

# ALLIED GROUP LIMITED

# (聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

# ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR 2005

The Board of Directors ("Board") of Allied Group Limited ("Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31st December, 2005 are as follows:

# CONSOLIDATED INCOME STATEMENT

	Notes	2005 HK\$'000	2004 HK\$'000
			(Restated
Revenue Other income	(2)	2,004,566 108,836	1,910,952 44,509
Total income		2,113,402	1,955,46
Cost of sales		(313,173)	(269,419
Brokerage and commission expenses Selling and marketing expenses		(141,463) (62,898)	(161,553 (44,926
Administrative expenses Changes in values of properties	(4)	(471,246) 576,411	(439,37° 86,05°
Bad and doubtful debts	(4)	(89,718)	(147,837
Other operating expenses Other finance costs	(5)	(167,947) (102,245)	(134,19)
Amortisation of goodwill Release of negative goodwill			(7,142
Amortisation of capital reserve			257,610 17,26
Share of results of associates Share of results of jointly controlled entities		150,388 105,298	165,850 25,700
Profit before taxation	(6)	1,596,809	1,254,120
Taxation	(7)	(170,042)	(151,472
Profit for the year		1,426,767	1,102,654
Attributable to: Equity holders of the Company		901,480	713,735
Minority interests		525,287	388,919
D: 11 1	(0)	1,426,767	1,102,654
Dividend  Earnings per share	(8)	50,555	26,006
Earnings per share Basic	(9)	HK\$3.48	HK\$2.71
Diluted		N/A	N/A
CONSOLIDATED BALANCE SHEET			
AT 31ST DECEMBER, 2005		2005	2004
	Notes	HK\$'000	HK\$'000
Non-current assets			(Restated)
Investment properties Property, plant and equipment		2,626,100 245,608	2,091,768 229,014
Properties held for development		295,670	97,377 279,947
Prepaid land lease payments Goodwill		33,267	8,634
Negative goodwill Intangible assets		25,016	(602,157 10,375
Interests in associates		2,710,057	2,463,020
Interests in jointly controlled entities Available-for-sale financial assets		866,394 616,857	817,798
Statutory deposits Investments		32,831	754,760
Loans and advances to consumer finance cu	stomers	1.055.601	
due after one year Loans and receivables		1,055,691 202,306	804,305 3,200
Deferred tax assets		40,336	43,114
		8,750,133	7,001,155
Current assets Properties held for sale and other inventories	s	520,950	401,721
Financial assets at fair value through profit of Investments	or loss	241,137	68,696
Prepaid land lease payments		4,559	4,240
Loans and advances to consumer finance cu due within one year	stomers	1,485,499	1,221,501
Accounts receivable, deposits and prepayme Amounts due from associates	nts	2,674,322 7,373	2,376,017
Amount due from a jointly controlled entity		2,159	2,040
Tax recoverable Short-term pledged bank deposit		3,842 972	1,677 1,220
Bank deposits, bank balances and cash		732,173	765,765
		5,672,986	4,843,108
Current liabilities Accounts payable and accrued charges		1,083,390	1,156,213
Financial liabilities at fair value through pro Amounts due to associates	fit or loss	17,756 62,828	49,260
Amount due to a jointly controlled entity Tax payable		81,063 44,214	141,063 66,800
Bank and other borrowings due within one y	/ear	1,251,889	890,579
Other liabilities due within one year		33,382	42,248
Net current assets		3,098,464	2,346,163
Total assets less current liabilities		11,848,597	9,498,100
Capital and reserves			-,,,,,,,,,
Share capital Reserves	(10)	508,657 5,606,087	521,302 4,108,984
Equity attributable to equity holders	(= "/	-,,,	,,,
of the Company		6,114,744	4,630,286
Minority interests		3,998,261	3,351,319
Total equity		10,113,005	7,981,605
Non-current liabilities Bank and other borrowings due after one year	ar	1,375,763	1,121,569
Loan notes Deferred tax liabilities		144,931 212,155	220,525 170,762
Other liabilities due after one year		2,743	3,639
		1,735,592	1,516,495

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9,498,100

The accounting policies and methods of computation used in preparation of the consolidated finan statements are consistent with those adopted in the 2004 annual report except for the change accounting policies explained below.

### Application of Hong Kong Financial Reporting Standards

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 ("HKRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKCPA") 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

Dustines Combinations in the Group has applied HKFRS 3 "Business Combinations" which is effect business combinations for which the agreement date is on or after 1st January, 2005. The principal 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 acquirier's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions prior to 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 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

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method the current year, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which all the current year, the 'Ortop has applied HAA'S J in Interests in Jointy Controlled Entities with 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

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 liabilitie

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

Debt and equity securities previously accounted for inder 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" were reported in the profit or loss for the period in which gains or losses or Suscienties 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" and "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets af fair value through profit or loss" and "available-for-sale financial assets". "Financial assets af 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:

New deguidus at 8t January, 2005.

				. Ten designation on the bandary 5 and						
	As originally stated at 31st December, 2004 HKS '000	Effect on adoption of HKAS 39 HKS '000	As restated at 1st January, 2005 HKS'000	Intangible assets HK\$'000	Available- for-sale financial assets HK\$'000	Statutory deposits HKS'000	Loans and receivables HKS '000	Financial assets at fair value through profit or loss HKS'000	Accounts receivable, deposits and prepayments	Accounts payable and accrued charges HK\$'000
Investment in securities										
Non-trading securities	628,058	(2,096)	625,962	-	590,643	-	35,319	-	-	-
Trading securities	68,696	22	68,718	-	-	-	-	68,718	-	-
Other investments Club debentures and exchange participation										
rights * Statutory deposits and other deposits with	9,195	-	9,195	9,195	-	-	-	-	-	-
Exchange and Clearing Companies Amounts due from	26,624	-	26,624	-	-	26,624	-	-	-	-
investee companies, less impairment losses Amounts due to	92,774	(1,447)	91,327	-	-	-	87,921	250	3,156	-
investee companies	(1,891)	-	(1,891)	-	-	-	-	-	-	(1,891)
				9,195	590,643	26,624	123,240	68,968	3,156	(1,891)

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

In addition, warrants of a listed associate and amounts due from associates, which are previously grouped under "interest in associates," together with their reclassification as at 1st January, 2005 on the adoption of HKAS 30 areas follows:

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

The warrants of a listed associate which are previously grouped under "interests in associates" classified under "financial assets at fair value through profit or loss" and carried at fair value states with the district of the second of the 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.

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 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.

Howestment properties.

# Investment properties

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 required that, if a portion of the properties could be sold separately, the property is investment property only if an insignificant portion is held for investment propertion of administrative purposes. In the current year, the Group's applied HKAS 40 an

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 refrospectively. 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

# Deferred taxes related to investment properties

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.

Summary of the effect of the changes in accounting policies

# Summary of the effect of the changes in accounting policies

Decrease in bad and doubtful debts   33,486	The effects of the changes in the accounting policies described above prior years are as follows:	2005	2004
Decrease in amortisation of intangible assets   Release of negative goodwill, capital reserve and decrease in amortisation of goodwill capital reserve and decrease in amortisation of goodwill capital reserve and decrease in amortisation of goodwill capital reserve and decrease in amortisation of additional interest in a subsidiary   5,652   — acquisition of additional interest in a subsidiary   5,652   — acquisition of additional interest in a subsidiary   5,652   — acquisition of additional interest in a subsidiary   5,652   — acquisition of additional interest in a subsidiary   5,652   — acquisition of additional of investment properties   6,107   — acquisition of investment properties   28,922   (36,549)   Decrease in changes in fair value of investment properties   28,262   (36,549)   Increase in deferred tax charges in relation to investment properties   28,262   (36,549)   Increase in deferred tax charges in relation to investment properties   28,262   (36,549)   Increase in deferred tax charges in relation of investment properties   28,262   (36,549)   Increase in deferred tax charges in relation of investment properties   28,262   (36,549)   (27,775)   Increase in amortisation of prepaid land lease payments   (2,665   (1,777)   Increase in amortisation of prepaid land lease payments   (2,672   (2,775)   (		HK\$'000	HK\$'000
Release of negative goodwill, capital reserve and decrease in amortisation of goodwill acquisition of additional interest in a subsidiary   5,652			-
In amortisation of goodwill   Capta   Capta		846	_
Acquisition of additional interest in a subsidiary   Section   Content   C	in amortisation of goodwill	(297,238)	-
Decrease in deferred tax credit arising from decrease in bad and doubtful debts of the company in the company			
In bad and doubtful debts		5,052	_
Decrease in changes in fair value of investment properties arising from reclassification of investment properties (28,92) (30,87)		(6,107)	_
properties, plant and equipment   (28,992)   (39,087)   Increase in deferred tax charges in relation to investment properties   (28,262)   (36,549)   Increase in deferred tax charges in relation to investment properties   (28,625)   (36,549)   Increase in depreciation arising from reclassification of investment properties to property, plant and equipment   (2,665)   (1,777)   Increase in amortisation of prepaid land lease payments   (2,872)   (2,775)   Increase in amortisation of prepaid land lease payments   (2,872)   (2,775)   Increase in sensured at fair value through profit or loss   (1,914)		(,, .,,	
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment (2,665) (1,777)     Increase in amortisation of prepaid land lease payments (2,872) (2,775)     Increase in amortisation of prepaid land lease payments (1,914)	properties, plant and equipment	(28,992)	(39,087)
Increase in amortisation of prepaid land lease payments   (2,872)   (2,775)		(28,262)	(36,549)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss   (1,914)		(2,665)	
Tax on loss arising from fair values changes of financial liabilities measured at fair value through profit or loss   12		(2,872)	(2,775)
Initialities measured at fair value through profit or loss		(1,914)	-
Increase in finance costs		2	
Increase   decrease in deferred tax charge arising from restatement of property at cost   (18)   (3)		_	_
Increase in depreciation arising from restatement of property at cost   449   (31)   Increase in depreciation arising from restatement cost   (260)   (204)   Increase in deferred tax charge arising from reclassification of land premium to prepaid land lease payments   (155)   (90)   Increase (increase) in share of results of associates   117,210   (5,492)   Increase in share of results of sociates   117,210   (6,492)   Increase in share of results of sociates   117,210   (6,492)   Increase in share of results of sociates   (163,297)   (46,230)   Increase in profit for the year   (163,297)   (46,230)   Increase in profit for the year   (163,297)   (46,230)   Increase in other company   (163,297)   (46,230)   Increase in other company   (163,297)   (46,230)   Increase in other income   2005   (20,499)   Increase in other income   3,738   -		(12,111)	
Increase in deferred tax charge arising from reinstatement cost of learner are in deferred tax charge arising from reclassification of land premium to prepaid land lease payments (155) (90) (152) (153)		(18)	5
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 in share of results of jointly controlled entities   60,553   13,351     Decrease in profit for the year   (163,297)   (72,649)     Attributable to:			
of land premium to prepaid land lease payments         (155)         (90)           Increase (decrease) in share of results of sociates         117,210         (5,492)           Increase in share of results of jointly controlled entities         60,553         13,351           Decrease in profit for the year         (163,297)         (72,649)           Attributable to:         Equity holders of the Company         (169,322)         (46,230)           Minority interests         6,025         (26,419)           Analysis of decrease in profit for the year by line items presented according to their function.         2005         40,649           Increase in other income         3,738         -         -         56           Increase in other operating expenses         (5,400)         (4,880)         -         56           Decrease in administrative expenses         (5,400)         4,880         -         56           Decrease in administrative expenses         (5,400)         4,880         -		(260)	(204)
Increase (decrease) in share of results of associates   117,210   (5,492)     Increase in share of results of jointly controlled entities   60,553   13,351     Decrease in profit for the year   (163,297)   (72,649)     Attributable to:   Equity holders of the Company   (169,322)   (46,230)     Minority interests   6,025   (26,419)     Gay   (163,297)   (72,649)     Analysis of decrease in profit for the year by line items presented according to their function:     Analysis of decrease in profit for the year by line items presented according to their function:   2005   (40,409)     Increase in other income   3,738     56     Increase in other operating expenses   (5,400)   (4,880)     Decrease in administrative expenses   56     Decrease in daministrative expenses   (28,992)   (22,669)     Reclassification of impairment losses recognised in respect of non-trading securities   (16,418)     Decrease in bad and doubtful debts   33,487       Decrease in release of negative goodwill   (257,848)       Decrease in amortisation of capital reserve   (17,267)       Decrease in amortisation of results of associates   87,945   (5,455)		(155)	(90)
Decrease in profit for the year   (163,297)   (72,649)     Attributable to:			
Equity holders of the Company   (169,322)   (46,230)   (46,230)   (46,230)   (46,230)   (46,230)   (46,327)   (26,419)   (46,327)   (26,419)   (46,327)   (72,649)   (46,327)   (72,649)   (46,327)   (72,649)   (46,327)   (72,649)   (46,327)	Increase in share of results of jointly controlled entities	60,553	13,351
Equity holders of the Company Minority interests   16,932   (46,230)   (46,230)   (6,025   (26,419)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297	Decrease in profit for the year	(163,297)	(72,649)
Minority interests   6,025   (26,419)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (72,649)   (163,297)   (163			
Analysis of decrease in profit for the year by line items presented according to their function:   2005			
Analysis of decrease in profit for the year by line items presented according to their function:   2005	Minority interests		
100	=	(163,297)	(72,649)
HKS '000	Analysis of decrease in profit for the year by line items presented according	rding to their function	n:
Increase in other income			
Increase in other operating expenses   (5,400   (4,880)     Decrease in administrative expenses   -56     Decrease in changes in fair values of investment properties   (28,992)   (22,669)     Reclassification of impairment losses recognised in respect of non-trading securities   - (16,418     Decrease in bad and doubtful debts   33,487   -     Decrease in release of negative goodwill   (257,848     Decrease in amortisation of goodwill   7,142   -     Decrease in amortisation of results of associates   87,945   (5,455		HK\$'000	HK\$'000
Decrease in administrative expenses   56			_
Decrease in changes in fair values of investment properties         (28,992)         (22,669)           Reclassification of impairment losses recognised in respect of non-trading securities         (16,418)         (16,418)           Decrease in bad and doubtful debts         33,487         -           Decrease in elease of negative goodwill         (257,848)         -           Decrease in amortisation of goodwill         7,142         -           Decrease in amortisation of regultal reserve         (17,267)         -           Increase (decrease) in share of results of associates         87,945         (5,455)		(5,400)	
Reclassification of impairment losses recognised in respect of non-trading securities         — (16,418)           Decrease in bad and doubtful debts         33,487         —           Decrease in release of negative goodwill         (257,848)         —           Decrease in amortisation of goodwill         7,142         —           Decrease in amortisation of capital reserve         (17,267)         —           Increase (decrease) in share of results of associates         87,945         (5,455)		(28 002)	
Decrease in bad and doubtful debts         33,487         —           Decrease in release of negative goodwill         (257,848)         —           Decrease in amortisation of goodwill         7,142         —           Decrease in amortisation of capital reserve         (17,267)         —           Increase (decrease) in share of results of associates         87,945         (5,455)	Reclassification of impairment losses recognised	(40,774)	
Decrease in release of negative goodwill   (257,848)   Decrease in amortisation of goodwill   7,142   Decrease in amortisation of capital reserve   (17,267)   Cerease (decrease) in share of results of associates   87,945   (5,455)		33 487	(10,418)
Decrease in amortisation of goodwill   7,142			_
Increase (decrease) in share of results of associates 87,945 (5,455)	Decrease in amortisation of goodwill		_
			(5.455)

(36,634)

33,487 (257,848) 7,142 (17,267) 87,945 60,553 (12,114) (34,541)

(163,297)

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:

and 1st January, 2005 are summarised	i below.				
	At 31st December, 2004		At 31st December, 2004		At 1st January, 2005
(Origi	nally stated) HK\$'000	Adjustments HK\$'000	(Restated) HK\$'000	Adjustments HK\$'000	(Restated) HK\$'000
		(Note)			
Investment properties	2,487,436	(395,668)	2,091,768	_	2,091,768
Property, plant and equipment	167,238	61,776	229,014	-	229,014
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	-	284,187	284,187	-	284,187
Loans and advances to consumer					
finance customers	2,025,806	_	2,025,806	(5,040)	2,020,766
Negative goodwill	(602,157)	_	(602,157)	602,157	-
Deferred tax assets	43,005	109	43,114	883	43,997
Deferred tax liabilities	(25,029)	(145,733)	(170,762)	-	(170,762)
Other assets/liabilities	797,883	1,934	799,817	104,938	904,755
Net assets	8,413,802	(432,197)	7,981,605	785,435	8,767,040
Share capital	521,302		521,302		521,302
Property revaluation reserve	43,355	15,559	58,914	(58,914)	
Investment revaluation reserve	177,371	_	177,371	(1,176)	176,195
Translation reserve	(106,276)	71,438	(34,838)	-	(34,838)
Capital (goodwill) reserve	263,805		263,805	(261,902)	1,903
Accumulated profits	2,268,308	(406,135)	1,862,173	930,721	2,792,894
Other reserves	1,781,559		1,781,559		1,781,559
Minority interest		3,351,319	3,351,319	176,706	3,528,025
Total equity	4,949,424	3,032,181	7,981,605	785,435	8,767,040
Minority interests	3,464,378	(3,464,378)		_	

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

	At 1st		At 1st
	January,		January,
	2004		2004
	(Originally stated)	Adjustments	(Restated)
	HK\$'000	HK\$'000	HK\$'000
		(Note)	
Share capital	531,374	_	531,374
Property revaluation reserve	36,691	15,178	51,869
Translation reserve	(104,240)	71,420	(32,820)
Accumulated profits	1,571,303	(359,905)	1,211,398
Other reserves	2,120,777		2,120,777
Minority interests	3,103,967	(96,268)	3,007,699
Total equity	7,259,872	(369,575)	6,890,297

Vote: 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 HKAS 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21 and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

### (2) Revenue#

	2005 HK\$'000	2004 HK\$'000
Revenue comprises:		
Interest income on loans and advances to consumer		
finance customers	870,275	790,692
Securities broking	225,664	236,854
Securities trading	211,144	146,293
Other interest income	181,382	170,576
Property rental, hotel operations and management services	173,358	167,535
Income from corporate finance and others	169,343	158,049
Income from forex, bullion, commodities and futures	153,369	149,380
Dividend income	20,031	66,790
Sale of properties		24,783
	2,004,566	1,910,952

# Revenue is also the Group's turnover

## (3) Segmental information

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

			2005		
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total
Levenue Less: inter-segment revenue	979,373 (22,883)	872,925 -	177,957 (6,999)	16,413 (12,220)	2,046,668 (42,102
	956,490	872,925	170,958	4,193	2,004,566
egment results  other finance costs  hare of results of associates  hare of results of jointly	281,383	551,539	624,668	(14,222)	1,443,368 (102,245 150,388
controlled entities	2	-	105,296	-	105,298
rofit before taxation					1,596,809 (170,042)
rofit for the year					1,426,767
			2004		
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
evenue ess: inter-segment revenue	942,593 (14,776)	790,692	197,618 (5,300)	17,090 (16,965)	1,947,993
	927,817	790,692	192,318	125	1,910,952
egment results ther finance costs unortisation of goodwill telease of negative goodwill unortisation of capital reserve hare of results of associates hare of results of jointly	243,596	434,192	157,309	9,118	844,215 (49,386) (7,142) 257,610 17,267 165,856
controlled entities	(3,624)	-	29,330	-	25,706
rofit before taxation axation					1,254,126 (151,472)

During the year, 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) Changes in values of properties

	2005 HK\$'000	2004 HK\$'000
		(Restated)
Changes in values of properties comprise:		
Increase in fair value of investment properties	489,975	55,819
Reversal of write-down of properties held for sale	47,452	22,924
Reversal of impairment of properties held for development	34,700	3,000
Reversal of impairment of buildings	4,284	4,314
	576,411	86,057

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

"	r mance costs		
	_	2005 HK\$'000	2004 HK\$'000
	Finance costs included in:		
	Cost of sales	19,408	4,081
	Other finance costs	102,245	49,386
	Total finance costs	121,653	53,467
5)	Profit before taxation		
		2005	2004
		HK\$'000	HK\$'000
			(Restated)
	Profit before taxation has been arrived at after charging:		
	Depreciation		
	- Owned assets	34,404	30,892
	Assets under a finance lease	42	513
		34,446	31,405
	Amortisation of intangible assets	3,662	2,701
	Amortisation of prepaid land lease payments	4,540	3,414
	Loss on dilution of interest in an associate		4,492
	Loss on disposal of partial interest in a subsidiary	1,423	- 500
	Loss on disposal of property, plant and equipment Provision for interest in respect of litigation with	662	589
	New World Development Company Limited ("NWDC")	-	2,934
	and after crediting:		
	Dividend income from investments in listed equity securities	17,850	37,250
	Dividend income from investments in unlisted equity securities	4,581	29,540
	Net realised profit on derivatives	20,513	15,455
	Net profit on other dealing activities	7,733	8,141
	Net realised profit on financial assets at fair value through profit or lo	ss <b>4,680</b>	4.650
	Net realised profit on trading securities Profit on disposal of a jointly controlled entity	1,219	4,659
	Profit on desposal of a jointly controlled entity	1,219	942
	Profit on disposal of available for sale financial assets	57,473	
	Profit on disposal of investment properties	2,061	_
	Profit on disposal of non-trading securities	_	2,483
	Profit on dealing in foreign currencies	6,753	18,180
	Profit on disposal of partial interest in a subsidiary		789
	Profit on disposal of subsidiaries	62	8,647
	Profit on repurchase of loan notes Repayment of interest in respect of litigation with NWDC	_	11,219
	pursuant to Court of Appeal Judgment	14,783	_
7)	Taxation =		
,		2005	2004
		HK\$'000	HK\$'000
	_		(Restated)

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

121,638 229

121,867 48,175 116,357 3,099

119,456

151.472

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

### ) Dividend

The charge comprises

Deferred tay

Hong Kong Outside Hong Kong

(7

	2005 HK\$'000	2004 HK\$'000
Ordinary shares: Interim dividend of HK5 cents per share (2004: Nil)	12,918	-
Proposed final dividend of HK15 cents per share (2004: HK10 cents)	37,637	26,006
	50,555	26,006

# (9) 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\$901,480,000 (2004: HK\$713,735,000, as restated) and on the weighted average number of 258,925,626 (2004: 263,031,343) shares in issue during the year.

Changes in the Group's accounting policies during the year are described in detail in note 1. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on basic earnings per share:

	2005 HK\$	2004 HK\$
Figure before adjustments Adjustment arising from changes in accounting policies	4.14 (0.66)	2.89 (0.18)
As reported/restated	3.48	2.71
D3 o 1	101 40	C

Diluted earnings per share is not presented as the Company had no dilutive potential ordinary share during both years.

# (10) Reserves

	HK\$'000	2004 HK\$'000	
		(Restated)	
Share premium	1,519,481	1,519,481	
Property revaluation reserve	_	58,914	
Investment revaluation reserve	238,263	177,371	
Capital redemption reserve	193,491	180,846	
Translation reserve	(17,449)	(34,838)	
Non-distributable reserve	55,226	55,226	
Capital (goodwill) reserve	3,410	263,805	
Accumulated profits	3,576,028	1,862,173	
Dividend reserve	37,637	26,006	
	5,606,087	4,108,984	

# (11) 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 Board anticipates that the application of these standards will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net Investments in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease <sup>2</sup>
1 Effective for annual periods I	baginning on or offer let January 2007

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

# DIVIDEND AND BOOK CLOSE

The Board has proposed a final dividend of HK15 cents per share (2004: HK10 cents) payable to shareholders whose names appear on the register of members of the Company on Friday, 26th May, 2006. It should also be noted that the Company continued to repurchase its shares during the year at an aggregate consideration of approximately HK\$68.46 million. Accordingly, earnings per share for 2005 rose by 28.4% over 2004, compared to a corresponding increase of only 26.3% in total earnings. The Company will continue to use surplus cash to repurchase its shares for cancellation.

The register of members of the Company will be closed from Monday, 22nd May, 2006 to Friday, 26th May, 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 19th May, 2006. Subject to approval by the shareholders at the forthcoming annual general meeting of the Company, dividend warrants are expected to be despatched on Thursday, 29th June, 2006.

## FINANCIAL REVIEW

The turnover of the Group for the year 2005 was approximately HK\$2,004.6 million, an increase of 4.9% from the previous year due primarily to the increase in income from the Group's financial services divisions.

The Group reported a profit attributable to the equity holders of the Company for the year of approximately HK\$901.5 million, an increase of 26.3% compared to approximately HK\$713.7 million (as restated) for the preceding year. The increase was the result of a stronger performance from the Group's financial services divisions and increase in fair value of investment properties within the Group's property portfolio. All in all, a stronger performance was recorded from all of the Group's core operations.

### Acquisition and Disposal

During the year, Sun Hung Kai & Co. Limited ("Sun Hung Kai") group acquired the entire interest in Hing Yip Holdings Limited and Sing Hing Investment Limited from a wholly-owned substidiary of Tian An China Investments Company Limited ("Tian An"), a listed associate of the Group, at a total consideration of HKS52.3 million. These two substidiaries are principally engaged in property investment in China and own certain office premises in the Tian An Centre in Shanghai. A portion of the office premises is occupied by Sun Hung Kai's Shanghai offices to facilitate expansion while some units not being occupied by the Sun Hung Kai group are leased out for rental income.

In March 2005, Sun Hung Kai group acquired the entire interest in Excalibur Futures Limited ("Excalibur Futures") and Excalibur Securities Limited ("Excalibur Securities") at a total consideration of HKS25.9 million. Excalibur Futures is principally engaged in futures dealing and broking whereas Excalibur Securities is engaged in securities broking.

In June 2005, Island New Finance Limited ("INFL"), a wholly-owned subsidiary of United Asia Finance Limited ("UAF"), acquired 74.8% of the issued shares in The Hong Kong Building and Loan Agency Limited ("HKBLA") for a consideration of HKS184 million. The acquisition was completed in September 2005. Pursuant to the Code on Takeovers and Mergers, UAF had appointed an independent financial advisor to make a mandatory unconditional cash offer to acquire all the remaining issued shares in HKBLA. The offer was closed on 12th October, 2005 and INFL had accordingly acquired additional 39,507,50 shares in HKBLA, representing approximately 17.56% of the issued share capital of HKBLA. INFL placed 39,070,000 shares to independent third parties on 19th October, 2005 and the public float of HKBLA was restored to be above 25%. On 18th December, 2005, 1,691,895 shares in HKBLA were acquired by INFL pursuant to section 168(1) and Part 2 of the Ninth Schedule of the Companies Ordinance. Subsequent to the balance sheet date, INFL placed 6,018,000 shares to independent third parties on 16th January, 2006 and the public float of HKBLA was restored to be above 25%.

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

## Financial Resources, Liquidity and Capital Structure

At 31st December, 2005, the equity attributable to the equity holders of the Company amounted to HK\$6,114.7 million, representing an increase of HK\$1,484.4 million or approximately 32.1% from 2004. The Group maintained a strong cash and bank balance position and had cash and bank balances of approximately HK\$733.1 million as at 31st December, 2005 (2004: HK\$767.0 million). The Group's bank and other borrowings, together with loan notes, totalling HK\$2,772.6 million (2004: HK\$2,232.7 million) of which the portion due on demand or within one year increased to HK\$1,251.9 million (2004: HK\$890.6 million) and the remaining long-term portion increased to HK\$1,520.7 million (2004: HK\$1,342.1 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 2.20 times (2004: 2.06 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/ equity attributable to the equity holders of the Company) increased to 33.4% (2004: 31.7%).

The Group's capital expenditure, investments and repurchases of shares and loan notes were primarily funded by net cash inflow from operating activities and net bank and other borrowings raised during the year.

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

# Contingent Liabilities

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

	2005 HK\$'000	2004 HK\$'000
Guarantees for banking facilities granted to an investee company Indemnities on banking guarantees made available to a	6,979	7,000
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 ("SFHI"), claiming, inter alia, that the sale of the 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 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 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 Stapleton Development Limited ("SDL") against Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai, SHKS was ordered to pay NWDC the sum of HKS105,534,018 together with interest on the principal sum of HKS80,117,653 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 to be paid, the amount was HKS150,115,682 (being HKS105,534,018 plus interest of HKS44,581,664). 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 judgment ("Court of Appeal Judgment") in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HKS14.783.091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal ("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"):

- 1. on 1st March, 2000 in the sum of HK\$27,234,754;
- 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
- 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 HKS37,498,011 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 below:

- 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 HKS118,003,000 (2004: HKS118,003,000) 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.
- (ii) 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 interests 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.

# Material Litigation Update

- (a) An update on the litigation between SFHL against STCC and SHKIS (200/2004) and the litigation between NWDC and SDL against SHKS are set out in paragraphs (b) and (c) of the "Contingent Liabilities" section above respectively.
- (b) Shun Loong Finance Limited and SLHL (together the "Petitioners"), both wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("B.VI.") seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. The B.VI. proceedings were stayed by order of the B.VI. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.
- (c) Sun Hung Kai, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (d) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US\$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. On 31st March, 2005, the Court granted summary judgment to SHKIS ("Summary Judgment") in the amount of Canadian currency sufficient to purchase HK\$10,533,000 plus prejudgment and post judgment interest thereon. On 24th January, 2006, SHKIS received in partial satisfaction of the Summary Judgment order C\$14,071 and US\$1,288,555 (i.e. together HK\$10,008,868) that had been held in custody of the Superior Court of Justice.
- (e) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited ("Sellon"), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

## 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 HKS3,412.1 million (2004: HKS2,927.1 million, as restated), listed investments belonging to the Group and margin clients with a carrying value of HKS1,387.7 million (2004: HKS1,074.4 million) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HKS3,171.1 million (2004: HKS3,177.9 million) were pledged to secure loans and general banking facilities to the extent of HKS3,248.8 million (2004: HKS3,554.1 million) granted to the Group. Facilities amounting to HKS1,832.5 million (2004: HKS1,726.1 million) were utilised at 31st December, 2005.

At 31st December, 2005, a bank deposit of HK\$1.0 million (2004: HK\$1.2 million) was pledged to secure a bank guarantee amounting to HK\$2.0 million (2004: HK\$2.0 million).

# 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 HKS27,752,291. The option agreement will only take effect after the approval of the shareholders of the Company, Allied Properties (H.K.) Limited ("Allied Properties") and Sun Hung Kai 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 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 of Hong Kong Limited ("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.

## OPERATIONAL REVIEW

# Financial Services

Consumer finance

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

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

UAF has also begun to explore new opportunities for expansion of its businesses in Hong Kong and the PRC. Significant effort has been expended in studying the PRC market with a view to the establishment of viable consumer finance businesses in Shanghai and Shenzhen.

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

Broking and finance

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

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

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

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

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

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

## Properties

Hong Kong

Allied Properties reported a profit attributable to its equity holders of HK\$935.3 million (2004: HK\$563.0 million as restated). With the application of the new Hong Kong Accounting Standards, the Group has adopted the fair value model for its investment properties. As at the year end, the investment properties of the Group were revalued by an independent professional firm of valuers, resulting in a valuation surplus of approximately HK\$522.3 million which was reported in the consolidated income statement for the year.

The Group's investment property portfolio continued to record improving results, benefiting from the buoyant local property market. St. George Apartments, Century Court, Allied Cargo Centre, Park Place, 22nd floor of No. 9 Queen's Road Central and China Online Centre all achieved higher rental income as and when leases were renewed during the year.

Contribution from Ibis North Point continued to strengthen during the second half of the year. The hotel operating income almost doubled compared with that of last year due to the rise in the number of rooms and the increased average room rates.

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

# Mainland PRC

Tian An, a listed associate of Sun Hung Kai and the Group's PRC property unit, registered a 10.2% increase in net profit attributable to its equity holders to HK\$202.5 million. The increase in profit for the year is largely the result of an increase in the valuation of Tian An's investment properties. Tian An as a whole registered lower sales of total gross floor area of approximately  $138,000~\text{m}^2$ , as compared to  $225,000~\text{m}^2$  in 2004.

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

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

Tian An forecasts a positive outlook for the PRC economy and property market for the foreseeable future and accordingly its objectives for 2006 will be to (1) continue to dispose of non-core assets, (2) increase its land bank in major cities as and when opportunities arise, (3) maximise its development profit, (4) increase its recurrent rental income, (5) streamline operating processes, and (6) continue to strengthen the professional management team.

# Investment

Quality HealthCare Asia Limited

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

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

On 7th April, 2006, the Company, Sun Hung Kai and Allied Properties jointly announced that Wah Cheong had entered into a conditional option agreement pursuant to which Wah Cheong was granted an option to acquire further 34,155,666 shares in QHA from CLSA at an option consideration of HKS27,752,291. Details of the transaction are set out in the "Events After the Balance Sheet Date" section under "Financial Review" above.

Yu Ming Investments Limited ("Yu Ming")

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

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

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

Shanghai Allied Cement Limited ("SAC")

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

### Employees

The total number of staff of the Group at 31st December, 2005 was 2,098 (2004: 2,180). Total staff costs, including Directors' emoluments, amounted to HK\$345.4 million (2004: HK\$341.9 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

### BUSINESS OUTLOOK

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

The Group will continue to maintain its stated strategy of the ongoing development of its financial services and property investment and development businesses in both Hong Kong and the PRC for the benefit of the Company and its shareholders as a whole.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the financial year ended 31st December, 2005, except for certain deviations. The major areas of deviation are as follows:

## Code Provisions A.4.1 and A.4.2

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company had no fixed term of office prior to June 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company, According to the Articles of Association of the Company then in effect before 3rd June, 2005, at each annual general meeting of the Company, one-third of the Directors of the Company for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, should retire from office, provided that no Director holding office as executive chairman or as a managing director or as a chief executive should be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting of the Company and would then be eligible for re-election at the meeting.

To fully comply with the code provision A.4.1, the term of office of all the Non-Executive Directors of the Company was fixed in June 2005 which shall continue until 31st December, 2006, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors of the Company shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders of the Company ("Shareholders") at its annual general meeting held on 3rd June 2005

## Code Provisions B.1.3 and C.3.3

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

The terms of reference of the remuneration committee ("Remuneration Committee") and the audit committee ("Audit Committee") of the Company have been revised in June 2005 to comply with the above code provisions with certain deviations. A major deviation from the code provision B.1.3 is that the Remuneration Committee should, pursuant to its revised terms of reference, review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of the Executive Directors only but not senior management.

Detailed information of the Company's compliance of the CG Code and deviations from certain code provisions of the CG Code for the financial year ended 31st December, 2005 will be set out in the Corporate Governance Report to be included in the Company's 2005 Annual Report which will be sent to the Shareholders at the end of April 2006.

# AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31st December, 2005.

# SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the announcement of the Group's results for the year ended 31st December, 2005 have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the announcement.

# PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchase	Purchase consideration Number of per share		Aggregate	
in 2005	shares purchased	Highest HK\$	Lowest HK\$	consideration paid HK\$
February	200,000	11.05	11.05	2,210,000.00
March	394,000	11.60	10.60	4,423,500.00
April	132,000	11.00	10.60	1,429,900.00
May	356,000	10.90	10.60	3,824,200.00
July	1,214,000	11.05	10.30	13,228,500.00
September	208,000	10.50	10.10	2,144,400.00
October	564,000	10.30	10.05	5,759,100.00
November	1,016,000	10.85	10.25	10,739,300.00
December	2,238,607	11.10	10.80	24,701,355.60

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## APPRECIATION

The Board would like to thank all the staff for achieving the commendable results for 2005, and would like to express appreciation to the shareholders for their continual support. Special mention should be made of Sir Gordon Macwhinnie who retired as Chairman of the Group at the end of 2005. The Group and its management have benefited from sharing his wealth of experience and his valuable advice. We wish him a happy retirement.

On behalf of the Board Allied Group Limited Edwin Lo King Yau

Hong Kong, 12th April, 2006

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