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If you have sold or transferred all your securities in Sun Hung Kai & Co. Limited, you should at once hand this circular and the accompanying form of proxy 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)

CONNECTED TRANSACTION

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

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



ASIAN CAPITAL

(CORPORATE FINANCE) LIMITED

卓亞(企業融資)有限公司

A letter from the board of directors of Sun Hung Kai & Co. Limited is set out on pages 5 to 20 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 21 of this circular. A letter from Asian Capital (Corporate Finance) 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 22 to 35 of this circular.

A notice convening an 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 Tuesday, 1st August, 2006 at 9:30 a.m. is set out on pages 43 and 44 of this circular. If you are not 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 but 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.

14th July, 2006

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DEFINITIONS

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

“AGL”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“AGL Directors”	directors of AGL
“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
“Asian Capital”	Asian Capital (Corporate Finance) Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement
“associate”	having the meaning ascribed to such term in the Listing Rules
“Board”	board of Directors
“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
“C\$”	Canadian dollars, the lawful currency of Canada
“Directors”	directors of the Company

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be held at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 1st August, 2006 at 9:30 a.m. for the purpose of considering and, if thought fit, approving the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement pursuant to the Listing Rules
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the committee comprising Mr. Carlisle Caldw 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 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement
“Independent Shareholders”	Shareholders (other than APL and its associates) who are not required under the Listing Rules to abstain from voting at the EGM to approve the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement
“Latest Practicable Date”	11th July, 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
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shareholders”	shareholders of the Company
“Shares”	ordinary shares of nominal value of HK\$0.20 each in the share capital of the Company
“SHKIS”	Sun Hung Kai Investment Services Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities and an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares by the Vendor pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 12th May, 2006 made between the Vendor and the Company in relation to the Subscription (as supplemented on 17th May, 2006)
“Subscription Shares”	the 248,000,000 new Shares to be subscribed for by the Vendor pursuant to the Subscription Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	AP Emerald Limited, a company incorporated in the British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of APL and the controlling shareholder of the Company
“1st Announcement”	the joint announcement of the Company, AGL and APL dated 17th May, 2006
“1st Placing”	the placing of the 1st Tranche Placing Shares at a price of HK\$7.00 per Share pursuant to the 1st Placing Agreement
“1st Placing Agreement”	the placing agreement dated 12th May, 2006 made between the Vendor and 3V Capital in relation to the 1st Placing (as supplemented on 17th May, 2006)
“1st Tranche Placing Shares”	the 169,000,000 Shares placed by the Vendor through 3V Capital pursuant to the 1st Placing Agreement

DEFINITIONS

“2nd Announcement”	the joint announcement of the Company, AGL and APL dated 18th May, 2006
“2nd Placing”	the placing of the 2nd Tranche Placing Shares at a price of HK\$7.00 per Share pursuant to the 2nd Placing Agreement
“2nd Placing Agreement”	the placing agreement dated 18th May, 2006 made between the Vendor and SHKIS in relation to the 2nd Placing
“2nd Tranche Placing Shares”	the 79,000,000 Shares to be placed by the Vendor through SHKIS pursuant to the 2nd Placing Agreement
“3V Capital”	3V Capital Limited, a licensed corporation under the SFO permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities
“%”	per cent.



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*)

Independent non-executive Directors:

Mr. David Craig Bartlett

Mr. Alan Stephen Jones

Mr. Carlisle Caldwell Procter

Mr. Peter Wong Man Kong

Registered Office:

Level 12

One Pacific Place

88 Queensway

Hong Kong

14th July, 2006

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

Dear Sir or Madam,

CONNECTED TRANSACTION

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

INTRODUCTION

On 17th May, 2006, the AGL Directors, the APL Directors and the Directors jointly announced that the 1st Placing Agreement was executed by the Vendor and 3V Capital on 12th May, 2006, pursuant to which the Vendor agreed to place, through 3V Capital as placing agent, 248,000,000 Shares to independent investors at a price of HK\$7.00 per Share. On completion, the Vendor would subscribe for 248,000,000 new Shares at the same price pursuant to the Subscription Agreement.

On 17th May, 2006, as announced in the 1st Announcement, there was a change to the overall placing structure and a supplement was executed correspondingly to amend the 1st Placing Agreement. The 248,000,000 Shares to be placed under the 1st Placing Agreement were divided into two portions: 169,000,000 Shares placed by way of the 1st Placing and the remaining 79,000,000 Shares intended to be placed by way of the 2nd Placing. As a result, a supplement was also correspondingly executed on 17th May, 2006 to amend the Subscription

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Agreement. The 248,000,000 new Shares to be subscribed for under the Subscription Agreement were divided into two portions: only 169,000,000 new Shares will be subscribed for by the Vendor on completion of the 1st Placing, and the remaining 79,000,000 new Shares will only be subscribed for by the Vendor if the 2nd Placing proceeds.

On 18th May, 2006, it was announced in the 2nd Announcement that the 2nd Placing proceeded and became a placing of an additional 79,000,000 Shares of a legally-binding nature. The 2nd Placing Agreement was executed by the Vendor and SHKIS, pursuant to which the Vendor agreed to place, through SHKIS as placing agent, 79,000,000 Shares to independent investors at a price of HK\$7.00 per Share. Accordingly, the subscription of the additional 79,000,000 new Shares by the Vendor at the same price of HK\$7.00 per Share contemplated in the Subscription Agreement will also proceed on completion of the 2nd Placing.

The Vendor is an indirect wholly-owned subsidiary of APL, which, in turn, is a substantial shareholder of the Company and hence is a connected person of the Company within the meaning of the Listing Rules. As SHKIS is an indirect wholly-owned subsidiary of the Company, the 2nd Placing Agreement and the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing constitute a connected transaction for the Company and requires the approval of the Independent Shareholders.

The Company is also required to obtain specific approval from the Shareholders on the Subscription under Rule 13.36(1) of the Listing Rules. Under Rule 14A.31(3)(d) of the Listing Rules, if a listed issuer issues new securities to a connected person within 14 days after such connected person has executed an agreement to reduce its holding in that class of securities by placing securities to a third person who is not its associate, such issue of new securities is exempted from reporting, announcement and independent shareholders' approval requirements. However, as the issue of the Subscription Shares will not be completed within 14 days from the date of the 1st Placing Agreement until all the applicable disclosure and shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules have been complied with by AGL, APL and the Company, the exemption under Rule 14A.31(3)(d) will not apply. Accordingly, the allotment and issue of the Subscription Shares under the Subscription Agreement under Rule 13.36(1) of the Listing Rules constitutes a connected transaction for the Company and requires the approval of the Independent Shareholders.

APL and its associates will abstain from voting on the resolution at the EGM for approving the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement.

The Independent Board Committee has been constituted to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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 Caldwor 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.

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Asian Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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 1st Placing Agreement, 2nd Placing Agreement and the Subscription Agreement; (ii) to set out the advice of Asian Capital and the recommendation of the Independent Board Committee; and (iii) to give the Shareholders notice of the EGM and other information in accordance with the requirements of the Listing Rules.

PLACING OF 169,000,000 EXISTING SHARES (THE 1ST PLACING)

Placing Agreement dated 12th May, 2006 made between the Vendor and 3V Capital (as supplemented on 17th May, 2006)

On 12th May, 2006, the 1st Placing Agreement was executed, pursuant to which the Vendor has agreed to place, through 3V Capital, 248,000,000 Shares to independent investors at a price of HK\$7.00 per Share. On 17th May, 2006, as announced in the 1st Announcement, there was a change to the overall placing structure and a supplement was correspondingly executed to amend the 1st Placing Agreement. The 248,000,000 Shares to be placed under the 1st Placing Agreement were divided into two portions: 169,000,000 Shares placed by way of the 1st Placing and the remaining 79,000,000 Shares intended to be placed by way of the 2nd Placing.

Vendor:	The Vendor, which is the controlling shareholder of the Company.
Number of 1st Tranche Placing Shares:	169,000,000 Shares placed, representing approximately 13.56% of the issued share capital of the Company as at the Latest Practicable Date.
Underwriting:	The 1st Placing was fully underwritten by 3V Capital.
Placing price:	HK\$7.00 per Share, which was agreed after arm's length negotiations and represents: (i) a discount of approximately 10.83% to the closing price of HK\$7.85 per Share (on a cum dividend and cum warrant basis) as quoted on the Stock Exchange on 11th May, 2006 being the last trading day of the Shares immediately before the date of the 1st Announcement, or a discount of approximately 9.74% to HK\$7.755 (being such closing price calculated on an ex dividend basis);

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(ii) a discount of approximately 8.26% to the average closing price of HK\$7.63 per Share (on a cum dividend and cum warrant basis) as quoted on the Stock Exchange for the last ten trading days of the Shares immediately before the date of the 1st Announcement, or a discount of approximately 7.10% to HK\$7.535 (being such average closing price calculated on an ex dividend basis); and

(iii) a premium of approximately 2.19% over the closing price of HK\$6.85 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Placing Agent: 3V Capital.

3V Capital and its ultimate owners were all:

- (i) independent of, and not acting in concert with, the Vendor and parties acting in concert with it; and
- (ii) independent third parties not connected with the Company or its subsidiaries or any of their respective associates, or any of the connected persons of the Company or its subsidiaries or any of their respective associates.

Placing commission: 3V Capital received a placing commission of 2.5% on the gross proceeds of the 1st Placing.

Placees: The 1st Tranche Placing Shares were placed to not less than six placees (which were individual, corporate or institutional investors or a combination of them).

Such placees and their respective ultimate owners were all:

- (i) independent of, and not acting in concert with, the Vendor and parties acting in concert with it; and
- (ii) independent third parties not connected with the Company or its subsidiaries or any of their respective associates, or any of the connected persons of the Company or its subsidiaries or any of their respective associates.

LETTER FROM THE BOARD

None of such placees became a substantial Shareholder as a result of the 1st Placing, except by a notice dated 22nd May, 2006, the Company was notified that Penta Investment Advisers Limited became a substantial Shareholder as a result of the 1st Placing.

Based on the information available to the Company, Penta Investment Advisers Limited was incorporated in the British Virgin Islands and is beneficially owned by Mr. John Zwaanstra. It was beneficially interested in approximately 1.41% of the issued share capital of the Company before the 1st Placing and was beneficially interested in approximately 11.45% of the issued share capital of the Company immediately following completion of the 1st Placing.

Completion:

The 1st Placing Agreement was unconditional, and completion of the 1st Placing took place on 22nd May, 2006.

Completion of the 1st Placing was not conditional upon the Vendor proceeding with the 2nd Placing.

PLACING OF 79,000,000 EXISTING SHARES (THE 2ND PLACING) AND SUBSCRIPTION OF 248,000,000 NEW SHARES

Placing Agreement dated 18th May, 2006 made between the Vendor and SHKIS

On 18th May, 2006, it was announced in the 2nd Announcement that the 2nd Placing proceeded and became a placing of an additional 79,000,000 Shares of a legally-binding nature. The 2nd Placing Agreement was executed by the Vendor and SHKIS, pursuant to which the Vendor agreed to place, through SHKIS as placing agent, 79,000,000 Shares to independent investors at a price of HK\$7.00 per Share. Accordingly, the subscription of the additional 79,000,000 new Shares at the same price of HK\$7.00 per Share contemplated in the Subscription Agreement will also proceed on completion of the 2nd Placing.

Vendor:

The Vendor, which is the controlling shareholder of the Company.

**Number of 2nd Tranche
Placing Shares:**

79,000,000 Shares to be placed, representing approximately 6.34% of the issued share capital of the Company as at the Latest Practicable Date and approximately 5.29% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by the allotment and issue of the Subscription Shares (being a total of 248,000,000 new Shares agreed to be subscribed for by the Vendor pursuant to the Subscription Agreement).

LETTER FROM THE BOARD

- Underwriting:** The 2nd Placing is fully underwritten by SHKIS.
- Placing price:** HK\$7.00 per Share, which was agreed after arm's length negotiations and represents:
- (i) a discount of approximately 10.83% to the closing price of HK\$7.85 per Share as quoted on the Stock Exchange on the last trading day of the Shares immediately before the date of the 2nd Announcement;
 - (ii) a discount of approximately 8.26% to the average closing price of HK\$7.63 per Share as quoted on the Stock Exchange for the last ten trading days of the Shares immediately before the date of the 2nd Announcement; and
 - (iii) a premium of approximately 2.19% over the closing price of HK\$6.85 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.
- Placing agent:** SHKIS, which is an indirect wholly-owned subsidiary of the Company.
- Placing commission:** SHKIS will receive a placing commission of 2.5% on the gross proceeds of the 2nd Placing.
- Placees:** The 2nd Tranche Placing Shares will be placed to not less than six placees (which will be individual, corporate or institutional investors or a combination of them).
- Such placees and their respective ultimate owners will all be:
- (i) independent of, and not acting in concert with, the Vendor and parties acting in concert with it; and
 - (ii) independent third parties not connected with the Company or its subsidiaries or any of their respective associates, or any of the connected persons of the Company or its subsidiaries or any of their respective associates.
- None of such placees is expected to become a substantial Shareholder as a result of the 2nd Placing.

LETTER FROM THE BOARD

Conditions:

The 2nd Placing is conditional upon:

- (i) shareholders of AGL and APL approving the 2nd Placing Agreement in accordance with all applicable requirements under the Listing Rules;
- (ii) Independent Shareholders approving the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing); and
- (iii) completion of the 1st Placing.

None of the above conditions can be waived.

The 2nd Placing 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 the Company.

Completion:

The 2nd Placing must be completed on or before 16th August, 2006 (or such later date as may be agreed by the Vendor and SHKIS subject to compliance with the Listing Rules), failing which the 2nd Placing will cease and terminate.

Subscription Agreement dated 12th May, 2006 made between the Vendor and the Company (as supplemented on 17th May, 2006)

As a result of the amendment to the 1st Placing Agreement on 17th May, 2006, a supplement was also correspondingly executed on 17th May, 2006 to amend the Subscription Agreement. The 248,000,000 Shares to be subscribed for under the Subscription Agreement were divided into two portions: 169,000,000 new Shares will be subscribed for by the Vendor on completion of the 1st Placing, and 79,000,000 new Shares will be subscribed for by the Vendor on completion of the 2nd Placing.

LETTER FROM THE BOARD

Following the execution of the 2nd Placing Agreement, the subscription of the additional 79,000,000 new Shares at the same price of HK\$7.00 per Share contemplated in the Subscription Agreement will also proceed on completion of the 2nd Placing.

Subscriber:	The Vendor.
Number of Subscription Shares:	248,000,000 new Shares, representing approximately 19.90% of the issued share capital of the Company as at the Latest Practicable Date and approximately 16.60% of the issued share capital of the Company as at the Latest Practicable Date as enlarged by the allotment and issue of the Subscription Shares.
Subscription Price:	HK\$7.00 per Subscription Share, which is the same as the placing price of the 1st Tranche Placing Shares and the 2nd Tranche Placing Shares.
Ranking of Subscription Shares:	The Subscription Shares will rank equally with the Shares in issue at the time of allotment and issue of the Subscription Shares.
Use of Proceeds:	Net proceeds from the Subscription of approximately HK\$1,685,500,000, comprising approximately HK\$1,148,500,000 from the subscription of the 169,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 1st Placing and approximately HK\$537,000,000 from the subscription of the 79,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 2nd Placing, will be applied by the Group to fund the proposed acquisition of the entire issued share capital of UAF Holdings Limited as announced in the joint announcement of the Company, AGL and APL dated 19th June, 2006 and further detailed in the circular of the Company dated 30th 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.

LETTER FROM THE BOARD

Conditions:

The Subscription is conditional upon:

- (i) shareholders of AGL and APL approving the Subscription Agreement in accordance with all applicable requirements under the Listing Rules;
- (ii) Independent Shareholders approving the Subscription Agreement in accordance with all applicable requirements under the Listing Rules;
- (iii) Independent Shareholders approving the grant of a specific mandate for the allotment and issue of the Subscription Shares in accordance with all applicable requirements under the Listing Rules;
- (iv) the Stock Exchange granting listing of and permission to deal in the Subscription Shares; and
- (v) completion of the 1st Placing and the 2nd Placing.

None of the above conditions can be waived.

Application has been made to the Stock Exchange to grant the listing of and permission to deal in the Subscription Shares.

The Subscription 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 the Company.

Completion:

The Subscription must be completed on or before 16th August, 2006 (or such later date as may be agreed by the Company and the Vendor subject to compliance with the Listing Rules), failing which the Subscription will cease and terminate.

LETTER FROM THE BOARD

Costs and expenses

Subject to completion of the Subscription, the Company will bear the costs and expenses in connection with the 1st Placing, the 2nd Placing and the Subscription, which are estimated to be approximately HK\$50,500,000. Any interest earned by the Vendor on the monies raised by the 1st Placing and the 2nd Placing, between the respective dates of completion of the 1st Placing and the 2nd Placing and the date of completion of the Subscription, will be paid to the Company.

EFFECT OF THE 1ST PLACING, THE 2ND PLACING AND THE SUBSCRIPTION

The shareholding structure of the Company immediately before completion of the 1st Placing and immediately after completion of the 1st Placing but before completion of the Subscription were as follows:

Parties	Approximate shareholding percentage in the Company <i>(Note 1)</i>	
	Immediately before the 1st Placing and the Subscription	Immediately after the 1st Placing but before the Subscription
The Vendor and parties acting in concert with it	74.99 <i>(Note 2)</i>	61.43 <i>(Note 3)</i>
Placees for the 1st Placing <i>(Note 4)</i>	–	13.56
Other public Shareholders	25.01	25.01
Total	100.00	100.00

Notes:

1. The figures assume that other than the Subscription Shares, no new Shares are issued or purchased by the Company and that other than the 1st Tranche Placing Shares, no Shares are sold or purchased by the Vendor and parties acting in concert with it, in each case, after the Latest Practicable Date up to the date of completion of the Subscription.
2. The interests comprise 934,239,892 Shares which were held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
3. The interests comprise 765,248,092 Shares which were held and beneficially owned as to 765,198,892 Shares by the Vendor and as to 49,200 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.

LETTER FROM THE BOARD

4. One of the placees, Penta Investment Advisers Limited, was beneficially interested in 17,516,000 Shares, representing approximately 1.41% of the issued share capital of the Company, before the 1st Placing. Its shareholding increased to 142,623,000 Shares, representing approximately 11.45% of the issued share capital of the Company, after the 1st Placing. In addition, based on the information available to the Company, as at the Latest Practicable Date, it held an interest in 152,198,000 Shares representing approximately 12.22% of the issued share capital of the Company and 3,808,200 units of warrants of the Company giving rise to an interest in 3,808,200 underlying Shares.

The shareholding structure of the Company immediately before completion of the 2nd Placing, immediately after completion of the 2nd Placing but before completion of the Subscription, and immediately after completion of both the 2nd Placing and the Subscription are and will be as follows:

Parties	Approximate shareholding percentage in the Company (Note 1)		
	Immediately before the 2nd Placing and the Subscription	Immediately after the 2nd Placing but before the Subscription	Immediately after the 2nd Placing and the Subscription
The Vendor and parties acting in concert with it	61.43 (Note 2)	55.09 (Note 3)	62.55 (Note 4)
Penta Investment Advisers Limited (Note 5)	12.22	12.22	10.19
Placees for the 2nd Placing	–	6.34	5.29
Other public Shareholders	26.35	26.35	21.97
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Notes:

- The figures assume that other than the Subscription Shares, no new Shares are issued or purchased by the Company and that other than the 2nd Tranche Placing Shares, no Shares are sold or purchased by the Vendor and parties acting in concert with it, in each case, after the Latest Practicable Date up to the date of completion of the Subscription.
- The interests comprise 765,248,092 Shares which were held and beneficially owned as to 765,198,892 Shares by the Vendor and as to 49,200 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
- The interests comprise 686,248,092 Shares which were held and beneficially owned as to 686,198,892 Shares by the Vendor and as to 49,200 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
- The interests comprise 934,248,092 Shares which will be held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 49,200 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
- Penta Investment Advisers Limited was beneficially interested in 17,516,000 Shares, representing approximately 1.41% of the issued share capital of the Company, before the 1st Placing. Its shareholding increased to 142,623,000 Shares, representing approximately 11.45% of the issued share capital of the Company, after the 1st Placing. In addition, based on the information available to the Company, as at the Latest Practicable Date, it held an interest in 152,198,000 Shares representing approximately 12.22% of the issued share capital of the Company and 3,808,200 units of warrants of the Company giving rise to an interest in 3,808,200 underlying Shares.

LETTER FROM THE BOARD

The aggregate beneficial interest of the Vendor and parties acting in concert with it in the issued share capital of the Company was reduced from approximately 74.99% to approximately 61.43% immediately following completion of the 1st Placing.

The aggregate beneficial interest of the Vendor and parties acting in concert with it in the issued share capital of the Company will be reduced from approximately 61.43% to approximately 55.09% immediately following completion of the 2nd Placing, but will increase to approximately 62.55% immediately following completion of the Subscription.

If completion of the Subscription does not take place, the aggregate beneficial interest of the Vendor and parties acting in concert with it in the issued share capital of the Company will be reduced from approximately 61.43% to approximately 55.09%, but will not be increased to approximately 62.55%.

INFORMATION ABOUT AGL, APL AND THE COMPANY

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.

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.

LETTER FROM THE BOARD

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

REASONS FOR AND BENEFITS OF THE 1ST PLACING, THE 2ND PLACING AND THE SUBSCRIPTION

The 1st Placing, the 2nd Placing and the Subscription were the different steps of a “top-up” placing arrangement of the Company.

In view of current market conditions, the Directors consider that the “top-up” placing arrangement represents a good opportunity to raise further working capital for the Company while at the same time broadening the Shareholder and capital base.

Net proceeds from the Subscription of approximately HK\$1,685,500,000, comprising approximately HK\$1,148,500,000 from the subscription of the 169,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 1st Placing and approximately HK\$537,000,000 from the subscription of the 79,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 2nd Placing, will be applied by the Group to fund the proposed acquisition of the entire issued share capital of UAF Holdings Limited as announced in the joint announcement of the Company, AGL and APL dated 19th June, 2006 and further detailed in the circular of the Company dated 30th 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.

Net profits attributable to the disposal by APL and by AGL (through its interest in APL) of 6.34% shareholding in the Company for the two financial years ended 31st December, 2005 were:

- (i) approximately HK\$26,174,000 (before taxation and extraordinary items) or approximately HK\$24,043,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2004; and
- (ii) approximately HK\$27,677,000 (before taxation and extraordinary items) or approximately HK\$25,510,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2005.

As at 31st December, 2005 (being the date up to which the latest published audited consolidated accounts of APL and AGL were made), the carrying value of the 6.34% shareholding in the Company disposed of by APL and AGL (through its interest in APL) was approximately HK\$370,312,000 (calculated on the basis of 6.34% of the consolidated net asset value of the Company as at 31st December, 2005). This will give rise to an estimated gain of approximately HK\$166,688,000 for APL and AGL (through its interest in APL).

LETTER FROM THE BOARD

The market value of the 6.34% shareholding in the Company disposed of by APL and by AGL (through its interest in APL) is approximately HK\$612,645,000 (calculated on the basis of HK\$7.755 per Share (on an ex dividend basis)).

Following completion of the 1st Placing, the 2nd Placing and the Subscription, the shareholding percentage of the Vendor and the parties acting in concert with it in the Company will be diluted from approximately 74.99% to approximately 62.55%. Under the Listing Rules, such reduction of shareholding percentage will be regarded as a deemed disposal by APL and by AGL (through its interest in APL) of a 12.44% shareholding in the Company. Net profits attributable to such deemed disposal for the two financial years ended 31st December, 2005 were:

- (i) approximately HK\$51,357,000 (before taxation and extraordinary items) or approximately HK\$47,175,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2004; and
- (ii) approximately HK\$54,306,000 (before taxation and extraordinary items) or approximately HK\$50,054,000 (after taxation and extraordinary items) for the financial year ended 31st December, 2005.

As at 31st December, 2005 (being the date up to which the latest published audited consolidated accounts of APL and AGL were made), the carrying value of the 12.44% shareholding in the Company deemed to be disposed of by APL and AGL (through its interest in APL) was approximately HK\$726,605,000. This will give rise to an estimated gain of approximately HK\$327,675,000 for AGL and APL (being the difference between 74.99% of the consolidated net asset value of the Company as at 31st December, 2005 of HK\$5,840,879,000 and 62.55% of the consolidated net asset value of the Company as adjusted by the net proceeds of the Subscription amounting to HK\$7,526,379,000 attributable to APL).

Following completion of the 1st Placing, the 2nd Placing and the Subscription, the market value of the 12.44% shareholding in the Company deemed to be disposed of by APL and by AGL (through its interest in APL) is approximately HK\$1,441,008,000 (calculated on the basis of HK\$7.755 per Share (on an ex dividend basis)).

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 Vendor is an indirect wholly-owned subsidiary of APL, which, in turn, is a substantial shareholder of the Company and hence is a connected person of the Company within the meaning of the Listing Rules. As SHKIS is an indirect wholly-owned subsidiary of the Company, the 2nd Placing Agreement and the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing constitute a connected transaction for the Company and requires the approval of the Independent Shareholders.

LETTER FROM THE BOARD

The Company is also required to obtain specific approval from the Shareholders on the Subscription under Rule 13.36(1) of the Listing Rules. Under Rule 14A.31(3)(d) of the Listing Rules, if a listed issuer issues new securities to a connected person within 14 days after such connected person has executed an agreement to reduce its holding in that class of securities by placing securities to a third person who is not its associate, such issue of new securities is exempted from reporting, announcement and independent shareholders' approval requirements. However, as the issue of the Subscription Shares will not be completed within 14 days from the date of the 1st Placing Agreement until all the applicable disclosure and shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules have been complied with by AGL, APL and the Company, the exemption under Rule 14A.31(3)(d) will not apply. Accordingly, the allotment and issue of the Subscription Shares under the Subscription Agreement under Rule 13.36(1) of the Listing Rules constitutes a connected transaction for the Company and requires the approval of the Independent Shareholders.

APL and its associates will abstain from voting on the resolution at the EGM for approving the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement.

The Independent Board Committee has been constituted to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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.

Asian Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement in accordance with the Listing Rules.

EGM

A notice convening the EGM is set out on pages 43 and 44 of this circular. Ordinary resolution in respect of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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 thereon 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 if you so wish.

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 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement are in the interests of the Company and the Shareholders as a whole, the terms of which 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 Asian Capital and the additional information set out in the Appendix to this circular.

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

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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)

14th July, 2006

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

We have been appointed to form this Independent Board Committee to consider and advise you on the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement, details of which are set out in the circular issued by the Company to the Shareholders dated 14th July, 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 the letter of advice from Asian Capital set out on pages 5 to 20 and pages 22 to 35 of the Circular respectively.

Having taken into account the principal factors and reasons considered by Asian Capital, its conclusion and advice, we concur with the view of Asian Capital and consider that the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription 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 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement and the transactions contemplated under them.

Yours faithfully,

For and on behalf of the Independent Board Committee

Carlisle Caldwell Procter

Independent non-executive Director

Peter Wong Man Kong

Independent non-executive Director

LETTER FROM ASIAN CAPITAL

The following is the full text of the letter of advice from Asian Capital, which is prepared for the purpose of incorporation into this circular, in respect of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement.



ASIAN CAPITAL
(CORPORATE FINANCE) LIMITED

14th July, 2006

*To the Independent Board Committee
and the Independent Shareholders*

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

Dear Sirs,

CONNECTED TRANSACTION

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement, details of which are set out in a circular dated 14th July, 2006 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 17th May, 2006, the AGL Directors, the APL Directors and the Directors jointly announced that the 1st Placing Agreement was executed by the Vendor and 3V Capital on 12th May, 2006, pursuant to which the Vendor agreed to place, through 3V Capital as placing agent, 248,000,000 Shares to independent investors at a price of HK\$7.00 per Share. On completion, the Vendor would subscribe for 248,000,000 new Shares from the Company at the same price pursuant to the Subscription Agreement.

On 17th May, 2006, as announced in the 1st Announcement, there was a change to the overall placing structure and a supplement was executed correspondingly to amend the 1st Placing Agreement. The 248,000,000 Shares to be placed under the 1st Placing Agreement

were divided into two portions: 169,000,000 Shares were placed by way of the 1st Placing and the remaining 79,000,000 Shares were intended to be placed by way of the 2nd Placing. As a result, a supplement was also executed on 17th May, 2006 to amend the Subscription Agreement correspondingly. The 248,000,000 new Shares to be subscribed for under the Subscription Agreement were divided into two portions: only 169,000,000 new Shares would be subscribed for by the Vendor on completion of the 1st Placing, and the remaining 79,000,000 new Shares would only be subscribed for by the Vendor if the 2nd Placing proceeded.

On 18th May, 2006, it was announced in the 2nd Announcement that the 2nd Placing proceeded and the placing of an additional 79,000,000 Shares became of a legally-binding nature. The 2nd Placing Agreement was executed by the Vendor and SHKIS, pursuant to which the Vendor agreed to place, through SHKIS as placing agent, 79,000,000 Shares to independent investors at a price of HK\$7.00 per Share. Accordingly, the subscription from the Company of the additional 79,000,000 new Shares by the Vendor at the same price of HK\$7.00 per Share contemplated in the Subscription Agreement will also proceed upon completion of the 2nd Placing.

Since 3V Capital and the placees of the 1st Placing were not the connected persons (as defined in the Listing Rules) of the Company, the 1st Placing did not constitute a connected transaction of the Company. The Vendor is an indirect wholly-owned subsidiary of APL, which, in turn, is a substantial shareholder of the Company and hence is a connected person of the Company within the meaning of the Listing Rules. As SHKIS is an indirect wholly-owned subsidiary of the Company, the 2nd Placing Agreement and the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing constitute a connected transaction for the Company and requires the approval of the Independent Shareholders.

The Company is also required to obtain specific approval from the Shareholders on the Subscription under Rule 13.36(1) of the Listing Rules. Under Rule 14A.31(3)(d) of the Listing Rules, if a listed issuer issues new securities to a connected person within 14 days after such connected person has executed an agreement to reduce its holding in that class of securities by placing securities to a third person who is not its associate, such issue of new securities is exempted from reporting, announcement and independent shareholders' approval requirements. However, as the issue of the Subscription Shares was not completed within 14 days from the date of the 1st Placing Agreement, all the applicable disclosure and shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules will need to be complied with by AGL, APL and the Company, the exemption under Rule 14A.31(3)(d) does not apply. Accordingly, the allotment and issue of the Subscription Shares under the Subscription Agreement under Rule 13.36(1) of the Listing Rules constitutes a connected transaction for the Company and requires the approval of the Independent Shareholders.

APL and its associates will abstain from voting on the resolution at the EGM for approving the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement.

LETTER FROM ASIAN CAPITAL

The Independent Board Committee has been constituted to advise and make recommendation to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement. Mr. David Craig Bartlett, an independent non-executive Director, is also an independent non-executive director of AGL and 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 remaining two independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee.

Our role as the independent financial adviser is to give our independent opinion to the Independent Board Committee and Independent Shareholders as to whether the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole, and whether or not the Independent Shareholders should vote in favour of the ordinary resolution to approve the 2nd Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management and directors of the Company. We have assumed that all the information and representations contained or referred to in the Circular and all the information and representations which have been provided by the management and directors of the Company, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular, or the reasonableness of the opinions expressed or provided to us by the management and the director of the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the 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 the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such information and opinions but have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the 2nd Placing and the Subscription, we have considered the following principal factors and reasons.

Background of the Group

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.

The table below displays the financial results of the Group for the two financial years ended 31st December, 2005, as extracted from the 2005 annual report of the Company.

	For the year ended 31st December,	
	2005	2004
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	793,639	807,015
Profit before taxation	436,546	412,834
Profit attributable to equity holders of the Company	401,497	378,738
Earning per share – basic	32.2 cents	30.4 cents

The Group's financial performance represents a combination of solid results from the Group's core businesses of wealth management, asset management and corporate finance together with, principally, realized profits from sale of investments, increases in the fair value of investment property and write back of impairment losses.

The Group recorded a turnover of approximately HK\$793.6 million for the year ended 31st December, 2005, representing a slight decrease of approximately HK\$13.4 million or 1.7% from that of the previous financial year. The profit before taxation achieved an increase of approximately HK\$23.7 million or 5.7% as compared to that of the previous financial year to approximately HK\$436.5 million for the year ended 31st December, 2005. Profit attributable to equity holders of the Company increased from approximately HK\$378.7 million for the year ended 31st December, 2004 to approximately HK\$401.5 million of 2005, representing an increase of approximately 6.0%. Earning per share increased by approximately 5.9% from that of the previous financial year to approximately HK32.2 cents for the year ended 31st December, 2005.

LETTER FROM ASIAN CAPITAL

The following table exhibits the major balance sheet items which reflect the financial positions of the Group as at 31st December, 2004 and 2005:

	As at 31st December,	
	2005	2004
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	4,123,715	3,485,794
Investment properties	93,400	43,000
Interest in associated companies	2,647,142	2,413,335
Available-for-sale investments	993,139	–
Other Investments	–	907,710
Loans and receivables	202,306	3,200
Current assets	3,206,049	2,827,089
Trade and other receivables	2,599,864	2,290,608
Held for trading investments/trading securities	178,982	48,263
Cash and cash equivalents	423,384	487,249
Current liabilities	(1,372,161)	(1,159,470)
Bank borrowings due within one year	(342,546)	(63,945)
Trade and other payables	(966,581)	(1,031,182)
Net current assets	1,833,888	1,667,619
Non-current liabilities	(116,355)	(162,176)
Loan notes	(64,252)	(129,637)
Bank and other borrowings due after one year	(43,720)	(25,289)
Minority interests	(369)	494
Net asset value	5,840,879	4,991,731
Current ratio (current assets over current liabilities)	2.34	2.44
Gearing ratio (total bank borrowings and loan notes over the equity attributable to equity holders of the Company)	7.7%	4.4%

As depicted from the table above, the Group's short-term bank deposits, bank balances, treasury bills and cash amounted to approximately HK\$423.4 million as at 31st December, 2005, representing a reduction of approximately HK\$63.9 million or 13.1% from that of 31st December, 2004.

Bank borrowings due within one year had significantly increased to approximately HK\$342.5 million as at 31st December, 2005 from approximately HK\$63.9 million as at 31st December, 2004, representing an increase of approximately 435.7%.

Notwithstanding the said decrease in cash and cash equivalents and the significant increase in short-term bank borrowings, liquidity of the Group remained healthy as at 31st December, 2005 as demonstrated by the current ratio of approximately 2.34 times and the low gearing ratio of approximately 7.7%.

Reasons for the 2nd Placing and the Subscription

The 1st Placing, the 2nd Placing and the Subscription were different steps of a “top-up” placing arrangement of the Company.

In view of the current market conditions, the Directors consider that this “top-up” placing arrangement represents a good opportunity to raise further working capital for the Company while at the same time broadening the Shareholder and capital base.

Net proceeds from the Subscription of approximately HK\$1,685.5 million, comprising approximately HK\$1,148.5 million from the subscription of the 169,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) under the 1st Placing and approximately HK\$537.0 million from the subscription of the 79,000,000 new Shares (net placing price being approximately HK\$6.80 per Share) under the 2nd Placing, will be applied by the Group to fund the proposed acquisition of the entire issued share capital of UAF Holdings Limited (“UAF Holdings”) as announced in the joint announcement of the Company, AGL and APL dated 19th June, 2006 and further detailed in the circular of the Company dated 30th June, 2006, or, if such acquisition does not proceed, to fund new investments and acquisitions in the future as and when opportunities arise and for general working capital purposes. As stated in the said joint announcement and circular dated 19th June, 2006 and 30th June, 2006 respectively, the proposed acquisition of UAF Holdings is conditional on, amongst other things, the completion of the Subscription.

For the purpose of the Subscription, we concur with the management that raising capital at favourable market conditions is a sensible move especially when future expansion and need for capital is anticipated.

Other financial alternatives

Amongst other funding alternatives such as debt financing through bank borrowings and other equity financing methods, we understand from the Directors that they are of the view that the current “top-up” placing arrangement is comparably more cost and time efficient and is therefore considered by the Board to be the most appropriate fund raising method under the current circumstances of the Company.

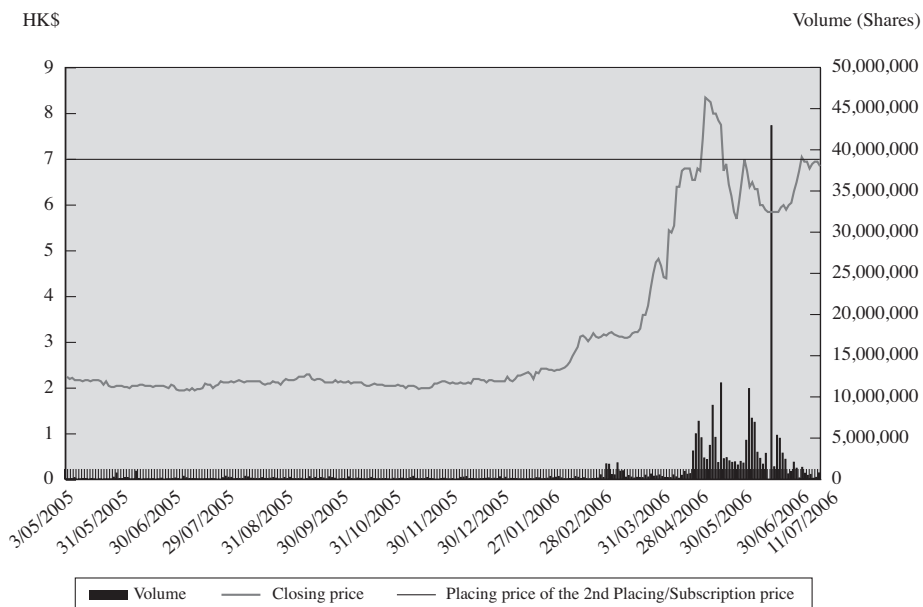
The Directors preferred equity financing to debt financing also because of the leverage risk involved. As for other equity financing methods such as open offer and rights issue, the Directors considered that despite the benefit of anti-dilution to existing Shareholders, the additional time and costs as well as the market uncertainties to be incurred as compared to the current “top-up” placing arrangement is not attractive. We concur with these views.

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 date of the Circular.

Historical share price performance

Daily closing price and volume (excluding the 1st Placing) of the Shares over the Relevant Period



LETTER FROM ASIAN CAPITAL

The price of the 2nd Placing/Subscription is HK\$7.00 per Share, which was agreed amongst the parties after arm's length negotiations and represents:

- (i) a discount of approximately 10.83% to the closing price of HK\$7.85 per Share as quoted on the Stock Exchange on the last trading day of the Shares immediately before the date of the 2nd Announcement;
- (ii) a discount of approximately 8.26% to the average closing price of HK\$7.63 per Share as quoted on the Stock Exchange for the last ten trading days of the Shares immediately before the date of 2nd Announcement; and
- (iii) a premium of approximately 2.19% over the closing price of HK\$6.85 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

We have reviewed the share price movement over the 12-month period prior to and including the last trading day immediately before the date of 2nd Announcement and the Latest Practicable Date (the "Relevant Period"). The Shares traded in the range of HK\$1.95 and HK\$8.35 and has been mostly trading below the Subscription price since the date of the 2nd Announcement.

Recent Placements Analyse

In assessing the fairness and reasonableness of the terms of the 2nd Placing Agreement and the Subscription Agreement, we have reviewed and compared the placing price of the 2nd Placing (which is the same as the Subscription price and the placing price of the 1st Placing) with those placements that had gross fund raised of at least HK\$100 million carried out by the companies listed on the Stock Exchange (the "Comparable Companies") from 1st May, 2006 up to the date of the 2nd Announcement (the "Comparable Placements"). The following table sets out, among other things, the premium/(discount) represented by the placing/subscription price (where appropriate) over/to (i) the closing price on the last trading day prior to the release of the announcement of the Comparable Companies; and (ii) the average closing price of shares on the ten trading days prior to the release of the respective announcements of the Comparable Companies.

LETTER FROM ASIAN CAPITAL

Announcement date	Name of issuer (Stock Code)	Type of placement	Gross fund raised (HK\$) (approximately)	Placing price/ subscription price (where appropriate) (HK\$)	Placing/ subscription expenses per share to the placing price/ subscription price (where appropriate) (%) (approximately)	Premium/ (Discount) of the placing price/ subscription price over/to closing price of shares on the last trading day prior to the release of the announcement (%) (approximately)	Premium/ (Discount) of the placing price/ subscription price over/to the average closing price of shares on the last ten trading days prior to the release of the announcement (%) (approximately)
3rd May, 2006	Topsearch International (Holdings) Limited (2323)	Top-up placing	113.6 million	0.8	0.49%	3.90%	(2.50%)
8th May, 2006	Polytec Asset Holdings Limited (208)	Placing of new shares	5,566.6 million	1.98	0.78%	(11.01%)	(14.47%)
8th May, 2006	Kowloon Development Company Limited (34)	Top-up placing	1,405.6 million	12.4	2.03%	(8.82%)	(7.98%)
8th May, 2006	Hong Kong Construction (Holdings) Limited (190)	Placing of new shares (to the controlling shareholder)	486.2 million	1.044	Not disclosed	(1.51%)	(1.51%)
9th May, 2006	Aluminum Corporation of China Limited (2600)	Placing of new shares	4,669.7 million	7.25	9.05%	(2.68%)	(5.10%)
9th May, 2006	Sun Hung Kai Properties Limited (16)	Top-up placing	7,921.0 million	89	1.11%	(4.2%)	(0.69%)
10th May, 2006	Orient Resources Group Company Limited (467)	Placing of new shares	170.0 million	0.1	1.00%	(47.64%)	(49.35%)
11th May, 2006	Zhejiang Glass Company Limited (739)	Placing of new shares	255.8 million	1.8	Not disclosed	(6.25%)	(3.02%)
Average					2.41%	(9.78%)	(10.58%)
The Company		Top-up placing		7.0	2.91%	(10.83%)	(8.26%)

As indicated above, the placing price/subscription price of the Comparable Placements ranged from (i) a premium of approximately 3.90% to a discount of approximately 47.64%, with an average discount being approximately 9.78% as compared to the closing prices of the shares on the last trading day prior to the release of the relevant announcements of the Comparable Companies; and (ii) discounts of approximately 0.69% to 49.35%, with an average discount being approximately 10.58% as compared to the average closing price of shares on the last ten trading days prior to the release of relevant announcements. The price of the 2nd Placing/Subscription represents a discount of approximately 10.83% to the closing price on the last trading day of the Shares and a discount of approximately 8.26% on the average of the last ten trading days of the Shares immediately before the date of the 2nd Announcement. Based on the comparison of the discounts of the Comparable Placements and that of the price of the 2nd Placing/Subscription, we consider that the discounts of the price of the 2nd Placing/Subscription price are within the range of the Comparable Placements.

Accordingly, we are of the view that the placing price of the 2nd Placing and the Subscription price is fair and reasonable so far as the Independent Shareholders are concerned.

Appointment of SHKIS as the placing agent for the 2nd Placing

In assessing the fairness and reasonableness of the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing), we have focused our assessment on whether the level of placing commission, the general terms and warranties of the 2nd Placing Agreement were determined on an arm-length basis.

We have compared the average expense of the Comparable Placements to that of the 2nd Placing. As indicated in the paragraph headed “Recent Placements Analyse” above, we note that the expenses for the placing/subscription under the Comparable Placements range from approximately 0.49% to 9.05%. The expense ratio of the 1st Placing, 2nd Placing and the Subscription is approximately 2.91%, which comprises the placing commission of 2.5% and the other costs and expenses in connection with the 1st Placing, 2nd Placing and the Subscription, and is within the range of the Comparable Placements. In addition, the placing commission of the 1st Placing Agreement paid to 3V Capital, the independent placing agent of the 1st Placing, is the same as that of the 2nd Placing. Therefore, we consider that the placing commission of the 2nd Placing coheres with normal commercial terms offered by placing agents in the market.

We have also reviewed all the terms and warranties of 2nd Placing Agreement with no irregularities noted.

Based on the above examination, we are not aware of any substantial conflicts of interests or irregularities in appointing SHKIS as the Placing agent for the 2nd Placing and we consider the terms of 2nd Placing Agreement fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM ASIAN CAPITAL

Industry Comparable Analysis

To assess further the pricing of the 2nd Placing and the Subscription, for comparison purpose, we have identified 7 companies listed on the Stock Exchange which are engaged in similar businesses, i.e. mainly securities brokerage and financial services.

	Closing share price as at the date of 2nd Placing Agreement (HK\$)	Basic/ diluted earning per Share* (HK cents)	Net asset value (“NAV”)** (HK\$ '000)	NAV per Share (HK\$)	Price/ earning ratio	Price/ book ratio	Full year's turnover (HK\$ '000)
Get Nice Holdings Limited (64)	0.65	10.53	584,522	0.59	6.17	1.02	79,045
SW Kingsway Capital Holdings Ltd. (188)	0.30	2.61	649,471	0.20	11.54	1.43	188,223
Shenyin Wanguo (H.K.) Ltd. (218)	1.00	5.06	689,818	1.30	19.76	0.63	182,550
South China Brokerage Company Limited (619)	0.089	0.08	321,411	0.06	111.25	1.14	116,947
Taifook Securities Group Limited (665)	1.44	10.8	1,004,031	1.73	13.33	0.69	390,781
Quam Limited (952)	0.75	NA	115,643	0.99	N/A	0.69	80,633
Celestial Asia Securities Holdings Limited (1049)	0.355	NA	183,344	0.42	N/A	0.76	213,620
	Price of the 2nd Placing/ Subscription (HK\$)	Basic/ diluted earning per Share* (HK cents)	Net asset value (“NAV”)** (HK\$ '000)	NAV per Share (HK\$)	Price/ earning ratio	Price/ book ratio	Full year's turnover (HK\$ '000)
The Company (86)	7.00	32.2	5,840,879	4.69	21.74	1.49	793,639

* as disclosed in the latest annual report as the case may be

** as disclosed in the latest annual report/ interim report, as the case may be

As at the date of the 2nd Placing Agreement, the price/earning (P/E) ratios of these companies range from 6.17 times to 111.25 times and the price/book (P/B) ratio range from 0.63 times and 1.43 times. The price of the 2nd Placing/Subsorption at HK\$7.00, is valued at 21.74 times P/E and 1.49 times P/B respectively.

It should be noted that one of the industry comparables, namely South China Brokerage Company Limited, records 111.25 times P/E which we consider to be a statistically freak value as its then historical profit was very low. Even so, its closing price was still at 1.14 times P/B. Accordingly, the Company's P/E ratio at the price of the 2nd Placing/Subsorption is the highest except for that of South China Brokerage Company Limited, and the Company's P/B ratio is the highest among the comparables and both ratios are considerably higher than the average of the Group.

We also note that the Company has the largest amount of turnover and net assets among the comparables, which we consider to be contributory factors for the premium in valuation.

Based on the above comparison and analysis, we consider the price of the 2nd Placing and the Subsorption fair and reasonable as far as the Independent Shareholders are concerned.

Financial effects upon the completion of the Subsorption

Working capital

Based on the 2005 annual report of the Company, the Group had working capital of approximately HK\$1,833.9 million as at 31st December, 2005, comprising current assets of approximately HK\$3,206.0 million, including cash and bank balances of approximately HK\$423.4 million, and current liabilities of approximately HK\$1,372.1 million, of which approximately HK\$342.5 million was bank borrowing due within one year.

Subject to the Company applying its capital for long term investment and acquisitions, and assuming other factors which may affect working capital remaining unchanged, the working capital of the Group will increase by approximately HK\$1,685.5 million to approximately HK\$3,519.4 million immediately after the completion of the Subsorption.

Earnings

As stated in the paragraph headed "Reasons for the 2nd Placing and the Subsorption" above, the net proceeds of the Subsorption of approximately HK\$1,685.5 million will allow the Group to pursue its business plan, including the proposed acquisition of UAF Holdings as announced in the joint announcement of the Company, AGL and APL dated 19th June, 2006 and further detailed in the circular of the Company dated 30th June, 2006, or any new investments and acquisitions in the future as and when opportunities arises which, if successfully implemented, would enhance the profitability and growth of the Group in the future. As stated in the said joint announcement and circular dated 19th June, 2006 and 30th June, 2006 respectively, the proposed acquisition of UAF Holdings is conditional on, amongst other things, the completion of the Subsorption.

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In the event that the proposed acquisition of UAF Holdings does not proceed and before any suitable investment or acquisition is identified by the Group, the net proceeds of the Subscription, if designated as fixed bank deposit at the prevailing interest rates of Hong Kong dollars (i.e. 4-5% per annum), will generate an additional interest income for the Group in the immediate future.

NAV per Share

As disclosed in the 2005 annual report of the Company, the NAV per Share as at 31st December, 2004 and 2005 were approximately HK\$4.0 and HK\$4.7 respectively. Taking into account of the net proceeds of HK\$1,685.5 million and the Subscription Shares, the NAV per Share will increase to approximately HK\$5.0, representing an improvement of approximately 6.4% following the completion of the Subscription.

Overall

Having taken into account the above mentioned financial effects upon the completion of the Subscription, we are of the opinion that the Subscription has a positive impact on the financial position of the Group.

Dilution in shareholding

Below is a brief shareholding structure before and after the completion of the 1st Placing, 2nd Placing and the Subscription (*Note 1*):

Parties	Before the completion of the 1st Placing, the 2nd Placing and the Subscription		Immediately after the completion of the 1st Placing, the 2nd Placing and the Subscription	
	Number of	%	Number of	%
	Shares (approximately)		Shares (approximately)	
The Vendor and parties acting in concert with it	934,239,892	74.99	934,248,092	62.55
	(<i>Note 2</i>)		(<i>Note 3</i>)	
Placees for the 1st Placing				
– Penta Investment Advisers Limited (<i>Note 4</i>)	17,516,000	1.41	152,198,000	10.19
– Other placees for the 1st Placing	–	–	43,893,000	2.94
Placees for the 2nd Placing	–	–	79,000,000	5.29
Other public Shareholders	293,947,264	23.60	284,374,464	19.03
	<u>1,245,703,156</u>	<u>100.00</u>	<u>1,493,713,556</u>	<u>100.00</u>
Total				

Notes:

- The figures assume that other than the Subscription Shares, no new Shares are issued or purchased by the Company and that other than the 1st Tranche Placing Shares and the 2nd Tranche Placing Shares, no Shares are sold or purchased by the Vendor and parties acting in concert with it, in each case, after the Latest Practicable Date up to the date of completion of the Subscription.

LETTER FROM ASIAN CAPITAL

2. The interests comprise 934,239,892 Shares which were held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
3. The interests comprise 934,248,092 Shares which will be held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 49,200 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
4. Penta Investment Advisers Limited was beneficially interested in 17,516,000 Shares, representing approximately 1.41% of the issued share capital of the Company, before the 1st Placing. Its shareholding increased to 142,623,000 Shares, representing approximately 11.45% of the issued share capital of the Company, after the 1st Placing. In addition, based on the information available to the Company, as at the Latest Practicable Date, it held an interest in 152,198,000 Shares, representing approximately 12.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 10.19% of the issued share capital of the Company after the 2nd Placing and the Subscription, and 3,808,200 units of warrants of the Company that will give rise to an interest in 3,808,200 underlying Shares.

As disclosed in the paragraph headed “Effect of the 1st Placing, the 2nd Placing and the Subscription” under the section headed “Letter from the Board” in the Circular, upon the completion of the 1st Placing, the 2nd Placing and the Subscription, the aggregated beneficial interest of the Vendor and parties acting in concert with it in the issued share capital of the Company will be reduced from approximately 74.99% to approximately 62.55%.

The Subscription Shares represent approximately 16.6% of the enlarged share capital of the Company and the Shares held by the public (other than the placees of the 1st Placing and 2nd Placing) will be diluted from 23.60% to 19.03%. After considering that (i) the Subscription price is at a premium over the recent share price of the Company, over the valuation of peer comparables and the NAV per Share of the Company; (ii) the Subscription is part of a top-up placing arrangement which serves to broaden the Shareholder base, i.e. the placees of the 1st and 2nd Placing Shares are independent third parties and the Vendor and parties acting in concert will suffer the same extent of dilution; and (iii) the potential positive financial effects to the Group as detailed in the paragraph headed “Financial effects upon completion of the Subscription” above, we consider the extent of dilution to the shareholding interests of the minority Shareholders is acceptable.

RECOMMENDATION

Taking into account the factors and reasons as examined above, we are of the opinion that the terms of the 2nd Placing Agreement (including the appointment by the Vendor of SHKIS as placing agent for the 2nd Placing) and the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote at the EGM in favour of the ordinary resolution to approve the 2nd Placing Agreement, the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Asian Capital (Corporate Finance) Limited
Patrick K.C. Yeung
Managing Director

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 percentage 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)	0.22	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 underlying Shares

Name of Shareholders	Number of Shares and underlying Shares	Approximate percentage 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")	156,006,200	12.52	6
John Zwaanstra	156,006,200	12.52	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 the Vendor, 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 40.83% 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. The Subscription Agreement was entered into between the Vendor 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 the Vendor to 3V Capital as placing agent pursuant to the 1st Placing Agreement entered into between the two parties 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 therein. Further details were disclosed in the 1st Announcement, the 2nd Announcement, this circular and the respective circulars of AGL and APL dated 14th July, 2006.
5. The 2nd Placing Agreement was entered into between the Vendor as vendor and 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 at a price of HK\$7.00 per Share. Completion of the 2nd Placing Agreement is conditional upon the fulfillment of the conditions as set out therein. Further details were disclosed in the 2nd Announcement, this circular and the respective circulars of AGL and APL dated 14th July, 2006.
6. This represented an interest (held as investment manager) in 152,198,000 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 shareholder	Number of shares	Approximate percentage of the relevant issued share capital
Best Decision Investments Limited	Christophe Lee Kin Ping	17,500	35
SHK Financial Data Limited	Unison Information Limited	49	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 Developments Limited ("SDL") 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 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 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. On 10th July, 2006, the Court of Final Appeal delivered its decision (the “Final Appeal Judgment”), dismissing the Final Appeal except to the extent that the principal sum awarded in favour of NWDC should be reduced by HK\$629,448.15 (in addition to a consequential reduction in interest). Pursuant to the Final Appeal Judgment, costs of the appeal will be borne by SHKS.

SHKS is seeking legal advice as to the effect of the Final Appeal Judgment on new claims contained in (a) a writ containing an endorsement of claim issued by NWDC in April 2004 (“HCA 813/2004”) for the sums of HK\$27,237,489.51 and HK\$7,697,418.42 together with interest on such sums from 1st March, 2000 and 2nd January, 2001 respectively at such rate as the Court considers appropriate, although as at the Latest Practicable Date, the writ in HCA 813/2004 has not been served on SHKS; and (b) a writ including a statement of claim issued by NWDC and SDL in February 2006 (“HCA 376/2006”) for what are asserted to be amounts advanced by NWDC on behalf of SHKS as pro-rata contributions to shareholders’ loans. The sum of HK\$37,498,011.41, being the aggregate of the contributions claimed from SHKS, together with interest thereon at such rate and for such period as the Court considers appropriate is claimed in HCA 376/2006, although as at the Latest Practicable Date that writ has not been served on SHKS. Although the writ in HCA 813/2004 does not specify the basis of its claims, it appears from the figures in the two writs that there is a substantial overlap between the claims in HCA 813/2004 and HCA 376/2006.

- (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 (“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 date 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.
- (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 British Virgin Islands (“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 ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were 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.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Asian Capital	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

As at the Latest Practicable Date, Asian Capital did not have:

- (a) 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) 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.

Asian Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it appears.

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 1st Placing Agreement, the 2nd Placing Agreement, the Subscription Agreement and the letter from Asian Capital, the text of which is set out in this circular, are 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.



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 Tuesday, 1st 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

- (i) the placing agreement (the “2nd Placing Agreement”) dated 18th May, 2006 made between AP Emerald Limited (“APE”) as the vendor and Sun Hung Kai Investment Services Limited (“SHKIS”) as the placing agent in relation to the placing of 79,000,000 shares in the Company at a price of HK\$7.00 per share, 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 2nd Placing 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 2nd Placing Agreement;
- (ii) the appointment of SHKIS by APE as the placing agent of APE in relation to the placing of 79,000,000 shares in the Company at a price of HK\$7.00 per share under the 2nd Placing Agreement be and is hereby approved;
- (iii) the subscription agreement (the “Subscription Agreement”) dated 12th May, 2006 (as supplemented by a letter on 17th May, 2006 (the “Supplemental Letter”)) made between APE and the Company in relation to the subscription for 248,000,000 new shares in the Company, a copy of both of which has been produced at the Meeting marked “B” and signed by the chairman of the Meeting for identification purpose, be and is hereby approved, confirmed and ratified, the transactions contemplated in the Subscription 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 Subscription Agreement (as supplemented by the Supplemental Letter); and

NOTICE OF THE EGM

- (iv) the grant of a specific mandate for the allotment and issue of 248,000,000 new shares in the Company under the Subscription Agreement be and is hereby approved.”

By order of the Board
Sun Hung Kai & Co. Limited
Hester Wong Lam Chun
Company Secretary

Hong Kong, 14th July, 2006

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 of 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.