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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Sun Hung Kai & Co. Limited, you should at once hand this circular to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

**VERY SUBSTANTIAL ACQUISITION
AND**

CONNECTED TRANSACTION

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

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



SinoPac Securities (Asia) Limited

A letter from the board of directors of Sun Hung Kai & Co. Limited is set out on pages 5 to 19 of this circular.

A letter from the independent board committee containing its recommendation to the independent shareholders of Sun Hung Kai & Co. Limited is set out on page 20 of this circular. A letter from SinoPac Securities (Asia) Limited, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of Sun Hung Kai & Co. Limited is set out on pages 21 to 35 of this circular.

A notice convening the extraordinary general meeting of Sun Hung Kai & Co. Limited to be held at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 9:30 a.m. is set out on pages 276 and 277 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the share registrars of Sun Hung Kai & Co. Limited, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

30th June, 2006

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	20
Letter from SinoPac	21
Appendix I – Accountants’ Report of the UAF Holdings Group	36
Appendix II – Financial Information of the Group	72
Appendix III – Management Discussion and Analysis of the Group	154
Appendix IV – Management Discussion and Analysis of the UAF Holdings Group	188
Appendix V – Unaudited Pro Forma Financial Information of the Enlarged Group	196
Appendix VI – Business Valuation Report on the UAF Group	205
Appendix VII – Profit Forecast	225
Appendix VIII – Valuation Report on the Properties of the Enlarged Group ...	227
Appendix IX – General Information	265
Notice of the EGM	276

DEFINITIONS

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

“Acquisition”	the proposed conditional acquisition by Swan Islands of the entire issued share capital of UAF Holdings, comprising the purchase of the Sale Share and the acceptance by Swan Islands of the assignment of the Loan pursuant to the terms of the Agreement, as further described in this circular
“AG Capital”	AG Capital Holding Limited, a company incorporated in the Cayman Islands with limited liability, and a direct wholly-owned subsidiary of AGL
“AGL”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“AGL Directors”	directors of AGL
“Agreement”	the sale and purchase agreement dated 13th June, 2006 made between AG Capital, AGL, Swan Islands and the Company, relating to the sale and purchase of the Sale Share
“APL”	Allied Properties (H.K.) Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange
“APL Directors”	directors of APL
“associates”	having the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“Bonds”	the bonds agreed to be created and issued by Swan Islands pursuant to the Agreement
“B.V.I.”	British Virgin Islands
“Company”	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange
“connected person”	having the meaning ascribed to it under the Listing Rules

DEFINITIONS

“C\$”	Canadian dollars, the lawful currency of Canada
“Directors”	directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 9:30 a.m. for the purpose of considering and, if thought fit, approving the Agreement and the transactions contemplated in it
“Enlarged Group”	the Group after completion of the sale and purchase of the Sale Share
“Group”	the Company and its subsidiaries
“HIBOR”	the Hong Kong Interbank Offered Rate, at or about 11:00 a.m. (Hong Kong time) on the Telerate Screen Page 9898 or on the web page of The Hong Kong Association of Banks on the first day of the relevant period of interest payment in respect of the Bonds, for the offering of deposits in Hong Kong dollars for a period comparable to the relevant period of interest payment in respect of the Bonds and for the relevant amount
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKBLA”	The Hong Kong Building and Loan Agency Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the committee comprising Mr. Carlisle Caldwell Procter and Mr. Peter Wong Man Kong, being the two independent non-executive Directors appointed by the Board under the Listing Rules to advise the Independent Shareholders in respect of the terms of the Agreement
“Independent Shareholders”	Shareholders (other than AGL, APL and their respective associates) who are not required under the Listing Rules to abstain from voting at the EGM to approve the Agreement and the transactions contemplated in it

DEFINITIONS

"Latest Practicable Date"	30th June, 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan"	the shareholder's loan advanced by AG Capital to UAF Holdings in the amount of HK\$39,590,815
"Norton Appraisals"	Norton Appraisals Limited, a firm of independent professional valuers
"Option"	the option over the option shares and option warrants in Quality HealthCare Asia Limited granted under the call option agreement dated 3rd April, 2006, details of which are set out in the joint announcement of the Company, AGL and APL dated 7th April, 2006 and as supplemented by the joint announcement of the Company, AGL and APL dated 18th May, 2006 and in their respective circulars dated 29th June, 2006
"RMB"	Renminbi, the lawful currency of the People's Republic of China
"Sale Share"	one share of US\$1.00 in the issued share capital of UAF Holdings, representing the entire issued share capital of UAF Holdings
"SFC"	Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholders"	shareholders of the Company
"Shares"	shares of nominal value of HK\$0.20 each in the share capital of the Company
"SinoPac"	SinoPac Securities (Asia) Limited, a licensed corporation under the SFO permitted to carry out types 1, 4, 6 and 9 of the regulated activities, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the proposed subscription of 248,000,000 new Shares at HK\$7.00 pursuant to the subscription agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) between AP Emerald Limited, an indirect wholly-owned subsidiary of APL, as subscriber and the Company, details of which are set out in the joint announcements of the Company, AGL and APL dated 17th May, 2006 and 18th May, 2006
“substantial shareholder”	having the meaning ascribed to it under the Listing Rules
“Swan Islands”	Swan Islands Limited, a company incorporated in the B.V.I. with limited liability, and a direct wholly-owned subsidiary of the Company
“Takeovers Code”	Code on Takeovers and Mergers
“UAF”	United Asia Finance Limited, a company incorporated in Hong Kong with limited liability, and a direct non wholly-owned subsidiary of UAF Holdings
“UAF Group”	UAF and its subsidiaries
“UAF Holdings”	UAF Holdings Limited, a company incorporated in the B.V.I. with limited liability, and an indirect wholly-owned subsidiary of AGL
“UAF Holdings Group”	UAF Holdings and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

Executive Directors:

Mr. Patrick Lee Seng Wei

Mr. Joseph Tong Tang

Non-executive Director:

Mr. Arthur George Dew (*Chairman*)

Registered Office:

Level 12

One Pacific Place

88 Queensway

Hong Kong

Independent non-executive Directors:

Mr. David Craig Bartlett

Mr. Alan Stephen Jones

Mr. Carlisle Caldwell Procter

Mr. Peter Wong Man Kong

30th June, 2006

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

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

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

INTRODUCTION

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

LETTER FROM THE BOARD

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

The Independent Board Committee has been constituted to consider the terms of the Agreement and to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the Agreement. Mr. David Craig Bartlett, an independent non-executive Director, is also an independent non-executive director of AGL. Mr. Alan Stephen Jones, another independent non-executive Director, is also an independent non-executive director of both AGL and APL. They were thus not appointed as members of the Independent Board Committee. Mr. Carlisle Caldwell Procter and Mr. Peter Wong Man Kong, being the other two independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee.

SinoPac has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated in the Agreement in accordance with the Listing Rules.

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

THE CONDITIONAL SALE AND PURCHASE

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

LETTER FROM THE BOARD

THE AGREEMENT

Date

13th June, 2006

Parties

- (1) AG Capital as vendor
- (2) AGL as warrantor
- (3) Swan Islands as purchaser
- (4) the Company as guarantor

The Sale Share

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

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

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

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

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

LETTER FROM THE BOARD

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

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

Consideration

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

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

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

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

- All relevant legal approvals and business certificates or licences to operate the business in the localities in which the UAF Group operates or intends to operate would be automatically renewable upon expiry.
- The projections outlined in the financial information provided are reasonable, reflecting market conditions and economic fundamentals.

LETTER FROM THE BOARD

- The financial projections provided will be materialised.
- There will be a sufficient supply of technical staff in the industry in which the UAF Group operates.
- The UAF Group will retain competent management, key personnel and technical staff to support its ongoing operations and developments.
- There will be no major changes in the current taxation laws in the localities in which the UAF Group operates or intends to operate, and the rates of tax payable will remain unchanged, and all applicable laws and regulations will be complied with.
- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the UAF Group operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the UAF Group.
- Interest rates and exchange rates in the localities in which the UAF Group operates or intends to operate will not differ materially from those presently prevailing.

The consideration will be settled:

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

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

AGL and AG Capital have, unconditionally and irrevocably, jointly and severally represented and warranted to the Company and Swan Islands that the audited net profits of the UAF Group for the year ending 31st December, 2006 will not be less than HK\$500,000,000. No party will have any claim against any of the other parties to the Agreement if the difference between the audited net profits of the UAF Group for the year ending 31st December, 2006 is less than or more than 5% of HK\$500,000,000. In the event that the audited net profits of the UAF Group for the year ending 31st December, 2006 is less than HK\$500,000,000, the consideration payable for the sale and purchase of the Sale Share under the Agreement will be adjusted downward and the amount of the adjustment will be negotiated between the parties in good faith.

LETTER FROM THE BOARD

Bonds

The principal terms of the Bonds will be as follows:

Date of issue:	date of completion of the sale and purchase of the Sale Share
Issuer:	Swan Islands
Term:	three years from the date of issue
Total principal amount:	HK\$2,800,000,000
Form and denomination:	Bonds for the amount of HK\$2,800,000,000 in registered form in the denomination of HK\$100,000,000 each
Interest:	simple interest at the rate of 1% above HIBOR per annum, payable half-yearly in arrears from the date of issue
Redemption:	redeemable, at the option of Swan Islands, partially in an amount of not less than HK\$100,000,000 for each partial early redemption, at any time during the term of the Bonds (or as extended), by giving AG Capital one month's prior written notice of each partial early redemption redeemable in full upon the occurrence of an event of default under the terms and conditions of the Bonds (including, without limitation, the liquidation or winding-up of Swan Islands), or upon expiration of the term of the Bonds (or as extended), if not already redeemed
Option to extend:	exercisable by the Company and Swan Islands on reasonable market terms above HIBOR prevailing at the time, for a further term of three years from the expiry date of the initial term of the Bonds
Voting right:	not entitling holders of Bonds to attend or vote at any general meeting of Swan Islands
Transferability:	transferable by mutual agreement
Security:	to be secured by a mortgage over the Sale Share
Non-recourse:	in the event of failure to redeem any of the Bonds, recourse only against the mortgage over the Sale Share
Listing:	not to be listed on any stock exchange

LETTER FROM THE BOARD

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

Conditions

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

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

LETTER FROM THE BOARD

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

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

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

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

Completion

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

INFORMATION ABOUT UAF HOLDINGS AND UAF

UAF Holdings and UAF

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

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

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

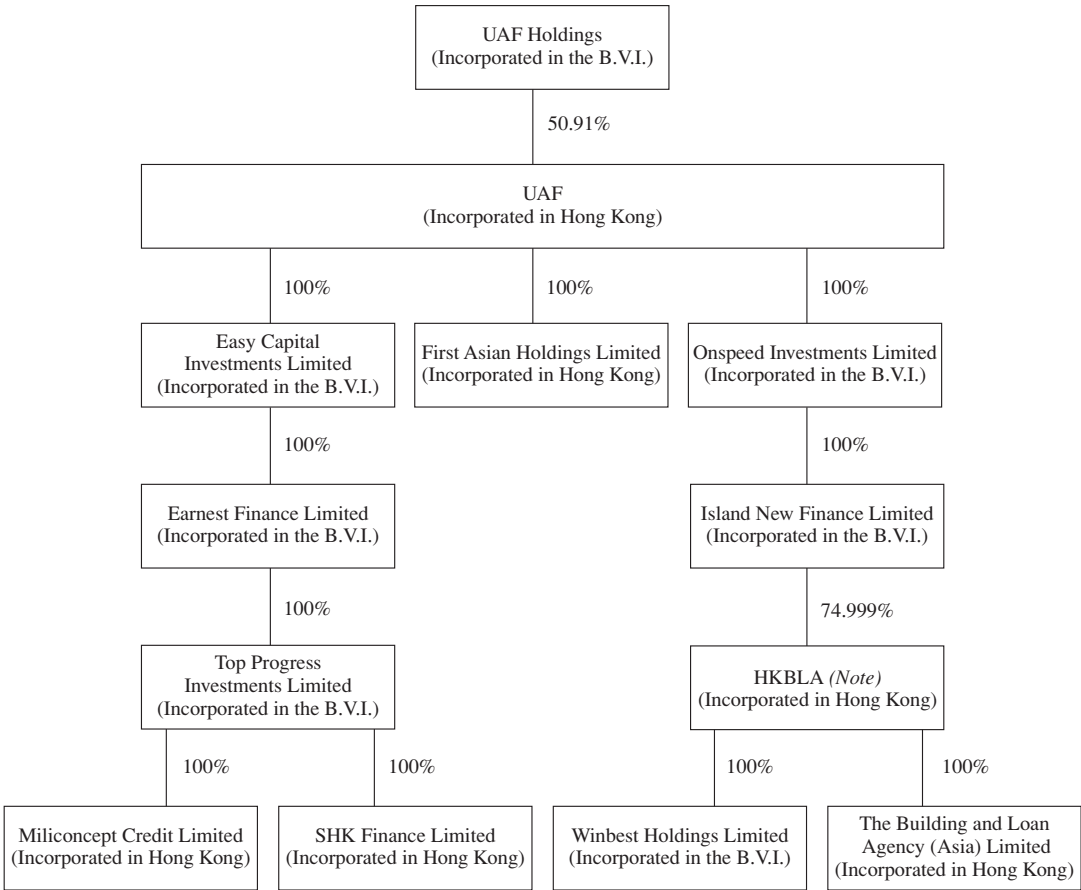
LETTER FROM THE BOARD

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

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

Group Chart

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



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

LETTER FROM THE BOARD

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

AGL

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

The principal business activity of AGL is investment holding. The principal business activities of its major subsidiaries are property investment and development, hospitality related activities, and the provision of financial services.

AG CAPITAL

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

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

APL

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

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

As at the Latest Practicable Date, APL was beneficially owned as to approximately 74.93% by AGL.

The Company

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

The principal business activity of the Company is investment holding. The principal business activities of its major subsidiaries are securities, leveraged forex, bullion, commodities, futures and options broking, provision of online financial services and online financial information, share margin and structured financing, financial planning and wealth management, asset management, corporate finance, strategic investment, and insurance broking.

As at the Latest Practicable Date, the Company was beneficially owned as to approximately 61.42% by APL.

LETTER FROM THE BOARD

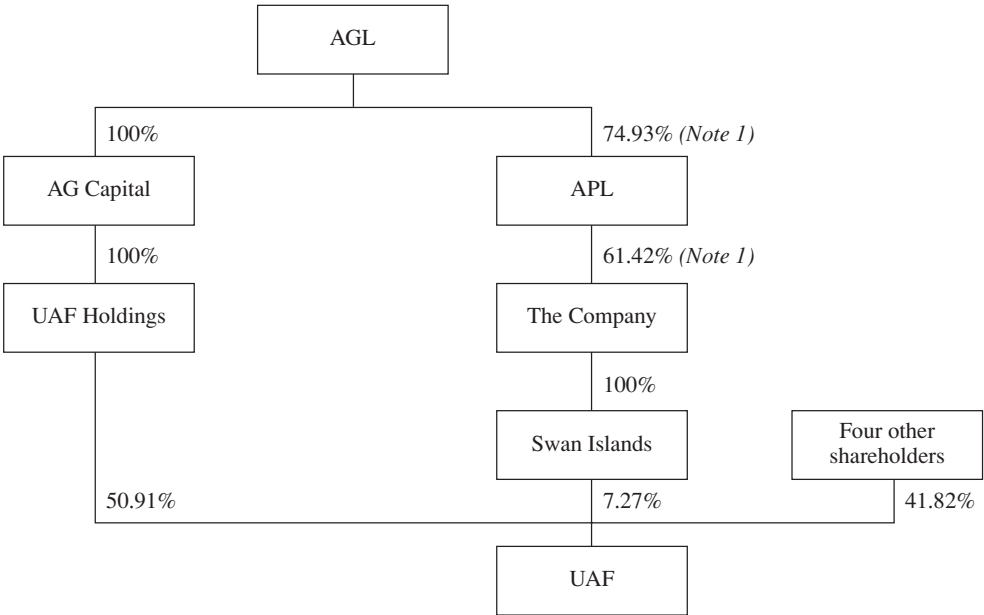
Swan Islands

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

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

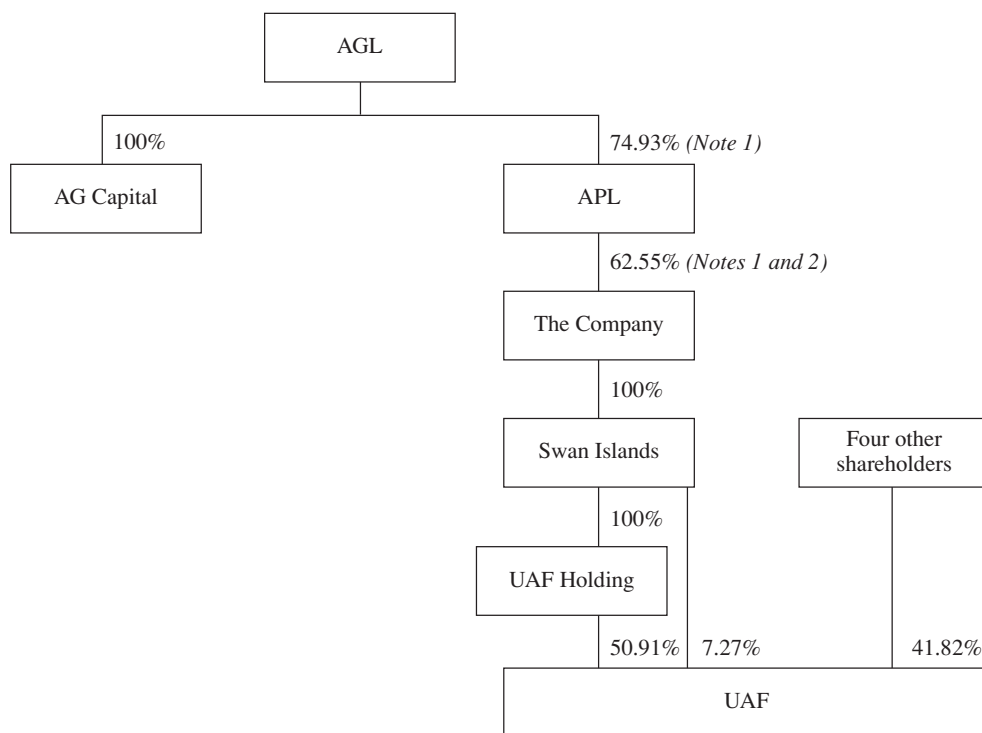
Group Charts

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



LETTER FROM THE BOARD

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



Notes:

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

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

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

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

- (i) a turnover of approximately HK\$167,930,000 for the year ended 31st December, 2004, representing approximately 20.81% of the total turnover of the Group for such year; and

LETTER FROM THE BOARD

- (ii) a turnover of approximately HK\$184,888,000 for the year ended 31st December, 2005, representing approximately 23.30% of the total turnover of the Group for such year.

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

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

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

As at 31st December, 2005 (being the date up to which the latest published audited consolidated accounts of AGL were made), the aggregate carrying value of the Sale Share and the Loan to AGL was approximately HK\$1,073,272,000. Accordingly, AGL will have an estimated gain of approximately HK\$3,254,728,000 (before expenses of the sale). This gain will be eliminated against the goodwill arising on the acquisition of the Sale Share by Swan Islands in the consolidated accounts of AGL.

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

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

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Except for the bonus issue of warrants as described in the circular of the Company dated 10th May, 2006, no funds were raised by the Company on any issue of equity securities in the 12 months immediately preceding the Latest Practicable Date.

LISTING RULES IMPLICATIONS

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

The Independent Board Committee has been constituted to consider the terms of the Agreement and to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the Agreement. Mr. David Craig Bartlett, an independent non-executive Director, is also an independent non-executive director of AGL. Mr. Alan Stephen Jones, another independent non-executive Director, is also an independent non-executive director of both AGL and APL. They were thus not appointed as members of the Independent Board Committee. Mr. Carlisle Caldow Procter and Mr. Peter Wong Man Kong, being the other two independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee.

SinoPac has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions contemplated in the Agreement in accordance with the Listing Rules.

EGM

A notice convening the EGM is set out on pages 276 and 277 of this circular. Ordinary resolution in respect of the Agreement will be proposed at the EGM.

A form of proxy for the EGM is enclosed with this circular. If you are not able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed on it and return it to the share registrars of the Company, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so desire.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 73 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded:

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

Under the Listing Rules, the ordinary resolution to be proposed at the EGM to approve the Agreement is required to be voted on by poll. APL and its associates will abstain from voting on the resolution at the EGM.

RECOMMENDATION

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

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from SinoPac and the additional information set out in the Appendices to this circular.

Yours faithfully,
On behalf of the Board
Sun Hung Kai & Co. Limited
Joseph Tong Tang
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

30th June, 2006

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION
AND
CONNECTED TRANSACTION**

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

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

We wish to draw your attention to the letter from the Board and letter of advice from SinoPac set out on pages 5 to 19 and pages 21 to 35 of the Circular respectively.

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

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

Yours faithfully,

For and on behalf of the Independent Board Committee

Carlisle Caldow Procter
Independent non-executive Director

Peter Wong Man Kong
Independent non-executive Director

LETTER FROM SINOPAC

The following is the full text of a letter received from SinoPac setting out its opinion to the Independent Board Committee and the Independent Shareholders in respect of the terms of Agreement prepared for the purpose of incorporation in this circular.



SinoPac Securities (Asia) Limited

23rd Floor, Two International Finance Centre
No. 8 Finance Street, Hong Kong

30th June, 2006

*To the Independent Board Committee
and the Independent Shareholders of
Sun Hung Kai & Co. Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 30th June, 2006 (the “**Circular**”), of which this letter forms a part. Capitalised terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

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

Pursuant to the Listing Rules, the transactions contemplated in the Agreement constitute a very substantial acquisition and a connected transaction for the Company on the basis that the calculation of the profits ratio is over 100 per cent. and that AGL is a substantial Shareholder (through its interests held in APL) and hence a connected person of the Company and is therefore subject to the approval of the Independent Shareholders. APL and its associates will abstain from voting on the resolution for approving the Agreement at the EGM.

LETTER FROM SINOPAC

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the entering into the Agreement is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Agreement are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Agreement at the EGM.

BASIS FOR OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, its advisers and the Directors. We have also reviewed, amongst other things, (i) various research reports for the consumer finance and banking industry in Hong Kong; (ii) a valuation report on UAF Group prepared by Norton Appraisals dated 30th June, 2006 and (iii) the cash flow projection of the Group prepared by the Directors for the six financial years ending 31st December, 2006 to 2011, for which they are solely and wholly responsible.

We have assumed that all information, opinions, facts and representations contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true, complete and accurate in all material respects at the time they were made and continue to be true, complete and accurate in all respects at the date of the Circular and up to the time of the EGM that we have reviewed on the same. We have no reason to doubt the truth, accuracy and completeness of the information, opinions, facts and representations provided to us by the Company and/or the Director and referred to in the Circular. The Directors have collectively and individually accepted the full responsibility for the accuracy of the information, facts, opinions and representations contained in the Circular and provided to us, and have confirmed that having made all reasonable enquiries, which to their best of knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors and that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the facts or information as set out in the Circular and of the opinions and representations provided to us by the Company and/or the Directors.

We are independent from, and are not associated with, the Company, AGL, AG Capital or their respective subsidiaries and substantial shareholders or connected person(s), as defined under the Listing Rules and, accordingly, are considered eligible to give independent advice on the Agreement. We will receive a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company, AGL, APL and Swan Islands, or their respective subsidiaries and substantial shareholders or connected person(s), as defined under the Listing Rules.

LETTER FROM SINOPAC

We consider that we have reviewed sufficient information which enables us to reach an informed view and to provide us with a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company and/or the Directors, nor have we conducted any independent in-depth investigation into the business and affairs or the financial positions of the Group and UAF Group or the prospects of the market in which the Group or the UAF Group operate respectively.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background and reasons for entering into the Agreement

As mentioned in the Letter from the Board, the entering into the Agreement is an overall group reorganisation in order to consolidate the loan and financial services businesses of the AGL group of companies, which involves three listed companies within the group, namely AGL, APL and the Company, into the Company.

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

The Group is principally engaged in financial services business, which includes, among others, securities, leveraged forex, bullion, commodities, futures and options broking, share margin and structured financing, financial planning, wealth management and asset management. For the year ended 31st December, 2004 and 2005, the loan and consumer finance business of the Group accounted for approximately 20.81 per cent. and 23.30 per cent. respectively of the total turnover of the Group. As at the Latest Practicable Date, the Group, through Swan Islands, is interested in approximately 7.27 per cent. of the issued share capital of UAF, one of the major operating subsidiaries of UAF Holdings.

As mentioned in the Letter from the Board, the Company intends to increase its degree of participation in the continuing growth of the Hong Kong economy, by way of a further expansion of its loan and consumer finance business. This objective is pursued by increasing its investments in the UAF Group, in which the Company currently has an approximately 7.27 per cent. interest.

According to the quarterly bulletin published by the Hong Kong Monetary Authority in March 2006, based on the statistics provided by TransUnion, the market share of non-bank financial institutions in the non-credit card revolving credit

LETTER FROM SINOPAC

facilities and instalment credit increased from 25 per cent. in December 2003 to 30 per cent. in December 2005. Shortly after the introduction of positive data sharing in Hong Kong in June 2003, many of these non-bank financial institutions actively offered low-interest-rate products to attract borrowers to consolidate their credit card outstanding amounts. As a result, the non-card credit market expanded quickly. The aggregate amount increased by 38 per cent. from HK\$29 billion to HK\$40 billion from December 2003 to December 2005.

On this basis, we consider that the Acquisition is in line with the principal business of the Group and is in the ordinary and usual course of business of the Group.

2. Benefits for the Acquisition

For the year ended 31st December, 2005, UAF Holdings recorded a net profit of approximately HK\$455.2 million, representing an increase of approximately 27.7 per cent. from approximately HK\$356.4 million for the year ended 31st December, 2004.

Currently, the Company, through Swan Islands, has an indirect interest of approximately 7.27 per cent. in UAF and does not involve in the day-to-day operation of UAF. For the year ended 31st December, 2004 and 2005, the loan and consumer finance business of the Group accounted for approximately 20.81 per cent. and 23.30 per cent. respectively of the total turnover of the Group. Upon completion of the Acquisition, the UAF Holdings will become the indirect wholly-owned subsidiary of the Company and UAF will become a 58.18 per cent. indirect non-wholly subsidiary of the Company (through its interests in UAF Holdings and Swan Islands).

It is expected that the consolidation of the loan and financial services businesses of the AGL group of companies into the Company through the Acquisition can increase the degree of participation in loan and financial services business of the Group and expand the overall market share of the Group. In addition, the Acquisition would enable the Company to assert an operational role in UAF and it is expected that there will be a significant benefit in cost efficiency to the Company under the Acquisition. Having regard to the nature of and the benefits resulting from the reorganisation through the Acquisition, the Directors believe that the Acquisition is in the interests of the Company and its Shareholders as a whole.

Based on the track records of UAF Holdings Group for the three years ended 31st December, 2003, 2004 and 2005 (as shown in Appendix I to this Circular) and the Directors' expectation that there will be high demand for consumer finance service in the future, the Acquisition is expected to provide a stable income stream to the Group in long term. In addition, the Acquisition can also enhance the Group's sources of revenue and increase the customer base, which thereby increase the market share of the Group in the financial services market.

LETTER FROM SINOPAC

We have made enquiries with the Company and noted that the Acquisition will delineate corporate activities in consumer and personal finance within companies of the AGL group of companies. The Company is one of the leading players in financial services with institutional and retail customers. In view of the continuous growth of consumer finance and personal finance market as anticipated by the Directors, the Acquisition will further complement the existing financial services businesses of the Company. It will also enhance the customer base for the Company so that it can extend its existing products to a wider spectrum of customers, and at the same time achieving cost effectiveness for combining the businesses. Furthermore, the Acquisition will help to eliminate the competition in businesses between AGL and the Company in consumer and personal finance. The Directors are of their opinion that there is a justifiable reason for proposing the Acquisition for consideration by the Shareholders.

Taking into account (i) the potential growth of the consumer and personal finance market in Hong Kong; (ii) the increasing demand for financial and investment products from retail customers; (iii) the intention to delineate the personal and consumer finance businesses within the AGL Group to avoid business competition of businesses among group companies; and (iv) the cost efficiency benefits after the Acquisition, we consider that there are compelling commercial reasons for entering into the Agreement which is in the interests of the Company and the Shareholders as a whole, and accordingly, the Acquisition is in the interests of the Company and the Shareholders as a whole.

3. Consideration

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

The aggregate consideration of HK\$4,328,000,000 was arrived at after arm's length negotiations between AG Capital and Swan Islands, having regard to a valuation report prepared by Norton Appraisals, a firm of independent professional valuers, on the overall value of the UAF Group and to the 50.91 per cent. interest held by UAF Holdings in UAF.

In assessing the fairness and reasonableness of the valuation of the overall value of UAF Group, we have reviewed the valuation report prepared by Norton Appraisals as set out in Appendix VI to the Circular. We have also discussed with Norton Appraisals on the methodologies adopted and the bases and assumptions used in arriving at their valuations of the overall value of UAF Group. We understand that Norton Appraisals have considered the three generally accepted appraisal approaches used in valuation of a business, namely the market-based approach, the asset-based approach and the income-based approach, and we have discussed with Norton Appraisals on the rationale of selecting such appropriate approaches. Based on our discussion with Norton Appraisals, we understand that the methodologies used by Norton Appraisals in obtaining the fair market value of UAF Group are the regression analysis and the discounted cash flow analysis. The key bases and assumptions for the regression analysis and the discounted cash flow analysis have

LETTER FROM SINOPAC

been set out in the Letter from the Board in this Circular. Based on our discussion, we consider that the methodology applied by Norton Appraisals is consistent with the market practice and the underlying basis of the valuation of the UAF Group is appropriate. We have no reason to doubt the fairness and appropriateness of the methodologies adopted and assumptions used by Norton Appraisals in arriving at the valuation of the overall value of UAF Group.

According to the valuation report of Norton Appraisals, the overall market valuation of the UAF Group as at 30th April, 2006 falls within a range from HK\$8.55 billion to HK\$8.87 billion. On this basis, the aggregate consideration of HK\$4,328,000,000 for the 50.91 per cent. of the overall value of UAF Group represents a range of discount of approximately 0.6 per cent. to 4.3 per cent..

Given that the Acquisition will provide an opportunity for the Group to acquire the controlling interests in UAF Holdings and the aggregate consideration is close to the valuation of the UAF Group prepared by Norton Appraisals in respect of the 50.91 per cent. interest of the overall value of UAF Group, we consider that the consideration was determined on normal commercial terms and the basis for determining the consideration is fair and reasonable so far as the Independent Shareholders are concerned.

4. AGL's undertakings

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

Pursuant to the Agreement, AGL has unconditionally and irrevocably undertaken to the Company that it will, at the request of the Company, capitalize up to HK\$1,000,000,000 of the outstanding principal amount of the Bonds by procuring APL to exercise its warrants in the Company (now in such number as would, if exercised, lead to the subscription of 186,839,778 new Shares, at an initial subscription price of HK\$6.00 per Share (subject to adjustments)) or by underwriting or procuring the underwriting of a rights issue or other agreed capital raising mechanisms which AGL and APL deem appropriate at their sole discretion and in the best interests of AGL and APL.

We are of the view that the above undertakings from AGL, which provide the Group additional assurance for the redemption of the Bonds, are in favour of the Group and is in the interests of the Company and the Shareholders as a whole.

5. Financing of the consideration

The consideration will be settled:–

- (i) as to HK\$1,528,000,000 in cash, payable on completion; and
- (ii) as to balance of HK\$2,800,000,000 by way of the creation and issue by Swan Islands of the Bonds to AG Capital (or its nominees) on completion.

LETTER FROM SINOPAC

We understand that completion of the Acquisition would be conditional on the completion of the Subscription as announced in the joint announcements of AGL, APL and the Company dated 17th May, 2006 and 18th May, 2006 and that the payment of the cash portion of the consideration will be financed in full from the proceeds from the Subscription. On this basis, we concur with the Directors' view that there would be sufficient cash resources for the payment of the cash portion of the consideration of HK\$1,528,000,000.

It should be noted that under the Agreement, in the event that the Subscription does not complete eventually, the Agreement will not be proceed.

The balance of the consideration of HK\$2,800,000,000 will be settled by way of the creation and issue by Swan Islands of the Bonds to AG Capital (or its nominees) on completion. In order to assess whether the Group has the capability to settle the balance of consideration of HK\$2,800,000,000, we have reviewed the unaudited pro forma financial statement of the Enlarged Group as set out in Appendix V to the Circular on pages 196 to 204 and have discussed with the management of the Company the cash flow projection of the Group, and have also discussed with Norton Appraisals and the Company regarding the reasonableness for the assumptions and bases applied on the preparation of the cash flow projection of the Group. As discussed with the Directors, the cash flow projection of the Group for the six financial years ending 31st December, 2006 to 2011 has been arrived at after taking into account of (i) the cash outlays in relation to the acquisition of further interests in Quality HealthCare Asia Limited; (ii) the estimated proceeds on disposal of certain non-core assets of the Group, including but not limited to certain listed assets or securities; (iii) the estimated proceeds from the exercise of the 2009 warrants by AP Emerald Limited; (iv) the estimated cash flow from UAF Holdings in terms of dividends; and (v) the estimated cash flow from the Group. We have discussed with the Directors and the Directors represented that the cash flow projection of the Group for the six financial years ending 31st December, 2006 to 2011 has been prepared by the Directors on a prudent basis based on a number of assumptions. Independent Shareholders should note that the cash flow projection of the Group does not purport to describe the actual financial position or performance of the Enlarged Group that would attain in the future periods. As set out in the pro forma combined balance sheet of the Enlarged Group in Appendix V to this Circular on pages 196 to 204, upon completion of the Acquisition, the Group would have a net current assets of HK\$3,476,359,000 and an available-for-sale investments of HK\$593,241,000. In addition, we also reviewed the banking facilities statements which show the Group's available credit as at 30th April, 2006 for assessing capability to settle the balance of consideration of HK\$2,800,000,000 for the Bonds.

As mentioned in paragraph headed "4. AGL's undertakings" in this letter, AGL has unconditionally and irrevocably given an undertaking to the Company that up to HK\$1,000,000,000 would be capitalized. In addition, the Group has an option to extend the initial three year term of the Bonds to a further term of three years upon expiry of the initial three years if the Bonds have not been redeemed in full.

LETTER FROM SINOPAC

In such regards, we concur with the Directors' view that the Group is capable of repaying the interest payment to AG Capital (or its nominees). We understand that pursuant to the Agreement, Swan Islands agrees that it will use its best endeavours to redeem, within 12 months from the date of completion of the sale and purchase of the Sale Share and the assignment of the Loan, up to HK\$500,000,000 of the outstanding principal amount of Bonds. The repayment of HK\$500,000,000 of the remaining principal amount of the Bonds to be redeemed by Swan Islands within 12 months from the date of completion of the Agreement is on best endeavour basis, accordingly, there will be no immediate requirement for raising the money out of the ordinary income and resources of the Group.

However, should the Company exercise its option for acquiring the shares of Quality HealthCare Asia Limited as announced on 7th April, 2006 at an aggregate exercise price of approximately HK\$99.9 million, the cash position of the Group may be adversely affected. Nevertheless, having considered the above factors and the cash flow projection of the Group for the six financial years ending 31st December, 2006 to 2011 prepared by the Directors which has taken into account the impact of the exercise of the option for acquiring the share of Quality HealthCare Asia Limited, we concur with the Directors' view that the Group would have sufficient fund for the redemption of the Bonds and sufficient working capital to support its future development and long term growth.

6. Conditions precedent

As mentioned in the Letter from the Board, the completion of the Agreement is subject to the fulfillment of certain conditions precedent under the Agreement.

We understand that, among those conditions precedent, under the Agreement, the completion of the Acquisition is subject to the conditions that (1) completion of the Subscription; and (2) the SFC confirming that no mandatory general offer obligation would arise under the Takeovers Code, or otherwise waiving all such mandatory general offer obligations, in respect of the shares in HKBLA, as a result of the transactions contemplated in the Agreement.

It should be noted that under the Agreement, in the event that the Subscription does not complete, the Agreement will not be proceed. We also understand that an application will be made by AGL to seek confirmation from the SFC that no mandatory general offer obligation would arise under the Takeovers Code, or otherwise all such mandatory general offer obligations will be waived, in respect of the shares in HKBLA, as a result of the transactions contemplated in the Agreement. In addition, we note that there will be no general offer for the shares of HKBLA.

On this basis, we are of the view that the conditions of the Agreement are fair and reasonable.

7. Adjustment of the consideration

Pursuant to the Agreement, AGL and AG Capital, has unconditionally and irrevocably, jointly and severally warranted to the Company and Swan Islands that the audited net profits of UAF Group for the year ending 31st December, 2006 shall not be less than HK\$500,000,000. However the Company and/or Swan Islands, or as the case may be, AGL and/or AG Capital, can not claim against AGL and AG Capital, or as the case may be, the Company and/or Swan Islands, if difference between the audited net profits of UAF Group for the year ending 31st December, 2006 is less than or (as the case may be) more than five per cent of HK\$500,000,000. In the event that the audited net profits of UAF Group for the year ending 31st December, 2006 is less than HK\$500,000,000, the aggregate consideration of HK\$4,328,000,000 shall be adjusted downward and the amount of the adjustment shall be negotiated between the parties to the Agreement in good faith. We have discussed with the Directors on the downward adjustment mechanism and the Directors represented that the amount of the downward adjustment would be made to the aggregate consideration with reference to the appraisal methodology and bases and assumptions adopted by Norton Appraisals in arriving at the valuation of the UAF Group, details of which are set out in Appendix VI to this Circular. On this basis, we are of the view that above mechanism is in favour of the Group and is in the interests of the Company and the Shareholders as a whole.

8. Principal terms of the Bonds

The principal terms of the Bonds are set out in the Letter from the Board and have been arrived at after arm's length negotiations.

Interest rate

The Bonds will bear a simple interest at a rate of 1 per cent. above HIBOR per annum on the outstanding principal amount, which shall be payable half-yearly in arrears from the date of issue. As at the Latest Practicable Date, HIBOR (for 6 months) is 4.80 per cent.. As compared with higher borrowing cost on a prime rate basis of 8.00 per cent. indicated by financial institutions as at the Latest Practicable Date, the Directors are of the view that the interest rate of 1 per cent. above HIBOR per annum for the Bonds is favourable.

In assessing the reasonableness of the interest rate of 1 per cent. above HIBOR per annum, we have reviewed the summary of the banking facilities of the Group. Therefore, on the basis that the interest rate offered by the Group is lower than that offered by the principal banks of the Group, we are of the view that the interest rate of 1 per cent. above HIBOR (for 6 months) per annum offered to AG Capital is in favour to the Group and is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM SINOPAC

Transferability

The Bonds may be assigned or transferred by AG Capital (or its nominees) to any third party by entering into a mutual agreement between Swan Islands and AG Capital (or its nominees) and, if so required, subject to the prior approval of the Stock Exchange. As advised by the Directors, in order to avoid any possible changes in the terms of the Bonds and the undertaking provided by AGL, which may lead to the possible change of the expected repayment schedule of the Group (Swan Islands will use its best endeavours to redeem, within 12 months from the date of completion of the sale and purchase of the Sale Share), we are of the view that the requirement of entering into a mutual agreement before assigning or transferring the Bonds is in the interests of the Company and the Shareholders as a whole.

Term

The initial term of the Bonds is three years from the date of issue of the Bonds. Having reviewed the cash flow projection of the Group for the six financial years ending 31st December, 2006 to 2011 prepared by the Directors, we are of the view that the period of three years for the maturity of the Bonds provides the Group flexibility and reasonable period for the redemption of the Bonds. In addition, the Company and Swan Islands has an option to extend the initial term of the Bonds for a further term of three years from the expiry date of the initial term of the Bonds on a reasonable market terms above HIBOR prevailing at the time. We consider that such arrangement can provide the Group more flexibility for the repayment of the outstanding amount of the Bonds and is in the interests of the Company and the Shareholders as a whole.

Non-recourse

In the event that Swan Islands fails to redeem any of the Bonds, the recourse of AG Capital is only against the mortgage over the Sale Share. In addition, any repayment of the principal amounts and/or the interest for the Bonds from Swan Islands cannot be drawn back from AG Capital. Thus the Independent Board Committee and the Independent Shareholders should be aware that, should the Group fail to redeem the Bonds, the Group may lose the principal amounts and/or the interests paid by Swan Islands for the Bonds as well as the shareholding interest in UAF Holdings, which in turn, will also adversely affect the financial condition of the Group.

Nevertheless, we understand from the Directors that every endeavour will be made by the Company to sustain the future growth of the Group, and the Company has taken a prudent approach to ensure that no recourse can be taken against the Company.

LETTER FROM SINOPAC

9. Financial effect on the Group

We have assessed the financial effect of the Acquisition on the Group based on (i) the accountants' report of UAF Holdings Group as set out in Appendix I to the Circular; (ii) the audited financial statements of the Group for the year ended 31st December, 2005 as set out in Appendix II to the Circular; and (iii) the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to the Circular on pages 196 to 204. Independent Shareholders should note that completion of the Agreement is conditional upon, among others, completion of the Subscription. Accordingly, the following analysis on the financial effects of the Agreement on the Group has been conducted on the assumption that the Subscription has been completed.

Net assets

The table below sets out the impact of the Acquisition on the net assets of the Group according to the pro forma combined balance sheet of the Enlarged Group in the paragraph headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to this Circular on pages 196 to 204, assuming that the Subscription and the Acquisition took place on 31st December, 2005.

	As at 31st December, 2005		
	The Group before the Subscription and the Acquisition (audited) HK\$	The Group after the Subscription but before the Acquisition (unaudited pro forma) HK\$	The Enlarged Group after the Acquisition (unaudited pro forma) HK\$
Net assets of the Group	5,840,879,000	7,526,511,000	7,330,921,000
Net assets per Share of the Group	4.69 (Note 1)	5.04 (Note 2)	4.91 (Note 2)

Notes:

1. Based on 1,245,703,156 Shares in issue as at the Latest Practicable Date
2. Based on the assumption that 1,493,703,156 Shares will be in issue immediately upon completion of the Subscription

LETTER FROM SINOPAC

As illustrated in the table above, upon completion of the Acquisition, the net assets of the Group will decrease slightly from HK\$7,526,511,000 to HK\$7,330,921,000. Such decrease was as a result of the net adjustment after taking into account the net assets of the UAF Holdings Group and the reversal of the pre-acquisition reserves of the UFA Holdings Group, and netting off with the change in fair value of UAF as available-for-sale investments and the recognition of the post acquisition reserves after the acquisition of the 7.27 per cent. interests in UAF. As the share capital of the Company would remain unchanged before and after the Acquisition, the net asset value per share of the Group will decrease accordingly from HK\$5.04 per Share (before the Acquisition) to HK\$4.91 per Share (immediately after the Acquisition).

Despite the decrease in the net assets of the Group, which is merely an accounting loss and will not have any material adverse impact on the Group's cashflow or working capital position, and having considered that the Acquisition is expected to provide an income stream to the Group following the completion, we are of the view that the accounting effect is acceptable to the Company and the Shareholders as a whole.

Gearing

The table below sets out the impact of the Acquisition on the net current assets of the Group according to the pro forma combined balance sheet of the Enlarged Group in the paragraph headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to this Circular on pages 196 to 204, assuming that the Acquisition had been completed on 31st December, 2005.

	As at 31st December, 2005		
	The Group before the Subscription and the Acquisition (audited) HK\$'000	The Group after the Subscription but before the Acquisition (unaudited pro forma) HK\$'000	The Enlarged Group after the Acquisition (unaudited pro forma) HK\$'000
Net current assets	1,833,888	3,519,520	3,476,359

With reference to the pro forma combined balance sheet of the Enlarged Group in the paragraph headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to this Circular on pages 196 to 204, after the Subscription, the Group recorded interest-bearing bank borrowings and other borrowings of HK\$450.5 million, which will substantially increase to approximately HK\$4,012.5 million immediately after the Acquisition. The gearing (measured as interest-bearing bank borrowings and other borrowings

divided by total equity) will therefore rise from approximately 6.0 per cent. after adjustment for the effect of the Subscription to approximately 48.8 per cent. immediately after the Acquisition. In addition, the current ratio of the Group (which is calculated as current assets divided by current liabilities) would change from approximately 3.56 times (before the Acquisition) to approximately 3.03 times (immediately after the Acquisition). On this basis, we consider that there will be a material adverse impact on the pro forma gearing of the Group immediately following the completion of the Agreement. However, as advised by the Company, such higher gearing ratio would not substantially affect the Group's liquidity and the repayment ability for the Bonds. After taking into account of the income contribution from UAF Holdings after the completion of the Agreement and having reviewed the cash flow projection provided by the Company, as well as the paragraph headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to this Circular on pages 196 to 204 which shows that the current ratio of the Group would maintain at approximately 3.03 times immediately after the completion of the Agreement, we concur with the Directors' view that the Acquisition would not lead to any material adverse impact on the Group's operation or financial conditions and the Group is capable for the settlement of the Bonds and can reduce the gearing ratio of the Group in the future.

Liquidity

With reference to the paragraph headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix V to this Circular on pages 196 to 204, the unaudited consolidated cash position of the Group, after adjustment for the effect of the Subscription was approximately HK\$2,109 million, and the unaudited consolidated cash position of the Enlarged Group was approximately HK\$829 million. Therefore there will be an adverse impact on the cash position of the Group immediately after the completion of the Agreement.

The Directors have stated that they consider the Group will have sufficient working capital for the purpose of the settlement of the Bonds as well as its present operation.

After taking into consideration of the Enlarged Group's current ratio of approximately 3.03 times immediately after the completion of the Agreement, we concur with the Directors view that the Group would not have any liquidity problem and will have sufficient working capital to settle the Bonds and fund its continuing operations after the completion of the Agreement.

LETTER FROM SINOPAC

Earnings

Upon completion of the Agreement, UAF Holdings will become a 58.18 per cent. non-wholly owned subsidiary of the Enlarged Group and the results of the UAF Holdings will be consolidated into the Group. With reference to the pro forma combined income statement of the Enlarged Group as set out in Appendix V to this Circular on pages 196 to 204, the audited combined profit of the Group attributable to equity holders of the Company for the year ended 31st December, 2005 was approximately HK\$401.5 million and, assuming that the Subscription and the Acquisition took place at the beginning of the year ended 31st December, 2005, the unaudited pro forma combined profit of the Enlarged Group attributable to equity holders of the Company would be approximately HK\$481.9 million. Accordingly, we expect that the consolidation of UAF Holdings into the Company upon completion the Acquisition would have a positive impact on the Group's income statement.

RECOMMENDATION

Having considered the above principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the Acquisition is part of the group reorganization pursuant to which the Group would acquire the controlling interests in UAF Holdings, which in turn allows the Group to increase its degree of participation in the loan and consumer finance business;
- the Acquisition has been negotiated on normal commercial basis and the basis of the determination of the aggregate consideration of the Acquisition, which is arrived at with reference to the independent valuation of UAF prepared by Norton Appraisals, is considered to be fair and reasonable;
- the decrease in the net assets of the Group as a result of the Acquisition will not involve any cash outflow of the Group and therefore will not have any adverse impact on the cashflow or working capital position of the Group;
- although the gearing ratio of the Group may increase from 6.0 per cent. to 48.8 per cent. while the current ratio may decrease from 3.56 times to 3.03 times immediately upon completion of the Acquisition, which is primarily due to the issue of the Bonds, we consider that the Group would have various sources of funds to provide sufficient resources to redeem the Bonds;
- the consolidation of UAF Holdings into the Company upon completion of the Acquisition would have a positive impact on the Group's income statement,

LETTER FROM SINOPAC

we are of the opinion that the entering into the Agreement is in the interests of the Company and the Shareholders as a whole and that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders and would recommend the Independent Shareholders to vote in favour of the resolution to approve the Agreement at the EGM.

Yours faithfully,

For and on behalf of

SinoPac Securities (Asia) Limited

Frank Lam

Executive Director and Head of Corporate Finance

Deloitte.

德勤

30th June, 2006

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

Dear Sirs,

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

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

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

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

APPENDIX I

ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

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

From 1st January, 2006 to 17th January, 2006, the Group acquired a further 3,452,475 shares (approximately 1.5 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited. On 18th January, 2006, the Group disposed of 6,018,000 shares

(approximately 2.7 per cent. of the total issued shares) of The Hong Kong Building and Loan Agency Limited to independent third parties through a placing arrangement. Following the completion of the placing arrangement, the Group holds approximately 74.9 per cent. of the issued share capital of The Hong Kong Building and Loan Agency Limited and its subsidiaries.

Notes:

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

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

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

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

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

CONSOLIDATED INCOME STATEMENTS

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

APPENDIX I	ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP
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CONSOLIDATED BALANCE SHEETS

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

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

CONSOLIDATED CASH FLOW STATEMENTS

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

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

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

Business combinations

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

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$9,316,181 has been transferred to the Group's retained earnings on 1st January, 2005. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

Until 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in equity securities were classified as "trading securities" or "investment securities" as appropriate. Both "trading securities" and "investment securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "investment securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

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

Financial assets and financial liabilities other than debt and equity securities

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

Bad and doubtful debts

Prior to the year 2005, allowance for bad and doubtful debts was made having regard to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances. In determining the level of allowance required, management considers numerous factors including but not limited to, domestic and international economic conditions, the composition of the loan portfolio and prior loan loss experience.

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

Effect of the changes in accounting policies

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

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the Financial Information.

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

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

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

³ Effective for annual periods beginning on or after 1st December, 2005.

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Goodwill

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

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

Property and equipment

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

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

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

Foreign currencies

In preparing the Financial Information of each individual group entity, transaction in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Retirement benefit scheme contributions

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the

marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include investments held-for-trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

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

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Impairment losses

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

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

Operating leases

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

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

Taxation

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

Impairment allowances for loans and advances to consumer finance customers

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk*(i) Currency risk*

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

(ii) Fair value and cash flow interest rate risk

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

(iii) Equity price risk

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

Credit risk

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

7. REVENUE

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

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

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical segments

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

9. FINANCING COSTS

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

10. OTHER INCOME

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

11. RESTRUCTURING COSTS

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

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

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

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

13. INFORMATION REGARDING EMPLOYEES' EMOLUMENTS

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

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

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

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

14. PROFIT BEFORE TAXATION

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

	2003 HK\$	2004 HK\$	2005 HK\$
Auditors' remuneration			
– current year	520,355	520,000	866,842
– (over) under provision in prior years	(9,320)	12,285	182,211
Corporate service fee payable to the ultimate holding company	3,600,000	4,500,000	4,500,000
Depreciation	5,958,617	5,061,128	6,075,369
Directors' emoluments	–	–	2,219
Loss on disposal of property and equipment	33,020	63,728	12,691
Operating leases payments	21,465,315	18,734,745	21,781,750
Premium on acquisition of loan receivables of consumer finance customers	–	12,015,816	–
Staff costs	79,830,226	87,720,908	96,471,260
Staff retirement benefit scheme contributions	3,840,054	4,303,485	5,077,367
	<u>57,872,735</u>	<u>84,720,946</u>	<u>95,384,511</u>

15. TAXATION

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

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

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

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

16. PROPERTY AND EQUIPMENT

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

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

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

17. GOODWILL

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

18. IMPAIRMENT TESTING OF GOODWILL WITH INDEFINITE USEFUL LIVES

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

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

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

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

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

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

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

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

APPENDIX I	ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP
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20. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

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

Carrying amount analysed for reporting purposes:

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

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

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

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

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

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

22. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading include:

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

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

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

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

24. CASH AND BANK BALANCES

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

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

26. BANK LOANS AND OTHER BORROWINGS

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

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

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

27. SHARE CAPITAL

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

28. DEFERRED TAXATION

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

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

29. CAPITAL COMMITMENTS

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

30. OPERATING LEASE COMMITMENTS

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

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

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

31. RETIREMENT BENEFIT SCHEME

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

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

32. ACQUISITION OF SUBSIDIARIES

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

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

APPENDIX I ACCOUNTANTS' REPORT OF THE UAF HOLDINGS GROUP

The effect of this acquisition is accounted as follows:

	HK\$	HK\$
Purchase consideration		87,500,000
Acquisition costs		106,250
		<u>87,606,250</u>

Net assets of subsidiaries acquired on 24th January, 2003:

Property and equipment	4,565,963
Deferred tax assets	4,495,589
Loans and advances to consumer finance customers	263,403,609
Debtors, deposits and prepayments	9,681,075
Cash and bank balances	22,096,097
Bank loans and other borrowings	(125,000,000)
Creditors and accruals	(3,636,070)
Taxation	(703,938)
	<u>174,902,325</u>

50% thereof	87,451,163
Goodwill arising on acquisition	155,087

Total consideration satisfied by cash	<u>87,606,250</u>
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Net cash outflow arising on acquisition:

Cash consideration	(87,606,250)
Cash and bank balances acquired	22,096,097
	<u>(65,510,153)</u>

The Group acquired the following subsidiaries during the year 2005:

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

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

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

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

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

	For the year ended 31st December, 2005 HK\$	Post acquisition attributable to the Group HK\$
Total revenue	<u>4,289,271</u>	<u>1,737,541</u>
Profit for the year	<u>1,234,663</u>	<u>2,641,640</u>

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

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

33. PARTIAL DISPOSAL OF SHAREHOLDINGS OF SUBSIDIARIES

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

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

34. RELATED PARTY TRANSACTIONS

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

A) Income and expense items:

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

B) Key management personnel compensation

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

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

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

Notes:

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

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

35. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

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

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

36. EVENT AFTER THE BALANCE SHEET DATE

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

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

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

Consolidated Income Statement

For the three years ended 31st December

	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)
Revenue	793,639	807,015	667,461
Other income	131,347	40,363	82,908
Total income	924,986	847,378	750,369
Brokerage and commission expenses	(141,463)	(161,553)	(99,639)
Direct cost and operating expenses	(53,340)	(54,790)	(79,779)
Administrative expenses	(342,648)	(319,497)	(285,576)
Other expenses	(59,632)	(40,398)	(127,806)
Finance costs	(40,908)	(19,725)	(14,423)
	286,995	251,415	143,146
Share of results and amortization of negative goodwill (goodwill) of			
– Associated companies	149,549	165,043	104,445
– Jointly controlled entities	2	(3,624)	1
Profit before taxation	436,546	412,834	247,592
Taxation	(34,186)	(33,613)	(12,561)
Profit for the year	402,360	379,221	235,031
Attributable to:			
Equity holders of the Company	401,497	378,738	235,054
Minority interests	863	483	(23)
	402,360	379,221	235,031
Dividends	149,485	49,828	49,825
Special dividends	–	62,285	49,828
Earnings per share			
– Basic	32.2 cents	30.4 cents	18.2 cents
– Diluted	N/A	N/A	N/A

Consolidated Balance Sheet*At 31st December*

	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)
Non-current assets			
Investment properties	93,400	43,000	36,900
Leasehold interests in land	72,487	65,454	66,896
Property and equipment	56,505	51,237	55,843
Intangible assets	20,827	12,774	10,685
Goodwill (negative goodwill)	–	(22,396)	(16,261)
Interest in associated companies	2,647,142	2,413,335	2,149,946
Interest in jointly controlled entities	935	1,201	937
Available-for-sale investments	993,139	–	–
Statutory deposits	32,831	–	–
Other investments	–	907,710	699,063
Deferred tax assets	4,143	10,279	10,230
Loans and receivables	202,306	3,200	–
	<u>4,123,715</u>	<u>3,485,794</u>	<u>3,014,239</u>
Current assets			
Trade and other receivables	2,599,864	2,290,608	3,009,505
Held for trading investments/ trading securities	178,982	48,263	35,563
Taxation recoverable	3,819	969	5,215
Cash and cash equivalents	423,384	487,249	566,923
	<u>3,206,049</u>	<u>2,827,089</u>	<u>3,617,206</u>
Current liabilities			
Bank borrowings due within one year	(342,546)	(63,945)	(289,358)
Trade and other payables	(966,581)	(1,031,182)	(1,535,528)
Trading liabilities, at fair value	(17,756)	–	–
Provisions	(33,057)	(41,739)	(33,293)
Taxation payable	(12,221)	(22,604)	(25,544)
	<u>(1,372,161)</u>	<u>(1,159,470)</u>	<u>(1,883,723)</u>
Net current assets	<u>1,833,888</u>	<u>1,667,619</u>	<u>1,733,483</u>
	<u>5,957,603</u>	<u>5,153,413</u>	<u>4,747,722</u>

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i> (Restated)
Capital and reserves			
Share capital	249,141	249,141	249,141
Reserves	<u>5,591,738</u>	<u>4,742,590</u>	<u>4,226,164</u>
Equity attributable to equity holders of the Company	5,840,879	4,991,731	4,475,305
Minority interests	<u>369</u>	<u>(494)</u>	<u>1,411</u>
Total equity	<u>5,841,248</u>	<u>4,991,237</u>	<u>4,476,716</u>
Non-current liabilities			
Loan notes	64,252	129,637	231,637
Bank and other borrowings due after one year	43,720	25,289	30,378
Provisions	1,202	1,707	4,979
Deferred tax liabilities	<u>7,181</u>	<u>5,543</u>	<u>4,012</u>
	<u>116,355</u>	<u>162,176</u>	<u>271,006</u>
	<u><u>5,957,603</u></u>	<u><u>5,153,413</u></u>	<u><u>4,747,722</u></u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2005

Set out below are the audited consolidated financial statements and notes to the financial statements of the Group for the year ended 31st December, 2005 extracted from the annual report 2005 of the Company.

Consolidated Income Statement

For the year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
Revenue	4	793,639	807,015
Other income	6	131,347	40,363
Total income		924,986	847,378
Brokerage and commission expenses		(141,463)	(161,553)
Direct cost and operating expenses		(53,340)	(54,790)
Administrative expenses		(342,648)	(319,497)
Other expenses	7	(59,632)	(40,398)
Finance costs	10	(40,908)	(19,725)
		286,995	251,415
Share of results and amortization of negative goodwill (goodwill) of			
– Associated companies	11	149,549	165,043
– Jointly controlled entities	12	2	(3,624)
Profit before taxation	13	436,546	412,834
Taxation	14	(34,186)	(33,613)
Profit for the year		<u>402,360</u>	<u>379,221</u>
Profit attributable to:			
Equity holders of the Company		401,497	378,738
Minority interests		863	483
		<u>402,360</u>	<u>379,221</u>
Dividends	15	<u>149,485</u>	<u>49,828</u>
Special dividends	15	<u>–</u>	<u>62,285</u>
Earnings per share	16		
– Basic		<u>32.2 cents</u>	<u>30.4 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet*As at 31st December, 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Non-current Assets			
Investment properties	17	93,400	43,000
Leasehold interests in land	18	72,487	65,454
Property and equipment	19	56,505	51,237
Intangible assets	20	20,827	12,774
Goodwill (negative goodwill)	21	–	(22,396)
Interest in associated companies	23	2,647,142	2,413,335
Interest in jointly controlled entities	24	935	1,201
Available-for-sale investments	25	993,139	–
Statutory deposits		32,831	–
Other investments	25	–	907,710
Deferred tax assets	40	4,143	10,279
Loans and receivables	26	202,306	3,200
		<u>4,123,715</u>	<u>3,485,794</u>
Current Assets			
Trade and other receivables	27	2,599,864	2,290,608
Held for trading investments/ trading securities	28	178,982	48,263
Taxation recoverable		3,819	969
Cash and cash equivalents	29	423,384	487,249
		<u>3,206,049</u>	<u>2,827,089</u>
Current Liabilities			
Bank borrowings due within one year	30	(342,546)	(63,945)
Trade and other payables	31	(966,581)	(1,031,182)
Trading liabilities, at fair value	32	(17,756)	–
Provisions	39	(33,057)	(41,739)
Taxation payable		(12,221)	(22,604)
		<u>(1,372,161)</u>	<u>(1,159,470)</u>
Net Current Assets		<u>1,833,888</u>	<u>1,667,619</u>
		<u>5,957,603</u>	<u>5,153,413</u>

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Capital and Reserves			
Share capital	34	249,141	249,141
Reserves	35	<u>5,591,738</u>	<u>4,742,590</u>
Equity attributable to equity holders of the Company		5,840,879	4,991,731
Minority interests	36	<u>369</u>	<u>(494)</u>
Total Equity		<u>5,841,248</u>	<u>4,991,237</u>
Non-current Liabilities			
Loan notes	37	64,252	129,637
Bank and other borrowings due after one year	38	43,720	25,289
Provisions	39	1,202	1,707
Deferred tax liabilities	40	<u>7,181</u>	<u>5,543</u>
		<u>116,355</u>	<u>162,176</u>
		<u><u>5,957,603</u></u>	<u><u>5,153,413</u></u>

Balance Sheet*As at 31st December, 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current Assets			
Intangible assets	20	1,580	–
Interest in subsidiary companies	22	2,309,465	1,818,776
Interest in associated companies	23	1,447,531	1,525,567
Other investments		–	2,090
Deferred tax assets	40	2,158	2,612
Loans and receivables	26	78,000	–
		<u>3,838,734</u>	<u>3,349,045</u>
Current Assets			
Trade and other receivables	33	3,810	3,799
Taxation recoverable		991	–
Cash and cash equivalents	33	4,088	2,819
		<u>8,889</u>	<u>6,618</u>
Current Liabilities			
Amounts due to subsidiary companies	33	(272,631)	–
Trade and other payables	33	(3,557)	(4,421)
Taxation payable		–	(1,110)
		<u>(276,188)</u>	<u>(5,531)</u>
Net Current (Liabilities) Assets		<u>(267,299)</u>	<u>1,087</u>
		<u><u>3,571,435</u></u>	<u><u>3,350,132</u></u>
Capital and Reserves			
Share capital	34	249,141	249,141
Reserves	35	3,258,042	2,971,354
Equity attributable to equity holders of the Company		3,507,183	3,220,495
Non-current Liabilities			
Loan notes	37	64,252	129,637
		<u><u>3,571,435</u></u>	<u><u>3,350,132</u></u>

Consolidated Statement of Recognized Income and Expense*For the year ended 31st December, 2005*

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
Deferred tax	40	(84)	(222)
Exchange differences arising on translation of overseas subsidiaries, associated companies and jointly controlled entities		571	(45)
Gains on fair value changes of available-for-sale investments/ other investments		340,928	208,173
(Surplus) deficit reserves released on disposal of an associated company, a jointly controlled entity and available-for-sale investments/ other investments		(38,817)	6,154
Share of reserves of associated companies and jointly controlled entities		38,708	18,843
Impairment loss of available-for-sale investments/other investments transferred to income statement	7	14,411	16,898
Net income recognized directly in equity		355,717	249,801
Profit for the year		402,360	379,221
Total recognized income and expense for the year		<u>758,077</u>	<u>629,022</u>
Attributable to:			
Equity holders of the Company		757,214	628,539
Minority interests		863	483
		<u>758,077</u>	<u>629,022</u>
Effect of changes in accounting policies			
Increase (decrease) in retained earnings at the beginning of the year		327,178	(41,591)
(Decrease) increase in reserves at the beginning of the year		(153,254)	24,936
		173,924	(16,655)
Attributable to minority interests		–	–
		<u>173,924</u>	<u>(16,655)</u>

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

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
OPERATING ACTIVITIES			
Cash (used in) generated from operations	41	(391,934)	78,560
Interest received		169,608	158,944
Interest paid		(30,626)	(17,343)
Taxation paid		(39,915)	(31,026)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(292,867)	189,135
INVESTING ACTIVITIES			
Proceeds on disposal of an investment property		14,661	–
Purchase of property and equipment		(16,119)	(11,215)
Proceeds on disposal of property and equipment		9	55
Purchase of intangible assets		(5,962)	(6,091)
Acquisition of subsidiary companies	42	(62,416)	–
Repayment of net amount due from associated companies		13,062	12,187
Dividends received from associated companies		7,412	5,582
Acquisition of associated companies		(5,592)	(102,350)
Repayment of promissory notes of a listed associated company		–	185,419
Acquisition of a jointly controlled entity		–	(2,294)
Acquisition of additional shares of a jointly controlled entity		–	(1,018)
Payment received (repayment) of net amount due from investee companies		5,620	(1,950)
Dividends received from available-for-sale investments/other investments		38,748	89,408
Purchase of available-for-sale investments/ other investments		(705)	(32,285)
Proceeds on disposal of available-for-sale investments/other investments		113,923	40,510
Net payment of statutory deposits		(4,472)	–
NET CASH FROM INVESTING ACTIVITIES		98,169	175,958

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (restated)
FINANCING ACTIVITIES			
Dividends paid		(105,885)	(112,113)
Repayment and cancellation of loan notes		(60,000)	(100,426)
Net payment to minority interests		(48)	(33)
Net bank borrowings raised (repaid)		255,000	(177,954)
New long term bank loan raised		26,000	–
Repayment of long term bank loans		(5,940)	(5,906)
Repayment of finance lease liabilities		–	(890)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		109,127	(397,322)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(85,571)	(32,229)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		429,344	461,430
Effect of foreign exchange rate changes		(314)	143
		<u>343,459</u>	<u>429,344</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by			
Cash and cash equivalents		423,384	487,249
Bank overdrafts		(79,925)	(57,905)
		<u>343,459</u>	<u>429,344</u>

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent is AP Emerald Limited and its ultimate holding company is Allied Group Limited which is a company incorporated and listed in Hong Kong. The address of the registered office of the Company is disclosed in the Corporate Information of the annual report.

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

The principal activities of the Company and its major subsidiary companies are disclosed in the Directors' Report of the annual report and in note 47.

2. SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

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

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of available-for-sale investments, financial assets and financial liabilities held for trading purposes, and investment properties, which are measured at fair values, as explained in the accounting policies set out below.

(b) Basis of preparation and consolidation

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

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

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations, which are effective for accounting periods beginning on or after 1st January, 2005 for the purpose of converging by 1st January, 2005 all HKFRSs and HKASs with International Financial Reporting Standards issued by the International Accounting Standards Board.

The Group has adopted the following new/revised HKFRSs, HKASs and Interpretations issued up to 31st December, 2005 which are pertinent to its operations and have resulted in changes to the Group's accounting policies. The application of the HKFRSs, HKASs and Interpretations has resulted in a change in the presentation of the income statement, balance sheet and statement of recognized income and expense. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The 2004 comparatives have been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 21	Income taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of the above new/revised HKFRSs and HKASs has the following impact on the Group's accounting policies:

- (i) The adoption of new/revised HKASs 1, 7, 8, 23, 24, 27, 28, 31 and 33 did not result in substantial changes to the Group's accounting policies. In summary:
 - HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures;
 - HKASs 8, 27, 28, 31, and 33 have no material effect on the Group's policies, but affect certain disclosure of the financial statements;
 - HKAS 24 affects the identification of related parties and the disclosure of related party transactions.
- (ii) The adoption of HKASs 16 and 17 has resulted in a change in the accounting policy for the Group's leasehold land and buildings (see (iii) below), which are now carried at their costs less accumulated depreciation and impairment losses.
- (iii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost or valuation less accumulated depreciation and accumulated impairment.

In accordance with HK-Int 4, the Group changed the estimated useful life of the land and buildings from “over the remaining term of the lease, including the period for which a right of renewal is attached” to “over the remaining term of the lease” on a prospective basis.

- (iv) The adoption of HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments on a prospective basis.

Until 31st December, 2004, investments of the Group were classified as “trading securities” and “other investments” respectively. They were stated at fair value or estimated fair value at the balance sheet date. Any unrealized gains less losses arising from the valuation of “trading securities” at the balance sheet date were dealt with in the income statement. As to “other investments”, changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the securities were sold, or were determined to be impaired. Upon disposal, the cumulative gain or loss was dealt with in the income statement.

As from 1st January, 2005, in accordance with HKAS 39, financial assets are classified as “held for trading investments”, “available-for-sale investments” and “loans and receivables”. The classification depends on the purpose for which the assets are acquired. “Held for trading investments” and “available-for-sale investments” are carried at fair value with changes in fair values recognized in the income statement and equity respectively. “Loans and receivables” consist of secured margin or term loans and other trade receivables. They are carried at amortized cost using the effective interest method, less impairment losses, if any. Adjustments to the carrying amount on the adoption of HKAS 39 are recognized as an adjustment to the opening retained earnings on 1st January, 2005.

- (v) 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 amortization 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 amortization as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of these intangible assets.
- (vi) The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of the investment properties are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment property revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.
- (vii) The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill.

Prior to this, goodwill and negative goodwill were amortized in the income statement on a straight line basis over their estimated useful lives of five years.

Following the adoption of HKFRS 3, HKAS 36 and HKAS 38:

- The Group ceased amortization of remaining goodwill and remaining negative goodwill from 1st January, 2005;
- Unamortized negative goodwill was derecognized by way of a corresponding adjustment to the opening retained earnings at 1st January, 2005;

- Accumulated amortized goodwill as at 31st December, 2004 was eliminated with a corresponding decrease in the cost of goodwill;
 - From the year ended 31st December, 2005 onwards, goodwill is tested annually at balance sheet date for impairment, as well as when there is indication of impairment.
- (viii) The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred taxes arising from the revaluation of investment properties. Such deferred taxes are measured on the basis of tax consequences that would follow from recovery of the carrying amount of the assets through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

Effect of changes in the accounting policies and estimates on 2005 consolidated income statement:

	HKFRS 3,								
	HKAS 16 & 17	HKAS 38	HKAS 32 & 39	HKAS 36 & 38	HKAS 40	HK-Int 4	HKAS- Int 21	Share of associates	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease in revenue	-	-	(1,914)	-	-	-	-	-	(1,914)
(Decrease) increase in other income	-	-	-	(7,995)	19,741	-	-	-	11,746
(Increase) decrease in direct cost and operating expenses	(268)	846	-	-	-	(418)	-	-	160
Increase in finance costs	-	-	(8,692)	-	-	-	-	-	(8,692)
(Decrease) increase in share of results of associates	-	-	-	(29,265)	-	-	-	117,210	87,945
(Increase) decrease in taxation	(150)	-	2	-	-	(23)	(2,266)	-	(2,437)
(Decrease) increase in profit attributable to equity holders of the Company	<u>(418)</u>	<u>846</u>	<u>(10,604)</u>	<u>(37,260)</u>	<u>19,741</u>	<u>(441)</u>	<u>(2,266)</u>	<u>117,210</u>	<u>86,808</u>
Increase (decrease) in basic earnings per share (cents)	<u>-</u>	<u>0.1</u>	<u>(0.9)</u>	<u>(3.0)</u>	<u>1.6</u>	<u>-</u>	<u>(0.2)</u>	<u>9.4</u>	<u>7.0</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Effect of changes in the accounting policies and estimates on consolidated balance sheet as at 31st December, 2005:

	HKAS		HKAS		HKAS		HKAS		Share of	Total
	16 & 17	HKAS 38	32 & 39	36 & 38	HKAS 40	HK-Int 4	Int 21	associates		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties	-	-	-	-	19,741	-	-	-	-	19,741
Leasehold interests in land	64,650	-	-	-	-	(825)	-	-	-	63,825
Property and equipment	(67,404)	-	-	-	-	407	-	-	-	(66,997)
Intangible assets	-	846	5,425	-	-	-	-	-	-	6,271
Goodwill (negative goodwill)	-	-	-	14,401	-	-	-	-	-	14,401
Interest in associated companies	-	-	(79,147)	124,216	-	-	-	104,415	-	149,484
Available-for-sale investments	-	-	747,363	-	-	-	-	-	-	747,363
Statutory deposits	-	-	26,624	-	-	-	-	-	-	26,624
Other investments	-	-	(906,620)	-	-	-	-	-	-	(906,620)
Deferred tax assets	-	-	-	-	-	-	(2,157)	-	-	(2,157)
Loans and receivables	-	-	201,240	-	-	-	-	-	-	201,240
Trade and other receivables	1,630	-	3,447	-	-	-	-	-	-	5,077
Held for trading investments	-	-	50,759	-	-	-	-	-	-	50,759
Trading securities	-	-	(49,312)	-	-	-	-	-	-	(49,312)
Trade and other payables	-	-	(1,900)	-	-	-	-	-	-	(1,900)
Provisions – current portion	(242)	-	-	-	-	-	-	-	-	(242)
Taxation payable	-	-	4	-	-	-	-	-	-	4
Loan notes	-	-	5,385	-	-	-	-	-	-	5,385
Provisions	(710)	-	-	-	-	-	-	-	-	(710)
Deferred tax liabilities	(391)	-	-	-	-	(23)	-	-	-	(414)
	<u>(2,467)</u>	<u>846</u>	<u>3,268</u>	<u>138,617</u>	<u>19,741</u>	<u>(441)</u>	<u>(2,157)</u>	<u>104,415</u>		<u>261,822</u>
Capital and other reserves	-	-	(1,006)	-	-	-	-	(151,158)	-	(152,164)
Opening retained earnings	(2,049)	-	14,878	175,877	-	-	109	138,363	-	327,178
Profit for the year	<u>(418)</u>	<u>846</u>	<u>(10,604)</u>	<u>(37,260)</u>	<u>19,741</u>	<u>(441)</u>	<u>(2,266)</u>	<u>117,210</u>		<u>86,808</u>
	<u>(2,467)</u>	<u>846</u>	<u>3,268</u>	<u>138,617</u>	<u>19,741</u>	<u>(441)</u>	<u>(2,157)</u>	<u>104,415</u>		<u>261,822</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Effect of changes in the accounting policies on 2004 consolidated income statement:

	Year 2004 as previously reported HK\$'000	Reclassi- fication HK\$'000	HKAS 16 & 17 HK\$'000	HKAS- Int 21 HK\$'000	Share of associates HK\$'000	Year 2004 as restated HK\$'000
Revenue	807,015	–	–	–	–	807,015
Other income	40,363	–	–	–	–	40,363
Brokerage and commission expenses	(161,553)	–	–	–	–	(161,553)
Direct cost and operating expenses	(54,578)	–	(212)	–	–	(54,790)
Administrative expenses	(319,497)	–	–	–	–	(319,497)
Other expenses	(40,361)	–	–	–	(37)	(40,398)
Finance costs	(19,725)	–	–	–	–	(19,725)
Share of results and amortization of negative goodwill (goodwill) of						
– Associated companies	265,199	(94,701)	–	–	(5,455)	165,043
– Jointly controlled entities	(3,624)	–	–	–	–	(3,624)
Taxation	(127,961)	94,701	(85)	(268)	–	(33,613)
Profit for the year	385,278	–	(297)	(268)	(5,492)	379,221
Minority interests	(483)	–	–	–	–	(483)
Profit attributable to equity holders of the Company	<u>384,795</u>	<u>–</u>	<u>(297)</u>	<u>(268)</u>	<u>(5,492)</u>	<u>378,738</u>
Basic earnings per share (cents)	<u>30.9</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(0.5)</u>	<u>30.4</u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Effect of changes in the accounting policies on consolidated balance sheet as at 31st December, 2004:

	As reported on 31/12/2004 HK\$'000	Reclassi- fication HK\$'000	HKAS 16 & 17 HK\$'000	HKAS- Int 21 HK\$'000	Share of associates HK\$'000	As restated on 31/12/2004 HK\$'000
Investment properties	-	-	43,000	-	-	43,000
Leasehold interests in land	-	-	65,454	-	-	65,454
Fixed assets/property and equipment	162,149	-	(110,912)	-	-	51,237
Intangible assets	12,774	-	-	-	-	12,774
Goodwill (negative goodwill)	(22,396)	-	-	-	-	(22,396)
Interest in associated companies	2,433,428	-	-	-	(20,093)	2,413,335
Interest in jointly controlled entities	1,201	-	-	-	-	1,201
Other investments	907,710	-	-	-	-	907,710
Deferred tax assets	10,170	-	-	109	-	10,279
Lending over one year/ loans and receivables	3,200	-	-	-	-	3,200
Trade and other receivables	2,289,166	-	1,442	-	-	2,290,608
Trading securities	48,263	-	-	-	-	48,263
Taxation recoverable	969	-	-	-	-	969
Cash and cash equivalents	487,249	-	-	-	-	487,249
Bank borrowings due within one year	(63,945)	-	-	-	-	(63,945)
Trade and other payables	(1,072,960)	41,778	-	-	-	(1,031,182)
Provisions	-	(41,739)	-	-	-	(41,739)
Taxation payable	(25,330)	2,726	-	-	-	(22,604)
	<u>5,171,648</u>	<u>2,765</u>	<u>(1,016)</u>	<u>109</u>	<u>(20,093)</u>	<u>5,153,413</u>
Share capital	249,141	-	-	-	-	249,141
Capital and other reserves	2,543,429	-	-	-	25,615	2,569,044
Retained earnings	2,146,452	-	(2,049)	109	(45,708)	2,098,804
Proposed dividends	74,742	-	-	-	-	74,742
	<u>5,013,764</u>	<u>-</u>	<u>(2,049)</u>	<u>109</u>	<u>(20,093)</u>	<u>4,991,731</u>
Minority interests	(494)	-	-	-	-	(494)
	<u>5,013,270</u>	<u>-</u>	<u>(2,049)</u>	<u>109</u>	<u>(20,093)</u>	<u>4,991,237</u>
Loan notes	129,637	-	-	-	-	129,637
Bank and other borrowings due after one year	26,165	(876)	-	-	-	25,289
Provisions	-	915	792	-	-	1,707
Deferred tax liabilities	2,576	2,726	241	-	-	5,543
	<u>5,171,648</u>	<u>2,765</u>	<u>(1,016)</u>	<u>109</u>	<u>(20,093)</u>	<u>5,153,413</u>

Effect of changes in the accounting policies on equity as at 1st January, 2004:

	As reported on 1/1/2004 HK\$'000	HKAS 16 &17 HK\$'000	HKAS- Int 21 HK\$'000	Share of associates HK\$'000	As restated on 1/1/2004 HK\$'000
Share capital	249,141	–	–	–	249,141
Capital and other reserves	2,291,480	–	–	24,936	2,316,416
Retained earnings	1,876,597	(1,752)	377	(40,216)	1,835,006
Proposed dividends	74,742	–	–	–	74,742
	<u>4,491,960</u>	<u>(1,752)</u>	<u>377</u>	<u>(15,280)</u>	<u>4,475,305</u>
Minority interests	1,411	–	–	–	1,411
	<u>4,493,371</u>	<u>(1,752)</u>	<u>377</u>	<u>(15,280)</u>	<u>4,476,716</u>

On the adoption of HKAS 39, the Company restated the loan notes issued by the Company to amortized cost on 1st January, 2005 with a corresponding adjustment of HK\$14,077,000 credited to opening retained earnings. The Company also reclassified the following items on 1st January, 2005. There is no material impact to the financial statements of the Company on the adoption of other new/revised HKFRSs.

- Club membership of HK\$2,090,000 was reclassified from “other investments” to “intangible assets”;
- Amounts due to subsidiary companies of HK\$273,685,000 were reclassified from “investments in subsidiary companies” to “current liabilities”;
- Loan note due from a listed associated company of HK\$78,000,000 was reclassified from “interest in associated companies” to “loans and receivables”.

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 operations of the Group. The directors of the Company anticipate that the application of these standards will have no material impact on the financial statements of the Group.

HKAS 1 (amendment)	Capital Disclosures ¹
HKAS 19 (amendment)	Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 39 (amendment)	The Fair Value Option ²
HKFRS 7	Financial Instruments: Disclosures ¹

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

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

(c) Intangible assets

(i) Exchange participation rights and club membership

They comprise:

- The eligibility right to trade through The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and other Exchanges, and
- The eligibility right to use the facilities of various clubs.

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

(ii) *Computer software*

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

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

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

(d) **Investment properties**

Investment properties are completed properties which are held for long-term rental yields or for capital appreciation or both. Investment properties are initially measured at cost including all transaction costs. Subsequent to initial recognition they are stated at fair value based on independent professional valuation at the balance sheet date. Any revaluation increase or decrease arising from the revaluation of investment properties is credited or charged to the income statement in the year in which they arise.

(e) **Leasehold interests in land**

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

(f) **Property and equipment**

Buildings comprise mainly properties held by the Group for its own use. All property and equipment are stated at cost, less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	–	over the remaining term of the lease term of land
Furniture and equipment	–	10% to 33% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the income statement.

(g) Investments in subsidiary companies

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition of subsidiaries is accounted for using the purchase method. After 1st January, 2005, on acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the Group's share of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair value of the Group's share of the net assets of the subsidiary acquired is credited to income statement in the period of acquisition.

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

Investments in subsidiary companies are included in the Company's balance sheet at cost less impairment. The results of subsidiary companies are accounted for by the Company on the basis of dividend received or receivable.

(h) Interest in associated companies

An associated company is a company not being a subsidiary company or a joint venture, in which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Interest in associated companies is accounted for in the consolidated accounts under the equity method and are initially recognized at cost.

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in the reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. In the consolidated balance sheet, interest in associated companies comprises the Group's share of the net assets and its net advances made to the associated companies (where advances are neither planned nor likely to be settled in the foreseeable future), plus goodwill (net of any accumulated impairment losses) identified on acquisition.

When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including its investment cost and other long term interests, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

When the Group transacts with an associated company of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associated company.

Effects of redesignation of the warrants of a listed associated company and amounts due from (to) associated companies, which are previously grouped under “interest in associated companies”, together with their reclassification as at 1st January, 2005 on the adoption of HKAS 39 are as follows:

Interest in associated companies	Carrying value HK\$'000	Net amounts due HK\$'000	Total HK\$'000
As reported on 31st December, 2004	2,335,249	98,389	2,433,638
Share of prior year adjustments of associated companies	(20,093)	–	(20,093)
As restated	2,315,156	98,389	2,413,545
Adjustments made on 1st January, 2005			
– Adoption of HKAS 39 #	2,469	–	2,469
– Adoption of HKFRS 3, HKASs 36 and 38	153,481	–	153,481
– Share of associated companies	7,298	–	7,298
	2,478,404	98,389	2,576,793
Less: reclassification			
– Warrants reclassified to held for trading investments #	(2,469)	–	(2,469)
– Loan note reclassified to loans and receivables	–	(78,000)	(78,000)
– Amounts due reclassified to trade and other receivables	–	(282)	(282)
	<u>2,475,935</u>	<u>20,107</u>	<u>2,496,042</u>

The warrants of a listed associated company which are previously grouped under “investments in associates” are classified under “held for trading investments” and carried at fair value in accordance with the provisions of HKAS 39.

In the Company’s balance sheet, the interest in associated companies is stated at cost less impairment. The results of associated companies are accounted by the Company on the basis of dividend received or receivable.

(i) Interest in joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as a jointly controlled entity.

The Group’s interest in its jointly controlled entity is accounted for by equity method whereby its interest in the jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group’s share of net assets of the jointly controlled entity. The Group’s share of post-acquisition results of the jointly controlled entity is included in the consolidated income statement.

Where the Group transacts with its jointly controlled entity, unrealized profits and losses are eliminated to the extent of the Group’s interest in the jointly controlled entity.

(j) Investments/financial assets*(i) Classification*

From 1st January, 2005, investments of the Group are classified under the following categories:

“Financial assets at fair value through profit or loss”

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. All derivatives financial assets are also categorized as held for trading unless they are designated as hedges.

“Available-for-sale investments”

This category comprises financial assets, which are non-derivatives, and includes both listed and unlisted investments which are stated at fair value, except for those equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses.

“Loans and receivables”

This category includes trade receivables, secured margin loans and secured term loans which are reviewed and approved by either the Credit and Risks Management Committee or the Executive Committee. They arise when the Group provides money, goods or services directly to clients or brokers with no intention of trading the receivables. For those secured margin or term loans, clients are normally required to provide additional margin or securities as collateral whenever there are any shortfalls in their accounts.

Details of the redesignation of investments on 1st January, 2005 are shown in (viii) below.

(ii) Recognition and initial measurement

Purchases and sales of investments are recognized on trade-date i.e. the date that the Group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognized at fair value with transaction costs recognized as expenses in the income statement. Financial assets not designated at fair value through profit or loss are initially recognized at fair value plus transaction costs.

(iii) Derecognition

Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iv) Subsequent measurement

“Financial assets at fair value through profit or loss”

Investments under this category are subsequently re-measured to fair value at balance sheet date until the assets are derecognized. Unrealized gains and losses arising from changes in the fair value are included in the income statement in the period in which they occur. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the income statement.

“Available-for-sale investments”

Available-for-sale investments are carried at fair value. Unrealized gains and losses arising from changes in the fair value of securities investment classified as available-for-sale are recognized in investment revaluation reserve. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.

“Loans and Receivables”

Loans and receivables consist of secured margin or term loans and trade receivables. They are carried at amortized cost using the effective interest method, less impairment losses, if any.

(v) Fair value measurement principles

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

(vi) Impairment

The Group assesses at balance sheet date whether there is objective evidence that a financial asset or a group of financial asset is impaired. In case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss (i.e. measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity investment are not reversed through the income statement.

An estimated impairment allowance is made on loans and receivables based on a review of all outstanding amounts on semi-annual and annual basis when collection of the amount is in doubt. Bad debts are written off when identified.

*(vii) Trading securities and other investments (only applicable to accounting periods ended on or before 31st December, 2004)**“Trading securities”*

Listed and marketable securities held by the Group to facilitate its block trading, arbitrage and underwriting operations are stated at market value. The results from such activities, which include unrealized gains less losses arising from valuation at the balance sheet date of securities on hand, are dealt with in the income statement.

“Other investments”

Investments which are held for non-trading purposes are stated at fair value or estimated fair value at the balance sheet date on an individual investment basis. The estimated fair values of unlisted investments are determined by the Directors having regard to, inter alia, the most recent financial statements or other financial data considered relevant in respect of such investments. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the securities are sold, or are determined to be impaired. Upon

disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairments are written back in the income statement when the circumstances and events leading to the impairment cease to exist.

(viii) *Effect of redesignation of trading securities and other investments together with their reclassification as at 1st January, 2005 on the adoption of HKAS 39:*

	New designation and reclassification on 1/1/2005									
	As reported on 31/12/2004 HK\$'000	Effect on adoption of HKAS 39 HK\$'000	As restated on 1/1/2005 HK\$'000							
				Intangible assets HK\$'000	Held for trading invest- ments HK\$'000	Available- for-sale invest- ments HK\$'000	Statutory deposits HK\$'000	Loans and receivables HK\$'000	Trade and other receivables HK\$'000	Trade and other payables HK\$'000
Other investments										
Equity investments	784,778	(2,096)	782,682	-	-	747,363	-	35,319	-	-
Club memberships and exchange participation rights*	5,425	-	5,425	5,425	-	-	-	-	-	-
Statutory deposits and other deposits with Exchange and Clearing companies	26,624	-	26,624	-	-	-	26,624	-	-	-
Amounts due from investee companies	92,774	(1,447)	91,327	-	250	-	-	87,921	3,156	-
Amounts due to investee companies	(1,891)	-	(1,891)	-	-	-	-	-	-	(1,891)
Trading securities	48,263	(223)	48,040	-	48,040	-	-	-	-	-
				5,425	48,290	747,363	26,624	123,240	3,156	(1,891)

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

(k) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associated company or jointly controlled entity at the date of acquisition.

For previously capitalized goodwill arising on acquisitions before 1st January, 2005, the Group has discontinued amortization from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisition on or after 1st January, 2005, is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On disposal of a subsidiary, associated company or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. They comprise cash on hand, bank balances, short term time deposits and treasury bills. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Financial liabilities

Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" and "other financial liabilities". At each balance sheet date, subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized directly in income statement in the period in which they arise. Other financial liabilities including loans, bank overdrafts, trade and other payables are subsequently measured at amortized cost, using the effective interest rate method.

(n) Share capital

Ordinary shares are classified as equity.

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

Dividend distribution to the Company's equity holders is recognized as a liability in the period in which the dividends are properly approved.

(o) Provision and contingent liabilities

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

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

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

(p) Impairment of assets

Goodwill and intangible assets that have indefinite useful lives are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying

amount may not be recoverable. Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units) if an impairment test cannot be performed for an individual asset.

(q) Taxation

Taxation on the profit and loss comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(r) Foreign currencies

Transactions in currencies other than the functional currency of the respective group entities (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses arising on the settlement of monetary items, and on the retranslation of monetary items, are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognized directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated to Hong Kong dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such transaction differences are recognized as income or as expenses in the period in which the operation is disposed of.

(s) Borrowing costs

Interest expenses directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the asset.

All other borrowing costs are recognized on a time apportionment basis, taking into account the principal and the effective interest rates. They are charged to the income statement in the year in which they are incurred.

(t) Operating lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

“The Group as lessor”

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

“The Group as lessee”

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

(u) Employee benefits

The Group operates defined contribution retirement schemes, the assets of which are held in independent administrated funds. The Group’s contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited, if applicable, by those employees who leave the schemes prior to vesting fully in the contributions.

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

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on approved formulas that take into consideration the profit attributable to the Group after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Revenue recognition

Income is recognized in the income statement on the following basis:

- (i) Commission income is recognized as income on trade date basis.
- (ii) Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognized as income in accordance with the terms and conditions of the relevant agreement or deal mandate when a relevant significant act has been completed.

- (iii) Fees for management and advisory of funds are recognized when the related services are rendered.
- (iv) Interest income from financial assets is recognized on a time apportionment basis, taking into account the principal amounts outstanding and at the effective interest applicable which is the rate that discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount.
- (v) Dividend income from investments is recognized when the equity holders' right to receive payment has been established.
- (vi) Realized profits or losses from held-for-trading investments and derivative contracts are recognized on a trade date basis whilst the unrealized profits or losses are recognized from valuation at the balance sheet date.
- (vii) Profits or losses on trading in foreign currencies include both realized and unrealized gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.
- (viii) Rental income arising on investment properties is accounted for on a straight-line basis over the lease term regardless of when the cash rental payment will be received.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment allowances on loans and receivables

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

(b) Impairment of available-for-sale investments

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

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

(c) Estimated impairment of goodwill

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

(d) Deferred tax

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

(e) Litigation

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

As at 31st December, 2005, a sum of HK\$118.0 million representing SHKS's interest in the joint venture was recognized, as amounts due from investee companies under Loans and Receivables. In addition, contingent liabilities amounting to HK\$37.5 million have been disclosed regarding the payments demanded by NWDC for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS. Furthermore, included in the 2004 income statement was a sum of HK\$2.9 million representing the interest expense paid by SHKS to NWDC pursuant to the 1st April, 2004 judgment of the High Court of Hong Kong (the "Judgment") on shareholders' contributions advanced by NWDC on behalf of SHKS. The nature of the interests and the uncertainty of the Final Appeal result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. This in turn affects the recovery of the above mentioned receivables or interest payments and the crystallization or discharge of the above mentioned contingent liabilities. The Board has thus decided that it is not presently appropriate to make any impairment allowance for the above mentioned receivables, any provisions in respect of the above mentioned contingencies, or any recoveries of the above mentioned interest expenses. Details of the receivables, contingent liabilities and interest expenses are disclosed in note 26, note 45, and note 7 respectively.

4. REVENUE

Revenue represents the amounts received and receivables for gross brokerage and commission, interest, dividends, rental and service income; and the following stated net of losses: profit from trading in securities, income from bullion transactions and differences on foreign exchange transactions.

	2005 HK\$'000	2004 HK\$'000
Brokerage, commission and service income	522,291	511,847
Dividends from listed investments	16,853	36,843
Dividends from unlisted investments	24,962	36,793
Gross rental income from investment properties	2,950	2,043
Interest income	174,565	160,570
Net charge on gold and leveraged foreign exchange positions	13,422	14,931
Trading profit from securities, bullion transaction and differences on foreign exchange transactions	38,596	43,988
	<u>793,639</u>	<u>807,015</u>

All interest income for the current year is derived from financial assets that are not carried at fair value through profit and loss.

5. SEGMENT INFORMATION

The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Business segments have been used as a primary reporting format and no geographical segment analysis is presented as most of the Group's major business activities are conducted in Hong Kong.

The Group has main business segments as follows:

- (a) Securities broking and dealing – provision of securities broking, trading in securities including online broking and financial information services.
- (b) Forex, bullion, commodities and futures – provision of dealing and broking services in leveraged foreign exchange, bullion and futures.
- (c) Margin finance and other financing services – provision of securities margin financing and insurance broking services.
- (d) Term loans – provision of term loans financing.
- (e) Corporate finance and others – provision of corporate finance and advisory services, financial planning, wealth management services, investments and properties holding.

Intra-segment sales are charged at prevailing market rates.

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

	2005					
	Securities broking and dealing HK\$'000	Forex, bullion, commodities and futures HK\$'000	Margin finance and other financing services HK\$'000	Term loans HK\$'000	Corporate finance and others HK\$'000	Total HK\$'000
Revenue	263,716	166,874	192,513	44,934	443,097	1,111,134
Less: intra-segment revenue	(5,254)	(5,598)	(22,387)	(9,405)	(274,851)	(317,495)
	<u>258,462</u>	<u>161,276</u>	<u>170,126</u>	<u>35,529</u>	<u>168,246</u>	<u>793,639</u>
Segment results	<u>47,835</u>	<u>12,552</u>	<u>71,876</u>	<u>23,670</u>	<u>131,062</u>	286,995
Share of results						
– Associated companies						149,549
– Jointly controlled entities						<u>2</u>
Profit before taxation						<u>436,546</u>
Segment assets	<u>886,866</u>	<u>448,431</u>	<u>1,372,253</u>	<u>380,201</u>	<u>1,585,974</u>	4,673,725
Interest in associated companies						2,647,142
Interest in jointly controlled entities						935
Deferred tax assets						4,143
Taxation recoverable						<u>3,819</u>
Total assets						<u>7,329,764</u>
Segment liabilities	<u>(533,801)</u>	<u>(321,720)</u>	<u>(316,664)</u>	<u>(16,156)</u>	<u>(280,773)</u>	(1,469,114)
Taxation payable						(12,221)
Deferred tax liabilities						<u>(7,181)</u>
Total liabilities						<u>(1,488,516)</u>

	2005					
	Securities broking and dealing <i>HK\$'000</i>	Forex, bullion, commodities and futures <i>HK\$'000</i>	Margin finance and other financing services <i>HK\$'000</i>	Term loans <i>HK\$'000</i>	Corporate finance and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Impairment loss of intangible assets written back	-	-	-	-	180	180
Impairment loss of trade and other receivables written back	12,532	1	12,667	-	64	25,264
Capital expenditure	(206)	(1,532)	-	-	(20,343)	(22,081)
Amortization and depreciation	(1,219)	(1,606)	(1)	-	(18,342)	(21,168)
Impairment loss of trade and other receivables	(521)	(1,054)	(19,634)	-	(200)	(21,409)
Impairment loss of available-for-sale investments	-	-	-	-	(14,411)	(14,411)
Impairment loss of property and equipment	(803)	(2,512)	(102)	-	(263)	(3,680)
Loss on disposal of property and equipment	-	-	-	-	(734)	(734)
Other non-cash expenses	(231)	(70)	(19)	-	(20,876)	(21,196)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

	2004					
	Securities broking and dealing HK\$'000	Forex, bullion, commodities and futures HK\$'000	Margin finance and other financing services HK\$'000	Term loans HK\$'000	Corporate finance and others HK\$'000	Total HK\$'000
Revenue	263,754	159,397	165,660	42,580	445,346	1,076,737
Less: intra-segment revenue	(1,771)	(544)	(10,714)	(5,823)	(250,870)	(269,722)
	<u>261,983</u>	<u>158,853</u>	<u>154,946</u>	<u>36,757</u>	<u>194,476</u>	<u>807,015</u>
Segment results	<u>50,036</u>	<u>13,140</u>	<u>69,247</u>	<u>33,784</u>	<u>85,208</u>	251,415
Share of results and amortization of negative goodwill (goodwill)						
– Associated companies						165,043
– Jointly controlled entities						(3,624)
Profit before taxation						<u>412,834</u>
Segment assets	<u>622,864</u>	<u>593,253</u>	<u>1,317,274</u>	<u>160,218</u>	<u>1,193,490</u>	3,887,099
Interest in associated companies						2,413,335
Interest in jointly controlled entities						1,201
Deferred tax assets						10,279
Taxation recoverable						969
Total assets						<u>6,312,883</u>
Segment liabilities	<u>(237,651)</u>	<u>(430,061)</u>	<u>(287,727)</u>	<u>(17,506)</u>	<u>(320,554)</u>	(1,293,499)
Taxation payable						(22,604)
Deferred tax liabilities						(5,543)
Total liabilities						<u>(1,321,646)</u>

	2004					
	Securities broking and dealing HK\$'000	Forex, bullion, commodities and futures HK\$'000	Margin finance and other financing services HK\$'000	Term loans HK\$'000	Corporate finance and others HK\$'000	Total HK\$'000
Impairment loss of trade and other receivables written back	259	–	16,356	–	–	16,615
Capital expenditure	(1,808)	(1,696)	(661)	(5)	(13,781)	(17,951)
Amortization and depreciation	(1,561)	(781)	(312)	–	(17,103)	(19,757)
Impairment loss of trade and other receivables	(405)	(2,655)	(13,014)	–	–	(16,074)
Impairment loss of other investments	–	–	–	–	(16,898)	(16,898)
Loss on disposal of property and equipment	–	–	–	–	(559)	(559)
Other non-cash expenses	(81)	–	–	–	(3,469)	(3,550)

6. OTHER INCOME

	2005 HK\$'000	2004 HK\$'000
Amortization of negative goodwill on acquisition of subsidiary companies	–	9,565
Loss arising from default of loan agreement with Millennium Touch Limited written back	–	2,847
Discount on acquisition of a subsidiary company	199	–
Net exchange gains	–	288
Net realized profit on disposal/deemed disposal of a jointly controlled entity	1,219	942
Net realized profit on disposal of an investment property	2,061	–
Net realized profit on disposal of available-for-sale investments/other investments	56,748	2,483
Impairment loss of intangible assets written back	180	–
Impairment loss of trade and other receivables/ provision for doubtful debts written back	25,264	16,615
Repayment of interest in respect of litigation with New World Development Company Limited pursuant to Court of Appeal Judgment *	14,783	–
Increase in fair value of investment properties/revaluation deficit written back	23,638	6,100
Miscellaneous income	7,255	1,523
	<u>131,347</u>	<u>40,363</u>

* Included in Other Income is HK\$14,783,091 representing the partial repayment of interest made pursuant to the Court of Appeal Judgment. That Court ordered a repayment of part of the interest element for the period from 16th December, 1998 to 31st March, 2004. SHKS had previously paid this interest in connection with the judgment. Note 45 to the financial statements contains additional information regarding the litigation involving SHKS, NWDC and SDL.

7. OTHER EXPENSES

	2005 HK\$'000	2004 HK\$'000
Impairment loss of available-for-sale investments/ other investments transferred from investment revaluation reserve	14,411	16,898
Impairment loss of an associated company	4,981	–
Impairment loss of property and equipment	3,680	–
Impairment loss of intangible assets	980	–
Impairment loss of goodwill of a subsidiary company	267	–
Impairment loss of goodwill of associated companies	13,323	–
Impairment loss of trade and other receivables/ provision for doubtful debts	21,409	16,074
Net loss on deemed disposal of an associated company	–	4,492
Net exchange losses	581	–
Provision for interest and legal cost in respect of litigation with New World Development Company Limited *	–	2,934
	<u>59,632</u>	<u>40,398</u>

* Included in Other Expenses is HK\$2,934,000 representing interest expense paid by SHKS. The expense was incurred pursuant to the Judgment. Note 45 to the financial statements contains additional information regarding the litigation involving SHKS, NWDC and SDL.

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	2005					
	Director's fees HK\$'000	Consultancy fees HK\$'000	Salaries, housing and other allowances and benefits in kind HK\$'000	Bonus HK\$'000	Contribution to retirement benefit scheme HK\$'000	Total HK\$'000
Arthur George Dew	12	–	2,282#	1,000^	93	3,387
Joseph Tong Tang	20*	–	1,456	900^	65	2,441
Patrick Lee Seng Wei	10	–	–	–	–	10
Sir Gordon Macwhinnie	10	–	619	–	–	629
David Craig Bartlett	10	150	–	–	–	160
Carlisle Caldow Procter	10	75	–	–	–	85
Peter Wong Man Kong	10	150	–	–	–	160
	<u>82</u>	<u>375</u>	<u>4,357</u>	<u>1,900</u>	<u>158</u>	<u>6,872</u>

Certain directors of the Company received remuneration from the Company's ultimate holding company. Such company provided management services to the Company and charged the Company a fee, which is included in the management fee as disclosed in note 48, for services provided by those directors as well as other management personnel who are not directors of the Company.

Prior to 2005, the management fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the directors mentioned above. The total of such apportioned amounts, which have been included in the above table, is HK\$877,000.

In view of the fact that Mr. Arthur George Dew, the chairman of the Company and an executive director and the chairman of Quality HealthCare Asia Limited ("QHA") has, since his appointment as an executive director and the chairman of QHA, devoted and will continue to devote part of his time and efforts to the affairs of QHA and its subsidiaries or its associated company in such capacities, the Company and QHA entered into an agreement dated 18th November, 2005 (the "Reimbursement Agreement"), pursuant to which QHA agreed to reimburse the Company a portion of the salary of Mr. Dew (which is paid by the Company) for a period commencing from 20th May, 2005 and ending on 31st December, 2006. The fee payable by QHA to the Company under the Reimbursement Agreement is determined by reference to the percentage of time that Mr. Dew devotes to the affairs of QHA against the amount of time he devotes to the affairs of the Company, which is agreed at HK\$50,000 per month and will be payable by QHA on a quarterly basis. The amount paid and payable to the Company under the Reimbursement Agreement for the year ended 31st December, 2005 amounted to HK\$369,000 (2004: Nil). Further details of the Reimbursement Agreement are also set out in a joint announcement issued by the Company and QHA dated 18th November, 2005.

* *Including director's fee of HK\$10,000 for Sun Hung Kai Securities Limited (2004: HK\$5,000).*

^ *The amount represented the actual bonus for year 2004 paid to the respective directors during 2005. The bonus of year 2005 has yet to be decided.*

	2004					
	Director's fees HK\$'000	Consultancy fees HK\$'000	Salaries, housing and other allowances and benefits in kind HK\$'000	Bonus HK\$'000	Contribution to retirement benefit scheme HK\$'000	Total HK\$'000
Arthur George Dew	12	–	1,800	800	90	2,702
Joseph Tong Tang	10	–	108	–	5	123
Patrick Lee Seng Wei	10	–	–	–	–	10
Sir Gordon Macwhinnie	10	–	–	–	–	10
David Craig Bartlett	10	150	–	–	–	160
Carlisle Caldwell Procter	3	13	–	–	–	16
Peter Wong Man Kong	10	150	–	–	–	160
David Hui Yip Wing	–	–	80	–	4	84
Dieter Yih	7	112	–	–	–	119
	<u>72</u>	<u>425</u>	<u>1,988</u>	<u>800</u>	<u>99</u>	<u>3,384</u>

(b) Senior employees

The five highest paid individuals of the Group included one director (2004: one director) of the Company, whose emoluments have been included above. The emoluments of the remaining four (2004: four) senior employees are analyzed below:

	2005 HK\$'000	2004 HK\$'000
Salaries, housing and other allowances, and benefits in kind	4,845	9,896
Bonuses	4,292	4,420
Contributions to retirement benefit scheme	277	268
Incentive/commission	4,376	–
	<u>13,790</u>	<u>14,584</u>

Emoluments of the senior employees were within the following bands:

Emoluments band (HK\$)	Number of employees	
	2005	2004
\$2,000,001 – \$2,500,000	1	2
\$2,500,001 – \$3,000,000	1	1
\$3,000,001 – \$3,500,000	1	–
\$5,000,001 – \$5,500,000	1	–
\$7,000,001 – \$7,500,000	–	1
	<u>–</u>	<u>1</u>

9. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution schemes for the Hong Kong and overseas offices' qualifying employees and a defined benefit scheme for its subsidiary company's employees in the Philippines.

The forfeited contributions utilized in the course of the year ended 31st December, 2005 were HK\$189,000 (2004: HK\$761,000). The contributions to the defined benefit scheme in the Philippines were immaterial.

10. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank loans, overdrafts and loan notes repayable within 5 years	30,661	16,784
Bank loans not wholly repayable within 5 years	–	867
Finance lease	–	26
Effective interest expense on loan notes (<i>note 37</i>)	8,692	–
Other borrowing costs	1,555	2,048
	<u>40,908</u>	<u>19,725</u>

All interest expense for the year is derived from financial liabilities that are not carried at fair value through profit and loss.

11. SHARE OF RESULTS AND AMORTIZATION OF NEGATIVE GOODWILL (GOODWILL) OF ASSOCIATED COMPANIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Share of profits of associated companies	210,784	220,503
Amortization		
– Goodwill on acquisition	–	(30,021)
– Negative goodwill on acquisition	–	59,281
– Share of goodwill	–	(740)
	<u>210,784</u>	<u>249,023</u>
Share of taxation of associated companies	<u>(61,235)</u>	<u>(83,980)</u>
	<u><u>149,549</u></u>	<u><u>165,043</u></u>

12. SHARE OF RESULTS AND AMORTIZATION OF GOODWILL OF JOINTLY CONTROLLED ENTITIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Share of profits (losses) of jointly controlled entities	2	(3,405)
Amortization of goodwill on acquisition	<u>–</u>	<u>(219)</u>
	<u><u>2</u></u>	<u><u>(3,624)</u></u>

13. PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
Profit before taxation for the year has been arrived at after charging (crediting):		
Net realized profit on derivatives	(20,513)	(15,455)
Net unrealized loss on derivatives	744	–
Net profit on dealing in foreign currencies	(6,753)	(18,180)
Net profit on other dealing activities	(7,733)	(8,141)
Net realized profit on trading in equity securities	(3,132)	(4,321)
Net unrealized (profit) loss on trading in equity securities	(1,209)	2,109
Auditors' remuneration	4,063	3,615
Amortization of intangible assets	3,910	3,906
Amortization of leasehold interests in land	1,645	616
Commission expenses and sales incentives to account executives and certain staff	135,592	128,783
Contributions to retirement benefit schemes	8,868	7,750
Depreciation		
– Leased property and equipment	42	513
– Owned property and equipment	17,216	15,338
Net loss on disposal of property and equipment	734	559
Operating lease rentals		
– Premises	15,791	16,010
– Others	50	658
Outgoings in respect of non-rental generating investment properties	102	27
Outgoings in respect of rental generating investment properties	707	598
Staff cost (including Directors' emoluments but excluding contributions to retirement benefit schemes)	<u>164,239</u>	<u>164,168</u>

14. TAXATION

	2005 HK\$'000	2004 HK\$'000
Current tax		
Hong Kong	25,917	32,555
Other regions in the PRC	309	264
Other jurisdictions	–	74
	<u>26,226</u>	<u>32,893</u>
Under (over) provision in prior years		
Hong Kong	541	(588)
Other regions in the PRC	(80)	2,726
Other jurisdictions	–	35
	<u>26,687</u>	<u>35,066</u>
Deferred tax (<i>note 40</i>)		
Current year	7,851	(1,626)
(Over) under provision in prior years	(352)	173
	<u>7,499</u>	<u>(1,453)</u>
	<u>34,186</u>	<u>33,613</u>

Hong Kong profits tax is calculated at the rate of 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in the relevant jurisdictions.

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	436,546	412,834
Share of taxation of associated companies	<u>61,235</u>	<u>83,980</u>
	<u>497,781</u>	<u>496,814</u>
Tax at the Hong Kong profits tax rate of 17.5% (2004: 17.5%)	87,111	86,943
Tax effect on share of profit and amortization of negative goodwill (goodwill) of associated companies	(36,887)	(43,579)
Tax effect on share of profit (loss) and amortization of goodwill of jointly controlled entities	–	634
Under provision in prior years	109	2,346
Tax effect on non-taxable income	(25,590)	(19,677)
Tax effect on non-deductible expenses	11,996	10,149
Utilization/recognition of temporary differences not previously recognized	(302)	83
Utilization/recognition of tax losses not previously recognized	798	(1,810)
Items/countries subject to different tax rate	<u>(3,049)</u>	<u>(1,476)</u>
	<u>34,186</u>	<u>33,613</u>

15. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim dividend paid of HK2.5 cents per share (2004: HK2 cents per share)	31,143	24,914
Proposed final dividend of HK9.5 cents per share (2004: HK2 cents per share)	118,342	24,914
Special dividend paid of nil per share (2004: HK1 cent per share)	–	12,457
Proposed special dividend of nil per share (2004: HK4 cents per share)	–	49,828
	<u>149,485</u>	<u>112,113</u>

The final dividend of HK9.5 cents (2004: special and final dividends totaled HK6 cents) per share has been proposed by the Directors and is subject to approval by the equity holders in the forthcoming annual general meeting.

The Board of Directors also recommended a bonus warrant for every five shares held, at an exercise price of HK\$6.00 per share with a three years' term.

16. EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to equity holders of the Company of HK\$401,497,000 (2004: HK\$378,738,000) and 1,245,703,156 ordinary shares in issue during the year (2004: 1,245,703,156 ordinary shares).

No diluted earnings per share has been presented for both years as there were no potential ordinary shares as at year ended (2004: Nil).

17. INVESTMENT PROPERTIES

	Group 2005 HK\$'000	2004 HK\$'000
Fair value		
At 1st January	43,000	36,900
Acquired on an acquisition of a subsidiary	39,362	–
Disposal	(12,600)	–
Increase in fair value/revaluation surplus recognized in the income statement	<u>23,638</u>	<u>6,100</u>
At 31st December	<u>93,400</u>	<u>43,000</u>

- (a) The investment properties were valued on 31st December, 2005 by Norton Appraisals Limited, an independent qualified professional valuer, not connected with the Group. Norton Appraisals Limited has appropriate qualification and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. Particulars of the investment properties at 31st December, 2005 were:

Location	Classification	Term of lease	Interest
House C7, Hawaii Garden, No. 18, Silver Cape Road, Sai Kung, New Territories	Residential	2047	100%
Rooms 2803-2810, 28/F, Wing On House, No. 71, Des Voeux Road Central, Hong Kong	Commercial	2902	100%
11/F, Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Commercial	2044	100%

- (b) At 31st December, 2005, the carrying value of investment properties pledged as security for the Group's long term bank loans amounted to HK\$79,400,000 (2004: HK\$20,000,000).
- (c) The carrying value of investment properties shown above comprises:

	2005 HK\$'000	2004 HK\$'000
Long lease properties in Hong Kong	36,000	20,000
Medium-term lease properties in Hong Kong	14,000	23,000
Medium-term lease properties outside Hong Kong	43,400	–
	<u>93,400</u>	<u>43,000</u>

18. LEASEHOLD INTERESTS IN LAND

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost		
At 1st January	71,080	71,080
Acquired on an acquisition of a subsidiary	8,900	–
At 31st December	79,980	71,080
Accumulated amortization		
At 1st January	4,184	3,568
Amortization charged for the year	1,645	616
At 31st December	5,829	4,184
Carrying value at 31st December	74,151	66,896
<i>Less: current portion (note 27)</i>	(1,664)	(1,442)
	72,487	65,454
Carrying value of leasehold interests in land comprise:		
Leasehold land in Hong Kong Long lease	64,728	66,086
Leasehold land outside Hong Kong		
Medium-term lease	8,693	–
Short lease	730	810
	74,151	66,896

At 31st December, 2005, the carrying value of leasehold interests in land pledged as security for the Group's long term bank loans and bank overdrafts amounted to HK\$54,968,000 (2004: HK\$56,121,000).

19. PROPERTY AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Group Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January, 2004	31,268	95,932	127,200
Exchange adjustments	–	(4)	(4)
Additions	–	11,860	11,860
Disposals	–	(2,499)	(2,499)
At 31st December, 2004	31,268	105,289	136,557
Exchange and other adjustments	–	(258)	(258)
Additions	–	16,119	16,119
Acquired on an acquisition of subsidiaries	5,228	5,800	11,028
Disposals	–	(4,708)	(4,708)
At 31st December, 2005	36,496	122,242	158,738
Accumulated depreciation and impairment			
At 1st January, 2004	7,309	64,048	71,357
Exchange adjustments	–	(3)	(3)
Depreciation provided for the year	992	14,859	15,851
Eliminated on disposals	–	(1,885)	(1,885)
At 31st December, 2004	8,301	77,019	85,320
Exchange and other adjustments	–	(60)	(60)
Depreciation provided for the year	707	16,551	17,258
Impairment loss	–	3,680	3,680
Eliminated on disposals	–	(3,965)	(3,965)
At 31st December, 2005	9,008	93,225	102,233
Carrying value at 31st December, 2005	<u>27,488</u>	<u>29,017</u>	<u>56,505</u>
Carrying value at 31st December, 2004	<u>22,967</u>	<u>28,270</u>	<u>51,237</u>

At 31st December, 2005, the carrying value of buildings pledged as security for the Group's long term bank loans and bank overdrafts amounted to HK\$19,250,000 (2004: HK\$19,655,000).

At 31st December, 2005, no equipment was held under finance lease (2004: carrying value of HK\$1,067,000).

20. INTANGIBLE ASSETS

	Club membership HK\$'000	Exchange participation rights HK\$'000	Group Computer software		Total HK\$'000
			Acquired HK\$'000	Internally developed HK\$'000	
Cost					
At 1st January, 2004	–	4,230	11,430	–	15,660
Additions	–	–	6,091	–	6,091
Disposals	–	–	(120)	–	(120)
At 31st December, 2004	–	4,230	17,401	–	21,631
Reclassified from other investments					
at 1st January, 2005 (<i>note 2(j)</i>)	3,098	2,507	–	–	5,605
Elimination of accumulated amortization	–	(2,079)	–	–	(2,079)
Exchange and other adjustments	–	–	284	–	284
Additions	–	–	2,352	3,610	5,962
Acquired on acquisitions of subsidiaries	–	1,200	–	–	1,200
Written off	(23)	–	–	–	(23)
At 31st December, 2005	3,075	5,858	20,037	3,610	32,580
Accumulated amortization and impairment					
At 1st January, 2004	–	1,233	3,742	–	4,975
Amortization charged for the year	–	846	3,060	–	3,906
Eliminated on disposals	–	–	(24)	–	(24)
At 31st December, 2004	–	2,079	6,778	–	8,857
Reclassified from other investments					
at 1st January, 2005 (<i>note 2(j)</i>)	180	–	–	–	180
Elimination of accumulated amortization	–	(2,079)	–	–	(2,079)
Exchange and other adjustments	–	–	85	–	85
Amortization charged for the year	–	–	3,910	–	3,910
Impairment loss	730	240	10	–	980
Impairment loss written back	(180)	–	–	–	(180)
At 31st December, 2005	730	240	10,783	–	11,753
Carrying amount at 31st December, 2005	<u>2,345</u>	<u>5,618</u>	<u>9,254</u>	<u>3,610</u>	<u>20,827</u>
Carrying amount at 31st December, 2004	<u>–</u>	<u>2,151</u>	<u>10,623</u>	<u>–</u>	<u>12,774</u>

	Company	
	2005	2004
	HK\$'000	HK\$'000
Club membership, at cost		
At 1st January	–	–
Reclassified from other investments at 1st January, 2005	2,090	–
	<u>2,090</u>	<u>–</u>
At 31st December	2,090	–
	<u>2,090</u>	<u>–</u>
Impairment		
At 1st January	–	–
Impairment loss	510	–
	<u>510</u>	<u>–</u>
At 31st December	510	–
	<u>510</u>	<u>–</u>
Carrying value at 31st December	<u>1,580</u>	<u>–</u>

21. GOODWILL (NEGATIVE GOODWILL)

	Goodwill	Group Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January, 2004	–	(30,270)	(30,270)
Adjustment to negative goodwill on acquisition of subsidiaries	–	(15,700)	(15,700)
	<u>–</u>	<u>(15,700)</u>	<u>(15,700)</u>
At 31st December, 2004	–	(45,970)	(45,970)
Derecognized upon the application of HKFRS 3 (note 2(b))	–	45,970	45,970
Arising on acquisition of subsidiaries	267	–	267
	<u>267</u>	<u>–</u>	<u>267</u>
At 31st December, 2005	267	–	267
	<u>267</u>	<u>–</u>	<u>267</u>
Impairment/accumulated amortization			
At 1st January, 2004	–	(14,009)	(14,009)
Amortization charged for the year	–	(9,565)	(9,565)
	<u>–</u>	<u>(9,565)</u>	<u>(9,565)</u>
At 31st December, 2004	–	(23,574)	(23,574)
Derecognized upon the application of HKFRS 3 (note 2(b))	–	23,574	23,574
Impairment loss	267	–	267
	<u>267</u>	<u>–</u>	<u>267</u>
At 31st December, 2005	267	–	267
	<u>267</u>	<u>–</u>	<u>267</u>
Carrying amount at 31st December, 2005	<u>–</u>	<u>–</u>	<u>–</u>
Carrying amount at 31st December, 2004	<u>–</u>	<u>(22,396)</u>	<u>(22,396)</u>

The accounting policy for goodwill has been changed upon the adoption of HKFRS 3. Please refer to note 2(b) for details.

22. INTEREST IN SUBSIDIARY COMPANIES

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	428,570	428,570
Add: amounts due from subsidiary companies	2,197,343	1,663,891
	<u>2,625,913</u>	<u>2,092,461</u>
Less: amounts due to subsidiary companies	–	(273,685)
	<u>2,625,913</u>	<u>1,818,776</u>
Less: impairment	(316,448)	–
	<u>2,309,465</u>	<u>1,818,776</u>

The amounts due from subsidiary companies are unsecured, interest free and have no fixed term of repayment except for a sum of HK\$134,797,000 bearing interest at market rate. They are considered as quasi-equity loans.

Details of the principal subsidiary companies are shown in note 47.

23. INTEREST IN ASSOCIATED COMPANIES

	Group			
	2005		2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying value of listed associated companies		2,560,484		2,231,272
Carrying value of unlisted associated companies		<u>106,486</u>		<u>105,776</u>
		2,666,970		2,337,048
Less: impairment		<u>(26,873)</u>		<u>(21,892)</u>
		2,640,097		2,315,156
Loan note due from a listed associated company	–		78,000	
Amounts due from associated companies	83,308		83,519	
Less: impairment	<u>(18,726)</u>		<u>(18,726)</u>	
		64,582		142,793
Less: amounts due to associated companies		<u>(57,537)</u>		<u>(44,404)</u>
		2,647,142		2,413,545
Less: current portion of amounts due from listed associated companies		–		(210)
		<u>2,647,142</u>		<u>2,413,335</u>
Fair value of listed associated companies		<u>1,301,161</u>		<u>1,109,200</u>

	Company	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments in Hong Kong, at cost	1,388,611	1,388,611
Unlisted equity investments, at cost	3	3
	<u>1,388,614</u>	<u>1,388,614</u>
Loan note due from a listed associated company	–	78,000
Other amounts due from associated companies	75,518	75,554
Less: impairment	(16,601)	(16,601)
	<u>1,447,531</u>	<u>1,525,567</u>
Fair value of listed associated companies	<u>880,515</u>	<u>772,879</u>

(a) The goodwill included in the carrying value of associated companies is as follows:

	Goodwill	Group Negative goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost			
At 1st January, 2004	246,705	(342,134)	(95,429)
Adjustment	(5,145)	–	(5,145)
Arising on acquisition of associated companies	3,469	(11,997)	(8,528)
Eliminated on disposal	(433)	1,755	1,322
At 31st December, 2004	244,596	(352,376)	(107,780)
Elimination of accumulated amortization upon the application of HKFRS 3 (<i>note 2(b)</i>)	(158,704)	–	(158,704)
Derecognized upon the application of HKFRS 3 (<i>note 2(b)</i>)	–	352,376	352,376
Arising on acquisition of associated companies	13,683	–	13,683
Eliminated on disposal	(125)	–	(125)
At 31st December, 2005	<u>99,450</u>	<u>–</u>	<u>99,450</u>

	Goodwill HK\$'000	Group Negative goodwill HK\$'000	Total HK\$'000
Impairment/accumulated amortization			
At 1st January, 2004	128,360	(140,390)	(12,030)
Adjustment	(343)	–	(343)
Amortization charged for the year	31,104	(59,281)	(28,177)
Eliminated on disposal	(417)	776	359
At 31st December, 2004	158,704	(198,895)	(40,191)
Elimination of accumulated amortization upon the application of HKFRS 3 (note 2(b))	(158,704)	–	(158,704)
Derecognized upon the application of HKFRS 3 (note 2(b))	–	198,895	198,895
Impairment loss*	13,323	–	13,323
At 31st December, 2005	13,323	–	13,323
Carrying amount at 31st December, 2005	86,127	–	86,127
Carrying amount at 31st December, 2004	85,892	(153,481)	(67,589)

The accounting policy for goodwill has been changed upon the adoption of HKFRS 3. Please refer to note 2(b) for details.

* The Group tests goodwill annually, or whenever there is an indication that goodwill might be impaired. The impairment loss of HK\$13,323,000 arose mainly from the Group's interest in a listed associated company due to the prolonged decline in the fair value of the Group's interest in the listed associated company below the Group's carrying amount.

- (b) The summarized financial information of associated companies at 31st December, 2005 was as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Total revenue	1,749,519	1,723,201
Profit and loss for the year	467,398	336,487
Group's share of results of associated companies for the year	149,549	165,043
Total assets	12,494,018	10,925,873
Total liabilities	(6,681,639)	(5,568,262)
Group's share of net assets of associated companies	2,580,843	2,404,637

- (c) Details of the principal associated companies are shown in note 47.
- (d) The amounts due from (to) associated companies are unsecured, interest free and have no fixed term of repayment. They are considered as quasi-equity loans.

24. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Carrying value of unlisted jointly controlled entities	935	1,201
Amount due from a jointly controlled entity*	–	1,018
Impairment for amount due from a jointly controlled entity	–	(1,018)
	<u>935</u>	<u>1,201</u>

* The amount due from a jointly controlled entity was unsecured, interest free and had no fixed term of repayment.

Particulars of the jointly controlled entity at 31st December, 2005 are as follows:

Name	Form of business structure	Country of incorporation and principal place of operation	Principal activities	Proportion of nominal value of issued capital and voting right
SHK Corporate Finance (Shanghai) Limited	Incorporated	People's Republic of China	Corporate finance advisory	1/3

25. AVAILABLE-FOR-SALE INVESTMENTS/OTHER INVESTMENTS

	Group	
	Available-for-sale investments	Other investments
	2005	2004
	HK\$'000	HK\$'000
Listed equity investments, at fair value		
– Listed in Hong Kong	530,543	476,810
– Listed outside Hong Kong	<u>4,444</u>	<u>4,474</u>
	534,987	481,284
Unlisted equity investments, at fair value*	458,152	303,494
Club memberships and exchange participation rights	–	5,425
Statutory deposits	<u>–</u>	<u>26,624</u>
	993,139	816,827
Add: amounts due from investee companies*	–	94,935
Less: impairment for amount due from an investee company	<u>–</u>	<u>(2,161)</u>
	993,139	909,601
Less: amount due to an investee company	<u>–</u>	<u>(1,891)</u>
	<u>993,139</u>	<u>907,710</u>

Available-for-sale investments/other investments are intended to be held for a continuing strategic or long term purpose.

Other investments were redesignated to various line items on 1st January, 2005 on the adoption of HKAS 39. Please refer to note 2(j) for details.

* Included a sum totalling HK\$118,003,000 for the interests in the Kuala Lumpur hotels project in 2004 comparative figures. Please refer to note 26 for details.

26. LOANS AND RECEIVABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Loan note of a listed associated company	78,000	–	78,000	–
Amounts due from investee companies*	124,687	–	–	–
	202,687	–	78,000	–
Less: Impairment	(1,447)	–	–	–
	201,240	–	78,000	–
Long term portion of term loans and other receivables (note 27)	1,066	3,200	–	–
	<u>202,306</u>	<u>3,200</u>	<u>78,000</u>	<u>–</u>

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

* Pending any judgment pursuant to the Final Appeal, the Company'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 Great Union Properties Sdn. Bhd. ("GUP") in the Joint Venture (as defined in the Judgment). The Joint Venture is a 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. SDL holds 12.5% of the shares in GUP on trust for SHKS. A sum totalling HK\$118,003,000 (2004: HK\$118,003,000) is included in "Amounts due from investee companies" being the amount, (excluding interest which has been expensed in prior years) which represents the carrying value of the SHKS Interest.

The Board 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 "the 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 outcome 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 totally 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.

27. TRADE AND OTHER RECEIVABLES

	Group			
	2005		2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
Accounts receivable from exchanges, brokers and clients	800,873		619,909	
Less: impairment	<u>(6,184)</u>		<u>(36,618)</u>	
		794,689		583,291
Secured term loans	166,967		237,462	
Unsecured term loans	–		5,864	
Term loans due from a listed associated company	245,000		–	
Less: impairment	<u>(35,331)</u>		<u>(58,816)</u>	
		376,636		184,510
		1,171,325		767,801
Secured margin loans	1,440,396		1,643,409	
Less: impairment	<u>(147,111)</u>		<u>(202,353)</u>	
		1,293,285		1,441,056
		2,464,610		2,208,857
Amounts due from listed associated companies		7,357		210
Current portion of leasehold interests in land		1,664		1,442
Interest receivables		3,730		3,239
Other accounts receivable, deposits and prepayments		<u>123,569</u>		<u>80,060</u>
		2,600,930		2,293,808
Less: long term portion of term loans and other receivables (<i>note 26</i>)		<u>(1,066)</u>		<u>(3,200)</u>
		<u>2,599,864</u>		<u>2,290,608</u>

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current	1,148,875	752,069
31-60 days	10,314	12,560
61-90 days	1,320	383
Over 90 days	<u>52,331</u>	<u>98,223</u>
	1,212,840	863,235
<i>Less: impairment</i>	<u>(41,515)</u>	<u>(95,434)</u>
	<u><u>1,171,325</u></u>	<u><u>767,801</u></u>

The amount due from associated companies and interest receivable are unsecured, non-interest bearing and are expected to be settled within one year. Further details of the term loans and margin loans are disclosed in note 50.

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

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

28. HELD FOR TRADING INVESTMENTS/TRADING SECURITIES

	Group	
	Held for trading investments	Trading securities
	2005	2004
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at fair value		
– Issued by corporate entities	32,396	23,152
– Issued by banks	20,654	13,133
– Issued by public utility entities	33	32
	<u>53,083</u>	<u>36,317</u>
Equity securities listed outside Hong Kong, at fair value		
– Issued by corporate entities	2,534	3,740
– Issued by bank	87	59
	<u>2,621</u>	<u>3,799</u>
Equity securities in unlisted investment funds outside Hong Kong, at fair value		
– Issued by corporate entities	119,292	–
Marketable debt securities outside Hong Kong, at fair value		
– Issued by central government	–	7,741
Warrants and options listed in Hong Kong, at fair value	3,508	–
Other held for trading investments, at fair value	478	406
	<u>178,982</u>	<u>48,263</u>

Trading securities were redesignated on 1st January, 2005 on the application of HKAS 39. Please refer to note 2(j) for details.

29. CASH AND CASH EQUIVALENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bank balances and cash	320,492	406,959
Fixed deposits with banks	95,212	80,290
Treasury bills	7,680	–
	<u>423,384</u>	<u>487,249</u>

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

Further details of the fixed deposits with banks and treasury bills are disclosed in note 50.

30. BANK BORROWINGS DUE WITHIN ONE YEAR

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bank loans		
– Secured (<i>note 46</i>)	225,000	–
– Unsecured	30,000	–
	<u>255,000</u>	<u>–</u>
Bank overdrafts		
– Secured (<i>note 46</i>)	79,925	57,905
	<u>334,925</u>	<u>57,905</u>
Current portion of long term bank loans (<i>note 38</i>)	7,621	6,040
	<u>342,546</u>	<u>63,945</u>

All the bank loans and overdrafts are in Hong Kong dollars. Further details are disclosed in note 50.

31. TRADE AND OTHER PAYABLES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Trade payables		
Accounts payable to exchanges, brokers and clients	787,288	867,135
Other accounts payable and accruals	176,829	163,971
Amounts due to investee companies	2,464	–
Current portion of obligation under a finance lease (<i>note 38</i>)	–	76
	<u>966,581</u>	<u>1,031,182</u>

The fair value of the Group's trade and other payables at 31st December, 2005 was approximate to the corresponding carrying amount.

The aging analysis of the trade payables is as follows:

	2005	2004
	HK\$'000	HK\$'000
Current	781,824	852,009
31-60 days	1,800	3,640
61-90 days	258	3,037
Over 90 days	3,406	8,449
	<u>787,288</u>	<u>867,135</u>

32. TRADING LIABILITIES, AT FAIR VALUE

	Group	
	2005	2004
	HK\$'000	HK\$'000
Stock borrowings	17,700	–
Stock option	56	–
	<u>17,756</u>	<u>–</u>

33. CURRENT ASSETS AND CURRENT LIABILITIES OF THE COMPANY

The fair value of the Company's trade and other receivables, cash and cash equivalents, trade and other payables and amounts due to subsidiary companies at 31st December, 2005 was approximate to the corresponding carrying amount.

34. SHARE CAPITAL

	Number of shares		Share capital	
	2005	2004	2005	2004
	'000	'000	HK\$'000	HK\$'000
Ordinary shares of HK20 cents each				
Authorized:				
Balance as at 1st January and 31st December	<u>15,000,000</u>	<u>15,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
Balance as at 1st January and 31st December	<u>1,245,703</u>	<u>1,245,703</u>	<u>249,141</u>	<u>249,141</u>

35. RESERVES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Special capital reserve arising from adjustment of nominal value of shares				
Balance as at 1st January	930,026	930,026	930,026	930,026
Transfer to retained earnings*	(930,026)	–	(930,026)	–
Balance as at 31st December	–	930,026	–	930,026
Share premium account				
Balance as at 1st January and 31st December	1,124,703	1,124,703	1,123,263	1,123,263
Capital redemption reserve				
Balance as at 1st January and 31st December	51,704	51,704	51,704	51,704
Exchange reserve				
Balance as at 1st January	(26,826)	(27,105)	–	–
Translation of the accounts of overseas subsidiaries, associated companies and jointly controlled entities	571	(45)	–	–
Release on disposal of a jointly controlled entity	(10)	–	–	–
Deferred tax	(165)	–	–	–
Associated companies	26,071	325	–	–
Jointly controlled entities	–	(1)	–	–
Balance as at 31st December	(359)	(26,826)	–	–
Investment property revaluation reserve				
Balance as at 1st January, as previously reported	151,158	139,275	–	–
Share of prior year adjustments of an associated company	25,615	24,936	–	–
As restated	176,773	164,211	–	–
Share of adjustments to opening of associated companies upon adoption of HKAS 40	(176,773)	–	–	–
Release on disposal of an associated company	–	(533)	–	–
Associated companies	–	13,095	–	–
Balance as at 31st December	–	176,773	–	–
Balance carried forward to next page	1,176,048	2,256,380	1,174,967	2,104,993

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Balance brought forward from previous page	<u>1,176,048</u>	<u>2,256,380</u>	<u>1,174,967</u>	<u>2,104,993</u>
Investment revaluation reserve				
Balance as at 1st January	308,920	71,956	(1)	13,347
Adjustment to opening on adoption of HKASs 32 and 39	(2,096)	–	–	–
Gains on fair value changes of available-for-sale investments/other investments	340,928	208,173	–	–
Impairment loss of available-for-sale investments/other investments transferred to income statement	14,411	16,898	–	–
Deferred tax	81	(222)	–	–
Release on disposal of available-for-sale investments/other investments	(38,807)	6,648	1	(13,348)
Release on disposal of an associated company	–	43	–	–
Associated companies	<u>10,299</u>	<u>5,424</u>	<u>–</u>	<u>–</u>
Balance as at 31st December	<u>633,736</u>	<u>308,920</u>	<u>–</u>	<u>(1)</u>
Capital reserves				
Balance as at 1st January	3,744	921	–	–
Transfer from retained earnings by associated companies	352	2,827	–	–
Release on disposal of an associated company	–	(4)	–	–
Associated companies	<u>2,338</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance as at 31st December	<u>6,434</u>	<u>3,744</u>	<u>–</u>	<u>–</u>
Balance carried forward to next page	<u>1,816,218</u>	<u>2,569,044</u>	<u>1,174,967</u>	<u>2,104,992</u>

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward from previous page	<u>1,816,218</u>	<u>2,569,044</u>	<u>1,174,967</u>	<u>2,104,992</u>
Retained earnings				
Balance as at 1st January, as previously reported	2,146,452	1,876,597	791,620	895,398
Prior year adjustments				
– Adoption of HKASs 16 and 17	(2,049)	(1,752)	–	–
– Adoption of HKAS-Int 21	109	377	–	–
– Share of associated companies	<u>(45,708)</u>	<u>(40,216)</u>	<u>–</u>	<u>–</u>
As restated	2,098,804	1,835,006	791,620	895,398
Adjustments to opening retained earnings				
– Adoption of HKASs 32 and 39	14,878	–	14,077	–
– Adoption of HKFRS 3	175,877	–	–	–
– Share of associated companies	<u>184,071</u>	<u>–</u>	<u>–</u>	<u>–</u>
	2,473,630	1,835,006	805,697	895,398
Profit attributable to equity holders of the Company	401,497	378,738	376,633	8,335
Dividends	(149,485)	(112,113)	(149,485)	(112,113)
Transfer from special capital reserve*	930,026	–	930,026	–
Unclaimed dividends written back	1,862	–	1,862	–
Transfer to capital reserve by associated companies	<u>(352)</u>	<u>(2,827)</u>	<u>–</u>	<u>–</u>
Balance as at 31st December	<u>3,657,178</u>	<u>2,098,804</u>	<u>1,964,733</u>	<u>791,620</u>
Proposed dividends				
Balance as at 1st January	74,742	74,742	74,742	74,742
Dividends proposed	149,485	112,113	149,485	112,113
Dividends paid	<u>(105,885)</u>	<u>(112,113)</u>	<u>(105,885)</u>	<u>(112,113)</u>
Balance as at 31st December	<u>118,342</u>	<u>74,742</u>	<u>118,342</u>	<u>74,742</u>
Total balance as at 31st December	<u><u>5,591,738</u></u>	<u><u>4,742,590</u></u>	<u><u>3,258,042</u></u>	<u><u>2,971,354</u></u>

The distributable reserves of the Company as at 31st December, 2005 amounted to HK\$2,397,990,000 (2004: HK\$869,704,000), being its net realized profits calculated under Section 79B of the Companies Ordinance.

* When sanctioning a reduction in nominal value of the Company's share in 1998, the High Court of Hong Kong stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve is not to be distributed until all of the liabilities of the Company as at the date of the order, 14th July, 1998, are settled. There were no outstanding liabilities at 31st December, 2005 in respect of liabilities in existence at 14th July, 1998. Accordingly, the special capital reserve became distributable and was transferred to retained earnings.

36. MINORITY INTERESTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Balance as at 1st January	(494)	1,411
Profit attributable to minority interests	863	483
Distribution to minority interests on disposal of subsidiaries	—	(2,388)
	<u>369</u>	<u>(494)</u>
Balance as at 31st December	<u>369</u>	<u>(494)</u>

37. LOAN NOTES

	Group and the Company	
	2005	2004
	HK\$'000	HK\$'000
Principal		
Balance as at 1st January	129,637	231,637
Repayment and cancellation	(60,000)	(102,000)
	<u>69,637</u>	<u>129,637</u>
Balance as at 31st December	<u>69,637</u>	<u>129,637</u>
Difference using the effective interest method		
Balance as at 1st January	—	—
Adjustments to opening balance on the adoption of HKAS 39	(14,077)	—
Interest expense	8,692	—
	<u>(5,385)</u>	<u>—</u>
Balance as at 31st December	<u>(5,385)</u>	<u>—</u>
Carrying value as at 31st December	<u>64,252</u>	<u>129,637</u>

The loan notes bear interest at 4% per annum and the principal of the loan notes is due for repayment on 7th March, 2008. The effective interest rate is 7.9% per annum.

The fair value of the loan notes at 31st December, 2005 was approximate to the corresponding carrying value.

38. BANK AND OTHER BORROWINGS DUE AFTER ONE YEAR

	Group	
	2005	2004
	HK\$'000	HK\$'000
Secured bank loans (<i>note 46</i>)	50,367	30,307
Obligation under a finance lease	—	76
Advance from a minority equity holder	974	1,022
	<u>51,341</u>	<u>31,405</u>
<i>Less: current portion</i>		
Secured bank loans (<i>note 30</i>)	(7,621)	(6,040)
Obligation under a finance lease	—	(76)
	<u>43,720</u>	<u>25,289</u>

At 31st December, 2005, the secured bank loans were repayable as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	7,621	6,040
In the second year	8,195	6,172
In the third to fifth year	34,551	18,095
	<u>50,367</u>	<u>30,307</u>

The secured bank loans are repayable by instalments up to December 2010. Interest is charged on the outstanding balances at Prime Rate minus 2% per annum and Hong Kong Interbank Offer Rate plus 1% to 1.25% per annum.

The fair value of the Group's bank and other borrowings due over one year at 31st December, 2005 was approximate to the corresponding carrying value.

39. PROVISIONS

	Employee benefit	Group	
	<i>HK\$'000</i>	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January, 2005	42,654	792	43,446
Additional provision in the year	33,402	846	34,248
Written back	(13,009)	–	(13,009)
Amount utilized during the year	(11,428)	–	(11,428)
Amount paid during the year	(18,998)	–	(18,998)
	<u>32,621</u>	<u>1,638</u>	<u>34,259</u>
At 31st December, 2005	32,621	1,638	34,259
Less: current portion	(32,211)	(846)	(33,057)
	<u>410</u>	<u>792</u>	<u>1,202</u>

40. DEFERRED TAXATION

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax assets as at 1st January	4,736	6,218
Reclassified from taxation payable	–	(2,726)
Exchange adjustments	(67)	13
Acquired on an acquisition of a subsidiary	(124)	–
Charge to income for the year (<i>note 14</i>)	(7,499)	1,453
Charge to equity	(84)	(222)
	<u>(3,038)</u>	<u>4,736</u>
Net deferred tax (liabilities) assets as at 31st December	(3,038)	4,736

The deferred tax assets and liabilities recognized in the balance sheet are analyzed as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets				
– Decelerated depreciation	228	286	–	–
– Provisions	6,439	7,886	2,158	2,612
– Revaluation of assets	–	601	–	–
– Unused tax losses	1,682	4,292	–	–
	<u>8,349</u>	<u>13,065</u>	<u>2,158</u>	<u>2,612</u>
Offset against deferred tax liabilities	<u>(4,206)</u>	<u>(2,786)</u>	<u>–</u>	<u>–</u>
	<u>4,143</u>	<u>10,279</u>	<u>2,158</u>	<u>2,612</u>
Deferred tax liabilities				
– Accelerated depreciation	(3,577)	(3,268)	–	–
– Revaluation of assets	(3,442)	(167)	–	–
– Unrealized profit	(1,504)	(1,274)	–	–
– Undistributed earnings and others	(2,864)	(3,620)	–	–
	<u>(11,387)</u>	<u>(8,329)</u>	<u>–</u>	<u>–</u>
Offset against deferred tax assets	<u>4,206</u>	<u>2,786</u>	<u>–</u>	<u>–</u>
	<u>(7,181)</u>	<u>(5,543)</u>	<u>–</u>	<u>–</u>

At the balance sheet date, the Group had unrecognized deductible temporary difference of HK\$5,880,000 (2004: HK\$6,023,000) and unrecognized tax losses of HK\$391,903,000 (2004: HK\$353,526,000) available to offset against future profits. The deductible temporary difference and tax losses have not been recognized as it is uncertain that there will be sufficient future taxable profit available against the utilization of these temporary differences. Included in unrecognized tax losses are losses of HK\$4,467,000, HK\$54,000, and HK\$13,349,000 that will be expired on 2006, 2007 and 2008 respectively.

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from (used in) operations:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	436,546	412,834
Share of results and amortization of negative goodwill/ goodwill of		
– Associated companies	(149,549)	(165,043)
– Jointly controlled entities	(2)	3,624
Amortization of negative goodwill on acquisition of subsidiary companies	–	(9,565)
Dividend income	(40,639)	(73,636)
Interest income	(174,565)	(160,570)
Discount on acquisition of a subsidiary company	(199)	–
Net realized profit on disposal of a portion of a subsidiary	–	(789)
Net realized profit on disposal/deemed disposal of a jointly controlled entity	(1,219)	(942)
Net realized profit on disposal of an investment property	(2,061)	–
Net realized profit on disposal of available-for-sale investments/other investment	(56,748)	(2,483)
Impairment loss for intangible assets written back	(180)	–
Impairment loss for trade and other receivables/provision for doubtful debts written back	(25,264)	(16,615)
Increase in fair value of investment properties/ revaluation deficit written back	(23,638)	(6,100)
Impairment loss of available-for-sale investments/ other investments	14,411	16,898
Impairment loss of an associated company	4,981	–
Impairment loss of property and equipment	3,680	–
Impairment loss of intangible assets	980	–
Impairment loss of goodwill of a subsidiary company	267	–
Impairment loss of goodwill of associated companies	13,323	–
Impairment loss of trade and other receivables/ provision for doubtful debts	21,409	16,074
Net unrealized (profit) loss on held for trading investments/ trading securities	(465)	2,109
Amortization of intangible assets	3,910	3,906
Amortization of leasehold interests in land	1,645	616
Depreciation of property and equipment	17,258	15,851
Interest expenses	39,353	17,677
Net loss on deemed disposal of an associated company	–	4,492
Net loss on disposal of property and equipment	734	559
Balance carried forward to next page	83,968	58,897

	Group	
	2005	2004
	HK\$'000	HK\$'000
Balance brought forward from previous page	83,968	58,897
Net loss on disposal of intangible assets	—	96
Operating cash flow before movement in working capital	83,968	58,993
Increase in loans and receivables	—	(3,200)
(Increase) decrease in trade and other receivables	(274,849)	523,677
Increase in held for trading investments/trading securities	(127,798)	(14,634)
Decrease in trade and other payables	(81,824)	(482,320)
Increase in trading liabilities, at fair value	17,756	—
Decrease in provisions	(9,187)	(3,956)
Cash (used in) generated from operations	(391,934)	78,560

42. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries during the year:

Name	Principal activities	Date of acquisition	Percentage acquired	Component of cost	Cost including capitalized expenses HK\$'000
Hing Yip Holdings Limited	Property investment	1/2/2005	100%	Cash	13,811
Excalibur Futures Limited	Futures dealing and broking	17/3/2005	100%	Cash	16,853
Excalibur Securities Limited	Securities broking	17/3/2005	100%	Cash	9,033
Sing Hing Investment Limited	Property investment	18/4/2005	100%	Cash	38,477
					78,174

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

	Acquiree's carrying amount <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
Cash and cash equivalents	15,758	–	15,758
Intangible assets	1,200	–	1,200
Investment property	26,934	12,428	39,362
Leasehold interests in land	6,408	2,492	8,900
Property and equipment	9,565	1,463	11,028
Statutory deposits	1,734	–	1,734
Trade and other receivables	17,723	(900)	16,823
Trade and other payables	(16,575)	–	(16,575)
Deferred tax liabilities	(124)	–	(124)
Net assets	<u>62,623</u>	<u>15,483</u>	78,106
Total purchase consideration satisfied by cash			<u>78,174</u>
			68
Excess of net fair value over consideration recognized in income statement			<u>199</u>
Goodwill			<u>267</u>
Purchase consideration settled in cash			78,174
Cash and cash equivalents in subsidiaries acquired			<u>(15,758)</u>
Net cash outflow arising on acquisition			<u>62,416</u>

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

	For the year 2005 <i>HK\$'000</i>	Post- acquisition <i>HK\$'000</i>
Total revenue	<u>46,695</u>	<u>43,743</u>
Profit and loss	<u>11,061</u>	<u>10,401</u>

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

43. CAPITAL COMMITMENTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Contracted for but not provided in the financial statements	29,628	28,688
Authorized but not contracted for	2,259	2,209
	<u>31,887</u>	<u>30,897</u>

44. OPERATING LEASES

(a) The Group as lessee

At balance sheet date, the Group had commitments for future aggregate minimum lease payments under non- cancellable operating leases which fall due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	17,115	20,155
In the second to fifth years inclusive	14,802	33,952
	<u>31,917</u>	<u>54,107</u>

Most of the lease payment represents rentals payable by the Group for its office properties. The lease term and rental are fixed at 2 to 4 years.

(b) The Group as lessor

At balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,269	359
In the second to fifth years inclusive	856	–
	<u>2,125</u>	<u>359</u>

The Group has properties leased to tenants for rental. The lease term and rental are fixed at 1 to 3 years.

45. CONTINGENT LIABILITIES

- (a) At balance sheet date, the Company and the Group had guarantees as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee for banking facility granted to				
– Subsidiary companies	–	–	30,000	58,000
– An investee company	6,979	7,000	6,979	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	5,540	–	–
Other guarantees	7,084	3,184	1,400	1,400
	<u>19,603</u>	<u>15,724</u>	<u>38,379</u>	<u>66,400</u>

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

While a provision has been made for legal costs, at this stage the Directors are 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 Deputy High Court Judge To on 1st April, 2004 (the “Judgment”) in HCA 3191/1999 between NWDC and SDL against SHKS, a wholly-owned subsidiary of the Company, SHKS was ordered to pay NWDC the sum of HK\$105,534,018.22 together with interest on the principal sum of HK\$80,117,652.72 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which His Lordship found (the “Oral Agreement”). As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK\$150,115,681.54 (being HK\$105,534,018.22 plus interest of HK\$44,581,663.32). SHKS has paid the Judgment amounts. SHKS filed an appeal against the Judgment both as to liability and quantum (the “Appeal”) to the Court of Appeal. That Court has handed down its judgment (“the Court of Appeal Judgment”) in which the Court ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the Court of First Instance but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK\$14,783,090.86 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal (the “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 equity holders' contributions advanced by NWDC on behalf of SHKS (the "New Claims"):

(i) on 1st March, 2000 in the sum of HK\$27,234,753.52;

(ii) on 2nd January, 2001 in the sum of HK\$7,697,418.42

(the Group understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and

(iii) on 4th June, 2004 in the sum of HK\$2,565,839.47 in respect of a bank loan by GUP (a provision has been made with respect to this claim in the accounts of SHKS).

The Group understands that a second further writ including a statement of claim ("HCA 376/2006") was issued by NWDC and SDL in February 2006, claiming, inter alia, the sum of HK\$37,498,011.41 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 and SDL asserts are due under the Oral Agreement. Accordingly, the Directors take 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. However, the Directors in Note 26 to the accounts have provided an analysis as to the possible financial implications for the Company depending on the ultimate outcome of the Final Appeal.

46. ASSETS PLEDGED TO THIRD PARTIES

At the balance sheet date, listed investments held by the Group and margin clients with market value of HK\$190,654,000 and HK\$1,197,005,000 respectively (2004: HK\$227,021,000 and HK\$847,385,000 respectively) were pledged to banks and financial institutions. Banking facilities of HK\$1,493,500,000 (2004: HK\$1,735,000,000) were available to the Group of which HK\$269,509,000 (2004: HK\$20,856,000) was drawn down. The Group also had leasehold properties with a total carrying value of HK\$153,618,000 (2004: HK\$95,776,000) pledged to banks as security for overdraft facilities of HK\$42,300,000 (2004: HK\$37,300,000) and instalment loans. The draw down of the overdraft facilities and the outstanding balance of the instalment loans at 31st December, 2005 were HK\$35,416,000 (2004: HK\$37,049,000) and HK\$50,367,000 (2004: HK\$30,307,000) respectively.

47. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

The principal subsidiary and associated companies as at 31st December, 2005 were as follows:

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Bali International Finance Limited	Hong Kong	137,500,000 HK\$1 shares	100%	Financial service and investment holding
Bali Securities Co. Limited	Hong Kong	7,000,000 HK\$1 shares	100%	Securities dealer
Best Decision Investments Limited	British Virgin Islands	50,000 US\$1 share	65%	Investment holding
Best Delta International Limited	British Virgin Islands	1 US\$1 share	100%	Investment holding
Boneast Assets Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Cheeroll Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding, securities and bullion trading
Constable Development S.A.	Panama	5 US\$1 shares	100%	Investment holding
Cowslip Company Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Excalibur Futures Limited	Hong Kong	20,000,000 HK\$1 shares	100%	Futures dealing and broking
Excalibur Securities Limited	Hong Kong	20,000,000 HK\$1 shares	100%	Securities broking
Gloria (Nominees) Limited	Hong Kong	2 HK\$100 shares	100%	Investment holding
Gloxin Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Grand Securities Company Limited	Hong Kong	20,000,000 HK\$1 shares	100%	Securities broking
Hing Yip Holdings Limited	British Virgin Islands	1 US\$1 share	100%	Property investment
Hilarious (Nominees) Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding
I-Market Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Itso Limited	Hong Kong	2 HK\$1 shares	100%	Securities trading
Lexshan Nominees Limited	Hong Kong	2 HK\$1 shares	100%	Nominee service
Macdonnell (Nominees) Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding
Oakfame Investment Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Pioneer Score Development Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Plentiwind Limited	Hong Kong	2 HK\$1 shares	100%	Futures trading

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Quick Art Limited	Hong Kong	3,540,000 HK\$1 shares	100%	Property investment
Ranbridge Finance Limited	Hong Kong	20,000,000 HK\$1 shares	100%*	Money lending
Ranbridge, Inc.	The Philippines	5,385,000 Peso 1 shares	100%	Money lending
Scienter Investments Limited	Hong Kong	2 HK\$10 shares	100%	Share trading
Shipshape Investments Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
SHK Absolute Return Managers Limited	Cayman Islands	10 US\$1 shares	100%	Investment holding
SHK Consultancy Services Limited	Hong Kong	2 HK\$1 shares	100%	Provision of consultancy service
SHK Financial Data Limited	Hong Kong	100 HK\$1 shares	51%	Provision of financial information service
SHK Fund Management Limited	Hong Kong	5,000,000 HK\$1 shares	100%	Funds marketing and management
SHK Global Managers Limited	British Virgin Islands	5,000 US\$1 shares	100%	Funds management
SHK Investment Services Limited	Hong Kong	100,000 HK\$10 shares	100%	Asset holding and leasing
SHK Online (Securities) Limited	Hong Kong	3,000,000 HK\$10 shares	100%	Online securities broking and margin financing
SHK Online Limited	Hong Kong	2,000,000 HK\$10 shares	100%	Online financial services
SHK Pearl River Delta Investment Company Limited	Hong Kong	2 HK\$1 fully paid shares 99,999,998 HK\$1 shares paid up to HK\$0.75 each	100%	Investment holding
SHK Quant Managers Limited	Cayman Islands	10 US\$1 shares	100%	Fund management
Sing Hing Investment Limited	British Virgin Islands	1 US\$1 share	100%	Property investment
Splendid Gain Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Shun Loong Bullion Limited	Hong Kong	6,000,000 HK\$1 shares	100%	Bullion dealing and brokering
Shun Loong Capital Limited	Hong Kong	65,000 HK\$100 shares	100%	Investment holding
Shun Loong Finance Limited	Hong Kong	1,000,000 HK\$1 shares	100%	Money lending

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Shun Loong Forex Company Limited	Hong Kong	3,200 HK\$10,000 shares	100%	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	Hong Kong	150,000 HK\$100 shares	100%	Futures and option dealing
Shun Loong Holdings Limited	Hong Kong	200,000,000 HK\$1 shares	100%	Investment holding
Shun Loong Nominees Limited	Hong Kong	10,000 HK\$10 shares	100%	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	Hong Kong	25,000,000 HK\$1 shares	100%	Computer and marketing advisory services and securities trading
Shun Loong Securities Company Limited	Hong Kong	50,000,000 HK\$1 shares	100%	Securities broking and share margin financing
SL Meridian Holdings Limited	British Virgin Islands	10,000 HK\$100 shares	100%	Investment holding
Sun Hing Bullion Company Limited	Hong Kong	5,000,000 HK\$1 shares	100%	Bullion trading
Sun Hung Kai (Nominees) Limited	Hong Kong	2 HK\$100 shares	100%	Nominee service
Sun Hung Kai Bullion Company Limited	Hong Kong	30,000,000 HK\$1 shares	100%	Bullion trading and investment holding
Sun Hung Kai Commodities Limited	Hong Kong	80,000,600 HK\$1 shares	100%	Commodities broking
Sun Hung Kai Forex Limited	Hong Kong	150,000,000 HK\$1 shares	100%	Foreign exchange dealing
Sun Hung Kai Insurance Consultants Limited	Hong Kong	1,000,000 HK\$1 shares	100%	Insurance broking and consultancy services
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	10,000,000 SGD1 shares	100%	International banking business
Sun Hung Kai International Limited	Hong Kong	100,000 HK\$100 shares	100%	Corporate finance service
Sun Hung Kai International Commodities Limited	Hong Kong	50,000 HK\$100 shares	100%	Securities, futures and options trading
Sun Hung Kai International Investment Management Limited	British Virgin Islands	50,000 US\$1 shares	100%*	Investment holding

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Sun Hung Kai Investment Services (Macau) Limited	Macau	Fully paid capital MOP 1,000,000	100%	Property holding
Sun Hung Kai Investment Services Limited	Hong Kong	2,900,000 HK\$100 shares	100%	Investment holding, share broking and margin financing
Sun Hung Kai Online Limited	British Virgin Islands	1 US\$1 share	100%	Online service
Sun Hung Kai Research Limited	Hong Kong	10,000 HK\$10 shares	100%	Securities research service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	12,000 US\$1 shares	100%	Investment holding and management service
Sun Hung Kai Securities (Overseas) Limited	Hong Kong	60,000 HK\$1 shares	100%	Investment holding
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	273,600,000 Peso 1 shares	100%	Investment holding
Sun Hung Kai Securities (Trustees) Limited	Hong Kong	3,000,000 HK\$1 shares	100%	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	Hong Kong	1,000 HK\$1 shares	100%	Investment holding
Sun Hung Kai Securities Limited	Hong Kong	249,797,178 HK\$0.5 shares	100%*	Investment holding
Sun Hung Kai Venture Capital Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Sun Hung Kai Wealth Management Limited	Hong Kong	5,000,000 HK\$1 shares	100%	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	Hong Kong	15,000,000 HK\$10 shares	100%	Share margin financing
Sun Tai Cheung Finance Company Limited	Hong Kong	25,000,000 HK\$1 shares	100%	Financial service
Swan Islands Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Tailwind Consultants Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Texgulf Limited	Hong Kong	2 HK\$10 shares	100%	Property investment
To Wan Development Company Limited	Hong Kong	1,000 HK\$10 shares	100%	Investment holding
Tung Wo Investment Company, Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Upper Selection Investments Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Upstand Assets Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Wah Cheong Development Company, Limited	Hong Kong	25,100,000 HK\$1 shares	100%*	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	2,675,400 US\$1 shares	100%*	Investment holding
Wineur Secretaries Limited	Hong Kong	2 HK\$1 shares	100%	Secretarial service
Yee Li Ko Investment Limited	Hong Kong	5,833,000 HK\$10 shares	100%	Property investment
Zeal Goal International Limited	British Virgin Islands	1 US\$1 share	100%	Investment holding

* These subsidiary companies are directly held by the Company.

Principal associated companies	Country of incorporation and operation	Equity interest held by		Principal activities
		Group	Company	
Chronicle Gain Limited	Hong Kong	45%	–	Property holding
Drinkwater Investment Limited	Hong Kong	22%	–	Property holding
Eurasia Mattress & Furniture Co. Ltd.	People's Republic of China	25%	–	Manufacture of mattresses and bedsteads
Omicron International Limited	British Virgin Islands	44%	38%	Investment holding
Quality HealthCare Asia Limited [#]	Bermuda	34%	–	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40%	–	Property development
Silver York Development Limited	Hong Kong	40%	–	Investment holding
Start Hold Limited	Hong Kong	33%	–	Investment holding
Tian An China Investments Company Limited [#]	Hong Kong	49%	41%	Investment holding
Tianjin Eurasia Mattress & Furniture Co. Ltd.	People's Republic of China	25%	–	Manufacture of mattresses and bedsteads
Yu Ming Investments Limited [#]	Hong Kong	22%	6%	Investment holding

[#] These associated companies are listed in Hong Kong and further details about these associated companies are available in their published annual reports.

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

48. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2005 HK\$'000	2004 HK\$'000
Associated companies			
Insurance premium received from listed associated companies		4,402	4,543
Interest income from a listed associated company and its subsidiary		6,754	7,079
Proceeds on disposal of an investment to a listed associated company		–	28,000
Promissory note received from a listed associated company		–	87,000
Purchase of two companies from a subsidiary of a listed associated company		52,283	–
Service fee received from listed associated companies		2,718	1,137
Term loans drawdown by a subsidiary of a listed associated company	(a)	<u>245,000</u>	<u>–</u>

Ultimate holding company and its subsidiary companies

Dividend received from a subsidiary of the ultimate holding company		21,810	7,270
Insurance premium received from the ultimate holding company and its subsidiaries		3,238	3,820
Rent and property management fee paid to a subsidiary of the ultimate holding company	(b)	2,301	–
Management fee paid to the ultimate holding company and its subsidiary company		<u>2,220</u>	<u>2,200</u>

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005 HK\$'000	2004 HK\$'000
Short-term benefits	43,845	40,906
Post-employment benefits	<u>1,631</u>	<u>1,417</u>
	<u>45,476</u>	<u>42,323</u>

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

Prior to 2005, the management fee could not be apportioned and allocated to any individuals. From 1st January, 2005, the management fee is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the relevant key management personnel. The total of such apportioned amounts, which have been included in the key management personnel compensation above for 2005, is HK\$1,626,000.

In addition to the above, the Group received brokerage fee of HK\$50,000 (2004: HK\$31,000) from the key management personnel with year end trade receivable of HK\$965,000 (2004: HK\$1,896,000) whereas the year end trade payable is HK\$2,781,000 (2004: HK\$5,346,000).

At the balance sheet date, the Group had the following material balances with related parties:

		Group	
		2005	2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from (to)			
associated companies			
Amounts due from			
a listed associated company			
– Loan note	(c)	78,000	78,000
– Term loans	(a)	245,000	–
– Others	(d)	782	–
Current portion of amounts due from			
other associated companies	(d)	6,575	291
Long term portion of amounts due from			
other associated companies	(e)	83,308	83,228
Amounts due to other associated			
companies	(e)	<u>(57,537)</u>	<u>(44,404)</u>

- (a) During the year, a loan facility up to HK\$280 million was granted to a subsidiary of a listed associated company for a term of 36 months from 7th November, 2005. The interest rate is charged at prime rate plus 1% per annum. The loan was guaranteed by the listed associated company.
- (b) The related party transactions are also “connected transactions” or “continuing connected transactions” as defined in the Listing Rules and details of which were contained in the Directors’ Report.
- (c) The loan note bears interest at 2.5% per annum and the interest is payable annually. It matures and is due for repayment on 29th August, 2008.
- (d) These amounts due from associated companies are unsecured, non-interest bearing and are expected to be settled within one year.
- (e) These amounts due from (to) associated companies are unsecured, non-interest bearing and have no fixed term of repayment.

49. MATURITY PROFILE OF ASSETS AND LIABILITIES

	As at 31st December, 2005					
	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	On demand HK\$'000	Total HK\$'000
Assets						
Term loans due from a listed associated company	245,000	–	–	–	–	245,000
Loan note of a listed associated company in loans and receivables	–	–	78,000	–	–	78,000
Fixed deposits with banks	95,212	–	–	–	–	95,212
Treasury bills	7,680	–	–	–	–	7,680
Term loans	66,200	3,200	–	–	97,567	166,967
Liabilities						
Bank loans and overdrafts	334,925	–	–	–	–	334,925
Loan notes	–	–	64,252	–	–	64,252
Long term bank loans	1,885	5,736	42,746	–	–	50,367
	As at 31st December, 2004					
	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	On demand HK\$'000	Total HK\$'000
Assets						
Loan note of a listed associated company	–	–	78,000	–	–	78,000
Fixed deposits with banks	80,290	–	–	–	–	80,290
Term loans	61,145	34,600	3,200	–	144,381	243,326
Debts securities in trading securities	7,741	–	–	–	–	7,741
Liabilities						
Bank loans and overdrafts	57,905	–	–	–	–	57,905
Loan notes	–	–	129,637	–	–	129,637
Long term bank loans	1,500	4,540	24,267	–	–	30,307
Obligation under a finance lease	76	–	–	–	–	76

The above tables only list out the assets and liabilities which have a term of maturity. Overdue assets are reported as on demand.

50. FINANCIAL RISK MANAGEMENT

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

The Group has established policies and procedures for risk management which are reviewed regularly by the management and the Credit & Risks Management Committee (the "CRM"), which reports to the Executive Committee of the Board of Directors, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The Group's Internal Audit and Compliance department ("IAC") (which reports independently to the non-executive Chairman and the Audit Committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

Market Risk*(i) Trading Risk*

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

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

(ii) Foreign Exchange Risk

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

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

Credit Risk

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

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

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

Liquidity Risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Executive Directors, the Chief Financial Officer and relevant senior

managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Interest Rate Risk

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

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

	Interest rate	Within					More than	Total
		1 year	In year 2	In year 3	In year 4	In year 5	5 years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December, 2005								
Fixed deposits with banks								
(note 29)	0.28%-7.25%	95,212	-	-	-	-	-	95,212
Treasury bills (note 29)	3.78%	7,680	-	-	-	-	-	7,680
Loan note due from a listed								
associated company (note 26)	2.5%	-	-	78,000	-	-	-	78,000
Bank loans (note 30)	4.85%-5.35%	(255,000)	-	-	-	-	-	(255,000)
Loan notes (note 37)	4%	-	-	(64,252)	-	-	-	(64,252)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2004								
Fixed deposits with banks								
(note 29)	0.03%-7.50%	80,290	-	-	-	-	-	80,290
Loan note due from a listed								
associated company (note 23)	2.5%	-	-	-	78,000	-	-	78,000
Marketable debt								
securities (note 28)	1.86%	7,741	-	-	-	-	-	7,741
Loan notes (note 37)	4%	-	-	-	(129,637)	-	-	(129,637)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

	Interest rate	Within 1 year HK\$'000	In year 2 HK\$'000	In year 3 HK\$'000	In year 4 HK\$'000	In year 5 HK\$'000	More than 5 years HK\$'000	Total HK\$'000
At 31st December, 2005								
Secured margin loans (note 27)	7.00%-30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,293,285
Term loans (note 27)	7.00%-26.82%	376,636	-	-	-	-	-	376,636
Bank overdrafts (note 30)	4.85%-8.50%	(79,925)	-	-	-	-	-	(79,925)
Secured long term bank loans (note 38)	5.20%-5.75%	<u>(7,621)</u>	<u>(8,195)</u>	<u>(8,463)</u>	<u>(7,848)</u>	<u>(18,240)</u>	<u>-</u>	<u>(50,367)</u>
At 31st December, 2004								
Secured margin loans (note 27)	4.00%-30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,441,056
Term loans (note 27)	5.00%-26.82%	181,310	3,200	-	-	-	-	184,510
Bank overdrafts (note 30)	5.5%	(57,905)	-	-	-	-	-	(57,905)
Secured long term bank loans (note 38)	1.15%-3.00%	<u>(6,040)</u>	<u>(6,172)</u>	<u>(6,307)</u>	<u>(6,447)</u>	<u>(5,341)</u>	<u>-</u>	<u>(30,307)</u>

51. SUBSEQUENT EVENTS

- (a) On 3rd April, 2006, Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of the Company, entered into a conditional option agreement with CLSA Capital Limited ("CLSA"), pursuant to which Wah Cheong was granted the option to acquire further 34,156,666 shares in Quality HealthCare Asia Limited ("QHA") from CLSA at an option consideration of HK\$27,752,291. The option agreement will only take effect after the approval of the shareholders of the Company, Allied Properties (H.K.) Limited and Allied Group Limited, the ultimate holding company of the Company respectively, and the confirmation from the Securities and Future 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\$83,256,873.375 (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 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 further 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 the Company as vendor and 3V Capital Limited as a placing agent in respect of the placing of 175,000,000 existing shares in Tian An China Investments Company Limited ("Tian An"), a listed associated company of the Group, to independent investors at a price of HK\$5.1 per share, and
- a subscription agreement between the Company and Tian An in respect of the Company'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 is expected to take place on or before 11th April, 2006. However, the subscription agreement is conditional upon:

- The Stock Exchange of Hong Kong Limited 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 the Group'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.

3. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the subscription of the 248,000,000 new Shares and the issue of Bonds, the Enlarged Group's current cash balance and resources as well as its available banking facilities, the Enlarged Group has sufficient working capital for its present requirements at least the next 12 months from the date of this circular.

4. INDEBTEDNESS OF THE ENLARGED GROUP

At the close of business on 30th April, 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK\$1,045.4 million, comprising secured bank loans and overdrafts of approximately HK\$116.1 million, unsecured bank loans and overdrafts of approximately HK\$755.7 million, 4% unlisted loan notes of approximately HK\$65 million, unsecured borrowings of approximately HK\$57.5 million from associates, unsecured borrowings of approximately HK\$2.5 million from investee companies, unsecured borrowing of approximately HK\$1 million from a minority equity holder, unsecured borrowings of approximately HK\$39.6 million from a fellow subsidiary company and unsecured other borrowings of approximately HK\$8 million. The Enlarged Group's banking facilities were secured by charges over its assets, including investment properties, leasehold interests in land and buildings, and listed investments belonging to the Enlarged Group and margin clients.

In addition, the Enlarged Group had contingent liabilities in the sum of approximately HK\$20.8 million in respect of guarantees for a banking facility granted to an investee company, indemnities on banking guarantees made available to a clearing house and regulatory body and other guarantees. There were also claims arising from the litigations with New World Development Company Limited and Shanghai Finance Holdings Limited, further particulars of which litigations are set out in the section headed "Litigation" in Appendix IX to this circular.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debenture or other loan capital or bank overdrafts, loans or other similar indebtedness or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 30th April, 2006.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30th April, 2006.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2005, the date to which the latest published audited financial statements of the Company were made up.

6. FINANCIAL AND TRADING PROSPECTS

Hong Kong economic conditions are presently quite robust, with the unemployment rate continuing to fall and personal income levels continuing to rise. The rate of growth of the P.R.C. economy has remained firm. A significant portion of the equity capital raised through the local stock market is raised by the PRC companies or companies expanding into China, and increasingly, affluent mainland consumers continue to visit Hong Kong. Accordingly the significance of the PRC to the outlook for Hong Kong is expected to continue to increase.

The Company is committed to pursuing growth in its financial services businesses both through organic growth and acquisitions where appropriate. The intention is to not only expand existing services but to create new products and target additional market segments where opportunities are identified.

On 17th May, 2006 and 18th May, 2006, the Company, AGL and APL jointly announced that AP Emerald Limited (“APE”), an indirect wholly-owned subsidiary of APL, as vendor, had entered into placing agreements (as amended) to place 169 million Shares (the “1st Placing”) and 79 million Shares (the “2nd Placing”) to independent investors at a price of HK\$7.00 per Share respectively and APE would subscribe for 248 million Shares at the same price of HK\$7.00 per Share (the “Subscription”). The 1st Placing was completed on 22nd May, 2006, while the 2nd Placing and the Subscription will be subject to the relevant shareholders’ approvals of the Company, AGL and APL respectively.

In view of the current market conditions, the Directors consider that the 1st Placing and the 2nd Placing, together with the Subscription, represent good opportunities to raise further working capital for the Company while at the same time broadening its shareholder and capital base. The net proceeds of the Subscription of approximately HK\$1,685.5 million will be applied by the Group to fund the possible acquisition of the entire interest in UAF Holdings Limited as announced on 19th June, 2006, or if such acquisition does not proceed, to fund new investments and acquisitions in future as and when opportunities arise and require and for general working capital purposes.

The Company maintains a strong balance sheet and a sound management team, and its recent financial performance has been pleasing. With the benefit of favourable economic conditions, the Directors would hope to continue to achieve steady performance and ongoing expansion of the Company’s core businesses.

(1) FOR THE YEAR ENDED 31ST DECEMBER, 2003

The following is the management discussion and analysis principally extracted from the annual report of the Company for the year ended 31st December, 2003. Terms and definitions used below shall bear the same meanings as defined in such annual report. Due to the adoption of new Hong Kong Financial Reporting Standards in 2005, certain figures have been restated to conform with the new accounting policies adopted by the Group in 2005.

OVERVIEW OF 2003

The Hong Kong stock market once again demonstrated its resilience and staged a remarkable recovery in the second half of 2003. During this period, amid extremely volatile market conditions, the Hang Seng Index finished strongly with a gain of 34.9% for the full year to close at 12,575.94 while the average daily turnover rose 58.6% to HK\$10,265 million. The Hang Seng H-share Index rose by 152%, fuelled by investors' interest in, and enthusiasm for, the P.R.C. economy. This strong market performance marked a return of confidence for both local and foreign investors as concerns over the uncertainties caused by the aftermath of the Iraq War and the outbreak of SARS in the first half of the year dissipated.

This trend reversal was supported by a weakening US dollar which, coupled with the bottoming of the long-term bond yield in the U.S., induced an exodus of funds from U.S. Treasuries into other investments and markets. The more recent widespread speculation concerning a possible RMB revaluation also attracted money into Hong Kong in search of mainland P.R.C. investment opportunities. The high demand for H-shares was also reflected in increased activity in the second half in both Initial Public Offerings (IPOs) and secondary issues or placements, drawing active interest from investors resulting in significant price appreciation of certain IPO issues after listing.

Investors' confidence was further supported by the upturn in the interest rate cycle and by both mainland and Hong Kong GDP growth exceeding the most optimistic forecasts. Supportive measures introduced by the mainland P.R.C. government were well received. These included the introduction of the Individual Visa Scheme, and the confirmation and further detailing of CEPA. These initiatives have both assisted the recovery in the retail sector and contributed to an upsurge in Hong Kong property prices in the second half of the year.

REVIEW OF OPERATIONS

Securities Broking

Continuing efforts to diversify our products and services range enabled the Group to capitalize on the market rebound. Our involvement as a Liquidity Provider (LP) and distributor of Equity Linked Instruments (ELIs) for several leading warrant

issuers and international investment banks provided us with a significant income stream. With the deregulation of the minimum brokerage rules in April 2003, various promotional schemes such as a series of asset gathering and warrant incentive programs, benefited both our clients and account executives. In addition, our new Sales Administration Management System (SAMS) launched in 2003 provided our account executives with better access to client, market and trade information and enabled our sales force to further improve our customer service compared to the services offered by our competitors. Further, third party execution and clearing services provided to non-exchange participants grew significantly over 2002. As we participated in more than 46 issues of new shares offerings, sub-underwriting and placements of equities and warrants for clients, the Group's IPO financing also increased substantially, generating both brokerage and substantial incremental income based on the interest spread. Strong links were established with mid-sized Japanese brokerages, without their own presence in Hong Kong, to satisfy their clients' interest in investing in the China-related market. This has resulted in substantial order flow.

The Group's retail network also enabled it to act successfully as the coordinating distributor for, and dealer in, the mini-bond and structured note products of major investment banks.

Our Research team expects that the positive market sentiment and the economic recovery in Hong Kong and overseas should enable the stock market to maintain its momentum during 2004. The equity capital market is expected to remain strong with more new share issues including H-shares expected. New sales executives are continually being recruited to further consolidate our leadership position. If the market remains strong, the outlook for the Group's traditional brokerage business is positive.

New technologies such as IVRs, telephone order and inquiry systems, and online trading were added to our traditional Account Executive network in 2003. These valued added services increased our clients' choice of access and dealing capabilities.

Financial Institutions Group

The Financial Institutions Group (FIG) was established at the end of 2002 to provide customized services for financial institutions and international investment banks. The FIG team also has a mandate to identify new business niches that complement existing brokerage businesses of the Group.

Derivatives were a key area of focus for FIG during 2003 and accordingly much effort was channeled into development of the necessary risk management and system infrastructure to support such activities. Additionally, the recruitment of high calibre personnel with appropriate experience was a priority. At present, the Group maintains three operations under the FIG team, Derivatives and Arbitrage Trading, Derivatives Broking and Structuring, and Equity Broking and Structuring.

During 2003, the Group was active in the local options and futures market, capturing a significant market share that resulted in the Group being ranked at or close to Number 1 in the HKEx Turnover Ranking for listed HSI options. In the area of arbitrage and derivatives trading, FIG also managed to generate substantial returns on capital employed.

Online Trading

During the first half, SHK Online maintained its growth momentum from the previous year, and slightly improved both its turnover and market share. By the end of 2003, SHK Online, capitalizing on its positioning as an “industry leader”, captured significant increases in client base, volume, market share, and importantly, revenue. For the year as a whole, SHK Online was able to post its maiden annual profit.

The second half of 2003 also saw the launch of SHK Online’s new online trading service for HSI futures contracts, and shortly thereafter, H-share Index futures. The new eFutures product was a natural complement to SHK Online’s existing product, and has been well received by its clients. Operational profitability was achieved in a very short time-span of 3 months.

Current indications suggest generally more favorable market conditions in 2004 compared to the previous year. Work is already underway to capitalize on market conditions, with the planned introduction of additional products and services throughout the year. The focus will be on the various key ingredients that have underpinned SHK Online’s success to date.

Research

Notwithstanding the difficulties encountered in the first half, the Group strengthened its research capability by recruiting high calibre staff during the year. Except for during the brief period of SARS, our Research team made frequent trips to the mainland P.R.C. to deepen our coverage of H-shares, together with numerous plant visits to monitor the business development of industrial companies in the midst of the global outsourcing trend. We published a total of 322 strategy, sector and company reports on top of our daily Investment Notes; attended 638 company visits and presentations; and recorded 2,988 media quotes for the year representing a 9.5% improvement over 2002. Two press conferences and eleven branch seminars were also hosted by our Research team.

In general, 2003 was another productive year as our top 20 calls again outperformed the HSI by substantial margins of 50.7-105%, despite the sharp market rally. Our model portfolio, which comprised our most preferred stocks, registered a significant capital gain of 68.6% in 2003, which not only outperformed the HSI, but ranks its performance within the top-quartile of Hong Kong authorized funds.

Our independence is demonstrated by the following breakdown in the recommendations made throughout 2003: BUY 39.1%, HOLD 35% & SELL 25.9%.

Corporate Finance

The favorable market conditions of the second half described above stimulated the economy and encouraged cross-border co-operation opportunities. The Group acted as financial advisors to listed companies and on issues including merger & acquisition, investment, financing and share repurchase. We were appointed as a placing agent for share placements and underwriting on various new issues, and as the sponsor for an IPO.

We continued to be active in the local market, and successfully completed the sponsorship of Broad Intelligence International Pharmaceutical Holdings Limited on the main board of The Stock Exchange of Hong Kong Limited. We were appointed as the financial advisor to the offerors on the acquisition of listed companies including Shanghai Merchants Holdings Limited, L.P. Lammas International Limited, Digital World Holdings Limited, Oriental Explorer Holdings Limited and Fortuna International Holdings Limited. Additionally, we were the financial advisor to Tian An China Investments Company Limited, Allied Group Limited and our own Company on their general offers for the repurchase of shares; and the placing agent of Wing Lee Holdings Limited and QPL International Holdings Limited for the placement of shares. Numerous underwritings of shares, including China Life Insurance Co., Ltd., AviChina Industry & Technology Company Limited, and Hopewell Highway Infrastructure Limited were also undertaken.

China Operations

During 2003, the China Operations department continued to provide corporate finance services to clients in China regarding their potential listing on the Hong Kong Exchange, and maintained a close relationship with its strategic partner companies and organizations on the mainland. We believe that our expansion in Shanghai, the economic and financial centre of China, has assisted liaison with our clients and the market, and has also strengthened the Group's brand name.

Securities Financing

The market rebound in the second half of the year resulted in an increase in our margin loan book of 21.2% compared to the year of 2002. Nett revenues were strongly positive through the substantial use of the Group's shareholders' funds in a low interest rate environment.

Term Lending

Term lending levels trended downwards in 2003 as stronger capital markets provided potential borrowers with alternative funding opportunities. Nett income levels however, were still strongly positive.

Foreign Exchange, Bullion, Commodities, Financial Futures and Other Products

Partly due to the launch of eFutures in October 2003, the transaction volume in Hong Kong commodities products soared by 92% compared with that of 2002.

However, the strong sentiment in the stock market attracted investor focus and the redeployment of funds from leveraged forex to securities trading. While the volume transaction in forex declined by 8% in 2003 over the previous year, revenue, including dealing profit and interest income, has improved by approximately 25%. In addition, the shortfall in volume transaction from forex was compensated by a 30% growth this year in overseas commodities products, especially DJIA, S&P, and physical commodities traded on Japanese exchanges.

The volatility in precious metals provided opportunities for the Group to expand its business in this area, to the extent that it recorded a remarkable growth in volume exceeding 100% compared with that of 2002.

Wealth Management

2003 was a year of rapid growth for the Wealth Management team. The number of consultants grew from 14 to 39 and revenue increased by more than 400% resulting in early profits for the department. We expect growth to continue, as our team benefits from a growing need in the retail market for independent quality financial advice. We believe the Group is in a unique position to offer tailor-made financial solutions using a full range of financial products.

Alternative Investments

In 2003, our Fund Management's Alternative Investments division experienced an impressive growth in assets under management in its offshore SHK Global Strategy Fund from US\$118 million to US\$220 million. This fund is open only to qualified investors and is not marketed to the public.

The success of its SHK US\$ Yield Plus Fund led our team to prepare for the launch in the first quarter of 2004 of a second fund, the SHK Value Restructuring Fund.

Given the increasing awareness of, and demand for, quality alternative funds in the Asia-Pacific region, we believe our research expertise and market knowledge should provide opportunities to introduce top performing funds and innovative products to Asian investors.

Insurance Broking

Despite challenging market conditions in the first half of the year, the Insurance team performed well in 2003 and recorded an annual profit growth of over 20%

compared with last year. We continue to maintain our leadership position as the largest locally based insurance broker in Hong Kong.

Our team adopted an aggressive marketing approach focusing on specialty products and industries. In order to maintain competitiveness and sustain growth and profitability, we will concentrate on strengthening our relationship with our customers and insurers, and enhancing our professional standards through constant staff development and operational review.

Electronic Financial Information Service

Our continued adoption of a stringent cost control policy resulted in further lowering of operating costs. Towards the last quarter of 2003, we recorded turnaround results with a small operating profit compared with a loss in 2002.

Our new product, “Intelligent Stock Monitor”, received encouraging response from the market and the revenue from it is still growing.

We remain one of the dominant financial content providers for Hong Kong equities, in particular for the online market. We will continue to upgrade our existing products with more advanced features. We hope to improve our overall performance for 2004 in line with the current stock market conditions.

Shun Loong Holdings Limited

Shun Loong Holdings Limited (“Shun Loong”) was acquired in June 2003 as a strategic move to further enhance the Group’s competitiveness as a dominant financial services provider in Hong Kong.

Since the acquisition, Shun Loong has continued to operate as an independent entity, although subjected to our overall policies on compliance, credit, cost control and accounting. Several significant reform measures, including availability of financing from the parent, were introduced to facilitate its business development. The re-structured management team reviewed and revised its policies to meet the Group’s standards with heightened regulatory and compliance requirements. Shun Loong has strengthened its brokerage business by a series of special offers and a commission rebate campaign; and re-focused its business direction on private client services and the China market. As a result of this campaign and re-focusing, the value of client assets in its custody increased substantially from acquisition to the end of 2003.

Shun Loong’s focus is to become an all-round financial services institution through continued diversification into new areas such as equity capital market and forex proprietary trading as well as integration of its workflow through merger and outsourcing arrangements with the Group.

Sun Hung Kai International Bank [Brunei] Limited

Sun Hung Kai International Bank [Brunei] Limited, a newly incorporated wholly-owned subsidiary of our Group has been granted the first Full International Banking License in Brunei under the International Banking Order, 2000 issued by the Ministry of Finance, Brunei.

A formal opening of Sun Hung Kai International Bank [Brunei] Limited was held in Brunei on 5th February, 2004. The opening ceremony was officiated by the Honorable Deputy Minister of Finance, YM Dato Paduka Haji Yakub bin Abu Bakar at the office of the new bank. The bank intends to conduct 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.

COST CONTROL

Administrative expenses increased by 18% to HK\$285.6 million (2002: HK\$242.0 million) as a result of growth, and notwithstanding stringent cost controls and ongoing development of operational efficiencies.

Staff costs (including directors' emoluments) and contributions to retirement benefit schemes increased by 15% to HK\$148.2 million (2002: HK\$128.9 million) predominately as a result of the acquisition of Shun Loong in June 2003 and the rapid development of our Wealth Management, Alternative Investments and International Commodities departments. However, as these new departments were profitable, the increase in staff costs were considered to be acceptable.

Towards the end of the year, we managed to negotiate a substantial reduction in the lease costs at our Pacific Place headquarters. These savings will be reflected from 2004 onwards.

HUMAN RESOURCES AND TRAINING

As of 31st December, 2003, the total number of employees was 779. Staff costs (including directors' emoluments) and contributions to retirement benefit schemes amounted to approximately HK\$148.2 million (2002: HK\$128.9 million).

We operate differing remuneration schemes according to role. For sales personnel of Sun Hung Kai, the package comprises a base pay or draw, and commission/bonus/sales incentive, whereas for non-sales personnel, it comprises base pay and performance-related bonus elements when circumstances are appropriate.

For salary-based non-sales personnel of Shun Loong, the package comprises a base pay and performance-related bonus when circumstances are appropriate, while

for its draw-based sales personnel, the package comprises a base draw and commission.

There are currently no share option schemes applicable to the Group's officers or employees.

The Group will, in the coming year, continue to recruit suitable candidates in order to capture additional niche markets in the trading and institutional broking areas.

In our continuing support of the Financial Services Bureau in meeting the human resources development needs of the financial services sector, we have offered internship places to local university students to enhance their practical working experience and develop their financial knowledge. We also extensively recruit trainees each year, particularly in our branches.

We have organized a total of 22 in-house Continuing Professional Training (CPT) programs for our sales staff to ensure that they are updated with new product knowledge and current regulatory issues.

INVESTMENTS IN PRINCIPAL ASSOCIATED COMPANIES

Tian An China Investments Company Limited (48.17% owned)

Tian An China Investments Company Limited ("Tian An") recorded sales of total gross floor areas of approximately 291,000m² (2002: 250,000m²), representing an increase of 16% over 2002. Properties sold in the P.R.C. such as Shanghai Tian An Villa (Phase 1), Wuxi Redhill Peninsula (Phase 2), Changzhou New City Garden (Phase 3), Nantong Tian An Garden (Phase 1) and Tian An Cyber Park contributed significantly to a satisfactory performance with the company's nett profit increasing by 17.7% to HK\$102.4 million.

Dense population and serious traffic congestion in central commercial and residential areas of major mainland cities has led to an acceleration of urbanization on the outskirts. This, together with the government policy of revitalizing the economy in the old industrial area of the three provinces in the north-east; the economic growth in the Yangtze River Delta; the gradual strengthening of the economic system of the Pearl River Delta should provide developers with significant opportunities. The current land policy and the relatively tight policy on project financing have increased developer costs, resulting in a phase of elimination of weaker participants. Developers with solid resources, such as Tian An, should benefit from this trend.

Tian An has adopted a positive approach to deal with external changes by actively creating opportunities, controlling risk, costs and expenses, and closely monitoring the schedule of construction works. Tian An will also appropriately increase its land reserve as a foundation for its long-term development.

The Group's shareholding in Tian An increased from 43.27% to 48.41% at the year end as a result of Tian An's share repurchase program, and the acquisition of additional shares.

Quality HealthCare Asia Limited (28.73% owned)

Following significant corporate restructuring in 2002, Quality HealthCare Asia Limited ("Quality HealthCare") in 2003 concentrated on consolidation and focused its resources on the growth and development of its core healthcare businesses. Although the destabilizing effects of a takeover bid, corporate restructuring costs and SARS in the first half adversely affected Quality HealthCare's results, the acquisition of new clients assisted the core Medical and Healthcare Services division in producing satisfactory results. The Elderly Care division's performance was adversely impacted by low occupancy rates and a competitive market, but it is devoting further effort towards building a stronger performance in 2004.

Quality HealthCare's range of Life Enhancement Services, initially introduced to its clients in 2002, continued to produce encouraging results in 2003. Additional services such as Sleep Study have been launched, and it is Quality HealthCare's intention to develop additional medical, including specialist, services for Hong Kong.

Yu Ming Investments Limited (21.53% owned)

Yu Ming Investments Limited ("Yu Ming") derived most of its profit in 2003 from disposal of investments in equities, debt securities, partial recovery of debt from the restructuring of Tem Fat Hing Fung (Holdings) Limited, and earnings from the Argyle Centre shopping mall in Mongkok.

Its major investments were in Hong Kong equities, international debt instruments and its investment in the Argyle Centre, a fully leased shopping mall in a prime location in Mongkok. Rental income was stable, benefiting from low interest rates through a leveraged structure in an associated company holding the property.

A significant portion of the equity and debt securities portfolio was disposed of in 2003, realizing a good capital gain.

In August 2003, Yu Ming joined a private sector consortium (JV) to invest with the Hong Kong Government and the Airport Authority to develop and operate the Hong Kong International Exhibition Centre (IEC) at the Hong Kong International Airport. A soft opening is expected at the end of 2005. As at 31st December, 2003, Yu Ming had a 37.85% interest in the JV and has the right to increase its interest to 60% at cost until 23rd August, 2004. That JV in turn has a 13.5% interest in IEC.

Yu Ming is optimistic about the prospects of the Argyle Centre and IEC. The recovery of retail activities and the property market in Hong Kong is expected to enhance the return from, and value of, the Argyle Centre. IEC will benefit from its prime location next to the Hong Kong International Airport.

We understand that Yu Ming will continue to invest in international debt securities and adopt a cautious approach to the Hong Kong equity market.

FINANCIAL RESOURCES AND GEARING RATIO

The Group consistently maintained a strong financial position.

During the year, the Company issued 4% loan notes in the amount of HK\$255.2 million due to mature on 7th March, 2008. Of the principal amount, HK\$23.6 million was repurchased during the year.

As at 31st December, 2003, the net assets of the Group amounted to HK\$4,475.3 million which was similar to the level recorded as at 31st December, 2002. The Group's short-term bank deposits, bank balances and cash amounted to HK\$566.9 million. The Group's total bank borrowings together with the 4% loan notes mentioned above amounted to HK\$551.3 million in total with HK\$289.4 million repayable within one year and HK\$261.9 million repayable beyond one year.

The liquidity of the Group remained healthy as demonstrated by the current ratio (current assets/current liabilities) of 1.92 times as at 31st December, 2003.

The Group continued to maintain a low gearing ratio, calculated on the basis of the Group's total bank borrowings and loan notes over the Group's shareholders' funds, at 12.32% at the year end.

CAPITAL STRUCTURE, BANK BORROWINGS AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The issued share capital of the Company decreased from HK\$300.8 million to HK\$249.1 million during the year as a result of the repurchase of 255,234,309 shares pursuant to a general offer (the Repurchase) and the repurchase of 3,286,000 shares in the stock market.

Other than the mortgage loans and the 4% loan notes issued for the term of 5 years as part of the consideration for the Repurchase, the Group's bank borrowings were on a short-term basis and over 90% in HK dollars. They are charged at floating interest rates. There are no known seasonal factors in our borrowing profiles.

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

As detailed in the 2002 Annual Report, in December 2002, the Group entered into a conditional sale and purchase agreement with an indirect subsidiary of Allied Group Limited, the Company's ultimate holding company, to sell its entire 50% shareholding in Earnest Finance Limited, the holding company of SHK Finance Limited, together with the assignments of advances, for an aggregate consideration of HK\$87.5 million. The agreement was completed on 24th January, 2003 and resulted in a loss of HK\$5.5 million. The reason for the disposal was the rationalization of the joint venture's consumer finance division.

As detailed in the announcement of the Group dated 25th June, 2003 and in its 2003 Interim Report, on 25th June, 2003 the Group acquired all the shares in Shun Loong Holdings Limited which provides a full range of traditional and online brokerage services through its subsidiaries.

Apart from the above, there has been no material acquisition or disposal of subsidiaries, associated companies or jointly controlled entities by the Group in the year of 2003.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover, contributions to profit or loss from operations, segment assets and liabilities are shown below:

	2003					
	Securities broking and dealing <i>HK\$'000</i>	Forex, bullion, commodities and futures <i>HK\$'000</i>	Margin finance and other financing services <i>HK\$'000</i>	Term loans <i>HK\$'000</i>	Corporate finance and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	189,395	130,292	168,271	89,867	373,245	951,070
Less: intra-segment turnover	(3,912)	(1,387)	(25,248)	(18,505)	(234,557)	(283,609)
	<u>185,483</u>	<u>128,905</u>	<u>143,023</u>	<u>71,362</u>	<u>138,688</u>	<u>667,461</u>
Operating profit after finance costs	<u>22,169</u>	<u>16,347</u>	<u>64,263</u>	<u>64,523</u>	<u>(24,156)</u>	143,146
Share of profits and losses and amortization of goodwill/negative goodwill						
– Associated companies						104,445
– Jointly controlled entities						1
Profit before taxation						<u>247,592</u>
Segment assets	914,578	744,476	1,328,914	350,685	917,925	4,256,578
Deferred tax assets	–	–	–	8,800	1,430	10,230
Taxation recoverable	–	–	–	5,215	–	5,215
	<u>914,578</u>	<u>744,476</u>	<u>1,328,914</u>	<u>364,700</u>	<u>919,355</u>	4,272,023
Investments in associated companies						2,358,485
Investments in jointly controlled entities						937
Total assets						<u>6,631,445</u>
Segment liabilities	(691,877)	(598,286)	(260,175)	(16,024)	(558,811)	(2,125,173)
Taxation payable	(5,487)	(2,007)	(5,052)	–	(12,998)	(25,544)
Deferred tax liabilities	(1,350)	–	–	–	(2,662)	(4,012)
Minority interests	(794)	–	–	–	(617)	(1,411)
Total liabilities	<u>(699,508)</u>	<u>(600,293)</u>	<u>(265,227)</u>	<u>(16,024)</u>	<u>(575,088)</u>	<u>(2,156,140)</u>
Capital expenditures	2,323	805	248	9	44,192	47,577
Amortization and depreciation	2,975	880	423	10	16,040	20,328
Impairment charge	–	–	–	–	6,524	6,524
Other non-cash expenses	<u>529</u>	<u>2,954</u>	<u>31,201</u>	<u>–</u>	<u>80,256</u>	<u>114,940</u>

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

CHARGES ON GROUP ASSETS

Listed shares with an aggregate value of HK\$144.1 million were pledged by subsidiaries for bank loans and overdrafts. Leasehold properties of the Group with a total book value of HK\$93.7 million were pledged by subsidiaries to banks for mortgage loans and overdrafts granted to them with a total outstanding balance of HK\$72.7 million as at 31st December, 2003.

CONTINGENT LIABILITIES

Details regarding the contingent liabilities are set out as below:

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for banking and loan facilities granted to:				
– subsidiary companies	–	–	308,000	433,000
– a subsidiary company of a jointly controlled entity	–	100,000	–	100,000
– an investee company	6,989	7,020	6,989	7,020
Indemnities on banking guarantees made available to a clearing house and regulatory body	4,540	4,540	–	–
Indemnities on letter of credit issued by a bank for a loan to a client	67,556	–	–	–
Other guarantees	913	1,734	–	–
	<u>79,998</u>	<u>113,294</u>	<u>314,989</u>	<u>540,020</u>

- (b) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of the Company, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a Shenzhen P.R.C. registered company, claiming the return of certain shares in Shenzhen International Holdings Limited (worth approximately HK\$41 million at 31st December, 2003) together with interest, costs and damages. The actions taken by SHKIS were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The claim is being strenuously defended and at this stage the Directors take the view that no contingency arises for which a provision is required to be made. The case is at an early stage with interlocutory matters only being dealt with. The plaintiffs have taken very few actions to progress their writ.

- (c) On 4th February, 2004, Sun Tai Cheung Credits Limited (“STCC”), also an indirect wholly-owned subsidiary of the Company, and SHKIS were served with a writ attaching a statement of claim by Shanghai Finance Holdings Limited, claiming, inter alia, an Order that the sale of the shares in Shun Loong Holdings Limited (“Shun Loong Shares”) by STCC as assignee to SHKIS (at a consideration of HK\$36,500,000 subject to additional amounts in a sum of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, as against STCC, damages and an account as to the money obtained by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and firmly believe there is no basis to the claim.

Legal costs will be recorded in the profit and loss account as incurred.

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

The following is the management discussion and analysis principally extracted from the annual report of the Company for the year ended 31st December, 2004. Terms and definitions used below shall bear the same meanings as defined in such annual report. Due to the adoption of new Hong Kong Financial Reporting Standards in 2005, certain figures have been restated to conform with the new accounting policies adopted by the Group in 2005.

OVERVIEW OF 2004

2004 was a difficult year for forecasters as conflicting price trends dominated the markets for equities, bonds, commodities and energy. While many observers were predicting a hard landing for the Chinese economy and soft property prices in Hong Kong’s rising interest rate environment, the P.R.C. economy grew 9% for the year and Hong Kong’s residential property prices recovered sharply signalling an end to the 68-month deflationary period experienced in Hong Kong.

Although stock turnover contracted in the early part of the year due to surging oil prices, cooling measures imposed upon the P.R.C. economy and fear of interest rate hikes in the U.S., a reversal took place mid-year, which subsequently gained momentum from enthusiasm relating to Macau linked stocks and extensive speculation regarding the appreciation of the RMB. By year-end, the average daily turnover was more than HK\$18 billion, which marked a 78.8% increase over 2003. Hong Kong Stock Exchange annual turnover reached a record high of HK\$3,941 billion surpassing the previous record set in 1997. The Hang Seng Index finished the year 13% higher than year-end 2003.

According to a recent survey conducted by The Stock Exchange of Hong Kong Limited, the number of retail investors participating in the stock market reached a new historical high of over 1.4 million investors. With the growing interest from investors in the P.R.C., we anticipate this number may continue to rise.

REVIEW OF OPERATIONS

Securities Broking

Our commission income, which is primarily derived from stock broking exceeded that of the previous year. The efforts of our experienced sales staff, working through our extensive network, expanded our market share during the year.

Excess liquidity fueled buoyant primary and secondary markets in fund-raising activities, with HK\$271 billion in equity funds being raised through the HKEx in 2004; and 70 companies being listed on the main board and GEM combined. Our strong brand and extensive client base enabled the Group to be involved in a number of fund-raising exercises. We participated in more than 60 issues including new share offerings, sub-underwriting and placements of equities and warrants for clients.

We also continue to maintain a strong income stream from our role as a Liquidity Provider of derivative warrants, and equity linked notes to warrant issuers.

Financial Institutions Group

The Financial Institutions Group has been able to build on the strong momentum generated in 2003, posting impressive growth and profit in 2004. Derivatives remained the primary focus for both trading and institutional broking. Additional traders have been recruited, and customer accounts added throughout 2004. The resulting increase in trading and broking activities was a significant factor in the Group's continued dominant market position and ongoing high ranking in the local listed-derivatives market.

Online Trading

SHK Online achieved significant growth across the board in 2004. The division was able to benefit from its largely fixed cost structure and translated much of the increased revenue directly into bottom-line profit.

At the end of 2004, the number of accounts increased by 34% compared to the previous year. Total transaction value for 2004 exceeded HK\$50 billion, representing an increase of over 120% compared to the previous year. Net profit for the year increased by 240% compared to the previous year, largely as a result of continued focus on cost control and further rationalizations on profit margin.

The launch of the Lucky Draw Programme, in which one Mini Cooper will be given away each quarter in 2005, should underpin consistent growth in our client base and transaction volume. The introduction of new products, such as the new e-Option platform for the locally listed HSI Options and additional e-Futures products should further diversify revenue streams and provide additional growth. A number of short-term, tactical marketing programmes have also been planned and will be introduced throughout 2005. When opportunities present themselves, SHK Online will benefit from its position as a market leader and pursue suitable acquisitions.

Research

During 2004, the Research division encouraged investors to buy into weaknesses rather than sell into strength. Our advice to investors to be positive on Hong Kong equities mid-year benefited our clients, as the Hang Seng Index was consolidating in the 11,000 point region.

During the year, the Group continued to strengthen its research capability by recruiting high calibre staff. We made 709 company visits and corporate presentations in Hong Kong and mainland China and communicated our views and investment ideas through the publication of 226 strategy, sector and company reports, excluding our daily investment notes. We also conducted four large-scale seminars for our clients in mainland China and Taiwan, and 16 branch seminars for our branch clients in Hong Kong and Macau. In addition, two press conferences were organized to communicate our market views to the public.

Our top 20 calls of 2004 outperformed the Hang Seng Index by a margin of between 37% and 105%.

Corporate Finance

During the year, the Corporate Finance division successfully completed the secondary placement of shares of Sinotronics Holdings Limited and Champion Technology Holdings Limited. The division was also involved in the placement of B shares of 京東方科技集團股份有限公司 (BOE Technology Group Co., Ltd.) which is listed on the Shenzhen Stock Exchange, P.R.C.

The division was the financial adviser to Wonderful World Holdings Limited on the proposed open offer to qualifying shareholders, the financial adviser to COL Capital Limited on the general offer for the repurchase of shares, and the independent financial adviser to Melco International Development Limited, Shanghai Century Holdings Limited, and Shanghai Zendai Property Limited on various connected transactions respectively. Furthermore, the division was actively involved in a number of underwriting exercises for IPO issues.

Looking ahead, the division will continue to focus on expanding its operations in Greater China and on capital formation in the primary market.

Securities Financing

The market rebound in the second half of the year resulted in an increase in our margin loan book of 5.8% compared to 2003. Net revenues were strongly positive through the substantial use of the Group's shareholders' funds in a low interest rate environment.

Term Lending

Term lending levels trended downwards in 2004 as stronger capital markets provided potential borrowers with alternative funding opportunities. Net income levels, however, were still strongly positive.

Foreign Exchange, Bullion, Commodities, Financial Futures and Other Products

With the continuing weakness in the U.S. dollar in 2004, our foreign exchange volumes reflected a decline in investor interest. However, interest in commodities and precious metals increased significantly.

Our turnover in overseas commodities products including DJIA, S&P and physical commodities traded on the Japanese Exchange marked an 80% growth. Our business from Hang Seng Index Futures also rose substantially this year. The volatility in forex and oil prices provided good opportunities for trading in currency and oil futures, for the purposes of hedging and as speculative instruments.

Precious metals trading, while not providing a substantial income stream for the Group, will continue to allow us to offer to our clients a very broad range of financial products.

Wealth Management

SHK Wealth Management experienced strong growth in 2004. The number of consultants grew from 39 to 65. The "assets under management" and revenue almost doubled compared with 2003. To cater for continuing expansion and to better service our clients' needs, SHK Wealth Management moved into larger appropriately furnished offices. We expect to maintain our position as a market leader.

Alternative Investments

For SHK Fund Management's Alternative Investments division, the second half of 2004 remained challenging as the U.S. market continued to grapple with the uncertainties surrounding the outcome of the presidential election, the impact of the war in Iraq, higher interest rates and oil prices, and the falling U.S. dollar. A turning point in the fourth quarter, however showed a pickup in market activity and stabilization of fund flows. We ended 2004 with US\$222 million under management.

Despite the difficult environment, all our funds experienced positive growth, including the SHK Credit Opportunities Fund and the SHK Value Restructuring Fund, both of which were launched in 2004. As at 31st December, 2004, SHK Fund Management's Alternative Investments division had three funds within its SHK Global Strategy Fund range.

Insurance Broking

2004 was a difficult year for the general insurance broking industry with premiums dropping up to 40% in some insurance classes.

Active development of insurance business by banks, and competition amongst intermediaries for pending construction projects in the government sector led to downward pressure on commissions.

Despite the difficult environment, the division performed well and achieved slight growth in profits compared to the preceding year. We continue to maintain our position as one of the leading insurance brokers in Hong Kong and Macau.

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.

SHK Financial Data

In 2004, SHK Financial Data achieved substantial growth in operating profit. Revenue from our online subscription product, "Intelligent Stock Monitor", is growing steadily and should become a stable income stream for us. We have recently added the new "Market Calendar" feature to this product which should benefit subscribers and create additional revenue.

SHK Financial Data hopes to continue to enhance both the coverage and quality of our equity database in order to pave the way for further business expansion.

Information Technology

To ensure that our clients and staff benefit from the latest technology, a new trading platform is being developed with Sun Microsystems. The project commenced in December 2004 and is expected to be completed within two years. In the meantime, the Group's Information Technology ("I.T.") department is implementing measures such as upgrading our firewall and Internet connection, which should increase performance, improve customer service levels and further strengthen security.

Branch Network

The focus for branch management has been on the continued training and professional development of our sales staff, and the long-term promotion of the Group through client education programmes. Initiatives such as opening the Customer Service Centre in Macau, investment seminars (held in conjunction with the Research division), site/factory visits of listed companies for branch clients, and mutual fund seminars have been well received and have strengthened client relationships. A continuing improvement in the branches' contribution to the Group's bottom-line is expected in 2005.

Shun Loong Group

The business structure, management, compliance and system of controls of the Shun Loong Group have undergone significant transformation following its acquisition by Sun Hung Kai Investment Services Limited ("SHKIS") in mid 2003. The gradual stabilization and strengthening of the Shun Loong Group from a near terminal situation has continued in 2004 with Shun Loong Group now positioning itself for growth with a range of marketing and promotional initiatives planned for Hong Kong and P.R.C.

Sun Hung Kai International Bank [Brunei] Limited

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.

COST RATIONALIZATION

A Cost Rationalization Committee has been set up to continuously review operational effectiveness and efficiency.

Cost savings have been achieved in a number of areas including those of general administration and information technology infrastructure. However, renovation and staff costs have increased in line with our business expansion, most notably in the SHK Wealth Management division. We foresee information technology costs rising in 2005 as a result of the ADSR project with Sun Microsystems.

The Company continues to be observant of costs and will attempt to ensure, where appropriate, that any cost increases result in additional revenue, promotion of growth or expansion of our business.

HUMAN RESOURCES AND TRAINING

As at 31st December, 2004, the total number of employees was 817. Staff costs (including Directors' emoluments) and contributions to retirement benefit schemes amounted to approximately HK\$171.9 million (2003: HK\$148.2 million).

We operate different remuneration schemes according to role. For sales personnel, the package may comprise either a base pay or draw and commission/bonus/sales incentive, or alternatively, it can be a straight commission arrangement. For non-sales personnel, the remuneration is comprised of either a straight base pay, or where appropriate, a base pay with a performance-based bonus element.

There are currently no share option schemes applicable to the Group's officers or employees.

To maintain our position as a market leader in the financial sector, the Group will continue to recruit high quality candidates with proven experience in the provision of financial services.

In our continuing support of the Financial Services Bureau in meeting the human resources development needs of the financial services sector, we have offered internship places to local university students to consolidate their practical working experience and enrich their financial knowledge. We also extensively recruit trainees each year, particularly at our branch offices.

We have also organized a total of 31 in-house Continuing Professional Training (CPT) programmes and Continuing Professional Development (CPD) programmes for our licensed and relevant staff to ensure their full compliance with regulatory requirements and that they are updated with new product knowledge and the latest regulatory-related issues.

INVESTMENTS IN PRINCIPAL ASSOCIATED COMPANIES

Tian An China Investments Company Limited ("Tian An")

Tian An recorded sales of total gross floor areas ("GFA") of approximately 225,000m² (2003: 291,000m²), representing a decrease of 23% over 2003. A total GFA of approximately 319,000m² (2003: 314,000m²) of residential/commercial properties was completed, representing an increase of 2% over last year. Properties sold in the P.R.C. such as Shanghai Tian An Centre, Nantong Tian An Garden (Phase 2), Shenzhen Tian An New Technology Plaza (Phase 2), Changzhou New City Garden (Phase 4), Wuxi Redhill Peninsula (Phase 3), Shanghai Tian An Villa (Phase 1) and Changchun Tian An City One (Phase 2) contributed significantly to the satisfactory performance, bringing an increase in the net profit of Tian An of 96% to HK\$200.6 million.

Since late April 2004, the P.R.C. government has actively applied macro-economic policy in an attempt to reduce the scale of fixed capital investment, calm inflation, ease shortages in raw materials and electricity and to slow the rise in property prices. However, because of the reduction in land supply, property markets continue to rise. The government may therefore be inclined to introduce further measures to curb the rise in property prices.

Tian An will continue to seek opportunities whilst adopting appropriate strategies to deal with the changing economic environment. Tian An maintains its positive outlook and is hopeful that P.R.C. property markets may maintain a steady and sustainable uptrend in the medium to longer term.

Quality HealthCare Asia Limited (“Quality HealthCare”)

Quality HealthCare has been successful in delivering significantly improved results for 2004 with an 84% increase in net profit to HK\$45 million. The improved performance was a combined result of continued cost control, an expansion in coverage and services, and an increase in private paying clients.

Quality HealthCare has continued to focus on the development of its core businesses. It has expanded medical centre coverage and the range of its specialist services. In particular, during the year Quality HealthCare opened its Quality Women’s Health and Reproductive Medicine Centre. It also continued to develop and expand its third party administration services and its health scheme administration skills for corporate clients. Additional programs including Employee Assistance and Occupational Health and Safety Programs are also being developed to better service Quality HealthCare’s client base.

Quality HealthCare has also directed effort and resources to improving training and medical centre management to better address patient needs. The I.T. platform is constantly being reviewed and improved in order to facilitate patient service and claim processing.

Quality HealthCare is also continuing its initiatives to both improve services and profitability in its elderly care division.

Yu Ming Investments Limited (“Yu Ming”)

During the year, the major investments of Yu Ming were in Asia World-Expo at the Hong Kong International Airport, Argyle Centre shopping mall in Mongkok, a Hong Kong based airline, high yield bonds and equity securities.

For the Asia World-Expo, significant bookings were secured from both local and overseas exhibition organizers well in advance of its scheduled opening in 2006.

Retail sector confidence in 2004 was reflected in pleasing shop sale prices and very high occupancy rates in the Argyle Centre.

While the high yield bond portfolio provides reliable income for Yu Ming, it will continue to closely review its holdings in 2005.

In the second half of 2004, Yu Ming and another investor made a HK\$140 million investment in a convertible note issue of a Hong Kong based airline. Also, conditional agreement was reached in December 2004 for Yu Ming to invest HK\$47 million in a leading P.R.C. cashmere garment manufacturing company. Yu Ming expects that the agreement conditions will be satisfied by the end of April 2005.

FINANCIAL RESOURCES AND GEARING RATIO

The Group consistently maintained a strong and healthy financial position.

As at 31st December, 2004, the net assets of the Group amounted to HK\$4,991.7 million, representing an increase of HK\$516.4 million or approximately 11.54% from that of 31st December, 2003. The Group's short-term bank deposits, bank balances and cash amounted to HK\$487.2 million (at 31st December, 2003: HK\$566.9 million). The Group's total bank borrowings and loan notes amounted to HK\$217.8 million (at 31st December, 2003: HK\$551.3 million) with HK\$63.9 million (at 31st December, 2003: HK\$289.4 million) repayable within one year and HK\$153.9 million (at 31st December, 2003: HK\$261.9 million) repayable beyond one year.

The liquidity of the Group remained healthy as demonstrated by the current ratio (current assets/current liabilities) of 2.44 times as at 31st December, 2004 (at 31st December, 2003: 1.92 times). The Group's current ratio showed further improvement in the year ended 31st December, 2004.

The Group continued to maintain a low gearing ratio, calculated on the basis of the Group's total bank borrowings and loan notes over the Group's shareholders' funds, at 4.36% at the year end (at 31st December, 2003: 12.32%).

CAPITAL STRUCTURE, BANK BORROWINGS AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Company has not issued any additional shares or made any share repurchases during the year.

Other than the mortgage loans and the remaining balance of 4% loan notes issued on shares repurchase, the Group's bank borrowings were on a short-term basis and in H.K. dollars as at 31st December, 2004. They were charged at floating interest rates. There are no known seasonal factors in our borrowing profiles.

APPENDIX III MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP
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The fluctuation in exchange rates and market prices do not impose a significant risk to the Group as its level of foreign currency exposure is relatively immaterial.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

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

Other than the aforesaid acquisition, there has been no material acquisition or disposal of subsidiaries, associated companies or jointly controlled entities during the year.

SEGMENT INFORMATION

Detailed segment information in respect of the Group's turnover and contribution to profit before taxation are shown in note 5 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular.

CHARGES ON GROUP ASSETS

Listed shares with an aggregate value of HK\$227 million were pledged by subsidiaries for bank loans and overdrafts. Leasehold properties of the Group with a total book value of HK\$95.8 million were pledged by subsidiaries to banks for mortgage loans and overdrafts granted to them with a total outstanding balance of HK\$67.4 million as at 31st December, 2004.

CONTINGENT LIABILITIES

Details regarding the contingent liabilities are set out as below:

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

	Group		Company	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees for banking facilities granted to:				
– subsidiary companies	–	–	58,000	308,000
– an investee company	7,000	6,989	7,000	6,989
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	4,540	–	–
Indemnities on letter of credit issued by a bank for a loan to a client	–	67,556	–	–
Other guarantees	3,184	913	1,400	–
	<u>15,724</u>	<u>79,998</u>	<u>66,400</u>	<u>314,989</u>

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

While a provision has been made for legal costs, at this stage the Directors are 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 Deputy High Court Judge To on 1st April, 2004 in HCA 3191/1999 between NWDC and Stapleton Development Limited against SHKS, a wholly-owned subsidiary of the Company, SHKS was ordered to pay NWDC the sum of HK\$105,534,018.22 together with interest on the principal sum of HK\$80,117,652.72 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which His Lordship found (the “Oral Agreement”). As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK\$150,115,681.54 (being HK\$105,534,018.22 plus interest of HK\$44,581,663.32). SHKS has paid the Judgment amounts. SHKS has filed the Appeal against the Judgment both as to liability and quantum to the Court of Appeal. The Appeal has been set down for hearing commencing 7th June, 2005. The decision of the Court of Appeal is likely to be delivered some months after the Appeal.

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of 3 further amounts for what it asserts as pro-rata shareholders’ contributions advanced by NWDC on behalf of SHKS (the “New Claims”):

1. on 1st March, 2000 in the sum of HK\$27,234,753.52;
2. on 2nd January, 2001 in the sum of HK\$7,697,418.42

(The Group 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 (the “Further Writ”). The Further Writ has not been served on SHKS); and

3. on 1st June, 2004 in the sum of HK\$2,565,839.47 in respect of a bank loan by GUP. (A provision has been made with respect to this claim in the accounts of SHKS).

The outcome of the Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the Directors take the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Appeal or the Further Writ. However, the Directors in Note 26 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular have provided an analysis as to the possible financial implications for the Company depending on the ultimate outcome of the Appeal.

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

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

OVERVIEW OF 2005

The Hong Kong stock market underwent a period of consolidation in the first half of 2005 but staged a strong upturn in the third quarter. Investor confidence was apparently boosted by better than expected first half corporate earnings, robust growth in both the P.R.C. and HKSAR economies, as well as the decision by the People's Bank of China to allow revaluation of the Renminbi.

During 2005, the Hang Seng Index gained 646 points or 4.54% to close at 14,876 for the year. Average daily market turnover was HK\$18.21 billion, a 14.85% increase over 2004. The year was marked by a number of new records, most noticeably the fact that the capitalization of the Hong Kong market exceeded HK\$8 trillion for the first time. Also the total equity capital raised exceeded HK\$295.4 billion.

This capital raising placed Hong Kong fourth among the global stock exchanges in total equity funds raised after New York, London and Toronto. Hong Kong is a key fund raising centre for the P.R.C. and its ranking climbed to eighth in market capitalization among members of the World Federation of Exchanges by the end of 2005.

REVIEW OF OPERATIONS

Wealth Management

Securities Broking and Margin Financing

Securities broking commissions again formed the principal source of our income in 2005. The Group participated in 45 issues of new share 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 the Group 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 our expanded loan portfolio and active participation in IPO financing.

Leveraged Forex, Bullion, Commodities and Financial Futures

2005 witnessed a strengthening US dollar, supported by rising interest rates. However, increasing volatility in precious metals attracted investors, whose activity centred on the bullion market, especially in the second half of the year when prices rose dramatically. Metals futures business maintained satisfactory growth during the year.

Our continued high-ranking in the local listed-derivatives market was primarily the result of the rising volume of Hang Seng Index Futures and Options business transacted by the Group. In addition to the transaction services performed for clients, we continued to act as a Liquidity Provider for options issuers. Our operations in both overseas and domestic futures/options contributed stable revenues for the year overall. We are hopeful of growth in both of these business areas for 2006.

Unit-Linked and Mutual Fund Products

Sales in these products showed continuing growth in 2005 with a substantial increase in revenue notwithstanding increasing competition. Our platform has expanded offering more than 1,500 mutual funds. Our various marketing efforts have raised awareness of our services and resulted in the broadening of our client base. Further initiatives are planned for 2006 as we endeavour to consolidate our position as a market leader.

Online Trading

Our online trading business was able to record improvement in many aspects of operations in 2005. Key business parameters such as the number of accounts, number of trades, assets under custody, turnover and revenue all posted significant increases over the previous year.

We believe that our online trading platform is well-positioned to capitalize on improvements in market sentiment and market conditions as a result of its robust infrastructure and well packaged pricing strategies. Efforts to further rationalize pricing and enhance profit margins will continue, as will opportunistic marketing, client acquisition and asset gathering initiatives.

Branch Network

Rising office rents and increased competition contributed to a difficult year for the branch network. A multiple product platform was introduced to increase the ability of the branches to generate new revenue and improve the overall performance of the branch network.

Newly Acquired Financial Operations

Excalibur Securities Limited (“Excalibur Securities”) and Excalibur Futures Limited (“Excalibur Futures”) were acquired in March 2005. The companies have continued to operate independently but the Group is now applying its resources to enable a transition of the companies’ operational framework to one more in line with the Group’s own policies and procedures. The Shun Loong group of companies which was acquired in 2003 is being integrated with the overall Group’s operations.

Asset Management

Hedge Fund division

The Hedge Fund division was set up in 2005 to expand the Group’s involvement in the rapidly growing asset management market. The division’s management team has drawn on its expertise in this sector of the industry and has created infrastructure capable of facilitating the operation of multiple managers on one platform. The first in-house hedge fund was launched in June 2005. This fund invests in established Asian equity markets, including Japan and Australia, and employs a market neutral strategy through the application of quantitative methods. In addition, the Group holds a majority interest in a company that was recently formed for the purpose of launching and managing a Latin America focused fund-of-funds. This was launched in October 2005. The division is hopeful of launching new hedge funds in 2006.

Alternative Investments division

Towards the end of 2005, the Alternative Investments division was invited to consider a nomination for the management mandate for an umbrella Fund. A subsidiary company was appointed as that Fund’s replacement manager. This appointment brought, as at the February 2006 dealing date, a further US\$410 million of investor’s funds under management.

Corporate Finance

During the year, the Corporate Finance division successfully sponsored the IPOs on the main board of The Stock Exchange of Hong Kong Limited of Bauhaus International (Holdings) Limited, Shinhint Acoustic Link Holdings Limited and China Flavors and Fragrances Company Limited. It also completed the secondary placement of shares in a number of listed companies including Soundwill Holdings Limited, Upbest Group Limited, Wing Lee Holdings Limited, Pearl Oriental Enterprises Limited, Topsearch International (Holdings) Limited and Tianjin TEDA Biomedical Engineering Company Limited.

The division was the financial adviser to Quality HealthCare Asia Limited (on its general offer for a repurchase of shares), A-Max Holdings Limited (on its very substantial acquisition), Asia Network Holdings Limited (on the acquisition of and mandatory general offer for the shares of Stockmartnet Holdings Limited) and Island New Finance Limited (on the mandatory conditional cash offer for the shares of The Hong Kong Building Loan and Agency Limited).

The division was appointed as the independent financial adviser to Shanghai Zendai Property Limited (on the major and connected transaction), Wonson International Holdings Limited (on its rights issue) and Melco International Development Limited (on its very substantial acquisition & connected transaction and major & connected transaction).

It was also actively involved in a number of underwriting exercises for IPO issues and will continue to focus on IPO projects for enterprises in both Hong Kong and China as well as performing financial advisory and placing services for listed companies in Hong Kong.

Other Financial Services

Insurance Broking

The general insurance market in Hong Kong in 2005 was softer than anticipated with premiums declining sharply across many classes of insurance. The insurance broking division continues to face aggressive competition both in terms of business acquisition and staff recruitment. The division will attempt to work more closely with insurers to improve its products and distribution channels, as well as identify opportunities for profitable growth.

SHK Financial Data

SHK Financial Data achieved growth in operating profit as well as improvement in its profit margin in 2005. The division continues to focus on developing value-added products and steadily growing revenues through its distribution network.

Sun Hung Kai International Bank [Brunei] Limited

Sun Hung Kai International Bank [Brunei] Limited, officially opened in February 2004, is developing plans to commence international banking business.

OPERATING COSTS

Renovation and staff costs have increased in line with our business expansion and favourable market conditions. However, some cost savings have been achieved particularly in information technology infrastructure. We foresee rental, information technology and staff costs rising in 2006.

The Group continues to be cognizant of costs and will attempt to ensure, where achievable, that any cost increases result in additional revenue or the expansion of our business.

HUMAN RESOURCES AND TRAINING

As of 31st December, 2005, the total number of employees was 930. Staff costs (including Directors' emoluments) and contributions to retirement benefit schemes amounted to approximately HK\$173.1 million (2004: HK\$171.9 million).

The Group operates different remuneration schemes according to role. For sales personnel, the package may comprise either a base pay or draw and commission/bonus/sales incentive, or alternatively, it can be a straight commission arrangement. For non-sales personnel, the remuneration is comprised of either a straight base pay, or where appropriate, a base pay with a performance-based bonus.

There are currently no share option schemes applicable to the Group's officers or employees.

The Group will continue to recruit high calibre candidates with proven experience in the provision of financial services in order to maintain its position as a market leader in the financial sector.

A total of 43 in-house Continuing Professional Training (CPT) programmes and Continuing Professional Development (CPD) programmes have been arranged for our licensed and relevant staff to ensure that they are updated with new product knowledge and the latest regulatory-related issues.

INVESTMENTS IN PRINCIPAL ASSOCIATED COMPANIES

The Group's share of results and amortization of negative goodwill (goodwill) of associated companies declined slightly in 2005 principally because of the changes to amortization of goodwill introduced by the new accounting standards and the elimination of intergroup profits on the disposal of the premises in the Tian An Centre in Shanghai by a wholly-owned subsidiary of Tian An China Investments Company Limited to the Group. Details of the above are shown in note 11 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular.

The results of the Group's three listed principal associated companies are detailed below.

Tian An China Investments Company Limited ("Tian An")

In 2005, Tian An recorded sales of total gross floor area ("GFA") of approximately 138,000m² (2004: 225,000m²), whereas a total of 246,000m² GFA was under construction (2004: 272,000m²), and 182,000m² GFA of residential/commercial properties was completed (2004: 319,000m²).

The net profit attributable to Tian An's equity holders was HK\$202.5 million, representing a 10.2% increase over the previous year. A 29.2% decrease in turnover to HK\$1,397.1 million was due mainly to reduced property sales. Sales have declined primarily because Tian An has, where appropriate, retained selected commercial and office properties for rental income. The increase in net profit for the year is the result of contributions from jointly controlled entities as well as the appreciation in valuation of Tian An's portfolio of investment properties.

With the rapid expansion of the P.R.C. economy and rate of growth in personal incomes there, Tian An expects firm housing demand in the foreseeable future. The major projects to be developed by the Tian An Group in 2006 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).

Quality HealthCare Asia Limited ("Quality HealthCare")

Quality HealthCare delivered a net profit of HK\$56.1 million in 2005, a 24.7% increase compared to the net profit of HK\$45 million in 2004. Turnover for the group in 2005 increased by 4.4% to HK\$822.8 million from HK\$788.3 million in 2004.

All of the company's three core businesses demonstrated a significant improvement in operating profit in 2005 compared to 2004.

Visits from contract clients and private paying clients increased in 2005, and there was 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.

Training and development of staff remained a key management initiative directed towards enhancing service quality and operational efficiency. In addition to the continuous training programmes provided by the Human Resources and Training team, consultants were engaged to provide service training for the frontline supervisory staff and management training for the head office executives to facilitate personal and professional development and to instill a positive mindset and a learning culture in the group.

Continual process review was utilised to analytically define and assess the frontline and back office procedures and where appropriate to introduce changes directed towards improving performance. System enhancement was undertaken to

support these changes and to broaden capabilities including third party administration and scheme management skills.

On 7th April, 2006, the Company announced jointly with Allied Group Limited (“Allied Group”) and Allied Properties (H.K.) Limited (“Allied Properties”), the Company’s holding companies, that Wah Cheong Development (B.V.I.) Limited (“Wah Cheong”), a wholly-owned subsidiary of the Company, had entered into a conditional option agreement in which Wah Cheong is granted the option to acquire further 34,156,666 shares in Quality HealthCare from CLSA Capital Limited (“CLSA”) at an option consideration of HK\$27,752,291.125. The option is conditional on the Securities and Futures Commission approving on terms which are not detrimental to either party that Wah Cheong is not required to make a mandatory offer to all Quality HealthCare’s shareholders until it exercises the option and also on the approval of the shareholders of the Company and Allied Properties and Allied Group. The option will entitle Wah Cheong to: (i) acquire all (but not part) of the option shares (being 34,156,666 shares of Quality HealthCare held by CLSA) at an aggregate exercise price of HK\$83,256,873.375 (i.e. HK\$2.4375 per option share); and (ii) require CLSA to exercise all or part of the option warrants (being such number of warrants of Quality HealthCare held by CLSA as would, if exercised, lead to the subscription of 6,943,333 shares at an initial subscription price of HK\$2.50 per share).

Yu Ming Investments Limited (“Yu Ming”)

The net consolidated profit attributable to equity holders of Yu Ming for 2005 increased to HK\$144.7 million, compared to HK\$39.4 million for the previous year, mainly as a result of profit from investment in the Argyle Centre, which has appreciated significantly in value.

As at 31st December, 2005, Yu Ming’s major investments were in Asia World-Expo, retail shops in Mongkok and Causeway Bay, CR Airways Limited (“CR Airways”), Oriental Cashmere Limited (“Oriental Cashmere”), high-yield bonds and equity securities.

Asia World-Expo was officially opened in December 2005. Bookings have already been received for 2009, and revenue is exceeding original expectations.

During 2005, the retail property market strengthened considerably and growth was witnessed in rental rates and asset values. In particular, retail shops in Argyle Centre reported significant growth in value.

Yu Ming has been encouraged by the progress made by CR Airways as it continues to expand the destinations available by scheduled flights, despite it not yet being profitable.

Yu Ming is hopeful for improved performances from its other investments in 2006, as Oriental Cashmere experienced some operational and other difficulties in

2005, and the decline in bond markets adversely affected the overall performance of the equities and high-yield bond portfolio which recorded only a slight profit for the year.

FINANCIAL RESOURCES AND GEARING RATIO

The Group consistently maintained a strong financial position with a low gearing ratio.

As at 31st December, 2005, the equity attributable to equity holders of the Company amounted to HK\$5,840.9 million, representing an increase of HK\$849.2 million or approximately 17.01% from those of 31st December, 2004. The Group's short-term bank deposits, bank balances, treasury bills and cash amounted to HK\$423.4 million (at 31st December, 2004: HK\$487.2 million). The Group's total bank borrowings and loan notes (excluding advance from minority equity holder of HK\$1 million (at 31st December, 2004: HK\$1 million)) amounted to HK\$449.5 million (at 31st December, 2004: HK\$217.8 million) with HK\$342.5 million (at 31st December, 2004: HK\$63.9 million) repayable within one year (mainly utilized to support margin loan financing) and HK\$107 million (at 31st December, 2004: HK\$153.9 million) repayable beyond one year.

The liquidity of the Group remained healthy as demonstrated by the current ratio (current assets/current liabilities) of 2.34 times as at 31st December, 2005 (at 31st December, 2004: 2.44 times restated).

The Group continued to maintain a low gearing ratio, calculated on the basis of the Group's total bank borrowings and loan notes over the equity attributable to equity holders of the Company, at 7.7% at the year end (at 31st December, 2004: 4.36% restated).

CAPITAL STRUCTURE, BANK BORROWINGS AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Company has not issued any additional shares nor made share repurchases during the year as shown in note 34 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular.

Other than the mortgage loans as shown in note 38 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular and the remaining balance of 4% loan notes as shown in note 37 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular, the Group's bank borrowings were on a short-term basis and in HK dollars as at 31st December, 2005. They were charged at floating interest rates. There are no known seasonal factors in our borrowing profiles.

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

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

In March 2005, the Group acquired the entire interest in Excalibur Futures and Excalibur Securities at a total consideration of HK\$25.9 million. Excalibur Futures is principally engaged in futures dealing and broking whereas Excalibur Securities is engaged in securities broking.

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

SEGMENT INFORMATION

Detailed segment information in respect of the Group's revenue and contribution to profit before taxation are shown in note 5 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular.

CHARGES ON GROUP ASSETS

Listed shares with an aggregate value of HK\$190.7 million were pledged by subsidiaries for bank loans and overdrafts. Leasehold properties of the Group with a total book value of HK\$153.6 million were pledged by subsidiaries to banks for mortgage loans and overdrafts granted to them with a total outstanding balance of HK\$85.8 million as at 31st December, 2005.

CONTINGENT LIABILITIES

Details regarding the contingent liabilities are set out in note 45 to the audited consolidated financial statements of the Group for the year ended 31st December, 2005 in Appendix II to this circular.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

For the year ended 31st December, 2003

Business review

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

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

Profit and loss analysis

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

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

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

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

Balance sheet analysis

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

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

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

Financial resources, liquidity and capital management

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

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

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

Risk of foreign exchange fluctuation

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

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

Employees

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

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP
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Management of risks of the UAF Holdings Group

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

For the year ended 31st December, 2004

Business review

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

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

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

Profit and loss analysis

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

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

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

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

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

Balance sheet analysis

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

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

Financial resources, liquidity and capital management

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

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

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

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

Risk of foreign exchange fluctuation

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

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

Employees

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

Management of risks of the UAF Holdings Group

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

For the year ended 31st December, 2005

Business review

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

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

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

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

intention of the UAF Holdings Group to maintain the existing business activities of HKBLA, in particular its mortgage finance business through the use of HKBLA brand name.

Profit and loss analysis

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

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

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

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

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

Balance sheet analysis

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

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

Acquisitions

In June 2005, Island New Finance Limited ("INFL"), a subsidiary of the UAF Holdings Group, acquired 74.8% of the issued shares in HKBLA for a consideration of HK\$184.0 million. The acquisition was completed in September 2005. Pursuant to the Code on Takeovers and Mergers, the UAF Holdings Group had appointed an independent financial advisor to make a mandatory unconditional cash offer to acquire all the remaining issued shares in HKBLA. The offer was closed on 12th October, 2005 and INFL had accordingly

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP

acquired additional 39,507,750 shares in HKBLA, representing approximately 17.56% of the issued share capital of HKBLA. INFL placed 39,070,000 shares to independent third parties on 19th October, 2005 and the public float of HKBLA was restored to be above 25%. On 18th December, 2005, 1,691,895 shares in HKBLA were acquired by INFL pursuant to Section 168(1) and Part 2 of the Ninth Schedule of the Companies Ordinance. Subsequent to the balance sheet date, INFL placed 6,018,000 shares to independent third parties on 16th January, 2006 and the public float of HKBLA was restored to be above 25%.

Financial resources, liquidity and capital management

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

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

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

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

Risk of foreign exchange fluctuation

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

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

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF THE UAF HOLDINGS GROUP
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Employees

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

Management of risks of the UAF Holdings Group

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

**UNAUDITED PRO FORMA COMBINED BALANCE SHEET, INCOME STATEMENT
AND CASH FLOW STATEMENT OF THE ENLARGED GROUP**

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

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

Introduction to pro forma combined balance sheet

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

The unaudited pro forma combined balance sheet of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rule for the purpose of illustrating the effect of the Subscription and the Acquisition as if they took place on 31st December, 2005.

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

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

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

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

Pro forma combined balance sheet of the Enlarged Group

	The Group as at 31st December, 2005 HK\$'000 A	Pro forma adjustments relating to the Subscription HK\$'000 B	Note	Pro forma Group after the Subscription HK\$'000 C=A+B	The UAFH Group as at 31st December, 2005 HK\$'000 D	Pro forma adjustments relating to the Acquisition HK\$'000 E	Notes	Pro forma Enlarged Group HK\$'000 F=C+D+E
Non-current assets								
Investment properties	93,400	-		93,400	-	-		93,400
Leasehold interests in land	72,487	-		72,487	-	-		72,487
Property and equipment	56,505	-		56,505	10,199	-		66,704
Intangible assets	20,827	-		20,827	-	-		20,827
Goodwill	-	-		-	27,633	3,309,132	(d)	3,336,765
Interest in associated companies	2,647,142	-		2,647,142	-	-		2,647,142
Interest in jointly controlled entities	935	-		935	-	-		935
Available-for-sale investments	993,139	-		993,139	2	(399,900)	(c)	593,241
Statutory deposits	32,831	-		32,831	-	-		32,831
Deferred tax assets	4,143	-		4,143	36,193	-		40,336
Loans and receivables	202,306	-		202,306	1,055,691	-		1,257,997
	<u>4,123,715</u>	<u>-</u>		<u>4,123,715</u>	<u>1,129,718</u>	<u>2,909,232</u>		<u>8,162,665</u>
Current assets								
Trade and other receivables	2,599,864	-		2,599,864	1,531,512	-		4,131,376
Held for trading investments	178,982	-		178,982	41,495	-		220,477
Taxation recoverable	3,819	-		3,819	-	-		3,819
Cash and cash equivalents	423,384	1,685,632	(a)	2,109,016	248,285	(1,528,000)	(b)	829,301
	<u>3,206,049</u>	<u>1,685,632</u>		<u>4,891,681</u>	<u>1,821,292</u>	<u>(1,528,000)</u>		<u>5,184,973</u>

APPENDIX V
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group as at 31st December, 2005 HK\$'000 A	Pro forma adjustments relating to the Subscription HK\$'000 B	Note	Pro forma Group after the Subscription HK\$'000 C=A+B	The UAFH Group as at 31st December, 2005 HK\$'000 D	Pro forma adjustments relating to the Acquisition HK\$'000 E	Notes	Pro forma Enlarged Group HK\$'000 F=C+D+E
Current liabilities								
Bank borrowings due within one year	(342,546)	-		(342,546)	(262,000)	-		(604,546)
Trade and other payables	(966,581)	-		(966,581)	(43,734)	-		(1,010,315)
Trading liabilities, at fair value	(17,756)	-		(17,756)	-	-		(17,756)
Provisions	(33,057)	-		(33,057)	-	-		(33,057)
Amount due to a subsidiary of the ultimate holding company	-	-		-	(39,586)	39,591	(b)	5
Taxation payable	(12,221)	-		(12,221)	(30,724)	-		(42,945)
	(1,372,161)	-		(1,372,161)	(376,044)	39,591		(1,708,614)
Net current assets	1,833,888	1,685,632		3,519,520	1,445,248	(1,488,409)		3,476,359
	5,957,603	1,685,632		7,643,235	2,574,966	1,420,823		11,639,024
Capital and reserves								
Share capital	249,141	49,600	(a)	298,741	-	-		298,741
Reserves	5,591,738	1,636,032	(a)	7,227,770	1,033,686	(1,229,276)	(e)	7,032,180
Equity attributable to equity holders of the Company	5,840,879	1,685,632		7,526,511	1,033,686	(1,229,276)		7,330,921
Minority interests	369	-		369	1,041,280	(149,901)	(f)	891,748
Total equity	5,841,248	1,685,632		7,526,880	2,074,966	(1,379,177)		8,222,669
Non-current liabilities								
Loan notes	64,252	-		64,252	-	-		64,252
3-year bonds	-	-		-	-	2,800,000	(b)	2,800,000
Bank and other borrowings due after one year	43,720	-		43,720	500,000	-		543,720
Provisions	1,202	-		1,202	-	-		1,202
Deferred tax liabilities	7,181	-		7,181	-	-		7,181
	116,355	-		116,355	500,000	2,800,000		3,416,355
	5,957,603	1,685,632		7,643,235	2,574,966	1,420,823		11,639,024

Notes:

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

The adjustments reflect the following:

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

Introduction to pro forma combined income statement and cash flow statement

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

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

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

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

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

Pro forma combined income statement of the Enlarged Group

	The Group for the year ended 31st December, 2005 HK\$'000 A	The UAFH Group for the year ended 31st December, 2005 HK\$'000 B	Pro forma adjustments relating to the Acquisition HK\$'000 C	Notes	Pro forma Enlarged Group HK\$'000 D=A+B+C
Revenue	793,639	870,275	(21,810)	(a)	1,642,104
Other income	131,347	6,508	–		137,855
Total income	924,986	876,783	(21,810)		1,779,959
Brokerage and commission expenses	(141,463)	–	–		(141,463)
Direct cost and operating expenses	(53,340)	(223,590)	–		(276,930)
Administrative expenses	(342,648)	–	–		(342,648)
Other expenses	(59,632)	(79,955)	–		(139,587)
Finance costs	(40,908)	(21,733)	(162,103)	(b)	(224,744)
	286,995	551,505	(183,913)		654,587
Share of results of					
– Associated companies	149,549	–	–		149,549
– Jointly controlled entities	2	–	–		2
Profit before taxation	436,546	551,505	(183,913)		804,138
Taxation	(34,186)	(96,305)	–		(130,491)
	<u>402,360</u>	<u>455,200</u>	<u>(183,913)</u>		<u>673,647</u>
Profit attributable to:					
Equity holders of the Company	401,497	231,307	(150,881)	(d)	481,923
Minority Interests	863	223,893	(33,032)	(c)	191,724
	<u>402,360</u>	<u>455,200</u>	<u>(183,913)</u>		<u>673,647</u>

APPENDIX V

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Notes:

- (a) Reversal of dividend received from UAF during the year for the 7.27% interest held by the Group.
- (b) Being the interest expense of the 3-year bonds issued for financing the Acquisition at 6-month HIBOR of 4.79% plus 1%.
- (c) Reversal of profit attributable to the 7.27% interest in UAF held by the Group.
- (d) Being the net effect of Notes (a), (b) and (c).

Pro forma combined cash flow statement of the Enlarged Group

	The Group for the year ended 31st December, 2005 HK\$'000 A	Pro forma adjustments relating to the Subscription HK\$'000 B	Note	Pro forma Group after the Subscription HK\$'000 C=A+B	The UAFH Group for the year ended 31st December, 2005 HK\$'000 D	Pro forma adjustments relating to the Acquisition HK\$'000 E	Notes	Pro forma Enlarged Group HK\$'000 F=C+D+E
Net cash used in operating activities	(292,867)	-		(292,867)	(62,186)	-		(355,053)
Net cash from (used in) investing activities	98,169	-		98,169	(30,923)	(1,384,529)	(b)	(1,317,283)
Net cash from financing activities	109,127	1,685,632	(a)	1,794,759	176,113	12,372	(c)	1,983,244
	<u>343,459</u>	<u>1,685,632</u>		<u>2,029,091</u>	<u>248,285</u>	<u>(1,537,438)</u>		<u>739,938</u>
Net increase (decrease) in cash and cash equivalents	(85,571)	1,685,632		1,600,061	83,004	(1,372,157)		310,908
Cash and cash equivalents at 1st January	429,344	-		429,344	165,281	(165,281)	(b)	429,344
Effect of foreign exchange rate changes	(314)	-		(314)	-	-		(314)
	<u>343,459</u>	<u>1,685,632</u>		<u>2,029,091</u>	<u>248,285</u>	<u>(1,537,438)</u>		<u>739,938</u>
Cash and cash equivalents at 31st December, represented by								
Cash and cash equivalents	423,384	1,685,632		2,109,016	248,285	(1,537,438)		819,863
Bank overdrafts	(79,925)	-		(79,925)	-	-		(79,925)
	<u>343,459</u>	<u>1,685,632</u>		<u>2,029,091</u>	<u>248,285</u>	<u>(1,537,438)</u>		<u>739,938</u>

Notes:

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

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL
INFORMATION TO THE DIRECTORS OF SUN HUNG KAI & CO. LIMITED**

Sun Hung Kai & Co. Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and UAF Holdings Limited and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group")

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group set out on pages 196 to 202 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" in connection with the conditional sales and purchase of the entire issued share capital of UAF Holdings Limited (the "Acquisition"). The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented, for inclusion in Section V of the circular dated 30 June 2006 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages from 196 to 202 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of Opinion

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

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

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

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

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 June 2006



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

30 June 2006

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

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

Dear Sirs,

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

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

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

1.0 PURPOSE OF APPRAISAL

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

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

2.0 SCOPE OF WORK

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

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

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

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

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

3.0 MARKET OVERVIEW OF FINANCIAL SERVICES INDUSTRY

3.1 Financial Services Industry

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

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

3.2 Consumer Finance Market

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

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

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

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

3.3 Market Competitors

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

3.3.1 Direct Competitors

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

3.3.2 Indirect Competitors

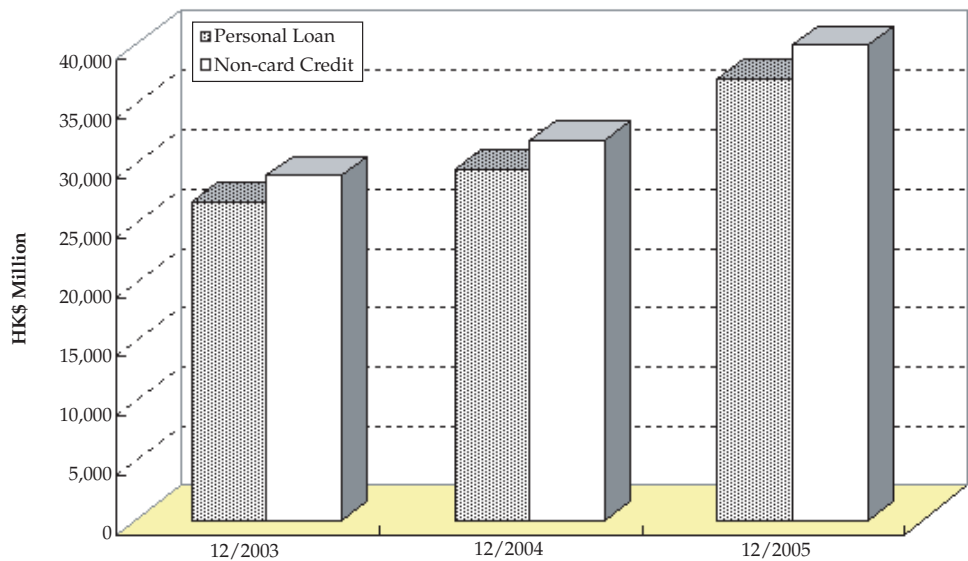
Most AI's can offer a more comprehensive product portfolio to their customers. They will even charge a more competitive rate than any Money Lender. However, the source of customers for these AI's is very different from those of Money Lenders.

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

3.4 Market Findings

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

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



4.0 THE UAF GROUP

4.1 Brief History

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

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

4.2 Shareholding and Corporation Structures

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

4.3 Scope of Business

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

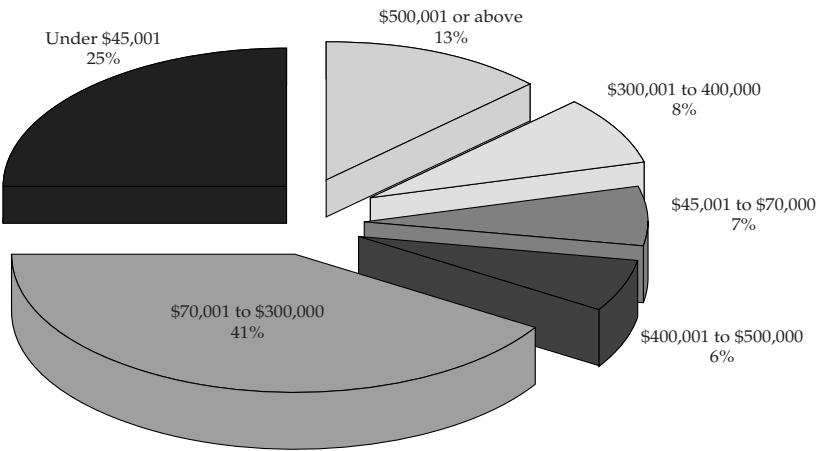
The UAF Group is innovative and addresses various financial needs of customers with a comprehensive range of personal loan products. Its product portfolio includes, unsecured personal installment loan, revolving loan, mortgage loan. While its present business is wholly Hong Kong based, it has also begun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

4.4 Operation of Business

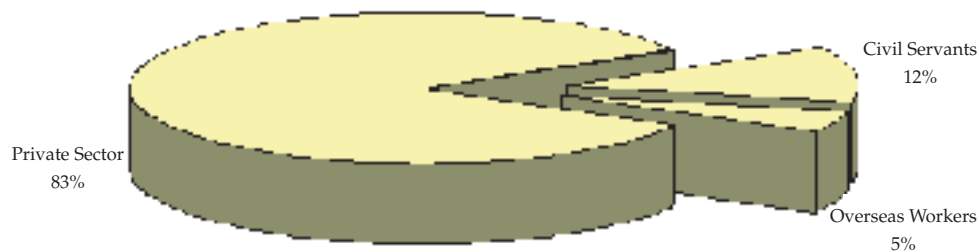
The UAF Group has a strong client base with its existing market share of the consumer finance market, excluding card business, standing at 7.3%.

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

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



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



4.5 Competitive Advantage of the UAF Group

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

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

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

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

4.6 Source of Funding

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

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

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

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

4.7 Source of Revenue

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

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

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

4.8 Actual Performance of the UAF Group Year 2003 – 2005

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

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

4.9 Projections

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

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

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

5.0 MAJOR RISK FACTORS

5.1 Cost of Financing

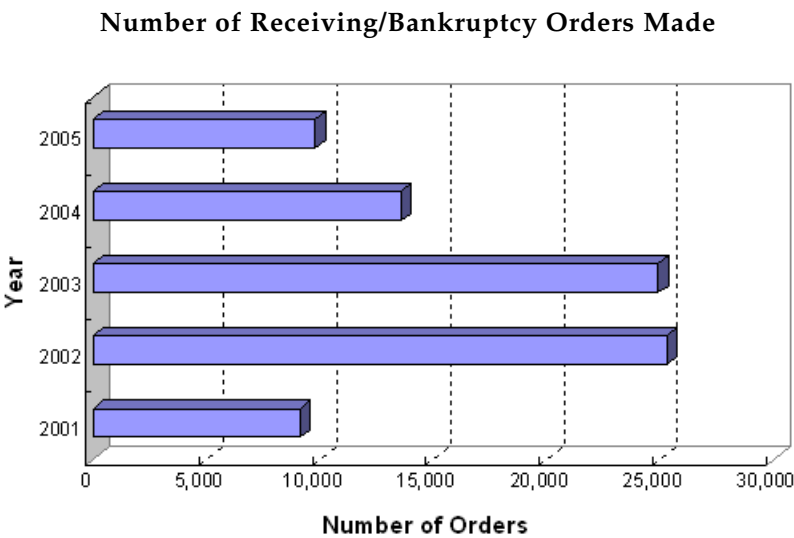
The UAF Group does not rely heavily on external financing currently, however, if the loan book continues to grow, it may have to increase the size of external financing in the future. Since its cost of financing is HIBOR based, it may be reasonably expected that its cost may still subject to the anticipated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

5.2 Unemployment Rate

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

5.3 Numbers of Bankruptcy

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



6.0 DEFINITION OF APPRAISAL

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

7.0 INVESTIGATION AND ANALYSIS

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

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

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

8.0 GENERAL APPRAISAL APPROACHES

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

8.1 Market-Based Approach

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

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

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

8.2 Asset-Based Approach

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

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

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

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

8.3 Income-Based Approach

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

9.0 APPRAISALS APPROACHES FOR THE UAF GROUP

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

9.1 Market-Based Approach

9.1.1 Comparable Companies Analysis

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

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

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

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

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

(b) ACB means Asia Commercial Bank

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

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

9.1.2 Precedent Transactions Analysis

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

These transactions are listed as follows:

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

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

9.1.3 Regression Analysis

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

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

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

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

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

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

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

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

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

9.2 Income-Based Approach

9.2.1 Discounted Cash Flow

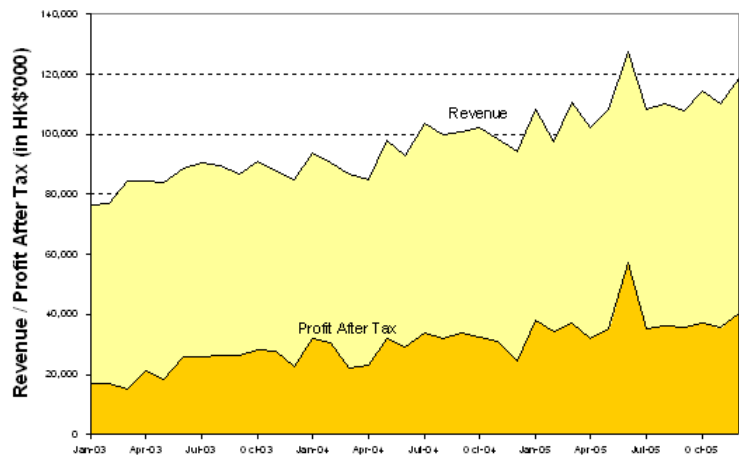
It is a simple method adopting Income-Based Approach to state the value of a company in present value term. This method is simple and easy to understand. It is well accepted by most analysts and practitioners. A variety of basis has emerged in numerous attempt of establishing true value of a company.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

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

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

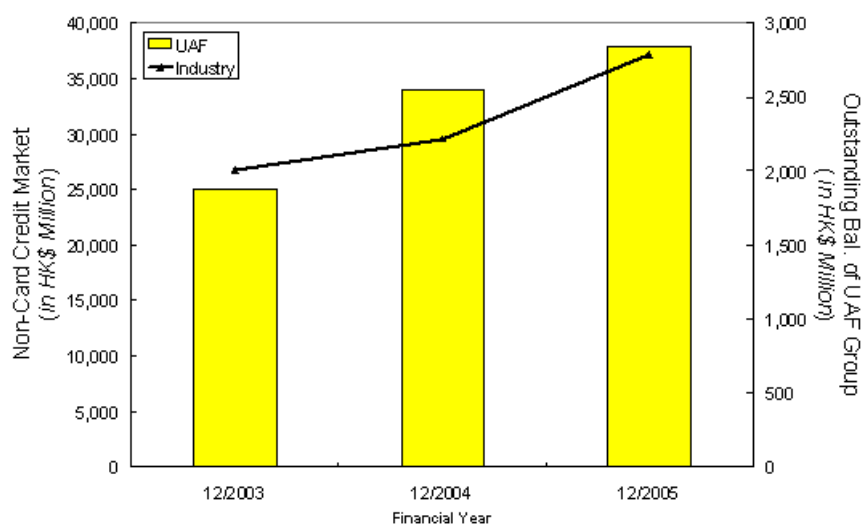
9.2.2 Growth Rate

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

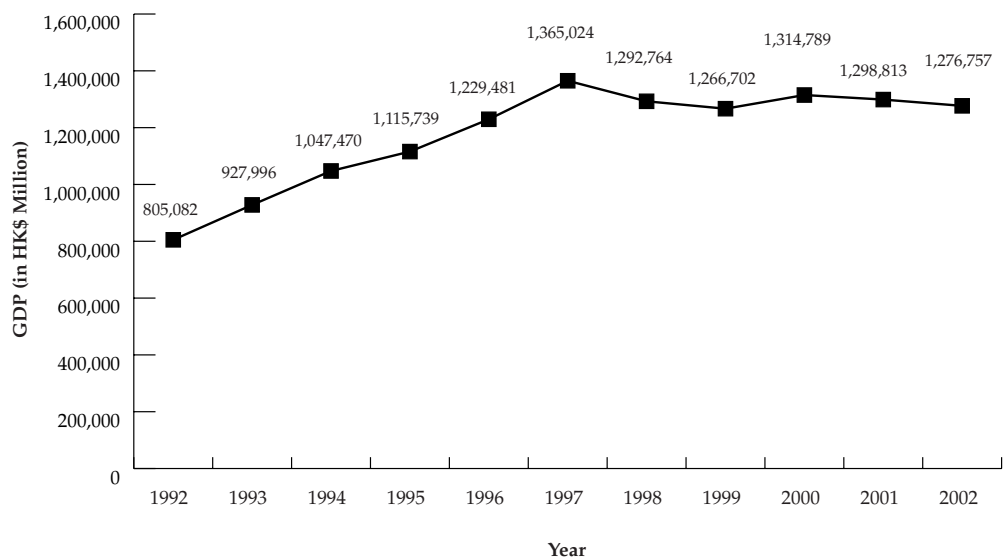


This represents a 9.88% annualized growth rate over the period.

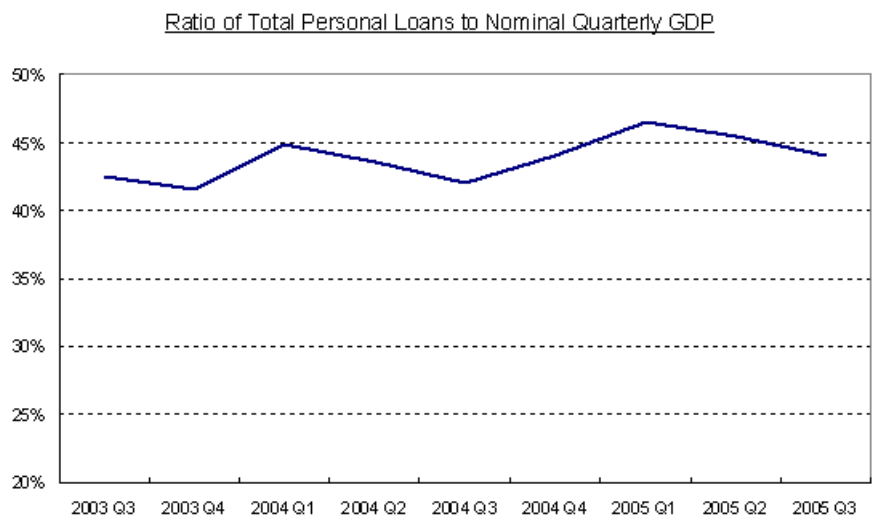
This can be further supported by the growth of the outstanding portfolio of the UAF Group and the market. The UAF Group has achieved an annualized growth of 22.8% in its loan book, while the industry recorded a 17.8% growth. The chart shows the development of the personal loan market for the same period.



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



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



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

9.2.3 Sensitivity Analysis

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

DCF of FCF		Growth Rate				
		4.50%	4.60%	4.72%	4.80%	4.90%
Discount Rate	6.000%	8,461,546,078	9,029,666,521	9,828,342,518	10,449,377,111	11,352,505,773
	6.100%	7,959,720,349	8,456,659,701	9,147,828,847	9,679,352,350	10,443,239,983
	6.145%	7,753,764,460	8,222,964,069	8,872,711,794	9,370,148,179	10,081,671,149
	6.200%	7,516,815,751	7,955,153,482	8,559,140,103	9,019,186,267	9,673,704,310
	6.300%	7,123,012,779	7,512,530,834	8,044,841,960	8,446,907,961	9,013,957,483
% Change in DCF of FCF		Percentage Change in Growth Rate				
		-4.66%	2.54%	0.00%	1.69%	3.81%
Percentage Change in Discount Rate	-2.360%	-4.63%	1.77%	10.77%	17.77%	27.95%
	-0.732%	-10.29%	-4.69%	3.10%	9.09%	17.70%
	0.000%	-12.61%	-7.32%	0.00%	5.61%	13.63%
	0.895%	-15.28%	-10.34%	-3.53%	1.65%	9.03%
	2.522%	-19.72%	-15.33%	-9.33%	-4.80%	1.59%

10.0 APPRAISAL ASSUMPTIONS

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

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

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

11.0 LIMITING CONDITIONS

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

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

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

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

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

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

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

12.0 REMARKS

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

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

13.0 CONCLUSION

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

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

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

14.0 OPINION OF VALUES

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

Yours faithfully,

For and on behalf of

Norton Appraisals Limited

Teddy T. M. Iu

FCMA, FCPA

Director

Paul M. K. Wong

MRICS, MHKIS, RPS (G.P.)

Director

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

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

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

(i) Letter from Deloitte Touche Tohmatsu

Deloitte.

德勤

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

Dear Sirs,

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

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

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

12 June 2006

(ii) Letter from the Board

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

19th June, 2006

Dear Sirs,

PROFIT FORECAST OF UNITED ASIA FINANCE LIMITED

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

Yours faithfully,
For and on behalf of
Sun Hung Kai & Co. Limited
Joseph Tong Tang
Executive Director

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



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

30th June, 2006

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

Dear Sirs,

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

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

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

In valuing the property interests under Group I which are held for investment purposes by the Enlarged Group in Hong Kong and the PRC, we have adopted Investment Approach by taking into account the current rents passing and the reversionary income potential of the tenancies.

In valuing the property interests under Group II which are owner-occupied by the Enlarged Group in Hong Kong, Macau and the PRC, we have adopted Direct Comparison Approach assuming sale of each of these property interests in their existing states with the benefit of vacant possession and by making reference to comparable transactions as available in the relevant markets.

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

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

In valuing the properties in Hong Kong, for which the Government Leases expired before 30th June, 1997, we have taken into account of the statement contained in Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases will be extended without premium until 30th June, 2047 and that an annual rent of 3% of the then rateable value will be charged from the date of extension.

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

We have relied to a considerable extent on the information given by the Enlarged Group and the legal opinion provided by its PRC legal adviser, ShangHai Shenhua Law Firm, regarding titles to the property Nos. 3 and 8 respectively.

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

We have not carried out site measurements to verify the correctness of the site and floor areas in respect of the relevant properties but have assumed that the site and floor areas shown on the documents and official site plans handed to use are correct. All dimensions, measurements and areas included in the attached valuation certificates are

based on information contained in the documents provided to us by the Enlarged Group and are therefore only approximations. Based on our valuation experience of similar property interests, we consider the assumptions so made to be reasonable.

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

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

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

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

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

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

Yours faithfully,
For and on behalf of

Norton Appraisals Limited

M. K. Wong

MRICS, MHKIS, RPS (G.P.)

Director

C. L. Kung

MRICS, MHKIS, RPS (G.P.)

Director

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

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

SUMMARY OF VALUES

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
Group I – Property interests held for investment by the Enlarged Group in Hong Kong and the PRC			
1 Rooms 2803-2810 on 28th Floor Wing On House (formerly known as Realty Building) No. 71 Des Voeux Road Central, Central Hong Kong	\$39,000,000	100%	\$39,000,000
2 House C7, Hawaii Garden No. 18 Silver Cape Road Sai Kung, New Territories	\$14,000,000	100%	\$14,000,000
3 Rooms 1101-1109, 11th Floor of Tian An Centre No. 338 Nanjing Road West Huangpu District, Shanghai, the PRC	\$46,800,000	100%	\$46,800,000
Sub-total:	<u><u>\$99,800,000</u></u>		<u><u>\$99,800,000</u></u>

APPENDIX VIII

VALUATION REPORT ON THE PROPERTIES OF THE ENLARGED GROUP

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
Group II – Property interests held and occupied by the Enlarged Group in Hong Kong, Macau and the PRC			
4 The whole of 4th Floor of Tower II including Portion of the Roof of Podium, Admiralty Centre No. 18 Harcourt Road, Admiralty Hong Kong	\$48,000,000	100%	\$48,000,000
5 The whole of 11th Floor of Tower II Admiralty Centre, No. 18 Harcourt Road Admiralty, Hong Kong	\$78,500,000	100%	\$78,500,000
6 Office Nos. 2201, 2201A and 2202 on 22nd Floor of Tower I, Admiralty Centre No. 18 Harcourt Road, Admiralty Hong Kong	\$79,700,000	100%	\$79,700,000
7 Shop E on Ground Floor, Edificio da Associacao Comercial de Macau (中華總商會大廈) No. 298-316 Avenida do Dr. Rodrigo Rodrigues (羅理基博士大馬路) No. 147-191 Rua de Xangai (上海街) and No. 111-123 Rua de Pequim (北京街), Macau	\$18,500,000	100%	\$18,500,000
8 Rooms 1901-1903, 19th Floor of Tian An Centre No. 338 Nanjing Road West Huangpu District, Shanghai, the PRC	\$18,200,000	100%	\$18,200,000
Sub-total:	\$242,900,000		\$242,900,000

Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
Group III – Property interests leased and occupied by Enlarged Group in Hong Kong, the PRC and Philippines			
9 Suites 1107-1111, 11/F One Pacific Place 88 Queensway, Admiralty, Hong Kong	No Commercial Value	100%	No Commercial Value
10 Suites 1101-1106 & 1112, 11/F and Level 12 One Pacific Place, 88 Queensway Admiralty, Hong Kong	No Commercial Value	100%	No Commercial Value
11 23/F, Siu On Centre 188 Lockhart Road, Wanchai Hong Kong	No Commercial Value	100%	No Commercial Value
12 Cubicle No. 9, 13/F Allied Cargo Centre Nos. 150-164 Texaco Road Tsuen Wan, New Territories	No Commercial Value	100%	No Commercial Value
13 Suites 2202, 2203, 2204 & 2205B, 22/F 9 Queen's Road Central, Central Hong Kong	No Commercial Value	100%	No Commercial Value
14 Units 1, 2 & 3, 27/F, Jupiter Tower No. 9 Jupiter Street, North Point Hong Kong	No Commercial Value	100%	No Commercial Value
15 Units 902, 903 & 905, 9/F Bank of America Tower 12 Harcourt Road, Central Hong Kong	No Commercial Value	100%	No Commercial Value
16 2/F, Silvercorp International Tower 707-713 Nathan Road, Mongkok Kowloon, Hong Kong	No Commercial Value	100%	No Commercial Value
17 G/F No. 288 Sha Tsui Road, Tsuen Wan New Territories	No Commercial Value	100%	No Commercial Value

APPENDIX VIII
**VALUATION REPORT ON THE PROPERTIES
OF THE ENLARGED GROUP**

		Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
Property				
18	Portion A, Shop No. 2 G/F, Wah Hing Building 449-455 King's Road, North Point Hong Kong	No Commercial Value	100%	No Commercial Value
19	Shop No. 3, Ground Floor No. 170 Jockey Club Road Sheung Shui, New Territories	No Commercial Value	100%	No Commercial Value
20	Unit 1804, 18/F Shenhua Commercial Building Nanhu Road, Luohu District Shenzhen, the PRC	No Commercial Value	100%	No Commercial Value
21	Room 815, 8/F, Peninsula Court 8735 Paseo De Roxas, Makati City Philippines	No Commercial Value	100%	No Commercial Value
22	Flats A-C, 3/F, East South Building 475-481 Hennessy Road, Causeway Bay Hong Kong	No Commercial Value	58.18%	No Commercial Value
23	G/F, 100 Shau Kei Wan Road Sai Wan Ho, Hong Kong	No Commercial Value	58.18%	No Commercial Value
24	1/F-2/F, China Travel Building 77 Queen's Road Central, Central Hong Kong	No Commercial Value	58.18%	No Commercial Value
25	Offices A & B, 2/F Hennessy Plaza 164-166 Hennessy Road, Wanchai Hong Kong	No Commercial Value	58.18%	No Commercial Value

APPENDIX VIII
**VALUATION REPORT ON THE PROPERTIES
OF THE ENLARGED GROUP**

	Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
26	G/F & Cockloft, Kong Kai Building 184 Aberdeen Main Road, Aberdeen Hong Kong	No Commercial Value	58.18%	No Commercial Value
27	G/F & Mezzanine Floor 255 Des Voeux Road West, Western Hong Kong	No Commercial Value	58.18%	No Commercial Value
28	Shops 201-2, Olympia Plaza 255 King's Road, North Point Hong Kong	No Commercial Value	58.18%	No Commercial Value
29	Shop 3, G/F, Pacific Plaza 410-424B Des Voeux Road West Western, Hong Kong	No Commercial Value	58.18%	No Commercial Value
30	Shop 1009B, 1/F, United Centre 95 Queensway, Admiralty Hong Kong	No Commercial Value	58.18%	No Commercial Value
31	2/F, Wincome Centre 39 Des Voeux Road Central, Central Hong Kong	No Commercial Value	58.18%	No Commercial Value
32	21/F, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	58.18%	No Commercial Value
33	20/F, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	58.18%	No Commercial Value
34	Room 802, Allied Kajima Building 138 Gloucester Road, Wanchai Hong Kong	No Commercial Value	58.18%	No Commercial Value

APPENDIX VIII
**VALUATION REPORT ON THE PROPERTIES
OF THE ENLARGED GROUP**

	Property	Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
35	1/F, 595-599A Shanghai Street 6A-6C Argyle Street, Mongkok Kowloon	No Commercial Value	58.18%	No Commercial Value
36	G/F & Cockloft, 60 Hong Ning Road Kwun Tong, Kowloon	No Commercial Value	58.18%	No Commercial Value
37	1/F, Foon Shing Building 732 Nathan Road, Mongkok, Kowloon	No Commercial Value	58.18%	No Commercial Value
38	G/F, On Keung Building 51-65 Hong Keung Street, San Po Kong Kowloon	No Commercial Value	58.18%	No Commercial Value
39	2/F, Cheong Hing Building 72 Nathan Road, Tsimshatsui Kowloon	No Commercial Value	58.18%	No Commercial Value
40	Shop No. 43, 1/F, Kwai Chung Plaza 7-11 Kwai Foo Road, Kwai Chung Kowloon	No Commercial Value	58.18%	No Commercial Value
41	G/F, 270 Cheung Sha Wan Road Sham Shui Po, Kowloon	No Commercial Value	58.18%	No Commercial Value
42	G/F, 1/F and Flat Roof 124 Ma Tau Wai Road, Hung Hom Kowloon	No Commercial Value	58.18%	No Commercial Value
43	1/F, Double Set Commercial Centre 37A-37B Jordan Road, Jordan, Kowloon	No Commercial Value	58.18%	No Commercial Value
44	Unit 119, 1/F, Cheung Sha Wan Plaza 833 Cheung Sha Wan Road Cheung Sha Wan, Kowloon	No Commercial Value	58.18%	No Commercial Value
45	Shop D, G/F, Lee Fung Building 88-96 Argyle Street 19 Yim Po Fong Street 104 Hak Po Street, Mongkok Kowloon	No Commercial Value	58.18%	No Commercial Value

APPENDIX VIII
**VALUATION REPORT ON THE PROPERTIES
OF THE ENLARGED GROUP**

		Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
	Property			
46	G/F, 271 To Kwa Wan Road To Kwa Wan, Kowloon	No Commercial Value	58.18%	No Commercial Value
47	G/F including Yard, 1/F Flat Roofs & Canopy 27 Lung Kong Road, Kowloon City Kowloon	No Commercial Value	58.18%	No Commercial Value
48	Shop A1, G/F Hamilton Commercial Building 558-560 Nathan Road, Yau Ma Tei Kowloon	No Commercial Value	58.18%	No Commercial Value
49	Room A, G/F Hamilton Commercial Building 558-560 Nathan Road, Yau Ma Tei Kowloon	No Commercial Value	58.18%	No Commercial Value
50	Shop E4f, G/F, Tai Yau Building No. 56-58 Ivy Street, Tai Kok Tsui Kowloon	No Commercial Value	58.18%	No Commercial Value
51	Shop Nos. G13-14, G/F Kwun Tong Plaza No. 68 Hoi Yuen Road, Kwun Tong Kowloon	No Commercial Value	58.18%	No Commercial Value
52	Workshop No. 1A, G/F International Plaza No. 20 Sheung Yuet Road Kowloon Bay, Kowloon	No Commercial Value	58.18%	No Commercial Value
53	Units 1816B-1818A 18/F, Nan Fung Centre 264-298 Castle Peak Road Tsuen Wan, New Territories	No Commercial Value	58.18%	No Commercial Value
54	Shops 15B-D, Level 1 Lucky Plaza, 1-15 Wang Pok Street, Shatin, New Territories	No Commercial Value	58.18%	No Commercial Value

APPENDIX VIII

VALUATION REPORT ON THE PROPERTIES OF THE ENLARGED GROUP

		Capital value in existing state as at 30th April, 2006 <i>HK\$</i>	Interest attributable to the Enlarged Group in Percentage	Capital value attributable to the Enlarged Group as at 30th April, 2006 <i>HK\$</i>
	Property			
55	Shop B2, Central Plaza 51-59 Kwong Fuk Road, Tai Po New Territories	No Commercial Value	58.18%	No Commercial Value
56	G/F, No. 195 Castle Peak Road Yuen Long, New Territories	No Commercial Value	58.18%	No Commercial Value
57	Shop No. 12, G/F, Ming Wai House 4-26 Tuen Mun Heung Sze Wui Road Tuen Mun, New Territories	No Commercial Value	58.18%	No Commercial Value
58	Shop No. 11, G/F, Ming Wai House 4-26 Tuen Mun Heung Sze Wui Road Tuen Mun, New Territories	No Commercial Value	58.18%	No Commercial Value
59	Flat A, G/F, Sun Fung House 113-119 San Fung Avenue Shek Wu Hui, Sheung Shui New Territories	No Commercial Value	58.18%	No Commercial Value
60	Shop 6, G/F & Cockloft 49 Tai Ho Road Tsuen Wan, New Territories	No Commercial Value	58.18%	No Commercial Value
61	Shop G31, G/F, Metro City Phase II 8 Yan King Road Tseung Kwan O New Territories	No Commercial Value	58.18%	No Commercial Value
62	Shop 134A, 1/F Kingswood Ginza, Phase 2 Tsin Shui Wai, New Territories	No Commercial Value	58.18%	No Commercial Value
	Sub-total:	No Commercial Value		No Commercial Value
	GRAND TOTAL:	342,700,000		342,700,000

Valuation Certificate

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

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
1 Rooms 2803-2810 on 28th Floor, Wing On House (formerly known as Realty Building), No. 71 Des Voeux Road Central, Central, Hong Kong	Wing On House is a 32-storey (including basement) commercial building completed in 1967. The property comprises portion of the office space on 28th Floor of the development having a total saleable area of approximately 5,733 sq.ft. (532.61 sq.m.).	The property was subject to two separate tenancies both for a term of 2 years and expiring on the 31st May, 2007 and 30th June, 2007 respectively yielding a total monthly rental of \$97,868.	\$39,000,000 (100% interest attributable to the Enlarged Group: \$39,000,000)
695/142,700th equal and undivided shares of and in Section A and the Remaining Portion of Marine Lot No. 381	Marine Lot No. 381 is held under a Government Lease for a term of 999 years commencing from 15th August, 1903.		

Notes:

1. The registered owner of the property is Bali International Finance Limited vide Memorial Nos. UB7593493 and UB7593494 both dated 30th September, 1998.
2. The property is subject to a Mortgage to secure general banking facilities in favour of Asia Commercial Bank Limited to an unlimited extent vide Memorial No. UB8756673 dated 1st August, 2002.

APPENDIX VIII

VALUATION REPORT ON THE PROPERTIES OF THE ENLARGED GROUP

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
2 House C7, Hawaii Garden, No. 18 Silver Cape Road, Sai Kung, New Territories	“Hawaii Garden” is a low rise development comprising 19 detached/semi-detached houses completed in 1988. The property comprises a 2-storey semi-detached house within the development. The property has a gross floor area of approximately 2,350 sq.ft. (218.32 sq.m.), a garden area of approximately 917 sq.ft. (85.19 sq.m.) and a roof area of approximately 1,146 sq.ft. (106.47 sq.m.). Lot No. 384 in Demarcation District 224 is held under New Grant No. 6047 for a term of 99 years commencing on 1st July, 1898 which has been statutorily extended until 30th June, 2047.	The property is currently vacant.	\$14,000,000 (100% interest attributable to the Enlarged Group: \$14,000,000)
32/628th equal and undivided shares of and in Lot No. 384 in Demarcation District 224			

Notes:

1. The registered owner of the property is Quick Art Limited vide Memorial No. SK333118 dated 29th June, 1998.
2. As advised by the Group, the property is subject to a provisional agreement for sale and purchase dated 24th May, 2006 in favour of Dorshare Limited for a consideration of \$14,000,000.

APPENDIX VIII

VALUATION REPORT ON THE PROPERTIES OF THE ENLARGED GROUP

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006																																	
3 Rooms 1101-1109, 11th Floor of Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Tian An Centre is a 30-storey commercial building on top of a 3-storey basement completed in 1994 and having a total gross floor area of approximately 57,893.02 sq.m. (623,161 sq.ft.) and approximately 164 car parking spaces are provided. The property comprises the whole of 11th Floor of Tian An Centre with a total gross floor area of approximately 1,359.54 sq.m. (14,634 sq.ft.) and the floor area breakdowns for 9 individual unit are as follow: <table><tr><th>Unit</th><th>Gross Floor <i>sq.m.</i></th><th>Area <i>sq.ft.</i></th></tr><tr><td>1101</td><td>204.70</td><td>2,203</td></tr><tr><td>1102</td><td>155.47</td><td>1,673</td></tr><tr><td>1103</td><td>154.17</td><td>1,659</td></tr><tr><td>1104</td><td>187.53</td><td>2,019</td></tr><tr><td>1105</td><td>138.35</td><td>1,489</td></tr><tr><td>1106</td><td>158.65</td><td>1,708</td></tr><tr><td>1107</td><td>102.45</td><td>1,103</td></tr><tr><td>1108</td><td>102.45</td><td>1,103</td></tr><tr><td>1109</td><td>155.77</td><td>1,677</td></tr><tr><td>Total</td><td><u>1,359.54</u></td><td><u>14,634</u></td></tr></table> The land use rights of the property have been granted for a term of 50 years from 8th July, 1994 to 7th July, 2044 for comprehensive use.	Unit	Gross Floor <i>sq.m.</i>	Area <i>sq.ft.</i>	1101	204.70	2,203	1102	155.47	1,673	1103	154.17	1,659	1104	187.53	2,019	1105	138.35	1,489	1106	158.65	1,708	1107	102.45	1,103	1108	102.45	1,103	1109	155.77	1,677	Total	<u>1,359.54</u>	<u>14,634</u>	The property is subject to two separate tenancies yielding a total monthly rental of RMB239,596 and expiring on 14th April, 2006 and 14th August, 2007 respectively.	\$46,800,000 (100% interest attributable to the Enlarged Group: \$46,800,000)
Unit	Gross Floor <i>sq.m.</i>	Area <i>sq.ft.</i>																																		
1101	204.70	2,203																																		
1102	155.47	1,673																																		
1103	154.17	1,659																																		
1104	187.53	2,019																																		
1105	138.35	1,489																																		
1106	158.65	1,708																																		
1107	102.45	1,103																																		
1108	102.45	1,103																																		
1109	155.77	1,677																																		
Total	<u>1,359.54</u>	<u>14,634</u>																																		

Note:

1. Pursuant to nine Certificates of Real Estate Ownership Nos. 005128, 005125, 005121, 005122, 005117, 005118, 005119, 005120 and 005115 issued by Shanghai Housing and Land Resources Administration Bureau on 21st April, 2005, the title of the property has been transferred to Sing Hing Investment Limited, a wholly owned subsidiary of the Group, with a land use rights term of 50 years from 8th July, 1994 for comprehensive use.
2. The opinion of the Enlarged Group's legal adviser on PRC law, ShangHai Shenhua Law Firm, states that:
 - i) According to the Certificates of Real Estate Ownership, Sing Hing Investment Limited has the land use rights of the subject property, with a total gross floor area of 1,359.54 sq.m., for a term of 50 years commencing from 8th July, 1994 for comprehensive use.
 - ii) Sing Hing Investment Limited is in possession of a proper legal title to the property and is freely transferable by way of transfer, mortgage or letting.
3. We have prepared our valuation on the following assumptions:
 - i) Sing Hing Investment Limited is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.
 - ii) All land premium and other costs of ancillary utility services have been settled in full.
 - iii) The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.

Group II – Property interests held and occupied by the Enlarged Group in Hong Kong, Macau and the PRC

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
4 The whole of 4th Floor of Tower II including Portion of the Roof of Podium, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong	The property comprises the entire office space on the 4th floor and portion of the roof of Podium of Tower II within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 23 office floors.	As advised, the property is currently owner-occupied by the Enlarged Group.	\$48,000,000 (100% interest attributable to the Enlarged Group: \$48,000,000)
337/227,600th equal and undivided shares of and in Inland Lot No. 8423	The property has a saleable area of approximately 5,208 sq.ft. (483.84 sq.m.) and a flat roof area of approximately 13,910 sq.ft. (1,292.28 sq.m.). Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.		

Note:

The registered owner of the property is Texgulf Limited vide Memorial No. UB2059320 dated 24th March, 1981.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
5 The whole of 11th Floor of Tower II, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong 1,246/227,600th shares of and in Inland Lot No. 8423	The property comprises the entire office space on 11th floor of Tower II within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 23 office floors. The property has a saleable area of approximately 9,161 sq.ft. (851.09 sq.m.). Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.	As advised, the property is currently owner-occupied by the Enlarged Group.	\$78,500,000 (100% interest attributable to the Enlarged Group: \$78,500,000)

Notes:

1. The registered owner of the property is Texgulf Limited vide Memorial No. UB8260871 dated 23rd November, 2000.
2. The property is subject to an unlimited First Legal Charge to secure general banking facilities in favour of DBS Kwong On Bank Limited vide Memorial No. UB8260872 dated 23rd November, 2000.

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006										
6 Office Nos. 2201, 2201A and 2202 on 22nd Floor of Tower I, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong	The property comprises three office units on 22nd floor of Tower I within the development. Admiralty Centre comprises two office towers erected over a 4-storey commercial podium which was completed in 1980. The subject tower comprises 28 office floors.	As advised, the property is currently owner-occupied by the Enlarged Group.	\$79,700,000										
1,390/227,600th shares of and in Inland Lot No. 8423	The property has a total saleable area of approximately 9,002 sq.ft. (836.32 sq.m.) and the breakdown are listed as follows:		(100% interest attributable to the Enlarged Group: \$79,700,000)										
	<table><tr><th>Unit</th><th>Saleable Area sq.ft.</th></tr><tr><td>2201</td><td>3,038</td></tr><tr><td>2201A</td><td>1,487</td></tr><tr><td>2202</td><td>4,477</td></tr><tr><td>Total:</td><td><u>9,002</u></td></tr></table>	Unit	Saleable Area sq.ft.	2201	3,038	2201A	1,487	2202	4,477	Total:	<u>9,002</u>		
Unit	Saleable Area sq.ft.												
2201	3,038												
2201A	1,487												
2202	4,477												
Total:	<u>9,002</u>												
	Inland Lot No. 8423 is held under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years.												

Notes:

- The registered owner of the property is Yee Li Ko Investment Limited vide Memorial Nos. UB8203614 dated 5th September, 2000, UB8723486 dated 10th June, 2002 and UB5770117 dated 28th July, 1993 respectively.
- The property is subject to the following encumbrances:
 - Tripartite Legal Charge/Mortgage in favour of Standard Chartered Bank vide Memorial No. UB8874746 dated 10th February, 2003 and the consideration is all moneys (re: Office Nos. 2201 and 2201A);
 - Mortgage to secure general banking facilities in favour of Wing Hang Bank Limited vide Memorial No. UB5770119 dated 28th July, 1993 (re: Office No. 2202); and
 - Second Legal Charge in favour of Wing Hang Bank in favour of Memorial No. UB8124046 dated 20th June, 2000 and the consideration is all moneys (re: Office No. 2202).

Property	Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006
7 Shop E on Ground Floor, Edificio da Associacao Comercial de Macau (中華總商會大廈), No. 298-316 Avenida do Dr. Rodrigo Rodrigues (羅理基博士大馬路), No. 147-191 Rua de Xangai (上海街) and No. 111-123 Rua de Pequim (北京街), Macau	The property comprises one of the various retail shops with a mezzanine on the ground floor of Edificio da Associacao Comercial de Macau.. It is a 20-storey (plus mezzanine floor) office building and was completed in 1993 or thereabout. Ground floor is designated for retail purposes whereas the upper floors (4/F to 19/F) are for office uses. Car parking spaces are provided on the 1/F to 3/F. The total saleable area of the property is approximately 195.48 sq.m. (2,104 sq.ft.) The property is held under a Concessao Por Arrendamento (租賃批地) for a term of 25 years commencing on 29th July, 1988.	The property is currently owner-occupied by the Enlarged Group.	\$18,500,000 (100% interest attributable to the Enlarged Group: \$18,500,000)

Notes:

1. The registered owner of the property under Conservatoria do Registo Predial is Sun Hung Kai Servicos e Consultadoria de Invesrimentos (Macau), Limitada vide 3284 F15K and 66044 G dated 27th April, 1994 and 10th June, 2003 respectively.
2. According to our recent title search, no material encumbrances is registered against the property.

Property		Description and Tenure	Particulars of Occupancy	Capital value in existing state as at 30th April, 2006															
8	Rooms 1901-1903, 19th Floor of Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Tian An Centre is a 30-storey commercial building on top of a 3-storey basement completed in 2004 and having a total gross floor area of approximately 57,893.02 sq.m. (623,161 sq.ft.) and approximately 164 car parking spaces are provided. The property comprises 3 office units on 19th Floor of Tian An Centre and the gross floor area breakdown are as follow: <table><tr><th>Unit</th><th>Gross Floor sq.m.</th><th>Area sq.ft.</th></tr><tr><td>1901</td><td>204.63</td><td>2,203</td></tr><tr><td>1902</td><td>155.17</td><td>1,670</td></tr><tr><td>1903</td><td>153.68</td><td>1,654</td></tr><tr><td>Total</td><td><u>513.48</u></td><td><u>5,527</u></td></tr></table> The land use rights of the property have been granted for a term of 50 years from 8th July, 1994 to 7th July, 2044 for comprehensive use.	Unit	Gross Floor sq.m.	Area sq.ft.	1901	204.63	2,203	1902	155.17	1,670	1903	153.68	1,654	Total	<u>513.48</u>	<u>5,527</u>	The property is currently owner occupied by the Enlarged Group.	\$18,200,000 (100% interest attributable to the Enlarged Group: \$18,200,000)
Unit	Gross Floor sq.m.	Area sq.ft.																	
1901	204.63	2,203																	
1902	155.17	1,670																	
1903	153.68	1,654																	
Total	<u>513.48</u>	<u>5,527</u>																	

Notes:

- Pursuant to three Certificates of Real Estate Ownership Nos. 003353, 003352 and 003351 issued by Shanghai Housing and Land Resources Administration Bureau on 15th March, 2005, the title of the property has been transferred to 興業控股有限公司, a wholly owned subsidiary of the Group, for a land use term of 50 years from 8th July, 1994 for comprehensive use.
- The opinion of the Enlarged Group's legal adviser on PRC law, ShangHai Shenhua Law Firm, states that:
 - According to the Certificates of Real Estate Ownership, 興業控股有限公司 has the land use rights of the subject property, with a total gross floor area of 513.48 sq.m., for a term of 50 years commencing from 8th July, 1994 for comprehensive use.
 - 興業控股有限公司 is in possession of a proper legal title to the property and is freely transferable by way of transfer, mortgage or letting.
- We have prepared our valuation on the following assumptions:
 - 興業控股有限公司 is in possession of a proper legal title to the property and free from encumbrances, and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.
 - All land premium and other costs of ancillary utility services have been settled in full.
 - The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.

Group III – Property interests leased and occupied by the Enlarged Group in Hong Kong, the PRC and Philippines

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
9 Suites 1107-1111, 11/F, One Pacific Place, 88 Queensway, Admiralty, Hong Kong	One Pacific Place is a 40-storey commercial/office complex erected over a 3-storey shopping podium completed in 1988. The property comprises five office units on the 11th floor of One Pacific Place with a total gross floor area of approximately 839.28 sq.m. (9,034 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of three and a half years from 1st June, 2004 to 31st December, 2007 at a monthly rent of HK\$219,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
10 Suites 1101-1106 & 1112, 11/F, and Level 12, One Pacific Place, 88 Queensway, Admiralty, Hong Kong	One Pacific Place is a 40-storey commercial/office complex erected over a 3-storey shopping podium completed in 1988. The property comprises seven office units on the 11th floor and the whole of Level 12 of One Pacific Place with a total gross floor area of approximately 2,815.68 sq.m. (30,038 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of three and a half years from 1st January, 2004 to 31st December, 2007 at a monthly rent of HK\$805,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
11 23/F, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong	Siu On Centre is a 31-storey commercial/office complex erected over a 4-storey carparking podium completed in 1994. The property comprises the whole floor of 23rd floor of Siu On Centre with a gross floor area of approximately 433.57 sq.m. (4,667 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of three years from 1st September, 2003 to 31st August, 2006 at a monthly rent of HK\$42,003, exclusive of rates, management fees and other outgoings. A tenancy renewal is arranged for a term of three years from 1st September, 2006 to 31st August, 2009 at a monthly rent of HK\$51,337.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
12 Cubicle No. 9, 13/F, Allied Cargo Centre, Nos. 150-164 Texaco Road, Tsuen Wan, New Territories	Allied Cargo Centre is a 26-storey godown building with car parking spaces on ground and 1st floors completed in 1991. The property comprises a unit on the 13th floor of Allied Cargo Centre with a gross floor area of approximately 58.71 sq.m. (632 sq.ft.) and is currently occupied by the Enlarged Group as warehouse use. The property is leased to the Enlarged Group from 1st May, 2002 at a monthly rental at HK\$2,100 with no expiry date and termination with one month notice.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
13 Suites 2202, 2203, 2204 & 2205B, 22/F, 9 Queen's Road Central, Central, Hong Kong	"No. 9 Queen's Road Central" is a 34-storey commercial building with a basement completed in 1991. The property comprises the office unit nos. 2202, 2203, 2204 and 2205B on the 22nd floor of "No. 9 Queen's Road Central". The property has a total gross floor area of approximately 828.97 sq.m. (8,923 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$249,844, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
14 Units 1, 2 & 3, 27/F, Jupiter Tower, No. 9 Jupiter Street, North Point, Hong Kong	Jupiter Tower is a 28-storey commercial/office complex with one level of basement completed in 1997. The property comprises three office units on the 27th floor of Jupiter Tower with a total gross floor area of approximately 144.27 sq.m. (1,553 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 15th September, 2005 to 14th September, 2007 at a monthly rent of HK\$15,996, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
15 Units 902, 903 & 905, 9/F, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong	Bank of America Tower is a 38-storey commercial/office complex with one level of basement completed in 1975. The property comprises three office units on the 9th floor of Bank of America Tower with a total gross floor area of approximately 490.52 sq.m. (5,280 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of three years from 23rd March, 2006 to 22nd March, 2009 at a monthly rent of HK\$158,400, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
16 2/F, Silvercorp International Tower, 707-713 Nathan Road, Mongkok, Kowloon, Hong Kong	Silvercorp International Tower is a 24-storey commercial/office complex with basement completed in 1994. The property comprises the whole of second floor of Silvercorp International Tower with a gross floor area of approximately 362.50 sq.m. (3,902 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st July, 2005 to 30th June, 2007 at a monthly rent of HK\$48,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
17 G/F, No. 288 Sha Tsui Road, Tsuen Wan, New Territories	The property comprises a shop unit on the ground floor of a 4-storey composite building completed in 1960. The property has a saleable of approximately 157.93 sq.m. (1,700 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 6th December, 2005 to 5th December, 2007 at a monthly rent of HK\$80,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
18 Portion A, Shop No. 2, G/F, Wah Hing Building, 449-455 King's Road, North Point, Hong Kong	The property comprises a shop unit on the ground floor of a 23-storey composite building. The building was completed in 1979. The property has a saleable area of approximately 139.35 sq.m. (1,500 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of three years from 1st July, 2003 to 30th June, 2006 at a monthly rent of HK\$40,800, exclusive of rates, management fees and other outgoings. A tenancy renewal is being arranged for a term of 2 years from 1st July, 2006 to 30th June, 2008 at a monthly rental of HK\$45,700.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
19 Shop No. 3, Ground Floor, No. 170 Jockey Club Road, Sheung Shui, New Territories	The property comprises a shop unit on the ground floor of a 3-storey composite building. The building was completed in 1973. The property has a saleable area of approximately 176.51 sq.m. (1,900 sq.m.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 13th June, 2004 to 12th June, 2006 at a monthly rent of HK\$41,000, exclusive of rates, management fees and other outgoings. A tenancy renewal is being arranged for a term of one year from 13th June, 2006 to 12th June, 2007 at a monthly rental of HK\$47,000.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
20 Unit 1804, 18/F Shenhua Commercial Building, Nanhu Road, Luohu District, Shenzhen, the PRC	Shenhua Commercial Building is a commercial/ office complex erected over a 8-storey shopping podium completed in 2001. The property comprises an office unit on the 18th floor of Shenhua Commercial Building with a gross floor area of approximately 104.59 sq.m. 1,125.82 sq.ft. and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 18th March, 2006 to 31st March, 2008 at a monthly rent of HK\$5,063, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
21 Room 815, 8/F, Peninsula Court, 8735 Paseo De Roxas, Makati City, Philippines	The property comprises a office unit on the 8th floor of a 8-storey building. The building was completed in 1969 . The property has a gross floor area of approximately 65.00 sq.m. (699.66 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of one year from 1st August, 2006 to 31st July, 2007 at a monthly rent of HK\$2,627, exclusive of rates, management fees and other outgoings.	No Commercial Value (100% interest attributable to the Enlarged Group: No Commercial Value)
22 Flat A-C, 3/F, East South Building, 475-481 Hennessy Road, Causeway Bay, Hong Kong	East South Building a 16-storey residential/ commercial building completed in 1965. The property comprises three office units on the 3rd floor of East South Building with a gross floor area of approximately 371.61 sq.m. (4,000 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 9th April, 2006 to 8th April, 2008 at a monthly rent of HK\$98,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
23 G/F, 100 Shau Kei Wan Road, Sai Wan Ho, Hong Kong	The property comprises a shop unit on ground floor of a 12-storey composite building. The building was completed in 1967. The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 18th February, 2005 to 17th February, 2007 at a monthly rent of HK\$28,750, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
24 1/F-2/F, China Travel Building, 77 Queen's Road Central, Central, Hong Kong	The property comprises the whole of 1st and 2nd floors of a 13-storey commercial building. The building was completed in 1973. The property has a gross floor area of approximately 156.73 sq.m. (1,687 sq.ft.) on 1st floor and 148.64 sq.m. (1,600 sq.ft.) on 2nd floor and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 21st October, 2004 to 20th October, 2006 at a monthly rent of HK\$40,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
25 Offices A & B, 2/F Hennessy Plaza, 164-166 Hennessy Road, Wanchai, Hong Kong	The property comprises two office units on the 2nd floor of a 16-storey commercial building. The building was completed in 1977. The property has a total gross floor area of approximately 120.77 sq.m. (1,300 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st May, 2005 to 30th April, 2007 at a monthly rent of HK\$14,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
26 G/F & Cockloft, Kong Kai Building, 184 Aberdeen Main Road, Aberdeen, Hong Kong	The property comprises a shop unit on the ground floor and cockloft thereto of a 24-storey composite building. The building was completed in 1990. The property has a gross floor area of approximately 92.90 (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$74,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
27 G/F & Mezzanine Floor, 255 Des Voeux Road West, Western, Hong Kong	The property comprises a shop unit on the ground floor and mezzanine floor of a 6-storey composite building. The building was completed in 1979. The property has a gross floor area of approximately 88.26 sq.m. (950 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 15th May, 2005 to 14th May, 2007 at a monthly rent of HK\$20,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
28 Shops 201-2, Olympia Plaza, 255 King's Road, North Point, Hong Kong	Olympia Plaza is a 26-storey commercial/office complex with three levels of basement completed in 1999. The property comprises two shop units on the 2nd floor of Olympia Plaza with a total gross floor area of approximately 99.59 sq.m. (1,072 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 16th June, 2005 to 15th June, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
29 Shop 3, G/F, Pacific Plaza, 410-424B Des Voeux Road West, Western, Hong Kong	Pacific Plaza is a 28-storey commercial/office complex erected over a 4-storey shopping arcade completed in 1992. The property comprises a shop unit on the ground floor of Pacific Plaza with a gross floor area of approximately 68.09 sq.m. (733 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 16th February, 2005 to 15th February, 2007 at a monthly rent of HK\$27,854, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
30 Shop 1009B, 1/F, United Centre, 95 Queensway, Admiralty, Hong Kong	United Centre is a 36-storey commercial/office complex erected over a 6-storey commercial podium completed in 1981. The property comprises a shop unit on the 1st floor of United Centre with a gross floor area of approximately 53.42 sq.m. (575 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st March, 2005 to 28th February, 2007 at a monthly rent of HK\$48,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
31 2/F, Wincome Centre, 39 Des Voeux Road Central, Central, Hong Kong	The property comprises the whole of 2nd floor of a 24-storey commercial building. The building was completed in 1992. The property has a gross floor area of approximately 248.98 sq.m. (2,680 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 26th September, 2005 to 25th September, 2007 at a monthly rent of HK\$58,960, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
32 21/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	Allied Kajima Building is a 24-storey commercial/office building with 2 levels of basement completed in 1981. The property comprises the whole of 21st floor of Allied Kajima Building with a gross floor area of approximately 833.13 sq.m. (9,506 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st January, 2006 to 31st December, 2007 at a monthly rent of HK\$216,736.80, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
33 20/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	Allied Kajima Building is a 24-storey commercial/ office building with 2 levels of basement completed in 1990. The property comprises the whole of 20th floor of Allied Kajima Building with a gross floor area of approximately 833.13 sq.m. (9,506 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two and a half years from 1st July, 2005 to 31st December, 2007 at a monthly rent of HK\$216,736.80, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
34 Room 802, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong	Allied Kajima Building is a 24-storey commercial/ office building with 2 levels of basement completed in 1990. The property comprises an office unit on the 8th floor of Allied Kajima Building with a gross floor area of approximately 130.99 sq.m. (1,410 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st February, 2005 to 31st January, 2007 at a monthly rent of HK\$28,200, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
35 1/F, 595-599A Shanghai Street, 6A-6C Argyle Street, Mongkok, Kowloon	The property comprises an office unit on first floor of a 16-storey composite building. The building was completed in 1966. The property has a gross floor area of approximately 244.52 sq.m. (2,632 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$70,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
36 G/F & Cockloft, 60 Hong Ning Road, Kwun Tong, Kowloon	The property comprises a shop unit on the ground floor and cockloft thereto of a 6-storey composite building. The building was completed in 1968. The property has a gross floor area of approximately 86.40 sq.m. (930 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 6th May, 2005 to 5th May, 2007 at a monthly rent of HK\$38,800, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
37 1/F, Foon Shing Building, 732 Nathan Road, Mongkok, Kowloon	The property comprises the whole of first floor of a 12-storey composite building. The building was completed in 1975. The property has a gross floor area of approximately 148.83 sq.m. (1,602 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 16th January, 2005 to 15th January, 2007 at a monthly rent of HK\$23,700, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
38 G/F, On Keung Building, 51-65 Hong Keung Street, San Po Kong, Kowloon	The property comprises a shop unit on the ground floor of a 8-storey composite building. The building was completed in 1963. The property has a gross floor area of approximately 111.48 sq.m. (1,200 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of four years from 3rd January, 2004 to 2nd January, 2008 at a monthly rent of HK\$30,800, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
39 2/F, Cheong Hing Building, 72 Nathan Road, Tsimshatsui, Kowloon	The property comprises the whole of second floor of a 13-storey composite building. The building was completed in 1964. The property has a gross floor area of approximately 278.70 sq.m. (3,000 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$51,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
40 Shop No. 43, 1/F, Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung, Kowloon	Kwai Chung Plaza is a 27-storey residential/commercial complex erected over a 4-storey shopping podium completed in 1990. The property comprises a shop unit on the 1st floor of Kwai Chung Plaza with a gross floor area of approximately 133.13 sq.m. (1,433 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 16th October, 2004 to 15th October, 2006 at a monthly rent of HK\$41,392, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
41 G/F, 270 Cheung Sha Wan Road, Sham Shui Po, Kowloon	The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1961. The property has a gross floor area of approximately 109.62 sq.m. (1,180 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of three years from 8th February, 2004 to 7th February, 2007 at a monthly rent of HK\$31,972.50, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
42 G/F, 1/F and Flat Roof, 124 Ma Tau Wai Road, Hung Hom, Kowloon	The property comprises the whole of ground floor, first floor and flat roof of a 10-storey composite building. The building was completed in 1987. The property has a total gross floor area of approximately 172.80 sq.m. (1,860 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st June, 2005 to 31st May, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
43 1/F, Double Set Commercial Centre, 37A- 37B Jordan Road, Jordan Kowloon	The property comprises an office unit on the first floor of a 18-storey commercial building. The building was completed in 1991. The property has a gross floor area of approximately 139.81 sq.m. (1,505 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 9th September, 2005 to 8th September, 2007 at a monthly rent of HK\$40,700, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
44 Unit 119, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Cheung Sha Wan, Kowloon	Cheung Sha Wan Plaza is a commercial/office complex with carparking spaces on 3/F and 4/F completed in 1989. The property comprises a shop unit on the first floor of Cheung Sha Wan Plaza with a gross floor area of approximately 215.35 sq.m. (2,318 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st June, 2004 to 31st May, 2006 at a monthly rent of HK\$51,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
45 Shop D, G/F, Lee Fung Building, 88-96 Argyle Street, 19 Yim Po Fong Street, 104 Hak Po Street, Mongkok, Kowloon	The property comprises a shop unit on the ground floor of a 13-storey composite building. The building was completed in 1960. The property has a gross floor area of approximately 78.97 sq.m. (850 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st February, 2005 to 31st January, 2007 at a monthly rent of HK\$75,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
46 G/F, 271 To Kwa Wan Road, To Kwa Wan, Kowloon	The property comprises a shop unit on the ground floor of a 8-storey composite buildings. The building was completed in 1960. The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$42,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
47 G/F including Yard, 1/F, Flat Roofs & Canopy, 27 Lung Kong Road, Kowloon City, Kowloon	The property comprises a shop unit on the ground floor including yard, first floor, flat roofs and canopy of a 6-storey composite building. The building was completed in 1974. The property has a gross floor area of approximately 185.80 sq.m. (2,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 25th September, 2005 to 24th September, 2007 at a monthly rent of HK\$46,000 exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
48 Shop A1, G/F, Hamilton Commercial Building, 558-560 Nathan Road, Yau Ma Tei, Kowloon	The property comprises a shop unit on the ground floor of a 21-storey commercial building completed in 1987. The property has a gross floor area of approximately 95.69 sq.m. (1,030 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 18th February, 2006 to 17th February, 2008 at a monthly rent of HK\$49,500, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
49 Room A, G/F, Hamilton Commercial Building, 558-560 Nathan Road, Yau Ma Tei, Kowloon	The property comprises a shop unit on the ground floor of a 21-storey commercial building completed in 1987. The property has a gross floor area of approximately 6.50 sq.m. (70.00 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 18th February, 2006 to 17th February, 2008 at a monthly rent of HK\$3,300, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
50 Shop E4f, G/F, Tai Yau Building, No. 56-58 Ivy Street, Tai Kok Tsui, Kowloon	The property comprises a shop unit on the ground floor of a 14-storey composite building. The building was completed in 1974. The property has a total gross floor area of approximately 130.06 sq.m. (1,400 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 15th November, 2005 to 14th November, 2007 at a monthly rent of HK\$38,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
51 Shop Nos. G13-14, G/F, Kwun Tong Plaza, No. 68 Hoi Yuen Road, Kwun Tong, Kowloon	Kwun Tong Plaza is a 14-storey (including a mezzanine floor) commercial/office complex with shopping arcade on 1/F to 3/F and car parking spaces on 5/F to 11/F completed in 1986. The property comprises a shop unit on the ground floor of Kwun Tong Plaza a gross floor area of approximately 46.08 sq.m. (496 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of five years from 24th January, 2006 to 23rd January, 2011 at a monthly rent of HK\$98,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
52 Workshop No. 1A, G/F, International Plaza, No. 20 Sheung Yuet Road, Kowloon Bay, Kowloon	The property comprises a workshop unit on the ground floor of a 12-storey industrial building with car parking spaces on ground floor and one level of basement. The building was completed in 1987. The property has a gross floor area of approximately 89.19 sq.m. (960 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two and a half years from 1st June, 2006 to 30th November, 2008 at a monthly rent of HK\$68,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
53 Units 1816B-1818A, 18/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan, New Territories	Nam Fung Centre is a 24-storey commercial/office complex erected over a 2-storey shopping podium completed in 1983. The property comprises two offices units on 18th floor of Nam Fung Centre with a total gross floor area of approximately 164.90 sq.m. (1,775 sq.ft.) and is currently occupied by the Enlarged Group as office use. The property is leased to the Enlarged Group for a term of two years from 1st July, 2004 to 30th June, 2006 at a monthly rental of HK\$22,075 exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
54 Shops 15B-D, Level 1, Lucky Plaza, 1-15 Wang Pok Street, Shatin, New Territories	Lucky Plaza is a residential/commercial complex erected over a 3-storey shopping podium completed in 1983. The property comprises a shop unit on Level 1 of Lucky Plaza with a total gross floor area of approximately 147.43 sq.m. (1,587 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$95,200, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
55 Shop B2, Central Plaza, 51-59 Kwong Fuk Road, Tai Po, New Territories	Central Plaza is a 16-storey composite building completed in 1991. The property comprises a shop unit on the ground floor of Central Plaza with a gross floor area of approximately 120.77 sq.m. (1,300 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st January, 2006 to 31st December, 2007 at a monthly rent of HK\$34,500, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
56 G/F, No. 195 Castle Peak Road, Yuen Long, New Territories	The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1972. The property has a gross floor area of approximately 97.54 sq.m. (1,050 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 3rd July, 2004 to 2nd July, 2006 at a monthly rent of HK\$70,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
57 Shop No. 12, G/F, Ming Wai House, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories	The property comprises a shop unit on the ground floor of a 6-storey composite building. The building was completed in 1972. The property has a gross floor area of approximately 74.32 sq.m. (800 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st September, 2005 to 31st August, 2007 at a monthly rent of HK\$45,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
58 Shop No. 11, G/F, Ming Wai House, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun, New Territories	The property comprises a shop unit on the ground floor of a 6-storey composite building erected over a 4-storey car parking podium. The building was completed in 1972. The property has a gross floor area of approximately 74.32 sq.m. (800 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st April, 2005 to 31st March, 2007 at a monthly rent of HK\$32,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
59 Flat A, G/F, Sun Fung House, 113-119 San Fung Avenue, Shek Wu Hui., Sheung Shui, New Territories	The property comprises a shop unit on ground floor of a 4-storey composite building. The building was completed in 1966. The property has a gross floor area of approximately 92.90 sq.m. (1,000 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 10th November, 2005 to 9th November, 2007 at a monthly rent of HK\$50,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

Property	Description and Tenure	Capital value in existing state as at 30th April, 2006
60 Shop 6, G/F & Cockloft, 49 Tai Ho Road, Tsuen Wan, New Territories	The property comprises a shop unit on the ground floor of a 7-storey composite building. The building was completed in 1966. The property has a gross floor area of approximately 157.93 sq.m. (1,700 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 1st September, 2004 to 31st August, 2006 at a monthly rent of HK\$66,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
61 Shop G31, G/F, Metro City, Phase II, 8 Yan King Road Tseung Kwan O, New Territories	The property comprises a shop unit on the ground floor of a 3-storey commercial podium with basement completed in 1999. The property has a gross floor area of approximately 132.38 sq.m. (1,425 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of two years from 6th January, 2005 to 5th January, 2007 at a monthly rent of HK\$32,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)
62 Shop 134A, 1/F, Kingswood Ginza, Phase 2, Tsin Shui Wai, New Territories	The property comprises a shop unit on the first floor of a 25-storey commercial/office building. The building was completed in 1997. The property has a gross floor area of approximately 62.15 sq.m. (669 sq.ft.) and is currently occupied by the Enlarged Group as shop use. The property is leased to the Enlarged Group for a term of three years from 16th November, 2005 to 15th November, 2008 at a monthly rent of HK\$34,000, exclusive of rates, management fees and other outgoings.	No Commercial Value (58.18% interest attributable to the Enlarged Group: No Commercial Value)

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to in such provisions of the SFO; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange:

Name of Director	Name of associated corporations	Beneficial interest in number of shares and underlying shares	Approximate % of the relevant issued share capital	Nature of interest
Patrick Lee Seng Wei	APL	324,000 (Note 1)	0.06%	Personal interest (held as beneficial owner)
	AGL	550,000 (Note 2)	0.21%	Personal interest (held as beneficial owner)

Notes:

- (1) This represented an interest in 270,000 shares of APL and an interest in 54,000 units of warrants of APL giving rise to an interest in 54,000 underlying shares of APL. The said warrants of APL entitle the holders thereof to subscribe at any time during the period from 7th June, 2006 to 6th June, 2009 (both days inclusive) for fully paid shares of APL at an initial subscription price of HK\$10 per share (subject to adjustments).
- (2) This represented an interest in 550,000 shares of AGL.
- (3) All interests stated above represented long positions.

(b) Substantial Shareholders' interests

Save as disclosed below, the Directors and chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under provisions of Divisions 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group.

(i) Interests in the Shares and the underlying Shares

Name of Shareholders	Number of Shares and underlying Shares	Approximate % of the issued share capital	Notes
APL	952,038,670	76.42%	1, 4, 5
AGL	952,038,670	76.42%	2, 4, 5
Lee and Lee Trust (the "LL Trust")	952,038,670	76.42%	3, 4, 5
Penta Investment Advisers Limited ("Penta")	155,806,200	12.51%	6
John Zwaanstra	155,806,200	12.51%	7

Notes:

1. This represented an interest in 765,198,892 Shares and an interest in 186,839,778 units of warrants of the Company, giving rise to an interest in 186,839,778 underlying Shares, which were held by AP Emerald Limited ("APE"), a wholly-owned subsidiary of AP Jade Limited ("AP Jade"). The said warrants of the Company (the "2009 Warrants") entitle the holders thereof to subscribe at any time during the period from 1st June, 2006 to 31st May, 2009 (both days inclusive) for the fully paid Shares at an initial subscription price of HK\$6 per Share (subject to adjustments). AP Jade was a wholly-owned subsidiary of APL which was therefore deemed to have an interest in the Shares and the underlying Shares.
2. AGL owned approximately 74.93% interest in the issued share capital of APL and was therefore deemed to have an interest in the Shares and the underlying Shares in which APL was interested.
3. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of the LL Trust, being a discretionary trust. They together owned approximately 40.72% interest in the issued share capital of AGL and were therefore deemed to have an interest in the Shares and the underlying Shares in which AGL was interested.

4. A subscription agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) was entered into between APE as subscriber and the Company for the subscription of 169,000,000 new Shares on completion of the placing of 169,000,000 Shares by APE to 3V Capital Limited ("3V Capital") as placing agent pursuant to a placing agreement entered into between the two parties on 12th May, 2006 (as supplemented on 17th May, 2006) and an additional of 79,000,000 new Shares if the potential placing of 79,000,000 Shares proceeds, at a price of HK\$7.00 per Share. Completion of the subscription agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in the joint announcements of the Company, AGL and APL dated 17th May, 2006 and 18th May, 2006 and the respective circulars of AGL and APL dated 8th June, 2006.
5. A placing agreement dated 18th May, 2006 was entered into between APE as vendor and Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of the Company, as placing agent in relation to the underwriting of the placing of 79,000,000 Shares by SHKIS at a price of HK\$7.00 per Share. Completion of the placing agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in a joint announcement of the Company, AGL and APL dated 18th May, 2006 and the respective circulars of AGL and APL dated 8th June, 2006.
6. This represented an interest (held as investment manager) in 151,998,000 Shares and an interest in 3,808,200 units of the 2009 Warrants of the Company giving rise to an interest in 3,808,200 underlying Shares.
7. Mr. John Zwaanstra was deemed to have an interest in the Shares and the underlying Shares through his 100% interest in Penta.
8. All interests stated above represented long positions. As at the Latest Practicable Date, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

(ii) *Interests in the shares of other members of the Group*

Name of non-wholly owned subsidiaries of the Company	Name of shareholders	Number of shares	Approximate % of the relevant issued share capital
Best Decision Investments Limited	Christophe Lee Kin Ping	17,500	35%
SHK Financial Data Limited	Unison Information Limited	47	49%

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

- (a) Mr. Arthur George Dew is a director of AGL which, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment.
- (b) Mr. Patrick Lee Seng Wei is a director of APL and Tian An China Investments Company Limited ("Tian An"). APL, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment; and Tian An, through a subsidiary, is partly engaged in the business of money lending.

As the Board is independent from the boards of the abovementioned companies and none of the above Directors can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

5. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group:

- (a) By the Judgment of Deputy High Court Judge To on 1st April, 2004 (the "Judgment") in HCA 3191/1999 between New World Development Company Limited ("NWDC") and Stapleton Development Limited against Sun Hung Kai Securities Limited ("SHKS"), a direct wholly-owned subsidiary of the Company, SHKS was ordered to pay NWDC the sum of HK\$105,534,018.22 together with interest on the principal sum of HK\$80,117,652.72 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which His Lordship found (the "Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK\$150,115,681.54 (being HK\$105,534,018.22 plus interest of HK\$44,581,663.32). SHKS has paid the Judgment amounts. SHKS filed an appeal against the Judgment both as to liability and quantum (the "Appeal") to the Court of Appeal. That Court has now handed down its judgment (the "Court of Appeal Judgment") in which the Court ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the Court of First Instance but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK\$14,783,090.86 and has now been repaid. SHKS obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal (the "Final

Appeal"). The Final Appeal was heard on 19th, 20th and 21st June, 2006. The Court of Final Appeal reserved its decision.

- (b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and SHKIS, both indirect wholly-owned subsidiaries of the Company, were served with a writ including a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("Shanghai Finance"), claiming, inter alia, an order that the sale of the shares in Shun Loong Holdings Limited (the "Shun Loong Shares") by STCC as assignee to SHKIS (at a consideration of HK\$36,500,000 subject to additional amounts in a total sum not exceeding HK\$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, as against STCC, for damages and an account as to the money obtained by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and believe that the claim is not soundly based. STCC and SHKIS have applied to have the claim struck out. The proceedings have now been stayed until further order of the court.
- (c) Shun Loong Finance Limited and Shun Loong Holdings Limited (together the "Petitioners"), both indirect wholly-owned subsidiaries of the Company, filed a winding-up petition on 19th February, 2004 in the B.V.I. seeking an order that Shanghai Finance be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.
- (d) The Company, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (e) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds 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, Madam Justice Herman granted summary judgment to SHKIS (the "Summary Judgment") in the amount of Canadian currency sufficient to purchase HK\$10,533,000 plus prejudgment and postjudgment interest thereon. On 24th January, 2006, SHKIS received in partial satisfaction of the Summary Judgment order C\$14,070.99 and US\$1,288,555.31 (i.e. together approximately HK\$10,008,867.89) that had been held in the custody of the Superior Court of Justice.

- (f) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited (“Sellon”), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) A sale and purchase agreement dated 30th December, 2004 was entered into between (i) Shine Star Properties Limited (“Shine Star”) as vendor; (ii) Sun Hung Kai International Investment Management Limited (“SHKIIM”), a direct wholly-owned subsidiary of the Company, as purchaser; and (iii) Hing Yip Holdings Limited (“Hing Yip”), pursuant to which (a) Shine Star agreed to sell and SHKIIM agreed to purchase one share of US\$1.00 being the entire issued share capital of Hing Yip, which owns certain office premises in the Tian An Centre in Shanghai; and (b) Shine Star agreed to assign and SHKIIM agreed to take as an assignment of the benefits of a shareholder’s loan in the sum of HK\$10,172,709 due from Hing Yip to Shine Star as at 23rd December, 2004, at the aggregate consideration of RMB14,634,180 (equivalent to approximately HK\$13,805,830).
- (b) A sale and purchase agreement dated 19th January, 2005 was entered into between (i) Shine Star as vendor; (ii) SHKIIM as purchaser; and (iii) Sing Hing Investment Limited (“Sing Hing”), pursuant to which (a) Shine Star agreed to sell and SHKIIM agreed to purchase one share of US\$1.00 being the entire issued share capital of Sing Hing, which owns certain office premises in the Tian An Centre in Shanghai; and (b) Shine Star agreed to assign and SHKIIM agreed to take as an assignment of the benefits of a shareholder’s loan in the sum of HK\$26,934,275 due from Sing Hing to Shine Star as at 18th January, 2005, at the aggregate consideration of RMB40,786,200 (equivalent to approximately HK\$38,477,547).
- (c) A deed dated 5th February, 2005 in relation to the sale and purchase of all the issued shares of Excalibur Securities Limited (“ESL”) and Excalibur Futures Limited (“EFL”) was entered into between (i) Smart Day International Limited (“Smart Day”) as vendor; (ii) SHKSL, a direct wholly-owned subsidiary of the Company, as purchaser; and (iii) Messrs. Poon Kwok Wah, Allan and Chan Ying Leung as warrantors pursuant to which Smart Day agreed to sell and SHKSL agreed to purchase all the issued 10,000,000 shares of each of ESL and EFL at a consideration of:
- (i) in relation to the shares of ESL, the aggregate value of the total net current assets as shown in the completion accounts of ESL less its actual and contingent liabilities (including provisions which it is proper or

appropriate to make in respect of any potential or contingency liability or the doubtful recoverability or realization of any assets) plus HK\$2,000,000 and the deposits with the Stock Exchange, deposit to replenish compensation fund, statutory deposit with the Commission for Securities, admission fee paid to a clearing house and contribution in cash to a guarantee fund; and

- (ii) in relation to the shares of EFL, the aggregate value of the total net current assets as shown in the completion accounts of EFL less its actual and contingent liabilities (including provisions which it is proper or appropriate to make in respect of any potential or contingency liability or the doubtful recoverability or realization of any assets) plus HK\$5,000,000 and the deposits, reserve fund(s) and compensation fund paid to Hong Kong Futures Exchange Limited and Hong Kong Futures Exchange Clearing Corporation Limited.
- (d) A loan agreement dated 2nd March, 2005 was entered into between (i) Ranbridge Finance Limited ("Ranbridge"), a direct wholly-owned subsidiary of the Company, as lender; (ii) Join View Development Limited ("Join View") as borrower; and (iii) Tian An as guarantor in relation to the granting of a revolving loan facility up to an amount of HK\$100,000,000 for a period of 36 months at the interest rate of prime rate plus 1% per annum. Further details were disclosed in a joint announcement of the Company, AGL and APL dated 8th November, 2005 and their respective circulars dated 25th November, 2005.
- (e) A supplemental loan agreement dated 7th November, 2005 was entered into between (i) Ranbridge as lender; (ii) Join View as borrower; and (iii) Tian An, Sky Full Enterprises Limited and Tian An Real Estate Agency (China) Limited as guarantors in relation to amending the loan agreement dated 2nd March, 2005 and increasing the amount of the loan facility to HK\$280,000,000. Further details were disclosed in a joint announcement of the Company, AGL and APL dated 8th November, 2005 and their respective circulars dated 25th November, 2005.
- (f) A call option agreement dated 3rd April, 2006 and a supplemental letter dated 18th May, 2006 were entered into between CLSA Capital Limited ("CLSA") as grantor and Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a direct wholly-owned subsidiary of the Company, as grantee pursuant to which CLSA agreed to grant the Option to Wah Cheong at a consideration of HK\$11,100,916.45. The Option will entitle Wah Cheong to require CLSA to sell all the shares held by CLSA in Quality HealthCare Asia Limited ("QHA") at an aggregate exercise price of HK\$99,908,248.05; and to exercise all or part of the number of warrants held by CLSA in QHA which would, if exercised, lead to the subscription of 7,056,232 shares in QHA at the adjusted subscription price of HK\$2.46 per QHA share. Completion of the call option agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in the joint announcements of the Company, AGL and APL dated 7th April, 2006 and 18th May, 2006 and their respective circulars dated 29th June, 2006.

- (g) A placing agreement dated 6th April, 2006 was entered into between the Company as vendor and 3V Capital as placing agent, pursuant to which the Company agreed to place 175,000,000 ordinary shares in Tian An to independent investors at the price of HK\$5.10 per share. Further details were disclosed in an announcement of Tian An dated 7th April, 2006.
- (h) A top-up subscription agreement dated 6th April, 2006 was entered into between Tian An and the Company as subscriber, pursuant to which the Company agreed to subscribe 175,000,000 ordinary shares in Tian An at the price of HK\$5.10 per share. Further details were disclosed in an announcement of Tian An dated 7th April, 2006.
- (i) A subscription agreement dated 12th May, 2006 (as supplemented on 17th May, 2006) was entered into between APE as subscriber and the Company for the subscription of 169,000,000 new Shares on completion of the placing of 169,000,000 Shares by APE to 3V Capital as placing agent pursuant to a placing agreement entered into between the two parties on 12th May, 2006 (as supplemented on 17th May, 2006) and an additional of 79,000,000 new Shares if the potential placing of 79,000,000 Shares proceeds, at a price of HK\$7.00 per Share. Completion of the subscription agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in the joint announcements of the Company, AGL and APL dated 17th May, 2006 and 18th May, 2006 and the respective circulars of AGL and APL dated 8th June, 2006.
- (j) A placing agreement dated 18th May, 2006 was entered into between APE as vendor and SHKIS as placing agent in relation to the underwriting of the placing of 79,000,000 Shares by SHKIS at a price of HK\$7.00 per Share. Completion of the placing agreement is conditional upon the fulfillment of the conditions as set out in the agreement. Further details were disclosed in a joint announcement of the Company, AGL and APL dated 18th May, 2006 and the respective circulars of AGL and APL dated 8th June, 2006.
- (k) The Agreement.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
SinoPac	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu ("Deloitte")	certified public accountants in Hong Kong
Norton Appraisals	professional valuers (members of The Hong Kong Institute of Surveyors and the Hong Kong Institute of Certified Public Accountants)

As at the Latest Practicable Date, none of SinoPac, Deloitte and Norton Appraisals:

- (a) had any direct or indirect interest in any assets which have since 31st December, 2005 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and
- (b) had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of SinoPac, Deloitte and Norton Appraisals has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports or letters, as the case may be, and reference to its name in the form and context in which they respectively appear.

8. DIRECTORS' INTERESTS IN CONTRACT AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31st December, 2005 (being the date to which the latest published audited financial statements of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

9. GENERAL

- (a) The registered office of the Company is Level 12, One Pacific Place, 88 Queensway, Hong Kong.
- (b) The Company secretary of the Company is Ms. Hester Wong Lam Chun. She is a fellow member of the Institute of Chartered Secretaries and Administrators.
- (c) The qualified accountant of the Company is Mr. Poon Mo Yiu. He is a fellow member of the Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (d) The share registrars of the Company are Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of P. C. Woo & Co. at 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;
- (c) the annual reports of the Company for the two financial years ended 31st December, 2004 and 31st December, 2005;
- (d) the accountants' report of the UAF Holdings Group, the text of which is set out in Appendix I;
- (e) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V;
- (f) the business valuation report on the UAF Group, the text of which is set out in Appendix VI;
- (g) the valuation report on the properties of the Enlarged Group, the text of which is set out in Appendix VIII;
- (h) the written consents referred to under section headed "Experts and Consents" in this Appendix;
- (i) the letter from SinoPac, the text of which is set out in this circular; and
- (j) (i) the major transaction circular issued by the Company on 29th June, 2006 regarding the conditional grant of option over the shares and warrants in QHA; and (ii) this circular.

NOTICE OF THE EGM



新鴻基有限公司

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of Sun Hung Kai & Co. Limited (the “Company”) will be held at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Wednesday, 9th August, 2006 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the agreement for sale and purchase dated 13th June, 2006 (the “Agreement”) made between (i) AG Capital Holding Limited (“AG Capital”), a direct wholly-owned subsidiary of Allied Group Limited (“AGL”); (ii) AGL; (iii) Swan Islands Limited (“Swan Islands”), a direct wholly-owned subsidiary of the Company; and (iv) the Company, relating to the sale by AG Capital and purchase by Swan Islands of the entire issued share capital of UAF Holdings Limited (together with the assignment of the accompanying shareholder’s loan) at a consideration of HK\$4,328,000,000, a copy of which has been produced at the Meeting marked “A” and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified, the transactions contemplated in the Agreement be and are hereby approved, and the directors of the Company be and are hereby authorised to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Agreement.”

By Order of the Board
Sun Hung Kai & Co. Limited
Hester Wong Lam Chun
Company Secretary

Hong Kong, 30th June, 2006

Registered Office:
Level 12
One Pacific Place
88 Queensway
Hong Kong

NOTICE OF THE EGM

Notes:

1. A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
2. Where there are joint registered holders of any shares, any one such persons may attend and vote at the Meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed on it together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of it must be deposited at the office of the Company's share registrars, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish.