets		20,670	22,586
Interests in associates		2,757,168	2,710,057
Interests in jointly controlled entities		923,814	866,394
Available-for-sale financial assets	13	1,445,239	993,139
Statutory deposits		88,436	32,831
Loans and receivables	14	84,142	202,306
Deferred tax assets		4,959	4,143
		8,705,420	8,112,342
Current assets			
Properties held for sale and other inventories		502,412	520,950
Financial assets at fair value through profit or loss	15	328,875	179,204
Prepaid land lease payments		4,310	4,420
Accounts receivable, deposits and prepayments	16	2,634,170	2,612,044
Amount due from a fellow subsidiary		150	–
Amounts due from associates		11,610	7,384
Amount due from a jointly controlled entity		1,126	2,159
Tax recoverable		3,663	3,842
Short-term pledged bank deposit		1,000	972
Bank deposits, bank balances and cash		1,752,255	481,196
		5,239,571	3,812,171
Current liabilities			
Accounts payable and accrued charges	17	1,332,238	1,031,946
Financial liabilities at fair value through profit or loss		327	17,756
Amount due to the ultimate holding company		9,214	8,183
Amounts due to associates		72,523	62,828
Amount due to a jointly controlled entity		109,062	81,063
Tax payable		30,982	13,489
Bank borrowings due within one year		1,379,722	950,233
Other liabilities due within one year		41,390	33,366
		2,975,458	2,198,864
Net current assets		2,264,113	1,613,307
Total assets less current liabilities		10,969,533	9,725,649

	Notes	At 30th June, 2006 Unaudited *HK$'000*	At 31st December, 2005 Audited *HK$'000*
Capital and reserves			
Share capital	*18*	1,074,303	1,074,303
Reserves		6,717,958	5,996,232
Equity attributable to equity holders of the Company		7,792,261	7,070,535
Minority interests		2,456,668	1,481,741
Total equity		10,248,929	8,552,276
Non-current liabilities			
Bank borrowings due after one year		414,647	875,763
Loan notes	*20*	65,437	64,252
Deferred tax liabilities		237,334	230,615
Other liabilities due after one year		3,186	2,743
		720,604	1,173,373
		10,969,533	9,725,649

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

	Attributable to equity holders of the Company										
	Share capital	Share premium	Investment revaluation reserve	Capital redemption reserve	Translation reserve	Capital reserve	Accumulated profits	Dividend reserve	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2005	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	–	–	86,795	–	–	–	–	–	86,795	28,947	115,742
Deferred tax arising on revaluation of assets	–	–	74	–	–	–	–	–	74	13	87
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	(283)	–	–	–	(283)	(26)	(309)
Share of post-acquisition reserve movements of associates	–	–	(4,318)	–	–	2,844	–	–	(1,474)	(491)	(1,965)
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	(521)	–	–	–	(521)	–	(521)
Net income and expenses recognised directly in equity	–	–	82,551	–	(804)	2,844	–	–	84,591	28,443	113,034
Profit attributable to equity holders	–	–	–	–	–	–	532,825	–	532,825	49,482	582,307
Released on disposal of available-for-sale financial assets	–	–	(2,172)	–	–	–	–	–	(2,172)	(726)	(2,898)
Released on disposal of jointly controlled entities	–	–	–	–	(8)	–	–	–	(8)	(2)	(10)
Total recognised income and expenses for the period	–	–	80,379	–	(812)	2,844	532,825	–	615,236	77,197	692,433
Transferred from accumulated profits to capital reserve	–	–	–	–	–	235	(235)	–	–	–	–
2004 final dividend paid	–	–	–	–	–	–	–	(26,858)	(26,858)	–	(26,858)
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	(20,440)	(20,440)
At 30th June, 2005	1,074,303	516,644	325,866	72,044	(110,796)	5,889	4,594,946	–	6,478,896	1,376,195	7,855,091

	Attributable to equity holders of the Company										
	Share capital	Share premium	Investment revaluation reserve	Capital redemption reserve	Translation reserve	Capital reserve	Accumulated profits	Dividend reserve	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	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
Gain on fair value changes of available for-sale financial assets	–	–	317,556	–	–	–	–	–	317,556	144,916	462,472
Deferred tax arising on revaluation of assets	–	–	(43)	–	101	–	–	–	58	37	95
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	441	–	–	–	441	38	479
Share of post-acquisition reserve movements of associates	–	–	444	–	8,613	10	–	–	9,067	5,852	14,919
Share of post-acquisition reserve movements of jointly controlled entities	–	–	(53)	–	(477)	–	–	–	(530)	–	(530)
Net income and expenses recognised directly in equity	–	–	317,904	–	8,678	10	–	–	326,592	150,843	477,435
Profit attributable to equity holders	–	–	–	–	–	–	498,299	–	498,299	41,341	539,640
Released on disposal of available-for-sale financial assets	–	–	(42,882)	–	–	–	–	–	(42,882)	(14,301)	(57,183)
Increase on deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	24	24
Released on deemed disposal of associates	–	–	(374)	–	(3,549)	(2,645)	–	–	(6,568)	(4,124)	(10,692)
Total recognised income and expenses for the period	–	–	274,648	–	5,129	(2,635)	498,299	–	775,441	173,783	949,224
Increase in minority interests due to placing of shares of a subsidiary	–	–	–	–	–	–	–	–	–	830,982	830,982
Transferred from capital reserve to accumulated profits	–	–	–	–	–	(20)	20	–	–	–	–
2005 final dividend paid	–	–	–	–	–	–	–	(53,715)	(53,715)	–	(53,715)
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	(29,838)	(29,838)
At 30th June, 2006	1,074,303	516,644	765,287	72,044	(81,624)	2,172	5,443,435	–	7,792,261	2,456,668	10,248,929

Condensed Consolidated Cash Flow Statement
For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
Net cash from (used in) operating activities	192,887	(2,737)
Investing activities		
Net proceeds from placing of share of a subsidiary	1,152,005	–
Proceeds on disposal of available-for-sale financial assets	117,504	35,650
Dividend received from associates	9,770	966
Payment received (made) for net amount due from associates	9,621	(35,346)
Amount repaid by a jointly controlled entity	2,470	1,002
Proceeds on disposal of an investment property	1,400	–
Proceeds on disposal of property, plant and equipment	306	124
Net payment (made) received for statutory deposits	(55,605)	2,113
Acquisition of associates	(52,546)	(5,276)
Purchase of property, plant and equipment	(11,616)	(10,666)
Amount advanced to associates	(5,227)	–
Amount advanced to a jointly controlled entity	(1,437)	–
Addition to intangible assets	(1,095)	(2,850)
Addition to investment properties	(245)	–
(Decrease) increase in pledged bank deposit	(28)	61
Payment received for net amount due from investee companies	–	3,603
Acquisition of subsidiaries	–	(62,416)
Purchase of available-for-sale financial assets	–	(705)
Net cash from (used in) investing activities	1,165,277	(73,740)

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
Financing activities		
New bank loans raised	38,534	321,000
Amount advanced from a jointly controlled entity	28,000	–
Amount advanced from associates	100	153
Proceeds from issue of shares by a subsidiary	6	–
Dividend paid	(53,715)	–
Repayment of bank loans	(37,094)	(126,160)
Dividend paid by a subsidiary to minority interests	(29,593)	(18,690)
Net distribution to minority interests	(302)	–
Amount repaid to associates	(167)	–
Repurchase of loan notes	–	(60,000)
Net cash (used in) from financing activities	(54,174)	116,303
Net increase in cash and cash equivalents	1,303,990	39,826
Effect of foreign exchange rate changes	139	9
Cash and cash equivalents at the beginning of the period	398,156	540,349
Cash and cash equivalents at the end of the period	1,702,285	580,184
Analysis of the balances of cash and cash equivalents		
Bank deposits, bank balances and cash	1,752,255	714,923
Bank overdrafts	(49,970)	(134,739)
	1,702,285	580,184

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Potential impact arising on the new accounting standards not yet effective

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

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

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st March, 2006.
[3] Effective for annual periods beginning on or after 1st May, 2006.
[4] Effective for annual periods beginning on or after 1st June, 2006.

3. SEGMENTAL INFORMATION

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

	Six months ended 30th June, 2006			
	Investment, broking and finance	**Property rental, hotel operations and management services**	**Sale of properties and property based investments**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	986,034	88,974	–	1,075,008
Less: inter-segment revenue	(10,900)	(2,799)	–	(13,699)
	975,134	86,175	–	1,061,309
Segment results	273,899	152,307	(20,691)	405,515
Profit on deemed disposal of partial interests in a listed subsidiary				216,461
Net loss on deemed disposal of listed associates				(80,784)
Finance costs				(98,609)
Share of results of associates				71,502
Share of results of jointly controlled entities	(18)	57,932	–	57,914
Profit before taxation				571,999
Taxation				(32,359)
Profit for the period				539,640

	Six months ended 30th June, 2005			
	Investment, broking and finance	Property rental, hotel operations and management services	Sale of properties and property based investments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)	(Restated)
Revenue	468,583	86,344	–	554,927
Less: inter-segment revenue	(6,682)	(1,450)	–	(8,132)
	461,901	84,894	–	546,795
Segment results	130,237	370,867	22,944	524,048
Finance costs				(38,033)
Share of results of associates				82,238
Share of results of jointly controlled entities	2	58,114	–	58,116
Profit before taxation				626,369
Taxation				(44,062)
Profit for the period				582,307

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

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

4. PROFIT ON DEEMED DISPOSAL OF PARTIAL INTERESTS IN A LISTED SUBSIDIARY

The Company, through its subsidiary, had completed share placing of 169,000,000 shares ("1st Share Placing") and 79,000,000 shares ("2nd Share Placing") of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), a listed subsidiary, on 22nd May, 2006 and 10th August, 2006 respectively. The top-up subscription of 248,000,000 new shares of Sun Hung Kai was completed on 10th August, 2006. The shareholdings in Sun Hung Kai before the 1st Share Placing and after the top-up subscription were 74.99% and 62.54% respectively. The total profit arising from the deemed disposal of partial interest in Sun Hung Kai arising from the placing and top-up subscription of 248,000,000 shares of Sun Hung Kai was estimated to be approximately HK$300,847,000. The profit on deemed disposal attributable to the top-up effect of the 1st Share Placing, amounting to HK$216,461,000, was recognised in the income statement for the current period accordingly.

5. CHANGES IN VALUES OF PROPERTIES

	Six months ended 30th June, 2006	2005
	HK$'000	*HK$'000*
		(Restated)
Changes in values of properties comprise:		
Increase in fair value of investment properties	113,671	327,638
(Write-down) reversal of write-down of properties held for sale	(18,700)	24,925
Reversal of impairment loss of hotel property	1,647	4,853
	96,618	357,416

6. NET LOSS ON DEEMED DISPOSAL OF LISTED ASSOCIATES

	Six months ended 30th June, 2006	2005
	HK$'000	*HK$'000*
Net loss on deemed disposal of listed associates arises from the following:		
(a) – Exercise of unlisted warrants of a listed associate conferring rights to subscribe for up to 78,800,000 new shares by a subscriber	67,905	–
– Share placing and top-up subscription of shares of the listed associate in April 2006	12,965	–
(b) Exercise of warrants and share options by another listed associate	(86)	–
	80,784	–

7. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF AN AVAILABLE-FOR-SALE FINANCIAL ASSET

It represents the impairment loss of HK$58,203,000 (2005: Nil) provided by the Group relating to the Group's 12.5% interest in a Kuala Lumpur hotels project after the Court of Final Appeal delivered its decision, dismissing the Group's final appeal. The details of the litigation have been disclosed in the contingent liabilities of the 2005 annual report of the Company.

8. PROFIT BEFORE TAXATION

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	1,946	1,686
Amortisation of prepaid land lease payments	2,154	2,192
Depreciation	10,726	12,416
Net unrealised loss on derivatives	–	1,358
Net unrealised loss on financial assets at fair value through profit or loss	–	1,780
and after crediting:		
Dividend income from investments in listed equity securities	8,952	8,543
Dividend income from investments in unlisted equity securities	3,332	17,733
Excess of net fair value over consideration arising from acquisition of an associate (included in other income)	9,011	–
Interest income	139,304	74,019
Net profit on dealing in leveraged foreign currencies	4,131	2,817
Net profit on disposal of available-for-sale financial assets (included in other income)	68,604	2,951
Net profit on other dealing activities	17,725	2,306
Net realised profit on derivatives	9,508	10,635
Net realised profit on financial assets at fair value through profit or loss	11,271	1,970
Net unrealised profit on derivatives (included in other income)	6,406	–
Net unrealised profit on financial assets at fair value through profit or loss (included in other income)	7,405	–
Refund of interest expenses in respect of litigation related to Kuala Lumpur hotels project pursuant to Court of Appeal Judgment	–	14,011

9. TAXATION

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
The charge comprises:		
Current tax:		
Hong Kong	25,795	12,282
Outside Hong Kong	553	209
	26,348	12,491
Deferred tax	6,011	31,571
	32,359	44,062

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

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

10. EARNINGS PER SHARE

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

	Six months ended 30th June,	
	2006	**2005**
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to equity holders of the Company)	498,299	532,825
Effect of dilutive potential ordinary shares:		
Adjustments to earnings in respect of the effect of dilutive potential ordinary shares arising from warrants of a subsidiary	(41)	–
Adjustments to the share of results of associates based on dilution of their earnings per share	(898)	–
Earnings for the purposes of diluted earnings per share	497,360	532,825
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic and diluted earnings per share	537,152	537,152

11. DIVIDEND

The Board does not recommend the declaration of an interim dividend (2005: Nil).

During the six months ended 30th June, 2006 and 2005, the Company paid dividends of HK$53,715,000 and HK$26,858,000, representing HK10 cents per share and HK5 cents per share, in respect of the final dividends of 2005 and 2004 respectively.

12. INVESTMENT PROPERTIES

	HK$'000
Valuation	
At 1st January, 2005	2,215,668
Additions	2,605
Acquisition of subsidiaries	39,362
Disposal	(12,600)
Transferred from properties held for sale	47,160
Transferred to property, plant and equipment and prepaid land lease payments	(17,531)
Overprovision of construction costs	(12,814)
Increase in fair value during the year	522,250
At 31st December, 2005	2,784,100
Additions	245
Transferred to property, plant and equipment	(106,509)
Disposal	(14,000)
Increase in fair value for the period	113,671
At 30th June, 2006	2,777,507

The fair value of the Group's investment properties at 30th June, 2006 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.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30th June, 2006 *HK$'000*	At 31st December, 2005 *HK$'000*
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	657,986	530,543
Outside Hong Kong	6,872	4,444
	664,858	534,987
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong *(note)*	633,501	399,901
Outside Hong Kong	146,880	58,251
	780,381	458,152
	1,445,239	993,139

Note: The amount includes the Group's interest in a fellow subsidiary of HK$633,500,000 (at 31st December, 2005: HK$399,900,000).

14. LOANS AND RECEIVABLES

	At 30th June, 2006 *HK$'000*	At 31st December, 2005 *HK$'000*
Loan note of a listed associate	78,000	78,000
Amounts due from investee companies *(note)*	6,663	124,687
Others	926	1,066
	85,589	203,753
Less: Impairment	(1,447)	(1,447)
	84,142	202,306

Note: A sum totalling HK$118,003,000 for the interest in the Kuala Lumpur hotels project was derecognised and then recognised as an available-for-sale financial asset after the Court of Final Appeal delivered its decision, dismissing the Group's final appeal.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30th June, 2006	At 31st December, 2005
	HK$'000	*HK$'000*
Financial assets held for trading		
Listed equity securities, at market value		
issued by corporate entities		
Hong Kong	37,064	32,396
Outside Hong Kong	2,080	2,534
issued by banks		
Hong Kong	60,091	20,654
Outside Hong Kong	–	87
issued by public utility entities Hong Kong	33	33
	99,268	55,704
Unlisted equity securities, at fair value		
issued by corporate entities outside Hong Kong	219,772	119,514
Warrants and options listed in Hong Kong, at fair value	9,267	3,508
Others	568	478
	328,875	179,204

16. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK$1,094,242,000 (at 31st December, 2005: HK$1,181,355,000), the aged analysis of which is as follows:

	At 30th June, 2006	At 31st December, 2005
	HK$'000	*HK$'000*
0 to 30 days	1,049,429	1,155,721
31 to 180 days	13,089	16,849
181 to 365 days	1,771	778
over 365 days	173,237	167,080
	1,237,526	1,340,428
Allowance for doubtful debts	(143,284)	(159,073)
	1,094,242	1,181,355

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

The maturity profile of term loans is disclosed in note 26.

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 30th June, 2006 was HK$8,205,080,000 (at 31st December, 2005: HK$6,272,527,000).

17. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK$888,220,000 (at 31st December, 2005: HK$848,151,000), the aged analysis of which is as follows:

	At 30th June, 2006	**At 31st December, 2005**
	HK$'000	*HK$'000*
0 to 30 days	838,717	820,787
31 to 180 days	19,797	4,336
181 to 365 days	866	508
Over 365 days	28,840	22,520
	888,220	848,151

18. SHARE CAPITAL

	Number of shares	**Value**
		HK$'000
Ordinary shares of HK$2 each		
Authorised:		
At 31st December, 2005 and 30th June, 2006	3,000,000,000	6,000,000
Issued and fully paid:		
At 31st December, 2005 and 30th June, 2006	537,151,901	1,074,303

19. WARRANTS

A bonus issue of warrants on the basis of one warrant for every five shares held was proposed by the Board on 12th April, 2006. The condition of the issue of the bonus warrants was fulfilled on 29th May, 2006 and 107,430,380 warrants were issued on 5th June, 2006.

The warrant holders are entitled to subscribe in cash for one fully paid share at an initial subscription price of HK$10.00 per share, subject to adjustment, at any time from 7th June, 2006 to 6th June, 2009 (both days inclusive). During the period, there were no conversions of the warrants. 107,430,380 warrants were outstanding at 30th June, 2006.

20. LOAN NOTES

The amount represents the loan notes issued in part consideration of the repurchase of shares by a listed subsidiary, Sun Hung Kai. 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.

21. CONTINGENT LIABILITIES

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

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

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of Sun Hung Kai, were served with a writ attaching statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, *inter alia*, that the sale of shares in Shun Loong Holdings Limited ("SLHL") ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK$36,500,000 subject to additional amounts in a total sum not exceeding HK$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and an account as to the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based and have applied to have the claim struck-out. The proceedings have been stayed until further order by the court.

(c) In June 2006, Sun Hung Kai received notice of a 2001 order made by the Hubei Province Higher Peoples Court in China freezing US$3 million of funds of Sun Hung Kai Securities Limited ("SHKS") (or assets of equivalent value), a direct wholly-owned subsidiary of Sun Hung Kai, pursuant to which SHKS's shares in Chang Zhou Power Development Company Limited in China ("Shares") (worth US$3 million) were subsequently frozen. SHKS had sold the Shares in 1998. Pursuant to a further agreement in 2001, SHKS received indemnities and waivers as to any potential liability. Sun Hung Kai will further investigate the matter but at this stage it does not consider that it is appropriate to make any provision in the circumstances. It will make a final decision once its investigation has been completed.

22. CAPITAL COMMITMENTS

	At 30th June, 2006 *HK$'000*	At 31st December, 2005 *HK$'000*
Capital expenditure contracted for but not provided for in the financial statements	2,867	29,952
Capital expenditure authorised but not contracted for	2,283	2,259

23. OPERATING LEASE ARRANGEMENTS

At 30th June, 2006, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2006		At 31st December, 2005	
	Land and buildings	Others	Land and buildings	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	17,726	5,991	14,477	406
In the second to fifth years inclusive	11,740	716	14,463	–
	29,466	6,707	28,940	406

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

24. PLEDGE OF ASSETS

At 30th June, 2006, certain of the Group's investment properties, hotel property, land and buildings, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK$3,781,706,000 (at 31st December, 2005: HK$3,699,422,000), listed investments belonging to the Group and margin clients with carrying value of HK$1,378,229,000 (at 31st December, 2005: HK$1,387,659,000) together with certain securities in respect of a listed subsidiary with a cost of HK$902,933,000 (at 31st December, 2005: HK$902,933,000) were pledged to secure loans and general banking facilities to the extent of HK$3,056,665,000 (at 31st December, 2005: HK$3,098,756,000) granted to the Group. Facilities amounting to HK$1,709,369,000 (at 31st December, 2005: HK$1,792,881,000) were utilised at 30th June, 2006.

At 30th June, 2006, a bank deposit of HK$1,000,000 (at 31st December, 2005: HK$972,000) was pledged to secure a bank guarantee amounting to HK$2,000,000 (at 31st December, 2005: HK$2,000,000).

25. EVENTS AFTER THE BALANCE SHEET DATE

(a) The Group entered into an option agreement with CLSA Capital Limited ("CLSA") on 3rd April, 2006 and a supplemental letter with CLSA on 18th May, 2006 for the conditional grant of an option by CLSA to the Group at a consideration of HK$11,101,000. The option entitles the Group to require CLSA:

- to sell 34,156,666 shares in Quality HealthCare Asia Limited ("QHA") at an aggregate exercise price of HK$99,908,000, and

- to exercise warrants leading to the subscription of 7,056,232 shares in QHA upon the Group paying the subscription price of HK$2.46 per share and then to transfer to the Group the resultant QHA shares.

Details of the transaction were contained in a circular to the shareholders of the Company dated 29th June, 2006. This conditional grant of the option was completed on 21st July, 2006.

(b) As announced in the joint announcements of Allied Group Limited ("Allied Group"), the Company and Sung Hung Kai on 17th and 18th May, 2006, 169,000,000 new shares (first placing and subscription) and 79,000,000 new shares (second placing and subscription) of Sun Hung Kai would be subscribed by AP Emerald Limited, a wholly-owned subsidiary of the Company, at net proceeds of approximately HK$1,685,500,000. Details of the transactions were contained in the circulars to the shareholders dated 8th June, 2006 and 14th July, 2006.

The subscription of 248,000,000 new shares of Sun Hung Kai at the subscription price of HK$7.00 per share was completed on 10th August, 2006.

(c) On 13th June, 2006, the Group entered into an agreement with Allied Group and AG Capital Holding Limited (a wholly-owned subsidiary of Allied Group) for the purchase of the entire issued share capital of UAF Holdings Limited ("UAF Holdings") and the assignment of shareholder's loan advanced to UAF Holdings of HK$39,590,000. Details of the transaction were contained in a circular to the shareholders of the Company dated 30th June, 2006.

The transaction was completed on 24th August, 2006. The aggregate consideration of HK$4,328,000,000 is settled as follows:

– HK$628,000,000 in cash on completion,

– HK$900,000,000 to be paid at any time on or before 31st December, 2006 bearing interest at 1% above Hong Kong Interbank Offered Rate ("HIBOR") per annum, and

– three year bonds with a principal amount of HK$2,800,000,000 (bearing interest at the rate of 1% above HIBOR per annum).

Upon the completion of the transaction, the management is in the process to carry out valuation on the UAF Holdings' identifiable net assets to determine the goodwill arising from the transaction.

26. 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 30th June, 2006			
	On demand	**Within 3 months**	**3 months to 1 year**	**1 year to 5 years**	**After 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Fixed deposits with banks	–	1,310,589	–	–	–	1,310,589
Loan note of a listed associate	–	–	–	78,000	–	78,000
Treasury bills	–	7,676	–	–	–	7,676
Term loans	127,196	43,200	169,156	–	–	339,552
Liabilities						
Bank loans and overdrafts	–	660,689	719,033	405,127	9,520	1,794,369
Loan notes	–	–	–	65,437	–	65,437

	At 31st December, 2005					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Fixed deposits with banks	–	110,902	–	–	–	110,902
Term loan of a listed associate	–	245,000	–	–	–	245,000
Loan note of a listed associate	–	–	–	78,000	–	78,000
Treasury bills	–	7,680	–	–	–	7,680
Term loans	148,299	66,200	5,667	–	–	220,166
Liabilities						
Bank loans and overdrafts	–	554,910	395,323	818,153	57,610	1,825,996
Loan notes	–	–	–	64,252	–	64,252

27. 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 relevant group company, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The internal audit and compliance department ("IAC") (which reports independently to the relevant 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 profit and loss.

The Group's various proprietary trading positions and profit and loss are reported daily to senior management for review. The 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 to and reviewed by the senior 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 senior 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 per annum	In first year	In second year	In third year	In fourth year	In fifth year	More than 5 years	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30th June, 2006								
Fixed deposits	3.00% to 5.38%	1,310,589	–	–	–	–	–	1,310,589
Treasury bills	4.64%	7,676	–	–	–	–	–	7,676
Loan note due from a listed associate	2.50%	–	–	78,000	–	–	–	78,000
Bank loans	4.93% to 6.41%	(288,534)	–	–	–	–	–	(288,534)
Loan notes *(note)*	7.90%	–	(65,437)	–	–	–	–	(65,437)
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	2.50%	–	–	78,000	–	–	–	78,000
Bank loans	4.85% to 5.35%	(255,000)	–	–	–	–	–	(255,000)
Loan notes *(note)*	7.90%	–	–	(64,252)	–	–	–	(64,252)

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 per annum	In first year	In second year	In third year	In fourth year	In fifth year	More than 5 years	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30th June, 2006								
Secured margin loans	5.75% to 23.14%	N/A	N/A	N/A	N/A	N/A	N/A	1,344,186
Term loans	7.44% to 26.82%	251,022	–	–	–	–	–	251,022
Bank overdrafts	4.40% to 8.25%	(49,970)	–	–	–	–	–	(49,970)
Bank loans	5.06% to 7.07%	(1,041,218)	(162,508)	(84,854)	(87,385)	(70,380)	(9,520)	(1,455,865)
At 31st December, 2005								
Secured margin loans	7.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,293,285
Term loans	7.00% to 26.82%	371,909	–	–	–	–	–	371,909
Bank overdrafts	4.85% to 8.50%	(83,040)	–	–	–	–	–	(83,040)
Bank loans	4.89% to 6.69%	(612,193)	(606,939)	(36,119)	(100,473)	(74,622)	(57,610)	(1,487,956)

28. COMPARATIVE FIGURES

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

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

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

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

	As reported on 30th June, 2005	Restatement and reclassification	As restated
	HK$'000	*HK$'000*	*HK$'000*
Changes in value of properties	358,385	(969)	357,416
Other operating expenses	(59,763)	(5,088)	(64,851)
Finance costs	(30,427)	(7,606)	(38,033)
Share of results of associates	79,972	2,266	82,238
Taxation	(44,427)	365	(44,062)
Profit for the period	593,339	(11,032)	582,307
Attributable to			
Equity holders of the Company	541,276	(8,451)	532,825
Minority interests	52,063	(2,581)	49,482
	593,339	(11,032)	582,307
Basic earnings per share *(HK$)*	1.01	(0.02)	0.99

5. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the issue of the Convertible Bonds, the Group's current cash balance and resources as well as its available banking facilities, the Group has sufficient working capital for its present requirements for the next twelve months from the date of this prospectus.

6. STATEMENT OF INDEBTEDNESS

At the close of business on 31st August, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK$6,485.7 million, comprising secured bank loans and overdrafts of approximately HK$1,425.0 million, unsecured bank loans and overdrafts of approximately HK$1,011.0 million, unlisted secured bonds of approximately HK$2,800.0 million issued to a fellow subsidiary, 4% unlisted loan notes of approximately HK$66.3 million, unsecured borrowings of approximately HK$199.2 million from a jointly controlled entity, unsecured borrowings of approximately HK$72.7 million from associates, unsecured borrowings of approximately HK$900.0 million from a fellow subsidiary, unsecured borrowings of approximately HK$2.6 million from investee companies, unsecured borrowings of approximately HK$0.9 million from a minority shareholder and unsecured other borrowings of approximately HK$8.0 million. The Group's banking facilities were secured by charges over its assets, including investment properties, hotel property, land and buildings, prepaid land lease payments, properties held for sale, short-term bank deposits and listed investments belonging to the Group and margin clients, together with certain securities in respect of a listed subsidiary held by the Group.

In addition, the Group had contingent liabilities in the sum of approximately HK$550.5 million in respect of a guarantee for the performance of an indirect non-wholly owned subsidiary's obligations under a placing agreement relating to the shares of a hotel company listed on the Australian Stock Exchange Limited, a guarantee for a banking facility granted to an investee company and 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 ("NWDC") and Shanghai Finance Holdings Limited, further particulars of which are set out in the section headed "Litigation" in Appendix V to this prospectus.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st August, 2006.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, other loan capital, bank overdrafts, loans or other similar indebtedness, hire purchase commitments, liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities at the close of business on 31st August, 2006.

7. FINANCIAL AND TRADING PROSPECTS

The global economy is generally positive in spite of the increasing concerns about fluctuating oil prices and unsettled political disputes in the Middle-East. It is expected that the recent adjustment and control policies imposed by the Mainland Government will see some consequential adjustment in the China real estate market in the coming year. In the longer term, Mainland China's economic performance remains promising and continues to have a positive effect on the local economy.

The board of Directors believes that the Group's financial services and property investment and development businesses both in Hong Kong and Mainland China are sound and the board of Directors will strive to develop and improve these underlying businesses for the benefit of all the Shareholders.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared to illustrate the effect of the Open Offer of 53,729,944 Convertible Bonds at the Conversion Price of HK$10 per Convertible Bond in the proportion of one Convertible Bond for every ten existing Shares held ("Open Offer") on the net tangible assets of the Group as if the Open Offer had been completed on 30th June, 2006. As it is prepared for illustrative purposes only, and because of its nature, it may not give a true picture of the financial position of the Group upon completion of the Open Offer.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the unaudited condensed consolidated balance sheet of the Group as at 30th June, 2006 included in the published interim report of the Group for the six months ended 30th June, 2006 and has been adjusted for the effect of the Open Offer.

Unaudited consolidated net tangible assets as at 30th June, 2006	**Add: Estimated net proceeds from the Open Offer**	**Less: Estimated liability component of the Convertible Bonds net of issue costs and value of the early redemption option**	**Less: Estimated deferred tax liability arising from the issue of Convertible Bonds**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group after the Open Offer**	**Unaudited pro forma adjusted consolidated net tangible assets per share immediately after completion of the Open Offer**
HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*
10,140,650	532,499	(473,591)	(10,309)	10,189,249	18.964

Notes:

1. The consolidated net tangible assets have been determined by taking the Group's total equity of approximately HK$10,248,929,000 less intangible assets of approximately HK$20,670,000 and goodwill of approximately HK$87,609,000 which is included in the carrying value of interests in associates.

2. This reflects the estimated net proceeds of approximately HK$532,499,000 from the Open Offer being proceeds of approximately HK$537,299,000 after deducting estimated expenses and commission of approximately HK$4,800,000 attributable to the Open Offer.

3. This reflects the estimated liability component of the Convertible Bonds amounting to approximately HK$483,095,000, net of issue costs of approximately HK$4,269,000 and the value of the early redemption option of approximately HK$5,235,000.

4. This reflects the estimated deferred tax liability calculated at the rate of 17.5% of the estimated temporary difference arising from the issue of the Convertible Bonds.

5. The calculation is based on the assumption that 537,299,446 ordinary shares of the Company are in issue as at the Record Date.

2. REPORT FROM THE REPORTING ACCOUNTANTS

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

Accountant's report on Unaudited Pro Forma Financial Information to the Directors of Allied Properties (H.K.) Limited

We report on the unaudited pro forma financial information of Allied Properties (H.K.) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix III on page 148 of the prospectus dated 12 October, 2006 (the "Prospectus") under the heading of "Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in connection with the proposed open offer of convertible bonds to qualifying shareholders of the Company (the "Offer"). The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the Offer might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 148 of the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30th June, 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

12th October, 2006

Reference is made to the joint announcement dated 19th June, 2006 of AGL, the Company and SHK and the circular of the Company dated 30th June, 2006 (the "UAF Circular"). After completion of the sale and purchase of the entire issued share capital of UAF Holdings as disclosed in the UAF Circular on 24th August, 2006, UAF Holdings became an indirect non wholly-owned subsidiary of the Company.

(A) The following accountants' report, prepared by Deloitte Touche Tohmatsu, summarises the financial information regarding UAF Holdings Group for each of the three years ended 31st December, 2005, as extracted from the UAF Circular. Terms and definitions used below shall bear the respective meanings as defined in the UAF Circular.

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.

Name of subsidiary	Place and date of incorporation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiary directly	Proportion of nominal value of issued capital attributable to the Group	Principal activities
Easy Capital Investments Limited *(note a)*	British Virgin Islands 10th May, 2000	US$1	100%	50.91%	Investment holding
First Asian Holdings Limited *(note b)*	Hong Kong 21st January, 2004	HK$2	100%	50.91%	Asset management
Earnest Finance Limited *(note a)*	British Virgin Islands 12th April, 2000	HK$100	100%	50.91%	Investment holding
Top Progress Investments Limited *(note a)*	British Virgin Islands 20th November, 1995	US$50,000	100%	50.91%	Investment holding
SHK Finance Limited *(note b)*	Hong Kong 11th May, 1990	HK$150,000,000	100%	50.91%	Money lending
Miliconcept Credit Limited *(note a)*	Hong Kong 30th August, 2000	HK$2	100%	50.91%	Dormant
Onspeed Investments Limited *(note a)*	British Virgin Islands 12th April, 2005	US$1	100%	50.91%	Investment holding
Island New Finance Limited *(note a)*	British Virgin Islands 12th May, 2005	US$1	100%	50.91%	Investment holding
The Hong Kong Building and Loan Agency Limited *(note b)*	Hong Kong 28th November, 1964	HK$225,000,000	74.9%	38.13%	Treasury investments and provision of mortgage finance
United Asia Finance Limited *(note b)*	Hong Kong 29th January, 1991	HK$137,500,000	50.91%*	50.91%	Money lending
Winbest Holdings Limited *(note a)*	British Virgin Islands 11th July, 2001	US$1	100%	38.13%	Investment holding
The Building and Loan Agency (Asia) Limited *(note b)*	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 percent 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)
		750,018,175	784,755,675	848,541,757
Other income	10	3,312,129	5,297,901	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		271,631,690	356,412,675	455,200,119
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
		271,631,690	356,412,675	455,200,119
Dividends:				
Interim dividend paid		83,160,000	120,000,000	152,670,000

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
		603,727,168	845,773,226	1,129,717,538
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
		1,268,160,716	1,425,130,151	1,821,292,531
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
		112,962,554	323,887,872	376,044,439
NET CURRENT ASSETS		1,155,198,162	1,101,242,279	1,445,248,092
		1,758,925,330	1,947,015,505	2,574,965,630

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital *HK$*	Non-distributable reserve (note) *HK$*	Goodwill arising on consolidation *HK$*	Retained profits *HK$*	Total *HK$*	Minority interests *HK$*	Total Equity *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	8	28,000,000	–	1,005,686,195	1,033,686,203	1,041,279,427	2,074,965,630

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

CONSOLIDATED CASH FLOW STATEMENTS

	NOTES	2003 HK$	2004 HK$	2005 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
NET CASH USED IN INVESTING ACTIVITIES		(70,792,980)	(157,910,153)	(30,923,084)
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)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(278,350,000)	27,677,500	176,112,500
INCREASE IN CASH AND CASH EQUIVALENTS		4,542,567	33,134,130	83,003,847
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		127,604,554	132,147,121	165,281,251
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		132,147,121	165,281,251	248,285,098
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		132,147,121	165,281,251	248,285,098

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 Decommissing, 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:

	The Group		
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
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)	–	–
Increase in net profit for the year	–	–	27,379,267
Attributable to			
Equity holders of the Company	–	–	13,938,536
Minority interests	–	–	13,440,731
	–	–	27,379,267

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	**Adjustments**	**As restated at 1st January, 2005**
	HK$	*HK$*	*HK$*
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)
Total effects on assets and liabilities	1,872,015,505	(4,158,085)	1,867,857,420
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
Total equity	957,166,473	910,690,947	1,867,857,420
Minority interests	914,849,032	(914,849,032)	–

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

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
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
	4,817,758	5,936,489	21,733,582

10. OTHER INCOME

	2003	2004	2005
	HK$	*HK$*	*HK$*
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
	3,312,129	5,297,901	6,508,230

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
	HK$
Loss on disposal of property and equipment	2,605,040
Rental payments and related costs	2,820,263
Staff redundancy costs	351,571
	5,776,874

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

	2003	2004	2005
	HK$	*HK$*	*HK$*
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	–
	246,568,221	149,351,499	78,531,121

13. INFORMATION REGARDING EMPLOYEES' EMOLUMENTS

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

	2003	2004	2005
	HK$	*HK$*	*HK$*
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
	16,206,443	19,979,069	18,000,652

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	–

14. PROFIT BEFORE TAXATION

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

	2003	2004	2005
	HK$	*HK$*	*HK$*
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

15. TAXATION

	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
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
	57,872,735	84,720,946	95,384,511
Deferred tax *(note 28)*:			
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)	–	–
	(1,520,109)	(6,945,412)	920,632
Taxation attributable to the Company and its subsidiaries	56,352,626	77,775,534	96,305,143

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
Profit before taxation	327,984,316	434,188,209	551,505,262
Less: share of results of associates	(555,483)	–	–
Profit attributable to the Company and its subsidiaries	327,428,833	434,188,209	551,505,262
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	(2,049,552)	–	–
Tax charge for the year	56,352,626	77,775,534	96,305,143

16. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$	*HK$*	*HK$*	*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	3,268,437	6,930,771	–	10,199,208
At 31st December, 2004	2,575,497	5,301,284	–	7,876,781
At 31st December, 2003	1,651,739	6,128,108	94,515	7,874,362

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

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

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**
	HK$	*HK$*	*HK$*
Available-for-sale financial assets	–	–	2,000
Investment securities	756,806	756,806	–
	756,806	756,806	2,000

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
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
	1,667,570,465	2,025,806,400	2,541,189,702

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
	1,667,570,465	2,025,806,400	2,541,189,702

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
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
	1,667,570,465	2,025,806,400	2,541,189,702

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

	Impairment allowances		Allowance for bad & doubtful debts		
	Individual	Collective	Specific	General	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
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)
At 1st January, 2004	–	–	–	143,858,640	143,858,640
Allowance during the year	–	–	5,000,000	35,062,944	40,062,944
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
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)
As 31st December, 2005	5,083,025	176,329,625	–	–	181,412,650

22. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading include:

	2003	2004	2005
	HK$	*HK$*	*HK$*
Equity securities listed in Hong Kong	–	–	41,494,700

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
Amount due to immediate holding company	47,467,165	39,581,455	39,586,135

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

26. BANK LOANS AND OTHER BORROWINGS

	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Unsecured borrowings			
– bank loans	10,000,000	280,000,000	755,000,000
– other borrowings	5,000,000	6,000,000	7,000,000
	15,000,000	286,000,000	762,000,000
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	–	55,000,000	480,000,000
	15,000,000	286,000,000	762,000,000
Less: Amounts due within one year and shown under current liabilities	(15,000,000)	(211,000,000)	(262,000,000)
Bank loans and other borrowings due after one year	–	75,000,000	500,000,000

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	390,000
Issued and fully paid:	
1 ordinary share of US$1 each	8

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 *(note 3)*	–	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	**2004**	**2005**
	HK$	*HK$*	*HK$*
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
	19,904,922	18,134,028	40,678,938

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

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:

	HK$	HK$
Purchase consideration		87,500,000
Acquisition costs		106,250
		87,606,250
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)	
	174,902,325	
50% thereof		87,451,163
Goodwill arising on acquisition		155,087
Total consideration satisfied by cash		87,606,250
Net cash outflow arising on acquisition:		
Cash consideration		(87,606,250)
Cash and bank balances acquired		22,096,097
		(65,510,153)

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 HK$
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%	–	–
					236,507,809

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

	Acquiree's carrying amount before combination	**Fair value**
	HK$	*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	203,808,802	203,808,802
Goodwill		32,699,007
Total consideration satisfied by cash		236,507,809
Net cash outflow arising on acquisition of subsidiaries:		
Cash consideration paid		(236,507,809)
Cash and cash equivalents acquired		171,235,618
		(65,272,191)

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

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

	For the year ended 31st December, 2005	**Post acquisition attributable to the Group**
	HK$	*HK$*
Total revenue	4,289,271	1,737,541
Profit for the year	1,234,663	2,641,640

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:

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

34. RELATED PARTY TRANSACTIONS

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

A) Income and expense items:

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

B) Key management personnel compensation

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

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					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Assets						
Fixed deposits with banks	–	–	–	–	–	–
Loans and advances to consumer finance customers before allowance for bad and doubtful debts	135,889,174	325,765,978	731,818,132	609,120,259	8,835,562	1,811,429,105
Liabilities						
Bank loans and other borrowings	15,000,000	–	–	–	–	15,000,000

	31st December, 2004					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*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	149,860,633	391,753,270	788,265,626	851,269,588	28,578,867	2,209,727,984
Liabilities						
Bank loans and other borrowings	11,000,000	185,000,000	15,000,000	75,000,000	–	286,000,000

	31st December, 2005					
	On demand	Within 3 months	3 months to 1 year	1 year to 5 years	After 5 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Assets						
Fixed deposits with banks	–	170,562,566	–	–	–	170,562,566
Loans and advances to consumer finance customers before impairment allowances	182,606,752	387,773,811	1,019,601,253	1,060,669,862	71,950,674	2,722,602,352
Liabilities						
Bank loans and other borrowings	7,000,000	240,000,000	15,000,000	500,000,000	–	762,000,000

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

(B) The following unaudited pro forma financial information on the Enlarged Group shows the combined balance sheet, income statement and cash flow statement of the Enlarged Group as at 31st December, 2005, as extracted from the UAF Circular. Terms and definitions used below shall bear the respective meanings as defined in the UAF Circular.

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	Pro forma adjustments relating to the Top up Placing		Pro forma Group after the Top up Placing	The UAFH Group as at 31st December, 2005	Pro forma adjustments relating to the Acquisition		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'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
	8,112,342	–		8,112,342	1,129,718	2,909,232		12,151,292
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
	3,812,171	1,685,632		5,497,803	1,821,292	(1,528,000)		5,791,095

	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
	2,198,864	–		2,198,864	376,044	(39,591)		2,535,317
Net current assets	1,613,307	1,685,632		3,298,939	1,445,248	(1,488,409)		3,255,778
	9,725,649	1,685,632		11,411,281	2,574,966	1,420,823		15,407,070
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	8,552,276	1,685,632		10,237,908	2,074,966	(1,379,177)		10,933,697
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
	1,173,373	–		1,173,373	500,000	2,800,000		4,473,373
	9,725,649	1,685,632		11,411,281	2,574,966	1,420,823		15,407,070

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-owed 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	Pro forma adjustments relating to the Top up Placing	Note	Pro forma Group after the Top up Placing	The UAFH Group for the year ended 31st December, 2005	Pro forma adjustments relating to the Acquisition	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*		*HK$'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)
	1,036,442	433,453		1,469,895	455,200	(183,913)		1,741,182
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
	1,036,442	433,453		1,469,895	455,200	(183,913)		1,741,182

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	Pro forma adjustments relating to the Top up Placing	Note	Pro forma Group after the Top up Placing	The UAFH Group for the year ended 31st December, 2005	Pro forma adjustments relating to the Acquisition	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*		*HK$'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	398,156	1,685,632		2,083,788	248,285	(1,537,438)		794,635
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)
	398,156	1,685,632		2,083,788	248,285	(1,537,438)		794,635

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 an accountants' report, prepared for inclusion in the UAF 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

1. RESPONSIBILITY STATEMENT

This prospectus 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 prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this prospectus 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 prospectus 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)*	0.22	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)

Name of Director	Name of company	Number of Shares and underlying Shares held	Approximate percentage of the relevant issued share capital	Nature of interest
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 of the Company and an interest in 54,000 units of Warrants giving rise to an interest in 54,000 underlying Shares of the Company.

2. AGL is the ultimate holding company of the Company. SHK is an indirect non wholly-owned subsidiary of the Company, and QHA is an indirect non wholly-owned subsidiary of SHK. 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. This represents an interest in 550,000 shares of AGL.

4. This represents 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 represents an interest in 49,200 shares of SHK.

6. This represents an interest in 102,000 shares of QHA.

7. All interests stated above represent 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

Name of Shareholder	Number of Shares held	Approximate percentage of the issued share capital	*Notes*
AGL	483,048,065	89.90	*1*
Lee and Lee Trust	483,048,065	89.90	*2, 3*

Notes:

1. The interest includes the holding of: (i) an interest in 167,061,619 Shares and 33,412,323 units of Warrants held by Capscore Limited ("Capscore"); (ii) an interest in 4,186,632 Shares and 837,324 units of Warrants held by Citiwealth Investment Limited ("Citiwealth"); (iii) an interest in 134,953,783 Shares and 26,990,756 units of Warrants held by Sunhill Investments Limited ("Sunhill"); and (iv) an interest in 96,338,025 Shares and 19,267,603 units of Warrants held by AGL. The Warrants held by Capscore, Citiwealth, Sunhill and AGL giving rise to an interest in an aggregate of 80,508,006 underlying Shares. 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. This represents the same interest of AGL in 402,540,059 Shares and an interest in 80,508,006 units of Warrants.

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 41.06% 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 represents 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 relevant issued share capital
Best Decision Investments Limited	Christophe Lee Kin Ping	17,500	35
Dalian Allied First Financial Centre Co. Ltd.	大連商業集團總公司	N/A	30
Dalian Lianhua Plaza Development Co. Ltd.	大連民興房地產發展有限公司	N/A	20
GFIA – SHK Managers Ltd.	LOTE Ltd.	49	49
Hardy Wall Limited	Betterhuge Limited	35	35
SHK	Penta Investment Advisers Limited	164,058,000	10.98
SHK Financial Data Limited	Unison Information Limited	49	49
United Asia Finance Limited	ITOCHU Hong Kong Limited	25,625,000	19

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 ("AG Capital"), 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 of Directors is independent from the boards of the abovementioned companies and none of the above Directors can control the board of Directors, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

5. CORPORATE INFORMATION

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

Share registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Legal adviser
P. C. Woo & Co.
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Principal bankers
Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Fubon Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited

Qualified Accountant
Wu Kwan Yet

Company Secretary
Phoebe Lau Mei Yi

6. PARTICULARS OF DIRECTORS

EXECUTIVE DIRECTORS

PATRICK LEE SENG WEI

Mr. Patrick Lee Seng Wei, aged 54, joined the Company in February 1987 as an Executive Director and became the Chief Executive of the Company in March 1994. An architect, he worked for IBM Australia before becoming involved in property development in Malaysia and Hong Kong for more than twenty years. He has extensive experience in the property field. He is also an executive director of SHK and an executive director, chairman and the acting managing director of Tian An.

KENNETH LI CHI KONG

Mr. Kenneth Li Chi Kong, aged 53, a member of the Institute of Chartered Accountants of Scotland and a fellow of the Hong Kong Institute of Certified Public Accountants, was appointed Financial Controller and Executive Director of the Company in August 1997 and October 1999 respectively. He has broad experience in the finance and accounting field, having worked in two major audit firms and as group financial controller for several sizeable listed companies in Hong Kong. He is also an executive director of Tian An and SAC, and the group financial controller of AGL.

NON-EXECUTIVE DIRECTORS

HENRY LAI HIN WING

Mr. Henry Lai Hin Wing, aged 49, was appointed an Independent Non-Executive Director of the Company in February 2001 and re-designated as a Non-Executive Director of the Company in September 2004. He is a partner of Messrs. P. C. Woo & Co., a firm of solicitors and notaries in Hong Kong, and has been practicing in the legal field for more than twenty-three years. Graduated from the University of Hong Kong with a Bachelor of Laws degree, Mr. Lai was admitted as a solicitor in Hong Kong, England and Wales and the State of Victoria, Australia, Mr. Lai is a Notary Public and a China-Appointed Attesting Officer in Hong Kong. He also serves on the board of another listed company as an independent non-executive director.

STEVEN LEE SIU CHUNG

Mr. Steven Lee Siu Chung, aged 59, was appointed a Non-Executive Director of the Company in September 2004. He is an associate member of the Chartered Institute of Bankers, London, U.K. He has over thirty-two years of working experience at senior management level in the banking and financial industry in Hong Kong and overseas. Mr. Lee is an employee of AG Capital which is a wholly-owned subsidiary of AGL. He is also a non-executive director of SAC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

JOHN DOUGLAS MACKIE

Mr. John Douglas Mackie, aged 78, was appointed an Independent Non-Executive Director of the Company in February 2004. He is the founder and chairman of JDM Associates Limited, and was a major shareholder of a group of companies which is a leading distributor of sports and leisure merchandise in Hong Kong. Graduated from the University of Western Australia and Harvard Business School, Mr. Mackie has over fifty years of performance orientated experience as chief executive officer and lately sole proprietor serving in general, marketing consultancy and representation, and has had extensive and successes in agency distribution, manufacturing-proprietary and franchised retailing-supermarket, drugstore specialised products and sourcing. He is also an independent non-executive director of AGL.

STEVEN SAMUEL ZOELLNER

Mr. Steven Samuel Zoellner, aged 37, was appointed an Independent Non-Executive Director of the Company in September 2004. He graduated from the Scots College in Sydney, Australia and completed a real estate licensing course. Mr. Zoellner has been a real estate agent since 1987 and has extensive experience in the industry. Mr. Zoellner has been involved in some of the more prominent upper end residential sales and development sites in Australia. He has previously owned Elders Double Bay for the provision of a variety of real estate services which he sold in the year 2000. He is currently a director of Laing & Simmons Double Bay which consistently sells the most exclusive real estate in Australia.

ALAN STEPHEN JONES

Mr. Alan Stephen Jones, aged 63, was appointed an Independent Non-Executive Director of the Company in January 2006. Mr. Jones, a chartered accountant, has extensive experience in management, administration, accounting, property development, carparking, finance and trading and has been involved in successful mergers and acquisitions of a number of public companies in Australia and internationally. Mr. Jones is also an independent non-executive director of AGL and SHK.

7. 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 NWDC and Stapleton Developments Limited ("SDL") 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$105,534,108.22 plus interest of HK$44,581,663.32). SHKS has paid the Judgment amounts. SHKS filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal handed down the judgment ("Court of Appeal Judgment") in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the Court of First Instance but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,090.86 and has been repaid. SHKS obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal ("Final Appeal"). The Final Appeal was heard on 19th, 20th and 21st June, 2006. On 10th July, 2006, the Court of Final Appeal delivered its decision ("Final Appeal Judgment"), dismissing the Final Appeal except to the extent that the principal sum awarded in favour of NWDC should be reduced by HK$629,448.15. This amount together with interest thereon of HK$647,991.43 totalling HK$1,277,439.58 has now been paid to SHKS by NWDC. Pursuant to the Final Appeal Judgment, SHKS was ordered to pay costs of the appeal.

SHKS is seeking legal advice as to the effect of the Final Appeal Judgment on new claims contained in (i) a writ containing an endorsement of claim issued by NWDC in April 2004 ("HCA 813/2004") for the sums of HK$27,237,489.51 and HK$7,697,418.42 together with interest on such sums from 1st March, 2000 and 2nd January, 2001 respectively at such rate as the Court considers appropriate, although as at the Latest Practicable Date, the writ in HCA 813/2004 has not been served on SHKS; and (ii) a writ including a statement of claim issued by NWDC and SDL in February 2006 ("HCA 376/2006") for what are asserted to be amounts advanced by NWDC on behalf of SHKS as pro-rata contributions to shareholders' loans. The sum of HK$37,498,011.41, being the aggregate of the contributions claimed from SHKS, together with interest thereon at such rate and for such period as the Court considers appropriate is claimed in HCA 376/2006, although as at the Latest Practicable Date that writ has not been served on SHKS.

(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 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 British Virgin Islands ("B.V.I.") seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.

(d) SHK, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.

(e) In June 2006, SHK received notice of a 2001 order made by the Hubei Province Higher Peoples Court in China freezing US$3 million of funds of SHKS (or assets of equivalent value), pursuant to which SHKS's shares in Chang Zhou Power Development Company Limited in China (worth US$3 million) were subsequently frozen. SHKS had sold the said shares in 1998. Pursuant to a further agreement in 2001, SHKS received indemnities and waivers as to any potential liability.

8. 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 respective circulars dated 25th November, 2005.

(c) A 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) United Asia Finance Limited in relation to the conditional acquisition of 168,313,038 ordinary shares in the issued share capital in The Hong Kong Building and Loan Agency Limited 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) (the "Option Agreement") 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 at a consideration of HK$11,100,916.45. 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) A sale and purchase agreement dated 13th June, 2006 was entered into between (i) AG Capital Holding Limited as vendor; (ii) Swan Islands Limited as purchaser; (iii) AGL as warrantor; and (iv) SHK as guarantor in relation to the conditional sale and purchase of the entire issued share capital of UAF Holdings together with assignment of a shareholder's loan at an aggregate consideration of HK$4,328,000,000.00. Further details were disclosed in a joint announcement of the AGL, the Company and SHK dated 19th June, 2006 and their respective circulars dated 30th June, 2006.

(j) the Underwriting Agreement.

(k) A sale and purchase agreement dated 6th October, 2006 was entered into between CLSA as vendor and Wah Cheong as purchaser in relation to the sale and purchase of 34,156,666 shares of QHA at an aggregate consideration of HK$99,908,248.05 as a result of the exercise of the option over the said shares by Wah Cheong pursuant to the Option Agreement. Further details were disclosed in a joint announcement of AGL, the Company, SHK and Wah Cheong dated 5th October, 2006.

9. MATERIAL ADVERSE CHANGE

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

10. EXPERT AND CONSENT

The following is the qualifications of the expert who have given opinion or advice which are contained in this prospectus:

Name	**Qualification**
Deloitte Touche Tohmatsu ("Deloitte")	certified public accountants in Hong Kong

As at the Latest Practicable Date, Deloitte:–

(a) did not have 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) did not have 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.

Deloitte has given and has not withdrawn its written consent to the issue of this prospectus 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.

11. 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.

12. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

13. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the consent letter given by Deloitte have been delivered to the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance of Hong Kong.

14. 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 prospectus is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

15. 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 prospectus up to and including 1st November, 2006:–

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to under the paragraph headed "Material contracts" in this Appendix;

(c) the annual reports of the Company for the two financial years ended 31st December, 2004 and 31st December, 2005 and the interim report of the Company for the six months ended 30th June, 2006;

(d) the accountants' report on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III;

(e) the letter of consent referred to under section headed "Expert and consent" in this Appendix;

(f) (i) the circular issued by the Company on 8th June, 2006 regarding a discloseable transaction for the placing of 169,000,000 shares in SHK; (ii) the circular issued by the Company on 29th June, 2006 regarding a major transaction for the conditional grant of option over shares and warrants in QHA; (iii) the circular issued by the Company on 30th June, 2006 regarding a very substantial acquisition and connected transaction for the conditional sale and purchase of the issued share capital UAF Holdings; and (iv) the circular issued by the Company on 14th July, 2006 regarding a major transaction for the placing of 79,000,000 shares in SHK and subscription of 248,000,000 news shares in SHK;

(g) the Underwriting Agreement;

(h) the Irrevocable Undertaking; and

(i) the Instrument.