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ALLIED GROUP LIMITED

(聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

MAJOR TRANSACTION

**DISPOSAL OF 70% EQUITY INTEREST IN
SUN HUNG KAI FINANCIAL GROUP LIMITED**

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
Introduction	5
The Transaction	5
Sale and Purchase Agreement	6
Other Arrangements	9
Information about the Company, APL, SHK, SHKFGL, HKCo and the SHKFGL Group	11
Information about Everbright Securities	14
Reasons for and Benefits of the Transaction	14
Financial Effects of and Use of Proceeds from the Transaction	15
Listing Rules Implications	16
Recommendation	16
Additional Information	16
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	17
APPENDIX II – GENERAL INFORMATION	19

DEFINITIONS

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

“A\$”	Australian dollars, the lawful currency of the Commonwealth of Australia
“Actual NAV”	the actual NAV at the Completion Date in respect of HKCo and its subsidiaries (other than the Excluded Companies) determined in accordance with the Sale and Purchase Agreement
“APL”	Allied Properties (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the securities of which are listed on the main board of the Stock Exchange (Stock Code: 56 and Warrant Code: 1183) and a non wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“Company”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 373)
“Completion”	completion of the sale and purchase of the SHKFGL Shares in accordance with the Sale and Purchase Agreement
“Completion Date”	three (3) Business Days after the date (not being later than the Longstop Date) on which the last of the Conditions to be satisfied or waived is satisfied or waived in accordance with the terms of the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“EBS”	Everbright Securities Company Limited (光大證券股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601788)
“Estimated NAV”	HK\$3,000,000,000

DEFINITIONS

“Everbright Securities”	Everbright Securities Financial Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of EBS
“Excluded Companies”	Sun Hung Kai Structured Finance Limited, Sun Hung Kai International Bank [Brunei] Limited, Fast Track Holdings Limited, Bali Securities Co. Limited, Dragon Field Investment Limited, 猛龍投資諮詢(深圳)有限公司 (Velociraptor Investment Consultant (Shenzhen) Limited; English name for identification purposes only), China Xin Yongan Futures Company Limited, SHK Asset Management Holding Limited, KIMA Capital Management, KIMA Capital Management Limited and Plentiwind Limited
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKCo”	Sun Hung Kai Financial Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SHKFGL
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Initial Consideration”	HK\$4,095,000,000
“Latest Practicable Date”	18 February 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Lee and Lee Trust”	Lee and Lee Trust, a discretionary trust and is beneficially interested in 128,703,662 shares in the Company, representing approximately 70.20% of the total number of shares in issue of the Company as at the Latest Practicable Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longstop Date”	six (6) months from the date of the Sale and Purchase Agreement, or nine (9) months from the date of the Sale and Purchase Agreement if SHK serves an extension notice to Everbright Securities on or before the expiry of the six (6) months from the date of the Sale and Purchase Agreement, or such later date as SHK and Everbright Securities may agree

DEFINITIONS

“NAV”	consolidated equity attributable to the shareholders of HKCo
“PRC”	People’s Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“Restructuring”	the proposed restructuring of the SHKFGL Group, intending, among other things, to dispose of the assets and businesses of the Excluded Companies
“Sale and Purchase Agreement”	the sale and purchase agreement dated 1 February 2015 entered into between SHK and Everbright Securities
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong)
“SHK”	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 86) and an indirect non wholly-owned subsidiary of each of the Company and APL. As at the Latest Practicable Date, SHK was beneficially owned as to approximately 54.73% by APL
“SHK Board”	the board of directors of SHK
“SHK Group”	SHK and its subsidiaries (excluding the SHKFGL Group)
“SHKFGL”	Sun Hung Kai Financial Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of SHK
“SHKFGL Group”	SHKFGL and its subsidiaries, excluding the Excluded Companies
“SHKFGL Group Company”	SHKFGL or any of its subsidiaries, excluding any Excluded Company

DEFINITIONS

“SHKFGL Shares”	such number of fully-paid ordinary shares of US\$1.00 each of SHKFGL, which will represent 70% of SHKFGL’s issued shares at Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

LETTER FROM THE BOARD



ALLIED GROUP LIMITED

(聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

Executive Directors:

Lee Seng Hui (*Chief Executive*)

Edwin Lo King Yau

Mak Pak Hung

Non-Executive Directors:

Arthur George Dew (*Chairman*)

Lee Su Hwei

Independent Non-Executive Directors:

David Craig Bartlett

Alan Stephen Jones

Lisa Yang Lai Sum

Registered office:

22nd Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

27 February 2015

To the shareholders

Dear Sir or Madam

MAJOR TRANSACTION

DISPOSAL OF 70% EQUITY INTEREST IN SUN HUNG KAI FINANCIAL GROUP LIMITED

INTRODUCTION

Reference is made to the joint announcement of the Company, APL and SHK dated 2 February 2015 in relation to the Transaction (as defined below).

THE TRANSACTION

On 1 February 2015, SHK entered into the Sale and Purchase Agreement with Everbright Securities.

LETTER FROM THE BOARD

SALE AND PURCHASE AGREEMENT

Date

1 February 2015

Parties

Vendor: SHK

Buyer: Everbright Securities

As advised and confirmed by SHK, which has made all reasonable enquiries and based on the confirmation of Everbright Securities, and to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, Everbright Securities and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

Subject Matter

Sale and purchase of 70% equity interest in SHKFGL (the “**Transaction**”).

Consideration

The Initial Consideration is HK\$4,095,000,000, payable in cash as follows:

- (a) a deposit in the sum of HK\$585,000,000 in cash was payable by Everbright Securities to SHK on or prior to the date falling one (1) Business Day after the date of the Sale and Purchase Agreement (the “**Deposit**”) and was duly paid on 2 February 2015; and
- (b) the balance of the Initial Consideration being HK\$3,510,000,000 will be payable in cash by Everbright Securities to SHK on the Completion Date.

The Initial Consideration was determined between SHK and Everbright Securities after taking into consideration (a) the price to book multiple used in similar transactions on the market involving financial institution groups; and (b) the value of the Estimated NAV, as determined between SHK and Everbright Securities having regards to the estimated net asset value of the SHKFGL Group during the time of negotiations and the capitalisation of certain shareholder loans from SHK to SHKFGL. The Initial Consideration is subject to post-Completion adjustment as stated below, which shall be determined based on the consolidated equity attributable to the shareholders of the HKCo as at the Completion Date.

Completion

Completion of the Transaction will take place on the Completion Date.

LETTER FROM THE BOARD

Conditions Precedent

Completion is conditional upon, among others, the satisfaction (or, where applicable, waiver) of the following conditions (the “**Conditions**”):

- (a) the shareholders of SHK, the Company and APL, respectively, having passed a resolution at an extraordinary general meeting or by way of written resolution (if applicable), to approve the terms of, and the transactions contemplated by, the transaction documents in accordance with the Listing Rules;
- (b) the following approvals in relation to the transactions contemplated by the transaction documents having been obtained by Everbright Securities and/or relevant SHKFGL Group Company, in writing to the extent available:
 - (i) approvals from the SFC for Everbright Securities to become a substantial shareholder of HKCo;
 - (ii) approvals from the China Securities Regulatory Commission for Everbright Securities to acquire the SHKFGL Shares; and
 - (iii) any other regulatory notifications and approvals which SHK and Everbright Securities agree to be mandatorily required by a competent authority in a relevant jurisdiction;

(together, the “**Regulatory CPs**”)

- (c) the Restructuring having been completed substantially or completed (as the case may be) in accordance with the terms of the restructuring plan (or otherwise on terms reasonably acceptable to SHK and Everbright Securities);
- (d) the shareholders of EBS having passed a resolution at an extraordinary general meeting, or by way of written resolution (if applicable), to approve the terms of, and the transactions contemplated by, the transaction documents in accordance with the applicable rules and regulatory requirements (the “**EBS Resolution**”); and
- (e) none of the following having occurred (and in the case of (ii), still subsisting): (i) one or more events resulting in, or which would result in, the NAV at any time between the date of the Sale and Purchase Agreement and the Completion Date being reduced by HK\$600,000,000 as compared to the NAV as of 31 January 2015 (excluding the effect of the Restructuring); or (ii) any of the relevant licences that is material for carrying on the business of the SHKFGL Group (being for these purposes each relevant licence held by a SHKFGL Group Company which accounted for more than 20% of the SHKFGL Group’s revenue for the financial year ended 31 December 2014) having been withdrawn, revoked, cancelled or suspended or, as the case may be, not having been duly renewed.

LETTER FROM THE BOARD

Post Completion Adjustment

The post-Completion adjustment shall be determined based on the consolidated equity attributable to the shareholders of the HKCo as at the Completion Date.

If the Actual NAV:

- (a) exceeds the Estimated NAV by an amount of HK\$40,950,000 or more, Everbright Securities shall pay SHK an amount equal to 70% of such excess; or
- (b) is less than the Estimated NAV by an amount of HK\$40,950,000 or more, SHK shall pay Everbright Securities an amount equal to 70% of such shortfall.

Restructuring

Before Completion, the Excluded Companies will be transferred to the SHK Group. The Excluded Companies are mainly wholly-owned subsidiaries of the SHKFGL Group engaging in the structured loan business, investment holding or comprising interest in certain associates and joint ventures.

Non-Competition Undertaking

SHK undertakes that it and the members of the SHK Group will not for a period of three (3) years starting from the date of the Sale and Purchase Agreement, either alone or jointly with any person, directly carry on a business which competes, directly or indirectly, with a SFC regulated business of a company of the SHKFGL Group of brokerage, wealth management, margin financing and capital markets as carried on at the date of the Sale and Purchase Agreement in Hong Kong (a “**Competitive Business**”), provided that SHK shall not be deemed to have breached such undertaking (i) so long as it does not vote in favour of any resolution to approve the engagement in a Competitive Business by any of the Excluded Companies and its subsidiary undertakings from time to time or otherwise proactively facilitate such engagement; and (ii) by reason of any business, activity or transaction, which is carried on by Bali Securities Co. Limited at Completion.

Termination

If any Condition has not been satisfied (or, where applicable, waived) by 5:00 p.m. on the Longstop Date, the Sale and Purchase Agreement shall automatically terminate with immediate effect. The further rights and obligations of SHK and Everbright Securities cease immediately on termination, but termination does not affect their accrued rights and obligations at the date of termination.

SHK shall be entitled to retain all of the Deposit if the Sale and Purchase Agreement is terminated as a result of, among other things:

- (a) a failure to obtain any of the approvals under the Regulatory CPs due to Everbright Securities’ failure to make reasonable efforts to do so; or
- (b) a failure by Everbright Securities to obtain the EBS Resolution.

SHK shall be entitled to retain half of the Deposit if the Sale and Purchase Agreement is terminated as a result of a failure to obtain any of the approvals under the Regulatory CPs not due to Everbright Securities’ failure to make reasonable efforts to do so.

LETTER FROM THE BOARD

OTHER ARRANGEMENTS

Shareholders' Agreement

SHK and Everbright Securities will on the Completion Date enter into a shareholders' agreement which will govern their relationship as shareholders of SHKFGL and the governance structure of SHKFGL (the "Shareholders' Agreement") following Completion.

Board Representation

The board of directors of SHKFGL shall consist of six (6) directors at Completion. SHK and Everbright Securities shall be entitled to appoint two (2) and four (4) directors of SHKFGL, respectively.

Except for certain reserved matters which shall require the consent of SHK or any of its nominated directors to the board of directors of SHKFGL, all decisions regarding the day-to-day operations and management of SHKFGL and the SHKFGL Group shall be resolved by the board of directors of SHKFGL by way of a simple majority vote. Such reserved matters include, without limitation, change in capital structure, incurrence of material indebtedness, material acquisitions or disposals, payment of dividend and commencement of winding up.

Put Right

SHK may, during the option period (which is the period of six (6) months commencing on the third anniversary of Completion) or following the occurrence of certain trigger events, exercise its put right to require Everbright Securities to buy some or all of the shares it holds in SHKFGL at a price per share equal to the Initial Consideration (after the post-Completion adjustment referred to above) per share plus a guaranteed yield of 8.8% per annum (inclusive of any dividends) paid to SHK in the intervening period. Such trigger events are:

- (a) a breach by Everbright Securities of the Sale and Purchase Agreement or the Shareholders' Agreement;
- (b) a failure by the SHKFGL Group to repay the shareholder loan (as described in the section headed "*Shareholder Loan*" below);
- (c) a change of control of Everbright Securities; and
- (d) a listing of SHKFGL, any of its substantial assets or the relevant listing vehicle.

Exchange Right

SHK may exercise its exchange right to require Everbright Securities to exchange some or all of the shares it holds in SHKFGL for such number of new shares in a company (to be incorporated for the purpose of seeking a possible listing on the Stock Exchange), to be determined in accordance with the Shareholders' Agreement.

Everbright Securities has undertaken to SHK that it shall use its best endeavours to procure a listing of SHKFGL or an entity incorporated for the purposes of listing of any of the substantial assets or any parent undertaking of SHKFGL within three (3) years after the date of the Sale and Purchase Agreement. Everbright Securities further undertakes that, in the event of a listing, it shall procure that the listing entity shall hold all or substantially all of the assets of SHKFGL and of China Everbright Securities International Limited.

LETTER FROM THE BOARD

Shareholder Loan

As of 31 December 2014, the SHK Group has advanced intra-group shareholder loans to the SHKFGL Group in an aggregate amount of approximately HK\$5,341,500,000. A portion of the existing intra-group shareholder loans will survive the Completion for a term of 12 months and will be guaranteed by Everbright Securities as the new parent company of the SHKFGL Group, and a shareholder loan agreement will be entered into at Completion to document this. To the extent applicable, the Company will comply with the relevant disclosure requirements under Chapters 13 and 14 of the Listing Rules (where applicable).

Bank Guarantees, Bank Comfort and Indemnity Agreements

As of the date of this circular, the SHK Group has granted guarantees in favour of three commercial banks in respect of certain loan facilities made available by such banks to various SHKFGL Group Companies in an aggregate principal amount of approximately HK\$500,000,000 (the “**Bank Guarantees**”). In addition, the SHK Group has provided a letter of comfort to a commercial bank in respect of certain loan facilities made available by such bank to various SHKFGL Group Companies in an aggregate principal amount of approximately HK\$867,000,000 (the “**Bank Comfort**”).

As at the date of this circular, various members of the SHK Group (including the Excluded Companies) have entered into guarantee and indemnity agreements (the “**Indemnity Agreements**”) with Perfect Win Properties Limited (“**Perfect Win**”) in respect of a lease agreement entered into between HKCo and Perfect Win for the leasing of certain office space by HKCo (the “**Lease Agreement**”). Under the Indemnity Agreements, various members of the SHK Group (including the Excluded Companies) and the HKCo have agreed, on a joint and several basis, that they will (a) observe, perform and comply with terms and conditions of the Lease Agreement and (b) indemnify Perfect Win against losses arising in relation to the use and occupation of the office space or in relation to any non-observance, non-performance or non-compliance with the Indemnity Agreements.

In the event any of the Bank Guarantees, the Bank Comfort or the Indemnity Agreements has not been released prior to Completion, Everbright Securities shall procure that any such Bank Guarantees, Bank Comfort or Indemnity Agreements will be released or replaced as soon as possible after Completion. Everbright Securities shall indemnify the relevant member of the SHK Group or Excluded Company (as the case may be) on demand against any liability or cost incurred by the relevant member of the SHK Group or Excluded Company (as the case may be) as a result of the continuing operation of any such Bank Guarantees, Bank Comfort or Indemnity Agreements from Completion to the date of its release and/or replacement.

Trade Mark Licence

At Completion, the SHK Group will enter into a trade mark licence with SHKFGL, pursuant to which the SHK Group will agree to grant SHKFGL certain rights to use the trademarks and domain names used for the existing business operations of the SHKFGL Group for a period of three (3) years following Completion.

Transitional Services

At Completion, SHK will enter into a transitional services agreement with Everbright Securities, pursuant to which Everbright Securities agrees to procure the SHKFGL Group to provide certain transitional services to the SHK Group and SHK agrees to procure the SHK Group to provide certain transitional services to the SHKFGL Group, in each case at cost for a minimum of 12 months following Completion with details to be agreed upon at a later date. The transitional services to be provided are of an administrative nature, including but not limited to the provision of information technology and administrative services by the SHKFGL Group to the SHK Group, and the hiring of certain SHKFGL Group’s employees by the SHK Group.

LETTER FROM THE BOARD

INFORMATION ABOUT THE COMPANY, APL, SHK, SHKFGL, HKCo AND THE SHKFGL GROUP

The Company

The Company is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange.

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

APL

APL is a company incorporated in Hong Kong with limited liability, the securities of which are listed on the main board of the Stock Exchange.

The principal business activity of APL is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, the provision of financial services, and investments in listed and unlisted securities.

As at the Latest Practicable Date, APL is beneficially owned as to approximately 74.99% by the Company.

SHK

SHK is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange.

The principal business activity of SHK is investment holding. The principal business activities of its major subsidiaries are wealth management and brokerage, capital markets, consumer finance, as well as principal investments.

As at the Latest Practicable Date, SHK is beneficially owned as to approximately 54.73% by APL.

SHKFGL, HKCo and the SHKFGL Group

As advised and confirmed by SHK, SHKFGL is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of SHK. The principal business activity of SHKFGL is investment holding.

As advised and confirmed by SHK, HKCo, a wholly-owned subsidiary of SHKFGL, is one of the largest Hong Kong-based brokerage and wealth management service providers with a branch and office network in Hong Kong, Macau and Mainland China, offering diversified and customised financial services to its retail, corporate and institutional clients.

LETTER FROM THE BOARD

As advised and confirmed by SHK, the SHKFGL Group comprises of SHKFGL and its subsidiaries, excluding the Excluded Companies.

As advised and confirmed by SHK, the following is a summary of the unaudited consolidated financial information of the SHKFGL Group for the two (2) financial years ended 31 December 2013 and 2014:

	For the year ended 31 December 2013	For the year ended 31 December 2014
	<i>HK\$</i>	<i>HK\$</i>
Profit (loss) before taxation	(8,000,000)	229,700,000
Profit (loss) after taxation	(38,500,000)	174,300,000

The profit before and after taxation of the SHKFGL Group increased in the year ended 31 December 2014 compared to the year ended 31 December 2013. The increase in profit was mainly attributed to a profit on the disposal of a Macau commercial property in 2014 amounting to HK\$139,900,000 before tax and HK\$123,100,000 after tax. In addition, the commission and profits generated from the sale of wealth management products by the SHKFGL Group increased in 2014 and resulted in increased profitability of the SHKFGL Group in 2014.

As advised and confirmed by SHK, the aforesaid unaudited consolidated financial information of the SHKFGL Group is for illustration purposes and is prepared based on management accounts of the companies comprising the SHKFGL Group. In addition, the above unaudited information is prepared based on certain assumptions which include, among other things, the profit or loss of the Excluded Companies and the income or expenses earned from or paid to the Excluded Companies being excluded from the unaudited consolidated financial information of the SHKFGL Group for the two (2) financial years ended 31 December 2013 and 2014.

As advised and confirmed by SHK, if the income or expenses earned from or paid to the Excluded Companies had not been excluded from the SHKFGL Group for the two (2) financial years ended 31 December 2013 and 2014, the unaudited consolidated financial information would be as follows:

	For the year ended 31 December 2013	For the year ended 31 December 2014
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	188,400,000	355,400,000
Profit after taxation	157,900,000	300,000,000

As advised and confirmed by SHK, as of 31 December 2014, the unaudited consolidated net asset value of HKCo amounted to approximately HK\$3,265,000,000.

LETTER FROM THE BOARD

Management Discussion & Analysis of HKCo for the Years 2013-2014

2013

2013 was a turbulent year for the financial markets in Hong Kong and the PRC. After a strong start, markets suffered from a sharp correction in the middle of the year with rising interest rates in the PRC, accompanied by heightened concerns of a credit crunch and economic slowdown. In Hong Kong, the Hang Seng Index fell to a yearly low, dipping below 20,000 points in late June before finishing up 2.9% for the whole year.

Against this backdrop HKCo continued to develop its wealth management capabilities, providing independent, one-stop investment services. The wealth management and brokerage businesses achieved satisfactory results with a double digit increase in revenue.

Brokerage and commission revenue grew by approximately 20% during 2013. In the Hong Kong market, the average daily turnover on the Stock Exchange increased by 11% compared to 2012. HKCo's commission from brokerage products increased in line with this ratio. Commissions from wealth management products increased by 38% compared to 2012 and contributed to an increasing proportion of commission income. The growth was driven by the enhanced penetration of HKCo's customer base, as well as the changing mix of the sales force in favour of investment consultants who specialise in wealth management products.

The margin loan balance of HKCo rose to approximately HK\$4,000,000,000 at the end of 2013. With a higher proportion of margin loans from corporate customers, interest income from the margin loan book declined slightly. However, bad debts dropped significantly against the previous year.

In the capital markets business, market activities in Hong Kong picked up, especially towards the end of the year where there was a surge in new listings in Hong Kong. HKCo's revenue from institutional and corporate broking units also increased compared to 2012.

2014

The financial markets in Hong Kong were steady in 2014. The Hang Seng Index closed at the end of the year at 23,605 points, which was 1.3% higher than the previous year. The index significantly underperformed both the Shanghai Stock Exchange Composite Index and the Standard & Poor's 500 in 2014. The average daily turnover for the Stock Exchange was HK\$68,800,000,000, 11% higher than the previous year.

The Shanghai-Hong Kong Stock Connect was launched on 17 November 2014. As of the end of 2014, the average daily turnover in northbound trading was RMB5,584,000,000, while southbound trading was HK\$929,000,000. The Shanghai-Hong Kong Stock Connect opened up a new channel for investors in both the PRC and Hong Kong to trade eligible shares listed on each other's market.

During the year, HKCo continued to see positive results from its strategy to transform itself into a full service wealth management firm as the proportion of commission from wealth management products increases. Market neutral offerings including structured products and bonds performed particularly well, while delivering optimal investment diversification to its clients. This resulted in increased profitability for HKCo in 2014.

LETTER FROM THE BOARD

The margin loan book was maintained at around the same level compared to 2013, and income was steady.

The capital markets business as a whole performed better than 2013. This was mainly driven by the improvement from the corporates sales unit.

INFORMATION ABOUT EVERBRIGHT SECURITIES

As advised and confirmed by SHK, Everbright Securities is a wholly-owned subsidiary of EBS, a company listed on the Shanghai Stock Exchange. EBS is a leading full-service securities firm in the PRC with an integrated business platform, extensive branch network and substantial customer base.

REASONS FOR AND BENEFITS OF THE TRANSACTION

As advised and confirmed by SHK, the SHK Board is of the opinion that the Transaction will provide synergies to SHKFGL. EBS group has a strong capital markets deal flow which is complementary to SHKFGL's wealth management business. By leveraging EBS group's diverse business and extensive network in the PRC, SHKFGL looks to increase its customer base by capturing EBS group clients who are interested in offshore wealth management services. The SHK Board considers the Transaction to be in the interests of its shareholders, realising a considerable gain and generating cash inflow, thereby strengthening the capital position of SHK and enabling SHK to pursue business growth in other areas such as consumer finance, structured finance, and principal investments. It also enables SHK to continue to participate in fast growing wealth management sector through the retained stake in SHKFGL and partnership with Everbright Securities under the Shareholders' Agreement.

As advised and confirmed by SHK, the SHK Board is of the opinion that the Initial Consideration for the sale and purchase of SHKFGL was determined after arm's length negotiations between Everbright Securities and SHK, and is on normal commercial terms. Accordingly, the SHK Board is of the view that the terms of the Sale and Purchase Agreement are on normal commercial terms and the Transaction is fair and reasonable, and in the interests of SHK and its shareholders taken as a whole.

Based on the information and the confirmation provided by SHK and to the best knowledge, information and belief of the Board, the Board considers that the Transaction is fair and reasonable and in the interests of the Company and its shareholders taken as a whole.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF AND USE OF PROCEEDS FROM THE TRANSACTION

Following Completion, SHKFGL would cease to be a subsidiary of the Group and would become a 30% associate of the Group.

It is estimated that, upon Completion, SHK would recognise a gain of approximately HK\$2,864,000,000 from the Transaction, which is calculated by reference to: (i) the Initial Consideration of HK\$4,095,000,000; (ii) less the Estimated NAV of HK\$3,000,000,000; (iii) plus the estimated fair value of the 30% equity interest in SHKFGL Group retained by SHK of approximately HK\$1,755,000,000; (iv) plus the release of reserves and less the estimated transaction costs and expenses attributable to the Transaction at a net amount of approximately HK\$14,000,000.

The gain on the Transaction attributable to APL would be approximately HK\$1,567,500,000, which is derived on the basis of gain of approximately HK\$2,864,000,000 attributable to SHK and adjusted for non-controlling interests in SHK of approximately HK\$1,296,500,000.

The gain on the Transaction attributable to the Company would be approximately HK\$1,175,500,000, which is derived on the basis of gain of approximately HK\$1,567,500,000 attributable to APL and adjusted for non-controlling interests in APL of approximately HK\$392,000,000.

Upon Completion, it is estimated that the total assets of the Group would decrease by approximately HK\$37,900,000 and that the total liabilities of the Group would decrease by approximately HK\$2,883,900,000, representing a net increase in net assets of HK\$2,846,000,000 based on the unaudited consolidated financial statements of the Group as at 31 December 2014. Such an increase in net assets is calculated by reference to: (i) addition of the Initial Consideration; (ii) subtraction of the book value of the deconsolidated assets and liabilities of SHKFGL Group as a subsidiary (assuming that an intra-group shareholder's loan from SHK to SHKFGL was capitalised at or prior to Completion); (iii) addition of the fair value of the 30% equity interest in SHKFGL Group retained by SHK; and (iv) subtraction of the transaction costs and expenses attributable to the Transaction.

Upon Completion, it is estimated that the non-controlling interests of the Group would increase by approximately HK\$1,677,900,000 based on the unaudited consolidated financial statement of the Group as at 31 December 2014.

The actual financial effect from the Transaction will be computed basing on the financial information of the Group as at Completion.

As advised and confirmed by SHK, SHK intends to apply the net proceeds (i) for business expansion in consumer finance, structured finance and principal investments; (ii) for the purpose of general working capital; and (iii) for dividend to its shareholders.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

SHK is an indirect non wholly-owned subsidiary of APL, which in turn is a non wholly-owned subsidiary of the Company.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Transaction exceeds 25% but is less than 75%, the Transaction constitutes a major transaction for the Company, and is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

As no shareholder is required to abstain from voting at a general meeting of the Company to be convened for the approval of the Transaction, the Company has obtained written shareholder's approval dated 13 February 2015 in respect of the Transaction, in lieu of holding a general meeting of the Company pursuant to Rule 14.44 of the Listing Rules, from the controlling shareholder of the Company, namely Lee and Lee Trust, a discretionary trust which holds 128,703,662 shares in the Company as at the Latest Practicable Date (representing approximately 70.20% of the total number of shares in issue of the Company as at such date). Accordingly, no general meeting of the Company will be convened for the purpose of approving the Transaction.

RECOMMENDATION

The Directors are of the opinion that the terms of the Sale and Purchase Agreement are fair and reasonable and are in the interests of the Company and its shareholders as whole. If a general meeting were to be convened for the approval of the Transaction, the Board would recommend its shareholders to vote in favour of the resolution to approve the Transaction at such general meeting.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Allied Group Limited
Edwin Lo King Yau
Executive Director

1. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 January 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$10,412,600,000, comprising of: (i) secured and guaranteed bank loans of approximately HK\$573,300,000; (ii) unsecured and unguaranteed bank loans of approximately HK\$6,328,900,000; and (iii) unsecured and guaranteed notes of approximately HK\$3,510,400,000. The Group's secured borrowings were secured by charges over the following assets: investment properties, hotel property, land and buildings, properties held for sale, listed investments held by the Group and margin clients of the Group 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\$37,900,000, comprising of an indemnity on a banking guarantee granted in favour of a regulatory body and guarantees granted in relation to borrowings from a diversified portfolio of individual customers. There were also potential claims arising from litigation set out in the section headed "*Litigation*" in Appendix II to this circular.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 January 2015.

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 or any guarantees or other material contingent liabilities as at the close of business on 31 January 2015.

2. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the effect of the Transaction and the financial resources available to the Group including the available credit facilities and the internally generated funds, the Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular in the absence of unforeseen circumstances.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Broking and finance and Consumer finance

SHK's financial and trading performance has continued its momentum from the first half of 2014. The consumer finance business experienced a steady performance in Hong Kong where the credit environment remained competitive. In the PRC, United Asia Finance Limited has continued to prudently expand its business, with the opening of additional branches and in more cities increasing its market penetration. SHK's structured finance business also enjoyed good growth and steady margins with healthy demand from mid-sized corporates looking for flexible funding options. Monetary easing globally may possibly create a more favourable environment to the investment business. That said, SHK will remain vigilant on costs and maintain a strong, liquid balance sheet in pursuit of growth.

Properties

There have been some changes to the PRC property market environment in the recent months in the form of reduction in bank interest rates and lowering of the reserve requirement ratio. The sentiment in the short term may appear to be encouraging but significant market improvement is yet to be seen. However, the longer term growth trend of the property market in the PRC is expected to be sustainable.

The Hong Kong property market prices continue to rise moderately due to the sustained demand and shortage in the supply.

The Board will continue to adopt a prudent approach in implementing the Group's stated strategies with the backing of the Group's diversified income streams and solid financial position for the benefit of the Group and all its shareholders.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there is no omission of other matters which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company, had any other interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) 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 or short positions which any such Director or the chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules:

Name of Directors	Name of companies	Number of shares and underlying shares held	Approximate% of the total number of issued shares	Nature of interests
Lee Seng Hui	the Company	128,726,583	70.21%	Personal interests (held as beneficial owner) in 22,921 shares and other interests in 128,703,662 shares (Note 1)
Lee Su Hwei	the Company	128,703,662	70.20%	Other interests (Note 1)
Mak Pak Hung	SHK (Note 2)	5,000	0.00%	Personal interests (5,000 shares held as beneficial owner) (Note 3)

Notes:

- Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 128,703,662 shares of the Company.

2. SHK is an indirect non wholly-owned subsidiary of APL which in turn is a non wholly-owned subsidiary of the Company. Therefore, SHK is an associated corporation of the Company within the meaning of Part XV of the SFO.
3. This represents the remaining one-third of the deemed interest in 15,000 shares of SHK duly granted to Mr. Mak Pak Hung on 28 April 2008 under the SHK Employee Ownership Scheme and the shares of SHK were vested and became unrestricted from 15 April 2011.
4. All interests stated above represent long positions.

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 (1) year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors were aware, the following Directors (not being independent non-executive directors) were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules as set out below:

- (i) Messrs. Arthur George Dew and Lee Seng Hui are directors of APL which, through certain of its subsidiaries and close associates, is partly engaged in the business of money lending and is partly involved in the investment and trading in securities in the resources and related industries and financial instruments;
- (ii) Mr. Lee Seng Hui and Ms. Lee Su Hwei are two of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of APL, SHK, SHK Hong Kong Industries Limited ("**SHK HK IND**") and Tian An China Investments Company Limited ("**Tian An**") which, through their subsidiaries, are partly engaged in the businesses as follows:
 - APL, through a subsidiary, is partly engaged in the business of money lending;
 - APL, through certain of its subsidiaries and close associates, is partly involved in the investment and trading in securities in the resources and related industries and financial instruments;
 - SHK, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;
 - SHK HK IND, through certain of its subsidiaries, is partly involved in trading in securities and investment in financial instruments; and
 - Tian An, through certain of its subsidiaries, is partly engaged in the businesses of money lending, property development and investment;

- (iii) Mr. Lee Seng Hui is a director of Allied Kajima Limited which, through certain of its subsidiaries, is partly engaged in the businesses of property rental and hospitality related activities;
- (iv) Messrs. Lee Seng Hui and Edwin Lo King Yau are directors of Tian An which, through certain of its subsidiaries, is partly engaged in the businesses of money lending, property development and investment;
- (v) Mr. Lee Seng Hui is a director of each of APAC Resources Limited and Mount Gibson Iron Limited which, through certain of their subsidiaries, are partly involved in the investment and trading in listed securities in the resources and related industries;
- (vi) Mr. Arthur George Dew is a director of SHK HK IND which, through certain of its subsidiaries, is partly involved in trading in securities and investment in financial instruments; and
- (vii) Mr. Arthur George Dew is a non-executive director of Tanami Gold NL (“**Tanami Gold**”) and a non-executive director of Dragon Mining Limited, both of which, through certain of their subsidiaries, are partly involved in the investment and trading in listed securities in the resources and related industries.

Although the above-mentioned Directors have competing interests in other companies by virtue of their respective common directorship, they will fulfil their fiduciary duties in order to ensure that act in the best interest of the shareholders and the Company as a whole at all times. Hence, the Group is capable of carrying on its businesses independently of, and at arm’s length from, the businesses of such companies.

5. DIRECTORS’ INTERESTS IN CONTRACTS AND ASSETS

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. For information, a tenancy agreement dated 19 November 2013 was entered into between Mr. Lee Seng Hui as the tenant and a non wholly-owned subsidiary of the Company as the landlord. The rent of approximately HK\$3,900,000 received by the Group during the year ended 31 December 2014 was considered insignificant in relation to the Group’s business.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2013 (being the date to which the latest published audited consolidated accounts of the Group were made up): (i) acquired or disposed of by; (ii) leased to; (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to any member of the Group.

6. LITIGATION

Save for and except for the litigation disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any companies of the Group immediately preceding the Latest Practicable Date:

On 30 August 2014, a writ of summons with general indorsement of claim (“**Writ**”) was issued by Global Bridge Assets Limited (“**GBA**”) and Long Prosperity Industrial Limited (“**LPI**”) in the High Court of Hong Kong against HKCo. This followed the striking-out of an earlier claim made by GBA and LPI and Walton Enterprises Limited for US\$3,000,000, in addition to damages, interest and legal costs, in a High Court action against HKCo (HCA 317 of 2008). In the Writ, GBA and LPI claimed against HKCo for: (i) damages for alleged fraudulent misrepresentation by HKCo in around August 2001; and (ii) a rescission of a contract and a deed both dated 12 October 2001 relating to a power plant in Hubei, the PRC. They also claimed against HKCo interest on any sums or damages payable, costs and such other relief as the High Court may think fit. The Writ was served on HKCo on 11 October 2014. HKCo is opposing the claims.

7. MATERIAL CONTRACTS

Save for and except for the transactions disclosed below, there were no material contracts (not being contracts into in the ordinary course of business carried on by the Group) being entered into by any member of the Group within the two (2) years immediately preceding the Latest Practicable Date:

- (i) a sale and purchase agreement dated 15 October 2013 entered into between, among other parties, Wah Cheong Development (B.V.I.) Limited (“**Wah Cheong**”), an indirect wholly-owned subsidiary of APL, SkyOcean Investment Holdings Limited (天洋投資控股有限公司) (“**SkyOcean**”), APL and Mr. Zhou Zheng (“**Mr. Zhou**”), pursuant to which, SkyOcean conditionally agreed to purchase and Wah Cheong conditionally agreed to sell 166,165,776 shares of Allied Overseas Limited (“**AOL**”, now known as SkyOcean International Holdings Limited) and 11,877,153 units of warrants issued by AOL for a total consideration of HK\$1,473,563,853. Further details were disclosed in the joint announcements of the Company and APL dated 30 October 2013 and 5 December 2013;
- (ii) a sale and purchase agreement dated 15 October 2013 entered into between, among other parties, Sheng Bang Holdings Limited (勝邦控股有限公司) (“**Sheng Bang**”), AOL and Mr. Zhou, pursuant to which Sheng Bang conditionally agreed to sell and AOL conditionally agreed to purchase the entire issued and fully paid-up share capital of Skyleaf Holdings Limited (天葉控股有限公司) for a total consideration of HK\$450,000,000. Further details were disclosed in the joint announcements of the Company and APL dated 30 October 2013 and 5 December 2013;

- (iii) an underwriting agreement dated 14 November 2013 entered into between Allied Properties Resources Limited (“**APRL**”), an indirect wholly-owned subsidiary of APL, and Tanami Gold, pursuant to which APRL agreed to, among other things, underwrite the subscription and sale of 444,729,789 shares of Tanami Gold, for a maximum amount of A\$11,750,970 (equivalent to approximately HK\$85,430,000 at such time) payable by APRL being the aggregate application monies for APRL to acquire all such 444,729,789 shares of Tanami Gold and its own entitlement of 142,818,734 shares of Tanami Gold due to its own direct shareholding in Tanami Gold. Further details were disclosed in the joint announcement of the Company and APL dated 14 November 2013;
- (iv) a deed of indemnity dated 4 December 2013 entered into between Mr. Zhou, Sheng Bang and AOL, pursuant to which Mr. Zhou and Sheng Bang agreed to jointly and severally indemnify and keep indemnified fully AOL (for itself and each member of the AOL group) any losses, liabilities and damages that may be suffered by any member of the AOL group in relation to three (3) parcels of land;
- (v) a sale and purchase agreement dated 17 April 2014 entered into between Chief Key Limited (“**Chief Key**”) and Joy Club Enterprises Ltd. (“**Joy Club**”), a wholly-owned subsidiary of APL, pursuant to which Joy Club conditionally agreed to purchase and Chief Key conditionally agreed to sell (i) the entire issued share capital of Chief Strategy Limited and Gold Lake Holdings Limited (collectively, the “**Target Entities**”), both of which are wholly-owned subsidiaries of Chief Key; and (ii) shareholders’ loans representing an aggregate sum of HK\$56,295,414 owed by the Target Entities and their subsidiaries to Chief Key as at 28 February 2014, for an aggregate consideration of HK\$127,500,000. On 10 September 2014, Chief Key and Joy Club entered into a termination agreement to terminate the sale. Further details were disclosed in the joint announcements of APL and the Company dated 17 April 2014, 31 July 2014 and 10 September 2014;
- (vi) a placing and subscription agreement dated 12 September 2014 entered into between AP Emerald Limited (“**AP Emerald**”), an indirect wholly-owned subsidiary of APL and the controlling shareholder of SHK, SHK and the placing agents (the “**Placing Agents**”), pursuant to which (i) the Placing Agents agreed to place not less than six (6) independent places an aggregate of 160,000,000 shares of SHK owned by AP Emerald (the “**Placing Share(s)**”) at the placing price of HK\$6.30 per Placing Share; and (ii) SHK conditionally agreed to issue and allot to AP Emerald, and AP Emerald conditionally agreed to subscribe for 160,000,000 new shares of SHK (“**Subscription Share(s)**”) at the subscription price of HK\$6.30 per Subscription Share. Further details were disclosed in the joint announcements of the Company, APL and SHK dated 12 September 2014 and 22 September 2014; and
- (vii) the Sale and Purchase Agreement, the terms of which are set out in this circular.

8. GENERAL

- (i) The registered office of the Company is located at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.
- (ii) The secretary of the Company is Ms. Cho Wing Han. She is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (iii) 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.
- (iv) The English text of this circular shall prevail over the Chinese translation in the event of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, from the date of this circular up to the date which is 14 days after the date of this circular:

- (i) the memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the two (2) financial years ended 31 December 2012 and 2013;
- (iii) the material contracts as referred to in the paragraph headed "Material Contracts" in this Appendix; and
- (iv) this circular and any circular issued since the date of the latest published audited accounts (if any).