

Pledge of Assets

At 31st December, 2004, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,982.1 million (2003: HK\$2,792.0 million), listed investments belonging to the Group and margin clients with a carrying value of HK\$1,074.4 million (2003: HK\$792.5 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 HK\$3,177.9 million (2003: HK\$3,935.3 million) were pledged to secure loans and general banking facilities to the extent of HK\$3,554.1 million (2003: HK\$3,777.5 million) granted to the Group. Facilities amounting to HK\$1,726.1 million (2003: HK\$1,964.9 million) were utilised at 31st December, 2004.

At 31st December, 2004, a bank deposit of HK\$1.2 million (2003: HK\$1.5 million) was pledged to secure a bank guarantee amounting to HK\$2.0 million (2003: HK\$2.0 million).

OPERATIONAL REVIEW

Financial Services

Consumer finance

The profit contribution from United Asia Finance Limited ("UAF") increased substantially in 2004, with bad debt charges decreasing significantly in line with the lower number of personal bankruptcies.

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

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

In view of the recovery of the Hong Kong economy, UAF will seek to expand its branch network and introduce new financial products to further improve its profit contributions.

Broking and finance

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

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

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

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

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

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

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

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

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

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

Properties

Hong Kong

Allied Properties recorded a profit of approximately HK\$668.5 million, representing a 115.0% increase from its profit of approximately HK\$311.0 million in the year 2003. The stronger performance of Allied Properties was largely due to revaluation surpluses and a reversal of impairment losses previously charged to the income statements following the recovery in the property market. Allied Properties' rental income also increased moderately during the year under review. Important contributors of rental income included St. George Apartments, China Online Centre, Century Court and Allied Cargo Centre. Allied Properties will take advantage of the buoyant property market to review its Hong Kong rental property portfolio with a view to maximising yields.

The properties of Allied Kajima group, which is 50% indirectly owned by Allied Properties, including Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel, together contributed a 15.9% increase in profit compared to the previous year.

Phase two of Ibis North Point was completed after the issuance of the occupation permit in December 2004. With this new 275-room hotel on Java Road fully operational, Allied Properties' recurrent income is expected to increase further.

Following the completion of Ibis, all of Allied Properties' development projects in Hong Kong have been completed. Allied Properties will continue to assess opportunities for appropriate property investments should they arise. In this regard, Allied Properties purchased the whole of the 22nd floor, No.9 Queen's Road Central in late 2004.

Mainland PRC

Although total sales of gross floor area attributable to Tian An, a 48.6% owned listed associate of Sun Hung Kai, during the year under review decreased to 225,000 square metres from 291,000 square metres, profit attributable to its shareholders amounted to HK\$200.6 million for the year, representing a significant growth of 95.9% compared to the previous year. The sharp improvement in the results for the year was mainly attributable to stronger contributions from property sales and the focus by Tian An on products of higher profit margin.

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

Investments

Quality HealthCare Asia Limited ("QHA")

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

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

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

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

Yu Ming Investments Limited ("Yu Ming")

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit of HK\$39.4 million for the year 2004. At 31st December, 2004, the major investments of Yu Ming included a 37.5% venture in AsiaWorld-Expo, being a 66,000 square metre exhibition centre located at the Hong Kong International Airport, Argyle Centre Shopping Mall in Mongkok, a bond portfolio amounting to HK\$195 million and an investment in a Hong Kong based airline. Argyle Centre and the bond portfolio provided the bulk of recurrent income of Yu Ming in 2004. The AsiaWorld-Expo is scheduled to open in January 2006 and its bookings are well into 2008.

Shanghai Allied Cement Limited ("SAC")

For the year ended 31st December, 2004, SAC reported a net profit of HK\$10.4 million, representing a decrease of 79.2% as compared to the year before. The decrease in profit resulted from:- (a) the rising cost of raw materials, including coal, which is one of the major cost components of cement production, (b) with the Mainland government's austerity measures taking effect, the demand, and consequently prices, for cement in Mainland China have been falling, and (c) the construction of the new plant in Shandong with a daily clinker production capacity of 2,500 tonnes per day has been utilising substantial financial resources.

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

Employees

The total number of staff of the Group at 31st December, 2004 was 2,180 (2003: 2,150). Total staff costs, including Directors' emoluments, amounted to HK\$341.9 million (2003: HK\$299.8 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 recovering Hong Kong economy is encouraging for the future performance of the Group. With deflation reversed and employment rate improving, the Board expects that the economy and the real estate market in Hong Kong should perform well in the near future. The Hong Kong tourist market is expected to improve with the planned opening of the Hong Kong Disneyland in September 2005. Nevertheless, recent upward price fluctuations of crude oil and the rising trend of interest rates are serious factors creating uncertainty for the future economic outlook. The management will make every effort to deliver a satisfactory set of results for 2005 and maximise returns for all shareholders.

PROPOSED AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

In order to ensure compliance with the new Code on Corporate Governance Practices as contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") and to align the Company's Articles of Association with the current practices under the Listing Rules, it is proposed that certain amendments be made to the Company's Articles of Association. A special resolution to give effect to the proposed amendments to the Company's Articles of Association will be proposed at the forthcoming annual general meeting of the Company. Particulars of the proposed amendments will be set out in a circular to be despatched to the shareholders of the Company and in the notice of the aforementioned annual general meeting to be published in due course.

DISCLOSURE OF DETAILED FINANCIAL INFORMATION

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangement, will be published on the website of the Stock Exchange in due course.

By Order of the Board
Allied Group Limited
Sir Gordon Macwhinnie
Chairman

Hong Kong, 14th April, 2005

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