ANNUAL REPORT 2005

ALLIED GROUP LIMITED

(Stock Code: 373)

Contents

Corporate Information

Board of Directors

Lee Seng Hui
Chief Executive
Edwin Lo King Yau
Executive Director
Mak Pak Hung
Executive Director
Lee Su Hwei
Non-Executive Director
Arthur George Dew
Non-Executive Director
Wong Po Yan
Independent Non-Executive Director
David Craig Bartlett
Independent Non-Executive Director
John Douglas Mackie
Independent Non-Executive Director
Alan Stephen Jones
Independent Non-Executive Director

Executive Committee

Lee Seng Hui *Chairman*
Edwin Lo King Yau

Remuneration Committee

David Craig Bartlett *Chairman*
Arthur George Dew
Wong Po Yan
John Douglas Mackie
Alan Stephen Jones

Audit Committee

Alan Stephen Jones *Chairman*
Arthur George Dew
Wong Po Yan
David Craig Bartlett
John Douglas Mackie

Principal Bankers

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Fubon Bank (Hong Kong) Limited
Mizuho Corporate Bank, Ltd.
Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited

Registered Office

22nd Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company Secretary

Phoebe Lau Mei Yi

Auditors

Deloitte Touche Tohmatsu

Solicitors

Leland Chu & Co.
Haldanes
Mallesons Stephen Jaques
P. C. Woo & Co.

Stock Code

373

Website

http://www.alliedgroup.com.hk

Introduction

The Company is primarily an investment holding company, with a stated strategy of focusing its management and financial resources on its core businesses of property investment and development together with financial services. The Company's interests in property investment and development in Hong Kong are mainly held through its 74.93% holding in Allied Properties (H.K.) Limited ("Allied Properties") and in respect of property investment and development in the People's Republic of China ("PRC"), through Tian An China Investments Company Limited ("Tian An"), being an associate held by Sun Hung Kai & Co. Limited ("Sun Hung Kai"). The Company's financial services business is mainly conducted through its 54.99% effective holding in United Asia Finance Limited ("UAF") as well as Allied Properties' 74.99% holding in Sun Hung Kai.

Financial Results

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

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

Dividend and Book Close

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

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

Financial Review

Segmental Information

Detailed segmental information in respect of the Group's revenue and segmental results as well as other information is shown in note 8 to the financial statements.

Financial Resources, Liquidity and Capital Structure

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

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

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

During the year, the Company repurchased its shares at an aggregate consideration of approximately HK$68.46 million.

Risk of Foreign Exchange Fluctuation

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

FINANCIAL REVIEW (CONT'D)

Acquisitions and Disposals

During the year, Sun Hung Kai group acquired the entire interest in Hing Yip Holdings Limited and Sing Hing Investment Limited from a wholly-owned subsidiary of Tian An at a total consideration of HK$52.3 million. These two subsidiaries are principally engaged in property investment in China and own certain office premises in Tian An Centre in Shanghai. A portion of the office premises is occupied by Sun Hung Kai's Shanghai offices to facilitate expansion while some units not being occupied by the Sun Hung Kai group are leased out for rental income.

In March 2005, Sun Hung Kai group acquired the entire interest in Excalibur Futures Limited ("Excalibur Futures") and Excalibur Securities Limited ("Excalibur Securities") at a total consideration of HK$25.9 million. Excalibur Futures is principally engaged in futures dealing and broking whereas Excalibur Securities is engaged in securities broking.

In June 2005, Island New Finance Limited ("INFL"), a wholly-owned subsidiary of UAF, acquired 74.8% of the issued shares in The Hong Kong Building and Loan Agency Limited ("HKBLA") for a consideration of HK$184 million. The acquisition was completed in September 2005. Pursuant to the Code on Takeovers and Mergers, UAF had appointed an independent financial advisor to make a mandatory unconditional cash offer to acquire all the remaining issued shares in HKBLA. The offer was closed on 12th October, 2005 and INFL had accordingly acquired additional 39,507,750 shares in HKBLA, representing approximately 17.56% of the issued share capital of HKBLA. INFL placed 39,070,000 shares to independent third parties on 19th October, 2005 and the public float of HKBLA was restored to be above 25%. On 18th December, 2005, 1,691,895 shares in HKBLA were acquired by INFL pursuant to Section 168(1) and Part 2 of the Ninth Schedule of the Companies Ordinance. Subsequent to the balance sheet date, INFL placed 6,018,000 shares to independent third parties on 16th January, 2006 and the public float of HKBLA was restored to be above 25%.

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

Financial Review (Cont'd)

Contingent Liabilities

Details of contingent liabilities are set out in note 48 to the financial statements.

Material Litigation Update

(a) An update on the litigation by Shanghai Finance Holdings Limited ("SFHL") against Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS") (200/2004) and the litigation by New World Development Company Limited and Stapleton Development Limited against Sun Hung Kai Securities Limited, a wholly-owned subsidiary of Sun Hung Kai, are set out in paragraphs (b) and (c) of note 48 to the financial statements on "Contingent Liabilities".

(b) Shun Loong Finance Limited and Shun Loong Holdings Limited (together the "Petitioners"), both indirect wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("B.V.I.") seeking an order that SFHL 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.

(c) Sun Hung Kai, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.

Financial Review (Cont'd)

Material Litigation Update (Cont'd)

(d) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun ("Sung"), Song Lei ("Song") and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court. SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. On 31st March, 2005, the Court granted summary judgment to SHKIS ("Summary Judgment") in the amount of Canadian currency sufficient to purchase HK$10,533,000 plus prejudgment and post judgment interest thereon. On 24th January, 2006, SHKIS received in partial satisfaction of the Summary Judgment order C$14,071 and US$1,288,555 (i.e. together HK$10,008,868) that had been held in custody of the Superior Court of Justice.

(e) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited ("Sellon"), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

Pledge of Assets

Details regarding pledge of assets are set out in note 52 to the financial statements.

Events After the Balance Sheet Date

Details regarding events after the balance sheet date are set out in note 55 to the financial statements.

Operational Review

FINANCIAL SERVICES

Consumer finance

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

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

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

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

OPERATIONAL REVIEW (CONT'D)

FINANCIAL SERVICES (CONT'D)

Broking and finance

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

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

SHK Financial Group's 35th Anniversary

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

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

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

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

Operational Review (Cont'd)

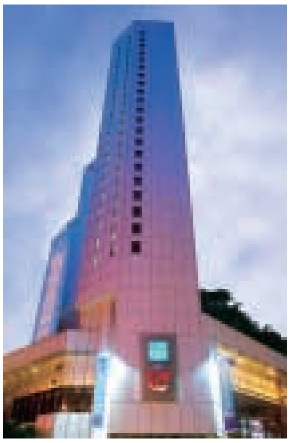
PROPERTIES

Hong Kong

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

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


China Online Centre


Novotel Century Hong Kong hotel

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

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

Mainland PRC

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


Guangzhou Panyu Hi-Tech Ecological Park

Operational Review (Cont'd)

PROPERTIES (CONT'D)

Mainland PRC (Cont'd)

Perspective of Tian An Golf Garden (Phase 3) in Shenzhen Tian An Cyber Park

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

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

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

INVESTMENTS

Quality HealthCare Asia Limited ("QHA")

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

Quality HealthCare Medical Centre

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

On 7th April, 2006, the Company, Sun Hung Kai and Allied Properties jointly announced that Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, had entered into a conditional option agreement pursuant to which Wah Cheong was granted an option to acquire further 34,155,666 shares in QHA from CLSA Capital Limited ("CLSA") at an option consideration of HK$27,752,291. Details of the transaction are set out in note 55 to the financial statements.

Operational Review (Cont'd)

INVESTMENTS (CONT'D)

Yu Ming Investments Limited ("Yu Ming")

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

AsiaWorld-Expo

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

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

Factory buildings of Allied Wangchao

Shanghai Allied Cement Limited ("SAC")

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

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year. Also, the aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

Employees

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

Management of Risks in Respect of the Group's Consumer Finance Business

The management of risks in respect of the Group's consumer finance business is primarily conducted by UAF, the risk management of which is included in note 6 to the financial statements on "Financial Risk Management Objectives and Policies".

Management of Risks in Respect of the Group's Broking and Finance Businesses

The management of risks in respect of the Group's broking and finance businesses (other than the consumer finance business) is primarily conducted by Sun Hung Kai and described as follows:

Financial Risk

The financial risk management is discussed in note 6 to the financial statements.

Operational Risk

Operational risk has been defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group places importance on ensuring that there is an effective operational risk management framework by maintaining strong risk and internal control cultures, including clear lines of responsibility and segregation of duties, effective internal reporting and contingency planning.

Line management is required to declare and submit annually its "responsibility statement for internal control procedures" for review by the internal audit and compliance department ("IAC").

Reputational Risk

A key factor for businesses in the financial services sector is their reputation for financial probity and prudence. In our case, with our important and valuable "brand", we manage these risks through our strong internal controls and risk management regime, by comprehensive employee training and operational manuals in key areas, and by the strength and independence of the IAC.

Outlook

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

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

Appreciation

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

Lee Seng Hui
Chief Executive
Hong Kong, 12th April, 2006

Lee Seng Hui

Mr. Lee Seng Hui, aged 37, Chief Executive of the Company since January 1998, graduated from the Law School of the University of Sydney with Honours. Previously, he worked with Baker & McKenzie and N M Rothschild & Sons (Hong Kong) Limited. He was appointed a Non-Executive Director of the Company in July 1992 and became an Executive Director of the Company in December 1993. He is also a non-executive director of Yu Ming and brother of Ms. Lee Su Hwei.

Edwin Lo King Yau

Mr. Edwin Lo King Yau, aged 45, a chartered company secretary and holder of a Master's Degree in Applied Finance from Macquarie University, Australia, was appointed an Executive Director of the Company in May 2000. He had served various executive roles in several companies in Hong Kong including as company secretary for public listed companies. He is also an executive director of Tian An and HKBLA.

Mak Pak Hung

Mr. Mak Pak Hung, aged 59, was appointed an Executive Director of the Company in January 2006. He holds a Bachelor of Arts Honours Degree in Economics from the University of Hong Kong and a Master of Business Administration Degree from the University of Western Ontario, Canada. Mr. Mak is the Director of Banking and Treasury of Sun Hung Kai and is a director of Sun Hung Kai International Bank [Brunei] Limited, a wholly-owned subsidiary of SHK. Formerly, Mr. Mak was the Chief Financial Officer of Sun Hung Kai. Prior to joining Sun Hung Kai, Mr. Mak was with A.S. Watson & Company Limited, a wholly-owned subsidiary company of Hutchison Whampoa Limited, as Chief Operating Officer and Group Finance Director. Before that, he was the Managing Director of Canadian Imperial Bank of Commerce for Hong Kong and China and has also held senior positions with Manufacturers Hanover Trust Co. and Citibank N.A., with extensive experience in banking and finance. He is also a director of UAF.

Lee Su Hwei

Ms. Lee Su Hwei, aged 35, was appointed a Non-Executive Director of the Company in May 2000. She holds a Bachelor of Economics Degree from the University of Sydney and has experience as an investment analyst and in the securities industry generally in Hong Kong and the region. She is the sister of Mr. Lee Seng Hui.

Arthur George Dew

Mr. Arthur George Dew, aged 64, was appointed an Independent Non-Executive Director of the Company in December 1995 and re-designated as a Non-Executive Director of the Company in July 2002. He graduated from the Law School of the University of Sydney, Australia, and was admitted as a solicitor and later as a barrister of the Supreme Court of New South Wales, Australia. He is currently a non-practising barrister. He has a broad range of corporate and business experience and has served as a director, and in some instances chairman of the board of directors, of a number of public companies listed in Australia, Hong Kong and elsewhere. He is the chairman of Sun Hung Kai and also the chairman of QHA.

Wong Po Yan

Mr. Wong Po Yan, G.B.M., C.B.E., J.P., aged 82 and an Independent Non-Executive Director of the Company since March 1993, is one of Hong Kong's leading residents with an outstanding record of business and public service. He is the chairman and managing director of United Oversea Enterprises Ltd., chairman of the board of Asia Television Ltd. and former vice chairman of the Committee for the Basic Law of the HKSAR under the Standing Committee of the National People's Congress. He is also an independent non-executive director of each of Alco Holdings Limited, China Electronics Corporation Holdings Company Limited, Fintronics Holdings Company Limited, Shenzhen Investment Limited and Sinopec Kantons Holdings Limited.

David Craig Bartlett

Mr. David Craig Bartlett, aged 40, was appointed an Independent Non-Executive Director of the Company in December 1999. He graduated with honours in law from Exeter University in the United Kingdom in 1988 and subsequently qualified as a solicitor in England & Wales, The Republic of Ireland and the Hong Kong Special Administrative Region. A former partner of the international law firm Clyde & Co., he regularly acted for and advised the Company and its subsidiaries before leaving private practise for a career in industry. Now based primarily in Ireland, Mr. Bartlett is also an independent non-executive director of Sun Hung Kai.

John Douglas Mackie

Mr. John Douglas Mackie, aged 77, was appointed an Independent Non-Executive Director of the Company in February 2004. He is the founder and chairman of JDM Associates Limited, and was a major shareholder of a group of companies which is a leading distributor of sports and leisure merchandise in Hong Kong. Graduated from the University of Western Australia and Harvard Business School, Mr. Mackie has over fifty years of performance orientated experience as chief executive officer and lately sole proprietor serving in general, marketing consultancy and representation, and has had extensive experience and successes in agency distribution, manufacturing – proprietary and franchised retailing – supermarket, drugstore specialised products and sourcing. He is also an independent non-executive director of Allied Properties.

Alan Stephen Jones

Mr. Alan Stephen Jones, aged 63, was appointed an Independent Non-Executive Director of the Company in January 2006. Mr. Jones, a chartered accountant, has extensive experience in management, administration, accounting, property development, carparking, finance and trading and has been involved in successful mergers and acquisitions of a number of public companies in Australia and internationally. Mr. Jones is also an independent non-executive director of Allied Properties and Sun Hung Kai.

Akihiro Nagahara

Mr. Akihiro Nagahara, aged 65, is the managing director of UAF, a subsidiary of the Company. He holds a law degree from the National Taiwan University and a master degree from the Graduate School in Law of the National Hitotsubashi University of Japan, where he also completed his doctorate courses. He is an acknowledged expert in the consumer finance business in Hong Kong and is credited with the successful establishment of Public Finance Limited (formerly known as JCG Finance Company, Limited). He is also the chairman of The Hong Kong S.A.R. Licensed Money Lenders Association Limited since its establishment in 1999, which is the only industry representative association of licensed money lenders in Hong Kong. He is also the chairman and an executive director of HKBLA.

Kenneth Li Chi Kong

Mr. Kenneth Li Chi Kong, aged 52, a member of the Institute of Chartered Accountants of Scotland and a fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), joined the Company in January 1996 and is the Group Financial Controller of the Company. He has broad experience in the finance and accounting field, having worked in two major audit firms and as group financial controller for several sizeable listed companies in Hong Kong. He is currently an executive director of Allied Properties, Tian An and SAC.

Kelvin Lam Kam Wing

Mr. Kelvin Lam Kam Wing, aged 39, is the Qualified Accountant of the Company. He obtained a Master Degree in Business Administration from The Chinese University of Hong Kong in 1999 and is a fellow of the Association of Chartered Certified Accountants and an associate member of the HKICPA. Before Mr. Lam joined the Group in 1992, he had worked in an international accounting firm for four years.

Phoebe Lau Mei Yi

Miss Phoebe Lau Mei Yi, aged 39, joined the Group since February 1994 as an Assistant Company Secretary and was appointed Company Secretary of the Company in May 2000. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She is also the company secretary of Allied Properties.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

Code on Corporate Governance Practices

In the light of the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") which came into effect on 1st January, 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2005, except for certain deviations as specified with considered reasons for such deviations as explained below.

The Board

The Board currently comprises nine Directors and its composition is set out as follows:

Executive Directors:	Lee Seng Hui *(Chief Executive)* Edwin Lo King Yau Mak Pak Hung *(appointed on 3rd January, 2006)*
Non-Executive Directors:	Lee Su Hwei Arthur George Dew
Independent Non-Executive Directors ("INEDs"):	Wong Po Yan David Craig Bartlett John Douglas Mackie Alan Stephen Jones *(appointed on 3rd January, 2006)*

The brief biographical details of the Directors are set out in the "Profile of Directors and Senior Management" section on pages 15 to 17.

The Non-Executive Directors (a majority of whom are independent) provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has four INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board (Cont'd)

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, five Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings attended/eligible to attend
Executive Directors:	
Lee Seng Hui	5/5
Edwin Lo King Yau	5/5
Non-Executive Directors:	
Lee Su Hwei	4/5
Arthur George Dew	4/5
INEDs:	
Wong Po Yan	4/5
David Craig Bartlett	5/5
John Douglas Mackie	4/5
Gordon Macwhinnie *(former Chairman)* *(retired on 30th December, 2005)*	5/5

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the daily operations and administration to the executive management under the supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing in terms approved by the Board in June 2005. The Board will review the same once a year.

Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors and to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same are tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

The Board (Cont'd)

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in June 2005 to confirm the Directors' power in relation to their own duties to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

Roles of Chairman and Chief Executive

The roles of the Chairman and the Chief Executive of the Company are separate to reinforce their respective independence and accountability. The Chairman of the Company is responsible for the leadership of the Board while the Chief Executive is responsible for running the business of the Company. On 30th December, 2005, Sir Gordon Macwhinnie retired as the Non-Executive Chairman and an Independent Non-Executive Director of the Company. Thereafter, the post of the Chairman has been temporarily vacant as the Board is seeking for a suitable person to act as the Chairman. The Chief Executive of the Company is Mr. Lee Seng Hui who is also an Executive Director of the Company. The responsibilities of the Chairman and the Chief Executive are clearly segregated and have been set out in writing and approved by the Board in June 2005.

Appointment and Re-election of Directors

In June 2005, the Board established and adopted a written nomination procedure ("Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Executive Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend a proposed candidate to the Board for approval of an appointment.

Every newly appointed Director of the Company will receive an information package from the Company Secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a director pursuant to the Companies Ordinance, Listing Rules and Securities and Futures Ordinance ("SFO"). In addition, this information package includes materials to briefly describe the operations and business of the Company. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The Non-Executive Directors of the Company had no fixed term of office prior to 30th June, 2005, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Articles of Association. According to the Articles of Association of the Company then in effect before 3rd June, 2005, at each annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, should retire from office by rotation, provided that no Director holding office as an executive chairman or as a managing director or as a chief executive should be subject to retirement by rotation. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and would then be eligible for re-election at that meeting.

Appointment and Re-election of Directors (Cont'd)

To fully comply with the code provision A.4.1 of the CG Code, all the existing Non-Executive Directors of the Company were appointed for a specific term which shall continue until 31st December, 2006, but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. In addition, to ensure full compliance with the code provision A.4.2 of the CG Code, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders at the annual general meeting of the Company held on 3rd June, 2005 so that (i) any Director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the Company's first general meeting after the appointment; and (ii) every Director shall be subject to retirement by rotation at least once three years.

Board Committees

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 18 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established for more than 10 years and currently consists of five members, including Messrs. David Craig Bartlett (Chairman), Wong Po Yan, John Douglas Mackie and Alan Stephen Jones being the INEDs, and Mr. Arthur George Dew being the Non-Executive Director. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Chief Executive about the committee's proposals relating to the remuneration of other Executive Directors;

(ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

Board Committees (Cont'd)

Remuneration Committee (Cont'd)

The terms of reference of the Remuneration Committee of the Company were revised in June 2005 to comply with the code provision B.1.3 of the CG Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) a majority of the Remuneration Committee members are INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

(iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The revised terms of reference of the Remuneration Committee have been posted on the Company's website in June 2005.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2005 and the attendance of each member is set out as follows:

Committee member	**Number of committee meeting attended/eligible to attend**
David Craig Bartlett *(Chairman)*	1/1
Arthur George Dew	1/1
Wong Po Yan	1/1
John Douglas Mackie	1/1
Gordon Macwhinnie *(retired on 30th December, 2005)*	1/1

Board Committees (Cont'd)

Remuneration Committee (Cont'd)

In addition to the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2005. In 2005, the Remuneration Committee had performed the work as summarised below:

(i) recommended for the Board's ratification regarding the increase of the monthly remuneration of the former Chairman;

(ii) reviewed and recommended for the Board's approval regarding the payment of performance bonus to the Chief Executive, an Executive Director, the Group Financial Controller and other senior staff of the Company for the year ended 31st December, 2004;

(iii) reviewed and recommended for the Board's approval regarding the renewal of a tenancy agreement for provision of an accommodation to the Chief Executive;

(iv) reviewed and recommended for the Board's approval regarding the proposed consultancy fee to a newly appointed INED;

(v) reviewed and discussed the policy and structure for the remuneration of Directors; and

(vi) reviewed and discussed the existing remuneration packages of all the Executive Directors and Non-Executive Directors (including the INEDs).

The remuneration payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 11 to the financial statements.

Audit Committee

The Audit Committee has been established for more than 10 years and currently consists of five Non-Executive Directors, four of whom are INEDs. To retain independence and objectivity, the Audit Committee has been chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise) in the past years. The current members of the Audit Committee are Messrs. Alan Stephen Jones (Chairman), Arthur George Dew, Wong Po Yan, David Craig Bartlett and John Douglas Mackie. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

(i) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors;

(ii) to consider and discuss with the external auditors the nature and scope of each year's audit;

Board Committees (Cont'd)

Audit Committee (Cont'd)

(iii) to review and monitor the external auditors' independence and objectivity;

(iv) to review the interim and annual financial statements before submission to the Board;

(v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditors may wish to discuss;

(vi) to review the external auditors' management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems; and

(viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code, but with the deviations from the code provision of the audit committee's responsibility to:

(i) implement policy on the engagement of the external auditors to supply non-audit services;

(ii) ensure the management has discharged its duty to have an effective internal control system; and

(iii) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the listed company.

The Board considers that the Audit Committee of the Company should recommend (as opposed to implement) the policy for the following reasons:

(i) it is proper, and appropriate for the Board and its committees to develop policy and make appropriate recommendations;

(ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and

(iii) INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee of the Company only possesses the effective ability to scrutinize (as opposed to ensure) whether management has discharged its duty to have an effective internal control system. The Audit Committee is not equipped to ensure that the same is in place as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position either to ensure coordination between internal auditors (if any) and external auditors but it can promote such co-ordination. Similarly, the Audit Committee is not in a position to ensure that the internal audit function (if any) is adequately resourced but it can monitor whether it is adequately resourced.

Board Committees (Cont'd)

Audit Committee (Cont'd)

The revised terms of reference of the Audit Committee have been posted on the Company's website in June 2005.

The Audit Committee shall meet at least twice a year. Two committee meetings were held in 2005 and the attendance of each member is set out as follows:

Committee member	**Number of committee meetings attended/eligible to attend**
Gordon Macwhinnie *(former Chairman)* *(retired on 30th December, 2005)*	2/2
Arthur George Dew	2/2
Wong Po Yan	2/2
David Craig Bartlett	2/2
John Douglas Mackie	1/2

During the meetings held in 2005, the Audit Committee had performed the work as summarised below:

(i) reviewed the external auditors' report of finding in relation to the final audit of the Group for the year ended 31st December, 2004;

(ii) reviewed the external auditors' independent review report in relation to the 2005 interim review for the six months ended 30th June, 2005;

(iii) reviewed the financial reports for the year ended 31st December, 2004 together with the relevant letter of representation and recommended the same to the Board for approval;

(iv) reviewed the financial reports for the six months ended 30th June, 2005 and recommended the same to the Board for approval; and

(v) reviewed the audit scope and fees proposed by the external auditors regarding the 2005 interim review for the six months ended 30th June, 2005 and recommended the same to the Board/Executive Committee for approval.

Executive Committee

The Executive Committee has been established in January 1993 and currently consists of two Executive Directors, being Messrs. Lee Seng Hui (Chairman) and Edwin Lo King Yau. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board of the Company, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

Board Committees (Cont'd)

Executive Committee (Cont'd)

The Executive Committee meets as and when necessary to discuss the operating affairs of the Group. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group.

Codes for Securities Transactions by Directors and Relevant Employees

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provisions A.5.4 of the CG Code, the Company has also established and adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by certain employees or officers of the Company who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from Accounts Department, the financial statements of the Group. In preparing the financial statements for the year ended 31st December, 2005, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance were complied with.

The reporting responsibilities of the Company's external auditors, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), are set out in the Auditors' Report on page 36.

Accountability and Audit (Cont'd)

External Auditors' Remuneration

During the year, the remuneration paid to former external auditors, namely Messrs. Ernst and Young ("EY") and Messrs. PricewaterhouseCoopers ("PWC"), of two subsidiaries and the Company's external auditors, Deloitte respectively, are set out as follows:

Services rendered for the Group	Fee paid to EY HK$'000	Fees paid to PWC HK$'000	Fees paid to Deloitte HK$'000
Audit services	170	3,786	3,826
Non-audit services			
– Taxation services	–	433	59
– Other professional services	–	457	1,386
Total	170	4,676	5,271

Communication with Shareholders

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. As a channel to further promote effective communication, the corporate website is maintained to disseminate shareholder information and other relevant financial and non-financial information electronically on a timely basis.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and he or his nominee personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

Corporate Governance Enhancement

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome and will be taken into account in the ongoing enhancement of our transparency.

On behalf of the Board

Lee Seng Hui
Chief Executive
Hong Kong, 12th April, 2006

The Directors are pleased to present their annual report and the audited financial statements of the Group and the Company for the year ended 31st December, 2005.

Principal Activities

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2005 are set out in notes 56, 57 and 58 to the financial statements respectively.

Results and Appropriations

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 37 and in the accompanying notes to the financial statements.

The Directors have proposed the payment of a final dividend of HK15 cents per share payable to shareholders whose names appear on the register of members of the Company on Friday, 26th May, 2006. Since an interim dividend of HK5 cents per share was paid on 4th November, 2005, the total dividend for the year is HK20 cents per share. Details are set out in note 15 to the financial statements.

Investment Properties

During the year, the Group spent HK$780,000 on investment properties and acquired a further HK$39,362,000 of investment property on the acquisition of a subsidiary. Certain of the Group's properties held for sale with a carrying value of HK$47,160,000 were transferred to investment properties.

The Group's investment properties were revalued on 31st December, 2005 at HK$2,626,100,000. The net increase in fair value of HK$489,975,000 has been credited to the income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 17 to the financial statements.

Property, Plant and Equipment

During the year, the Group spent HK$34,645,000 on property, plant and equipment. The Group also disposed of certain of its property, plant and equipment with a net carrying value of HK$888,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

Properties Held for Development

The Group has invested in a property development project in the United States of America. An impairment loss previously recognised of HK$34,700,000 has been reversed in respect of this property.

The Group's properties held for development in the United States of America with carrying value of HK$131,836,000 were transferred to properties held for sale.

Details of these and other movements in the properties held for development of the Group during the year are set out in note 19 to the financial statements.

Properties

Particulars of major properties of the Group at 31st December, 2005 are set out on pages 137 and 138.

Share Capital

Details of movement in the share capital of the Company during the year are set out in note 38 to the financial statements.

Share Option Scheme

Particulars of the share option scheme of the Company are set out in note 39 to the financial statements.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors:

Lee Seng Hui	
Edwin Lo King Yau	
Mak Pak Hung	(appointed on 3rd January, 2006)

Non-Executive Directors:

Lee Su Hwei
Arthur George Dew

Independent Non-Executive Directors:

Wong Po Yan	
David Craig Bartlett	
John Douglas Mackie	
Alan Stephen Jones	(appointed on 3rd January, 2006)
Gordon Macwhinnie	(retired on 30th December, 2005)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Lee Seng Hui, Edwin Lo King Yau and Wong Po Yan will retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Messrs. Mak Pak Hung and Alan Stephen Jones, who have been appointed since the last AGM and before the date of this report, will retire at the forthcoming AGM, and being eligible, offer themselves for re-appointment as Directors.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming AGM have an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Terms of Office for the Non-executive Directors

All the Non-Executive Directors (including the INEDs) were appointed for a specific term which shall continue until 31st December, 2006 but subject to the relevant provisions of the Articles of Association of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office.

Directors' Interests

At 31st December, 2005, Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, had the following interests in the shares of the Company as recorded in the register required to be kept under Section 352 of the SFO:

Name of Director	Number of shares held	Approximate % of the issued share capital	Nature of interest
Lee Seng Hui	101,906,613	40.06%	Personal interest (held as beneficial owner) in 22,921 shares and other interest in 101,883,692 shares (Note 1)
Lee Su Hwei	101,883,692	40.05%	Other interest (Note 1)

Notes:

1. Mr. Lee Seng Hui and Ms. Lee Su Hwei are trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 101,883,692 shares of the Company.

2. The interests stated above represent long positions.

Save as disclosed above, at 31st December, 2005, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Businesses

During the year and up to the date of this report, Messrs. Lee Seng Hui, Arthur George Dew and Edwin Lo King Yau and Ms. Lee Su Hwei, Directors of the Company (not being the INEDs), are considered to have interests in the following competing businesses pursuant to the Listing Rules:

(i) Mr. Lee Seng Hui and Ms. Lee Su Hwei are two of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of Allied Properties, Sun Hung Kai, Tian An and Lippo Limited ("Lippo") which, through their subsidiaries, are partly engaged in the businesses as follows:

- Allied Properties, through a subsidiary, is partly engaged in the business of money lending;
- Sun Hung Kai, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment;
- Tian An, through a subsidiary, is partly engaged in the business of money lending; and
- Lippo, through its subsidiaries, is partly engaged in the businesses of property development and investment, securities broking, securities investment, money lending, provision of financial and other related services;

(ii) Mr. Lee Seng Hui is a director of Allied Kajima which, through certain of its subsidiaries, is partly engaged in the businesses of property rental, management services and hospitality related activities;

(iii) Mr. Arthur George Dew is a director of Sun Hung Kai which, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment; and

(iv) Mr. Edwin Lo King Yau is a director of Tian An which, 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.

Directors' Interests in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate with the exception of granting of share options to subscribe for shares in the Company under its share option scheme.

Substantial Shareholders' Interests

At 31st December, 2005, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Cashplus Management Limited ("Cashplus")	26,039,000	10.23%	–
Zealous Developments Limited ("Zealous")	26,039,000	10.23%	1, 2
Minty Hongkong Limited ("Minty")	75,844,692	29.82%	–
Lee and Lee Trust	101,883,692	40.05%	3, 4
COL Capital Limited ("COL Capital")	23,792,494	9.35%	5

Notes:

1. This figure refers to the same interest of Cashplus in 26,039,000 shares of the Company.

2. Cashplus is a wholly-owned subsidiary of Zealous. Zealous was therefore deemed to have an interest in the shares in which Cashplus was interested.

3. Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.

4. Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, together with Mr. Lee Seng Huang are the trustees of Lee and Lee Trust and were therefore deemed to have an interest in the shares in which Minty and Zealous were interested.

5. The interest includes the holding of: (i) 16,337,170 shares held by Honest Opportunity Limited ("Honest Opportunity"), a wholly-owned subsidiary of Classic Fortune Limited ("Classic Fortune") which in turn is a wholly-owned subsidiary of COL Capital; and (ii) 7,455,324 shares held by Focus Clear Limited ("Focus Clear"), a wholly-owned subsidiary of Besford International Limited ("Besford") which in turn is a wholly-owned subsidiary of COL Capital. COL Capital was therefore deemed to have an interest in the shares in which Honest Opportunity, Classic Fortune, Focus Clear and Besford were interested.

6. All interests stated above represent long positions. At 31st December, 2005, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

The following information is disclosed pursuant to Rules 13.20 and 13.22 of the Listing Rules:

(a) As at 31st December 2005, the Group had advances to an entity which exceeded 8% of the market capitalisation of the Company. Pursuant to Rules 13.20 of the Listing Rules, the details of the advances are set out as follows:

Name of Entity	Advances at 31st December, 2005
Tian An	HK$334,233,000

The advances comprise the following:

(i) loan note issued by Tian An of HK$78,000,000 to Sun Hung Kai on 29th August, 2003 which is unsecured and bears interest at 2.5% per annum payable on an annual basis. The loan note will mature on 29th August, 2008;

(ii) term loans of HK$245,000,000 drawn from a loan facility amounted to HK$280,000,000 granted to a subsidiary of Tian An for a term of 36 months from 7th November, 2005. The interest on the term loans is charged at prime rate plus 1% per annum. The loans are guaranteed by Tian An;

(iii) term loans of HK$4,000,000 and HK$1,400,000 granted to subsidiaries of Tian An on 8th December, 2005 and 29th December, 2005 for a term of one year with interest charged at 10.5% per annum and prime rate plus 3.5% per annum respectively; and

(iv) trade receivables and other receivables of HK$5,833,000 which are unsecured, non-interest bearing and repayable on demand.

(b) At 31st December, 2005, the Group had advances to certain affiliated companies totalling HK$424,779,000 which exceeded 8% of the market capitalisation of the Company. Pursuant to Rules 13.22 of the Listing Rules, the proforma combined balance sheet of these companies based on their latest financial statements available is set out as follows:

Pro-forma combined balance sheet:	HK$'000
Non-current assets	7,201,427
Current assets	3,238,004
Current liabilities	(3,523,605)
Non-current liabilities	(1,831,558)
Minority interests	(416,889)
	4,667,379
Group's proforma attributable interests	1,260,000

Emolument Policy

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 11 to the financial statements.

The emolument policy of the employees of the Group is set up by the Executive Committee on the basis of their merit, qualifications and competence.

The emoluments payable to Directors of the Company will depend on their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in note 39 to the financial statements.

Purchase, Sale or Redemption of Shares

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

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

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

Donations

The Group made charitable donations of HK$800,000 during the year.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 18 to 27.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

Auditors

A resolution will be submitted to the AGM of the Company to re-appoint Deloitte as the auditors of the Company.

On behalf of the Board

Arthur George Dew
Director
Hong Kong, 12th April, 2006

Deloitte.
德勤

TO THE MEMBERS OF ALLIED GROUP LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 37 to 135 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 12th April, 2006

Consolidated Income Statement

for the year ended 31st December, 2005

	Notes	**2005**	2004
		HK$'000	HK$'000
			(Restated)
Revenue	7 & 8	**2,004,566**	1,910,952
Other income		**108,836**	44,509
Total income		**2,113,402**	1,955,461
Cost of sales		**(313,173)**	(269,419)
Brokerage and commission expenses		**(141,463)**	(161,553)
Selling and marketing expenses		**(62,898)**	(44,926)
Administrative expenses		**(471,246)**	(439,377)
Changes in values of properties	9	**576,411**	86,057
Bad and doubtful debts	10	**(89,718)**	(147,837)
Other operating expenses		**(167,947)**	(134,191)
Other finance costs	12	**(102,245)**	(49,386)
Amortisation of goodwill		**–**	(7,142)
Release of negative goodwill		**–**	257,610
Amortisation of capital reserve		**–**	17,267
Share of results of associates		**150,388**	165,856
Share of results of jointly controlled entities		**105,298**	25,706
Profit before taxation	13	**1,596,809**	1,254,126
Taxation	14	**(170,042)**	(151,472)
Profit for the year		**1,426,767**	1,102,654
Attributable to:			
Equity holders of the Company		**901,480**	713,735
Minority interests		**525,287**	388,919
		1,426,767	1,102,654
Dividend	15	**50,555**	26,006
Earnings per share	16		
Basic		**HK$3.48**	HK$2.71
Diluted		**N/A**	N/A

Consolidated Balance Sheet

at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Investment properties	17	**2,626,100**	2,091,768
Property, plant and equipment	18	**245,608**	229,014
Properties held for development	19	**–**	97,377
Prepaid land lease payments	20	**295,670**	279,947
Goodwill	21	**33,267**	8,634
Negative goodwill	22	**–**	(602,157)
Intangible assets	23	**25,016**	10,375
Interests in associates	25	**2,710,057**	2,463,020
Interests in jointly controlled entities	26	**866,394**	817,798
Available-for-sale financial assets	27	**616,857**	–
Statutory deposits		**32,831**	–
Investments	28	**–**	754,760
Loans and advances to consumer finance customers due after one year	29	**1,055,691**	804,305
Loans and receivables	30	**202,306**	3,200
Deferred tax assets	31	**40,336**	43,114
		8,750,133	7,001,155
Current assets			
Properties held for sale and other inventories	32	**520,950**	401,721
Financial assets at fair value through profit or loss	33	**241,137**	–
Investments	28	**–**	68,696
Prepaid land lease payments	20	**4,559**	4,240
Loans and advances to consumer finance customers due within one year	29	**1,485,499**	1,221,501
Accounts receivable, deposits and prepayments	34	**2,674,311**	2,376,017
Amounts due from associates		**7,384**	231
Amount due from a jointly controlled entity		**2,159**	2,040
Tax recoverable		**3,842**	1,677
Short-term pledged bank deposit		**972**	1,220
Bank deposits, bank balances and cash		**732,173**	765,765
		5,672,986	4,843,108
Current liabilities			
Accounts payable and accrued charges	35	**1,083,390**	1,156,213
Financial liabilities at fair value through profit or loss	36	**17,756**	–
Amounts due to associates		**62,828**	49,260
Amount due to a jointly controlled entity		**81,063**	141,063
Tax payable		**44,214**	66,800
Bank and other borrowings due within one year	41	**1,251,889**	890,579
Other liabilities due within one year	43	**33,382**	42,248
		2,574,522	2,346,163
Net current assets		**3,098,464**	2,496,945
Total assets less current liabilities		**11,848,597**	9,498,100

at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Capital and reserves			
Share capital	38	**508,657**	521,302
Reserves	40	**5,606,087**	4,108,984
Equity attributable to equity holders of the Company		**6,114,744**	4,630,286
Minority interests		**3,998,261**	3,351,319
Total equity		**10,113,005**	7,981,605
Non-current liabilities			
Bank and other borrowings due after one year	41	**1,375,763**	1,121,569
Loan notes	42	**144,931**	220,525
Deferred tax liabilities	31	**212,155**	170,762
Other liabilities due after one year	43	**2,743**	3,639
		1,735,592	1,516,495
		11,848,597	9,498,100

The financial statements on pages 37 to 135 were approved and authorised for issue by the Board of Directors on 12th April, 2006, and are signed on its behalf by:

Arthur George Dew
Director

Edwin Lo King Yau
Director

Balance Sheet

at 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	18	**863**	1,302
Interest in subsidiaries	24	**2,694,354**	2,692,575
		2,695,217	2,693,877
Current assets			
Accounts receivable, deposits and prepayments		**6,169**	2,105
Amounts due from subsidiaries		**8,741**	6,094
Bank balances and cash		**1,322**	389
		16,232	8,588
Current liabilities			
Accounts payable and accrued charges		**4,512**	5,065
Other liabilities due within one year	43	**16**	126
		4,528	5,191
Net current assets		**11,704**	3,397
Total assets less current liabilities		**2,706,921**	2,697,274
Capital and reserves			
Share capital	38	**508,657**	521,302
Reserves	40	**2,117,585**	2,061,737
Total equity		**2,626,242**	2,583,039
Non-current liabilities			
Loan notes	42	**80,679**	90,888
Amount due to a subsidiary	44	**–**	23,347
		2,706,921	2,697,274

Arthur George Dew
Director

Edwin Lo King Yau
Director

for the year ended 31st December, 2005

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Non distributable reserve HK$'000	Capital (goodwill) reserve HK$'000 (note 40(b))	Accumulated profits HK$'000	Dividend reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2004													
As originally stated	531,374	1,519,481	36,691	80,027	170,774	(104,240)	55,226	295,269	1,571,303	–	4,155,905	3,103,967	7,259,872
Prior period adjustment arising from changes in accounting policies	–	–	15,178	–	–	71,420	–	–	(359,905)	–	(273,307)	(96,268)	(369,575)
As restated	531,374	1,519,481	51,869	80,027	170,774	(32,820)	55,226	295,269	1,211,398	–	3,882,598	3,007,699	6,890,297
Distribution of interests in an associate to minority shareholders	–	–	–	1	–	–	–	–	–	–	1	–	1
Surplus arising on revaluation	–	–	–	81,211	–	–	–	–	–	–	81,211	63,809	145,020
Deferred tax liability arising on revaluation of assets	–	–	–	(124)	–	–	–	–	–	–	(124)	(98)	(222)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	130	–	–	–	–	130	(3)	127
Share of post-acquisition reserve movements of associates	–	–	7,344	3,040	–	182	–	–	–	–	10,566	8,276	18,842
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	–	10	–	–	–	–	10	2,225	2,235
Net income recognised directly in equity	–	–	7,344	84,128	–	322	–	–	–	–	91,794	74,209	166,003
Profit attributable to equity holders	–	–	–	–	–	–	–	–	713,735	–	713,735	388,919	1,102,654
Released on impairment of non-trading securities	–	–	–	9,468	–	–	–	–	–	–	9,468	7,430	16,898
Released on disposal of non-trading securities	–	–	–	3,725	–	–	–	–	–	–	3,725	2,923	6,648
Released on disposal of subsidiaries	–	–	–	–	–	(2,339)	–	–	–	–	(2,339)	(1,817)	(4,156)
Released on dilution of interests in an associate	–	–	(299)	23	–	(1)	–	(2)	–	–	(279)	(4,379)	(4,658)
Capital reserve released on amortisation	–	–	–	–	–	–	–	(33,046)	–	–	(33,046)	(216)	(33,262)
Total recognised income and expenses for the year	–	–	7,045	97,344	–	(2,018)	–	(33,048)	713,735	–	783,058	467,069	1,250,127
Distribution to minority interests	–	–	–	–	–	–	–	–	–	–	–	(2,388)	(2,388)
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	–	–	(134,841)	(134,841)
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	13,780	13,780
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	–	1,584	(1,584)	–	–	–	–
Final dividend	–	–	–	–	–	–	–	–	(26,006)	26,006	–	–	–
Shares repurchased and cancelled	(10,072)	–	–	–	–	–	–	–	(25,298)	–	(35,370)	–	(35,370)
Transferred on share repurchase	–	–	–	–	10,072	–	–	–	(10,072)	–	–	–	–
At 31st December, 2004	521,302	1,519,481	58,914	177,371	180,846	(34,838)	55,226	263,805	1,862,173	26,006	4,630,286	3,351,319	7,981,605

for the year ended 31st December, 2005

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Non distributable reserve HK$'000	Capital (goodwill) reserve HK$'000	Accumulated profits HK$'000	Dividend reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
								(note 40(b))					
At 1st January, 2005													
As originally stated	521,302	1,519,481	43,355	177,371	180,846	(106,276)	55,226	263,805	2,268,308	26,006	4,949,424	3,464,378	8,413,802
Prior period adjustments arising from changes in accounting policies	–	–	15,559	–	–	71,438	–	–	(406,135)	–	(319,138)	(113,059)	(432,197)
As restated, before opening balance adjustments	521,302	1,519,481	58,914	177,371	180,846	(34,838)	55,226	263,805	1,862,173	26,006	4,630,286	3,351,319	7,981,605
Opening balance adjustments arising from changes in accounting policies	–	–	(58,914)	(1,176)	–	–	–	(261,902)	930,721	–	608,729	176,706	785,435
As restated after prior period and opening balance adjustments	521,302	1,519,481	–	176,195	180,846	(34,838)	55,226	1,903	2,792,894	26,006	5,239,015	3,528,025	8,767,040
Gain in fair value changes of available-for-sale financial assets	–	–	–	69,925	–	–	–	–	–	–	69,925	54,628	124,553
Deferred tax arising on revaluation of assets	–	–	–	46	–	(92)	–	–	–	–	(46)	(37)	(83)
Exchange differences arising on translation of operations outside Hong Kong	–	–	–	–	–	184	–	–	–	–	184	205	389
Share of post-acquisition reserve movements of associates	–	–	–	5,791	–	14,635	–	1,310	–	–	21,736	16,971	38,707
Share of post-acquisition reserve movements of jointly controlled entities	–	–	–	–	–	2,668	–	–	–	–	2,668	898	3,566
Net income recognised directly in equity	–	–	–	75,762	–	17,395	–	1,310	–	–	94,467	72,665	167,132
Profit attributable to equity holders	–	–	–	–	–	–	–	–	901,480	–	901,480	525,287	1,426,767
Released on disposal of available-for-sale financial assets	–	–	–	(21,784)	–	–	–	–	–	–	(21,784)	(17,023)	(38,807)
Released on partial disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	37,636	37,636
Impairment of available-for-sale financial assets transferred to income statement	–	–	–	8,090	–	–	–	–	–	–	8,090	6,321	14,411
Released on disposal of a jointly controlled entity	–	–	–	–	–	(6)	–	–	–	–	(6)	(5)	(11)
Total recognised income and expenses for the period	–	–	–	62,068	–	17,389	–	1,310	901,480	–	982,247	624,881	1,607,128
Interim dividend	–	–	–	–	–	–	–	–	(12,918)	12,918	–	–	–
Overprovision of dividend	–	–	–	–	–	–	–	–	1,132	(86)	1,046	816	1,862
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(9,215)	(9,215)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	14,160	14,160
Transferred from accumulated profits to capital reserve	–	–	–	–	–	–	–	197	(197)	–	–	–	–
Dividend distribution to minority interests	–	–	–	–	–	–	–	–	–	–	–	(160,406)	(160,406)
Dividend paid	–	–	–	–	–	–	–	–	–	(38,838)	(38,838)	–	(38,838)
Proposed final dividend	–	–	–	–	–	–	–	–	(37,637)	37,637	–	–	–
Shares repurchased and cancelled	(12,645)	–	–	–	–	–	–	–	(56,081)	–	(68,726)	–	(68,726)
Transferred on share repurchase	–	–	–	–	12,645	–	–	–	(12,645)	–	–	–	–
At 31st December, 2005	508,657	1,519,481	–	238,263	193,491	(17,449)	55,226	3,410	3,576,028	37,637	6,114,744	3,998,261	10,113,005

for the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (Restated)
Operating activities		
Profit for the year	**1,426,767**	1,102,654
Adjustments for:		
Taxation	**170,042**	151,472
Other finance cost	**102,245**	49,386
Bad and doubtful debts	**89,718**	147,837
Depreciation of property, plant and equipment	**34,446**	31,405
Impairment loss recognised in respect of available-for-sale financial assets	**14,411**	–
Impairment loss recognised in respect of goodwill of associates	**13,323**	–
Impairment loss recognised in respect of an associate	**4,981**	–
Amortisation of prepaid land lease payments	**4,540**	3,414
Impairment loss recognised in respect of property, plant and equipment	**3,680**	–
Amortisation of intangible assets	**3,662**	2,701
Loss (profit) on partial disposal of subsidiaries	**1,423**	(789)
Impairment loss recognised in respect of intangible assets	**980**	–
Loss on disposal of property, plant and equipment	**662**	589
Impairment loss recognised in respect of goodwill of a subsidiary	**267**	–
Increase in fair value of investment properties	**(489,975)**	(55,819)
Share of results of associates	**(150,388)**	(165,856)
Share of results of jointly controlled entities	**(105,298)**	(25,706)
Profit on disposal of available-for-sale financial assets	**(57,473)**	–
Reversal of write down of properties held for sale	**(47,452)**	(22,924)
Reversal of impairment loss of properties held for development	**(34,700)**	(3,000)
Excess of net fair value of consideration arising from acquisition of additional interest in subsidiaries	**(5,652)**	–
Reversal of impairment loss of buildings	**(4,284)**	(4,314)
Net unrealised profit on financial assets at fair value through profit or loss	**(4,697)**	–
Profit on disposal of an investment property	**(2,061)**	–
Profit on disposal of a jointly controlled entity	**(1,219)**	–
Reversal of impairment loss of intangible assets	**(320)**	–
Excess of net fair value of consideration arising from acquisition of subsidiaries	**(199)**	–
Impairment recognised in respect of non-trading securities	–	16,418
Premium on acquisition of loan receivables of consumer finance customers	–	12,016
Amortisation of goodwill	–	7,142
Loss on dilution of interest in an associate	–	4,492
Net unrealised loss on trading securities	–	1,174
Loss on write off of intangible assets	–	96
Release of negative goodwill	–	(257,610)
Amortisation of capital reserve	–	(37,425)
Profit on repurchase of loan notes	–	(11,219)
Profit on disposal of subsidiaries	–	(8,647)
Profit on disposal of non-trading securities	–	(2,483)
Loss on deemed disposal of a jointly controlled entity	–	(942)
Operating cash flow before movements in working capital	**967,429**	934,062

for the year ended 31st December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Decrease in properties held for sale and other inventories		**7**	20,741
Increase in financial assets at fair value through profit or loss		**(122,309)**	–
Increase in trading securities		**–**	(15,196)
Increase in loans and advances to consumer finance customers		**(597,605)**	(370,252)
(Increase) decrease in accounts receivable, deposits and prepayments		**(290,473)**	400,705
Increase in loans and receivables		**–**	(3,200)
Increase in financial liabilities at fair value through profit or loss		**17,756**	–
Decrease in accounts payable and accrued charges		**(68,201)**	(496,632)
Decrease in other liabilities		**(9,386)**	(3,051)
Cash (used in) generated from operations		**(102,782)**	467,177
Hong Kong Profits Tax paid		**(146,273)**	(106,307)
Interest paid		**(87,734)**	(49,132)
Tax outside Hong Kong paid		**(341)**	(248)
Net cash (used in) from operating activities		**(337,130)**	311,490
Investing activities			
Proceeds on disposal of available-for sale financial assets		**115,403**	–
Proceeds on disposal of partial interests in a subsidiary		**41,278**	–
Proceeds on disposal of an investment property		**14,661**	–
Amounts repaid by associates		**13,063**	254,750
Dividend received from associates		**8,162**	6,182
Decrease in available-for-sale financial assets		**5,620**	–
Amount repaid by a jointly controlled entity		**2,751**	2,770
Decrease in pledged bank deposits		**248**	267
Proceeds on disposal of property, plant and equipment		**225**	139
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	45	**(124,688)**	(125,239)
Purchase of property, plant and equipment		**(34,644)**	(31,377)
Addition to intangible assets		**(8,392)**	(6,091)
Acquisition of associates		**(5,592)**	(102,350)
Net payment of statutory deposits		**(4,472)**	–
Acquisition of additional interest in subsidiaries		**(3,563)**	(1,132)
Amount advanced to a jointly controlled entity		**(2,870)**	(3,772)
Addition to investment properties		**(780)**	(110)
Purchase of available-for-sale financial assets		**(705)**	–
Amount advanced to an associate		**(6)**	(2)
Proceeds on disposal of non-trading securities		**–**	40,510
Purchase of non-trading securities		**–**	(32,285)
Addition to properties held for development		**–**	(14,186)
Acquisition of a jointly controlled entity		**–**	(2,294)
Amounts advanced to an investee company		**–**	(1,950)
Disposal of subsidiaries (net of cash and cash equivalent disposed of)	46	**–**	–
Net cash from (used in) investing activities		**15,699**	(16,170)

for the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (Restated)
Financing activities		
New bank and other borrowings raised	**1,255,000**	740,500
Amounts advanced by associates	**426**	–
Repayment of bank and other borrowings	**(672,883)**	(684,126)
Dividends paid by subsidiaries to minority interests	**(160,406)**	(134,841)
Amounts paid on share repurchase	**(68,726)**	(35,370)
Repurchase of loan notes	**(60,000)**	(139,024)
Dividend paid	**(38,838)**	–
Net distribution to minority interests	**(48)**	(33)
Amount advanced by a jointly controlled entity	**–**	29,500
Net proceeds received from issue of shares by a subsidiary	**–**	27,831
Repayment of obligations under a finance lease	**–**	(890)
Amount repaid to associates	**–**	(148)
Amount repaid to a jointly controlled entity	**–**	(95)
Net cash from (used in) financing activities	**254,525**	(196,696)
Net (decrease) increase in cash and cash equivalents	**(66,906)**	98,624
Effect of foreign exchange rate changes	**(78)**	12
Cash and cash equivalents at the beginning of the year	**706,461**	607,825
Cash and cash equivalents at the end of the year	**639,477**	706,461
Analysis of the balances of cash and cash equivalents		
Bank deposits, bank balances and cash	**732,173**	765,765
Bank overdrafts	**(92,696)**	(59,304)
	639,477	706,461

for the year ended 31st December, 2005

1. General

The Company is a listed public limited company incorporated in the Hong Kong Special Administrative Region ("Hong Kong").

The address of the registered office is 22/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.

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

The Company acts as an investment holding company and provides corporate management services. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 56, 57 and 58 respectively.

2. Application of Hong Kong Financial Reporting Standards

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

Business combinations

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

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually as well as in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

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2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Business combinations (Cont'd)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities.

Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

At 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities were classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the profit or loss for the period in which gains or losses arose. Unrealised gains or losses of "non-trading securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Financial instruments (Cont'd)

The effect of redesignation of investments together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 is summarised in the table below:

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

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

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Financial instruments (Cont'd)

In addition, warrants of a listed associate and amounts due from associates, which were previously grouped under "interests in associates", together with their reclassification at 1st January, 2005 on the adoption of HKAS 39 are as follows:

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

\# The warrants of a listed associated company which were previously grouped under "interests in associates" are classified as "financial assets at fair value through profit or loss" and carried at fair value in accordance with the provisions of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

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

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Financial instruments (Cont'd)

Bad and doubtful debts

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

On adoption of HKAS 39, impairment provisions for advances assessed individually are calculated using a discounted cash flow analysis for the impaired advances. Collective assessment of impairment for individually insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of general provisions.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, as appropriate. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in property revaluation reserve has been transferred to the Group's accumulated profits on 1st January, 2005.

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Investment properties (Cont'd)

The adoption of HKAS 40 has resulted in a change of classification of certain properties which were previously classified as investment properties in accordance with SSAP 13. In previous years, property with 15% or less by area of value that was occupied by the company or another company in the group should normally be regarded as an investment property in its entirety even though part of it is not held for investment purposes. HKAS 40 requires that, if a portion of the properties could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portion could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. In the current year, the Group applied HKAS 40 and has reclassified certain of such owner-occupied properties that could be sold separately (or leased out separately under a finance lease) from investment properties to property, plant and equipment retrospectively. Comparative figures for 2004 have been restated.

Hotel properties

In previous years, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-INT 2") requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. In the absence of any specific transitional provisions in HK-INT 2, the new accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

Intangible assets

The adoption of HKAS 38 results in a change of the useful lives of intangible assets according to the provisions of HKAS 38. Certain exchange participation rights with amortisation on a straight line basis over its estimated useful lives of five years before 1st January, 2005 were changed to indefinite useful life on that date. Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of these intangible assets.

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP – Interpretation 20). In the current year, the Group has applied HKAS Interpretation 21 (HKAS "INT-21") "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the value of the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

for the year ended 31st December, 2005

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

Effect of the changes in accounting policies

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

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective and are pertinent to the operation of the Group. The Directors anticipate that the application of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investments in a Foreign Operation[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]

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

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

for the year ended 31st December, 2005

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	HK$'000
Decrease in bad and doubtful debts	**33,486**	–
Decrease in amortisation of intangible assets	**846**	–
Release of negative goodwill and capital reserve and decrease in amortisation of goodwill	**(297,238)**	–
Excess of net fair value over consideration arising from acquisition of additional interest in a subsidiary	**5,652**	–
Decrease in deferred tax credit arising from decrease in bad and doubtful debts	**(6,107)**	–
Decrease in changes in fair value of investment properties arising from reclassification of investment properties to properties, plant and equipment	**(28,992)**	(39,087)
Increase in deferred tax charges in relation to investment properties	**(28,262)**	(36,549)
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment	**(2,665)**	(1,777)
Increase in amortisation of prepaid land lease payments	**(2,872)**	(2,775)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss	**(1,914)**	–
Tax on loss arising from fair values changes of financial assets and liabilities, measured at fair value through profit or loss	**2**	–
Increase in finance costs	**(12,114)**	–
(Increase) decrease in deferred tax charge arising from restatement of property at cost	**(18)**	5
Increase in depreciation arising from restatement of property at cost	**(449)**	(31)
Increase in depreciation arising from reinstatement cost	**(260)**	(204)
Increase in deferred tax charge arising from reclassification of land premium to prepaid land lease payments	**(155)**	(90)
Increase (decrease) in share of results of associates	**117,210**	(5,492)
Increase in share of results of jointly controlled entities	**60,553**	13,351
Decrease in profit for the year	**(163,297)**	(72,649)
Attributable to:		
Equity holders of the Company	**(169,322)**	(46,230)
Minority interests	**6,025**	(26,419)
	(163,297)	(72,649)

for the year ended 31st December, 2005

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

Analysis of the decrease in profit for the year by line items presented according to their function:

	2005	2004
	HK$'000	HK$'000
Increase in other income	**3,738**	–
Increase in other operating expenses	**(5,400)**	(4,880)
Decrease in administrative expenses	**–**	56
Decrease in changes in fair values of investment properties	**(28,992)**	(22,669)
Reclassification of impairment losses recognised in respect of non-trading securities	**–**	(16,418)
Decrease in bad and doubtful debts	**33,487**	–
Decrease in release of negative goodwill	**(257,848)**	–
Decrease in amortisation of goodwill	**7,142**	–
Decrease in amortisation of capital reserve	**(17,267)**	–
Increase (decrease) in share of results of associates	**87,945**	(5,455)
Increase in share of results of jointly controlled entities	**60,553**	13,351
Increase in finance cost	**(12,114)**	–
Increase in taxation	**(34,541)**	(36,634)
	(163,297)	(72,649)

for the year ended 31st December, 2005

3. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

The cumulative effect of the application of the new HKFRSs on the balance sheet at 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004 (Originally stated)	Adjustments	At 31st December, 2004 (Restated)	Adjustments	At 1st January, 2005 (Restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note)			
Investment properties	2,487,436	(395,668)	2,091,768	–	2,091,768
Property, plant and equipment	167,238	61,776	229,014	–	229,014
Interests in associates	2,483,113	(20,093)	2,463,020	82,497	2,545,517
Interests in jointly controlled entities	1,036,507	(218,709)	817,798	–	817,798
Prepaid land lease payments	–	284,187	284,187	–	284,187
Loans and advances to consumer finance customers	2,025,806	–	2,025,806	(5,040)	2,020,766
Negative goodwill	(602,157)	–	(602,157)	602,157	–
Deferred tax assets	43,005	109	43,114	883	43,997
Deferred tax liabilities	(25,029)	(145,733)	(170,762)	–	(170,762)
Other assets/liabilities	797,883	1,934	799,817	104,938	904,755
Net assets	8,413,802	(432,197)	7,981,605	785,435	8,767,040
Share capital	521,302	–	521,302	–	521,302
Property revaluation reserve	43,355	15,559	58,914	(58,914)	–
Investment revaluation reserve	177,371	–	177,371	(1,176)	176,195
Translation reserve	(106,276)	71,438	(34,838)	–	(34,838)
Capital (goodwill) reserve	263,805	–	263,805	(261,902)	1,903
Accumulated profits	2,268,308	(406,135)	1,862,173	930,721	2,792,894
Other reserves	1,781,559	–	1,781,559	–	1,781,559
Minority interest	–	3,351,319	3,351,319	176,706	3,528,025
Total equity	4,949,424	3,032,181	7,981,605	785,435	8,767,040
Minority interest	3,464,378	(3,464,378)	–	–	–

for the year ended 31st December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

Note: The amounts represent adjustments to comparative figures arising from the reclassification of certain investment properties of the Group to property, plant and equipment and prepaid land lease payments as a result of the application of HKASs 16, 17 and 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21, share of adjustments of associates and jointly controlled entities and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

Following the adoption of HKAS 39, the Company restated the loan notes issued by the Company to amortised cost on 1st January, 2005 with a corresponding adjustment of HK$13,631,000 credited to opening accumulated profits.

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4. Significant Accounting Policies

Basis of preparation

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

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

Basis of consolidation

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

Business combinations (after 1st January, 2005)

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

4. Significant Accounting Policies (Cont'd)

Business combinations (after 1st January, 2005) (Cont'd)

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Interest in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting less any identified impairment loss. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interest in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting less any identified impairment loss. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any impairment in the value of individual investments. Losses of jointly controlled entities in excess of the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity) are not recognised.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interest in jointly controlled entities (Cont'd)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Goodwill and negative goodwill (capital reserve)

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

For previously capitalised goodwill arising on acquisitions before 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity is included in the cost of the investment of the relevant associate or jointly controlled entity.

Impairment testing on capitalised goodwill

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

4. Significant Accounting Policies (Cont'd)

Goodwill and negative goodwill (capital reserve) (Cont'd)

Impairment testing on capitalised goodwill (Cont'd)
On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")
A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate or a jointly controlled entity is included as income in the determination of the investor's share of results of the associate or jointly controlled entity in the period in which the investment is acquired.

As explained above, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's accumulated profits.

Revenue recognition
Revenue is measured at the fair value of consideration received and receivable.

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant building occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received, which are shown as a current liability. When the consideration is in the form of cash or cash equivalents, and the receipt of the consideration is deferred, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Sales of investments are recognised on a trade date or contract date basis, where appropriate.

Service income is recognised when services are provided.

Revenue from hotel operations is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

for the year ended 31st December, 2005

4. Significant Accounting Policies (Cont'd)

Revenue recognition (Cont'd)

Commission income is recognised as income on trade date basis.

Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms and conditions of the relevant agreement or deal mandate when relevant significant act has been completed.

Fees for management and advisory of funds are recognised when the related services are rendered.

Realised profits or losses from financial assets at fair value through profit or loss and derivative contracts are recognised on a trade date basis whilst the unrealised profits or losses are recognised from valuation at the balance sheet date.

Profits and losses on trading in foreign currencies include realised and unrealised gains less losses; charges less premium arising from position squaring; and valuation at the balance sheet date of foreign currency positions on hand.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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

for the year ended 31st December, 2005

4. Significant Accounting Policies (Cont'd)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such times as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

for the year ended 31st December, 2005

4. Significant Accounting Policies (Cont'd)

Employee benefits

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

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement when incurred.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in associates and jointly controlled entities, except where the Group as a parent or a venturer is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

for the year ended 31st December, 2005

4. Significant Accounting Policies (Cont'd)

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses. Expenditure on major inspections and overhauls of property, plant and equipment is capitalised as a separate component of the relevant asset.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Land and buildings	2% to 3% or over the remaining terms of the leases
Leasehold improvements	20%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles and vessels	$16\frac{2}{3}$% to 20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Properties held for development

Freehold land and buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less any impairment loss considered necessary by the Directors. Cost includes freehold land cost, development cost, borrowing cost and other direct costs attributable to such properties, net of any rentals and interest income earned, until the relevant properties reach a marketable state. Depreciation of these assets, calculated on the same basis as other property assets, commences when the assets are put into use.

Prepaid land lease payments

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

for the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Intangible assets
On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Exchange participation rights and club membership
They comprise:

– The eligibility right to trade through the Stock Exchange, Hong Kong Futures Exchange Limited and other Exchange, and

– The eligibility right to use the facilities of various clubs

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

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

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

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

4. Significant Accounting Policies (Cont'd)

Impairment of tangible and intangible assets excluding goodwill and intangible assets with indefinite lives

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

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

Financial instruments

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

Financial assets

Financial assets are classified into one of four categories, being financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

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

4. Significant Accounting Policies (Cont'd)

Financial instruments (Cont'd)

Loans and receivables

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

Available-for-sale financial assets

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

4. Significant Accounting Policies (Cont'd)

Financial instruments (Cont'd)

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Other financial liabilities including bank and other borrowings and accounts payable and accrued charges, amounts due to associates, amount due to a jointly controlled entity, tax payable and other liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Fair value measurement principles

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes freehold and leasehold land cost, development cost, borrowing costs and other direct costs attributable to such properties until the relevant properties reach a marketable state. Net realisable value is determined by reference to management estimates of the selling price based on prevailing market conditions, less all estimated costs to completion and costs to be incurred in marketing and selling.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

Estimate of fair value of investment properties

The investment properties were revalued at the balance sheet date on market value existing use basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainly and might materially differ from the actual results. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

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5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Cont'd)

Impairment allowances for loans and receivables other than loans and advances to consumer finance customers

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

Impairment allowances for loans and advances to consumer finance customers

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

Impairment of available-for-sale financial assets

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

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

Estimated impairment of goodwill

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

Deferred tax

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

for the year ended 31st December, 2005

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Cont'd)

Provisions and contingent liabilities

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

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

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

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$245,608,000. The Group depreciates the property, plant and equipment on a straight line basis over the estimated useful life of two to fifteen years, after taking into account of their estimated residual value, using the straight-line method, commencing from the date the property, plant or equipment is placed into productive use. The estimated useful life and dates that the Group places the property, plant or equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Litigation

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

for the year ended 31st December, 2005

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (Cont'd)

Litigation (Cont'd)

As at 31st December 2005, a sum of HK$118,003,000 representing SHKS Interest was recognised, as amounts due from investee companies under Loans and Receivables. In addition, contingent liabilities amounting to approximately HK$37,500,000 have been disclosed regarding the payments demanded by NWDC for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS. Furthermore, included in the 2004 income statement was a sum of HK$2,934,000 representing the interest expense paid by SHKS to NWDC pursuant to the 1st April, 2004 judgment of the High Court of Hong Kong (the "Judgment") on shareholders' contributions advanced by NWDC on behalf of SHKS. The nature of the interests and the uncertainty of the Final Appeal result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. This in turn affects the recovery of the above mentioned receivables or interest payments and the crystallization or discharge of the above mentioned contingent liabilities. The Group has thus decided that it is not presently appropriate to make any impairment allowance for the above mentioned receivables, any provisions in respect of the above mentioned contingencies, or any recoveries of the above mentioned interest expenses. Details of the receivables, contingent liabilities and interest expenses are disclosed in note 30, note 48, and note 13 respectively.

6. Financial Risk Management Objectives and Policies

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

The Group has established policies and procedures for risk management which are reviewed regularly by the management and the credit & risks management committee ("CRM"), which reports to the executive committee of the concerned group company, to ensure the proper monitoring and control of all major risks arising from the Group's activities at all times. The concerned internal audit and compliance department ("IAC") (which reports independently to respective chairman and the audit committee) also performs regular reviews to supplement the various internal control measures adopted by the management and various divisions within the Group, to ensure compliance with policies and procedures.

6. Financial Risk Management Objectives and Policies (Cont'd)

Market risk

(i) ***Trading Risk***

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

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

(ii) ***Foreign Exchange Risk***

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

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

for the year ended 31st December, 2005

6. Financial Risk Management Objectives and Policies (Cont'd)

Credit risk

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

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

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

Liquidity risk

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Financial Resources Rules applying to various licensed subsidiaries.

Interest rate risk

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

for the year ended 31st December, 2005

6. Financial Risk Management Objectives and Policies (Cont'd)

Interest rate risk (Cont'd)

The management of the Group believes that the Group's exposure to interest rate risk in respect of loans and advances to consumer finance customers is insignificant as the such loans and advances are relatively short-term. The exposure of the Group's other material fixed-rate assets and liabilities to fair value interest rate risk and their contractual maturity dates are as follows:

	Interest rates	Within first year HK$'000	In second year HK$'000	In third year HK$'000	In fourth year HK$'000	In fifth year HK$'000	More than 5 years HK$'000	Total HK$'000
At 31 December 2005								
Fixed deposit	0.28% to 7.25%	281,465	–	–	–	–	–	281,465
Treasury bills	3.78%	7,680	–	–	–	–	–	7,680
Loan note due from a listed associate	2.5%	–	–	78,000	–	–	–	78,000
Terms loans	10.5% to 18.5%	–	4,430	–	–	–	–	4,430
Bank and other borrowings	4.85% to 12%	(262,000)	–	–	–	–	–	(262,000)
Loan notes (note)	7.0% to 7.9%	–	–	(144,931)	–	–	–	(144,931)
At 31 December 2004								
Fixed deposit	0.01% to 7.50%	154,185	–	–	–	–	–	154,185
Loan note due from a listed associate	2.5%	–	–	–	78,000	–	–	78,000
Term loans	17.85% to 18.14%	3,370	–	–	–	–	–	3,370
Marketable debt securities	1.86%	7,741	–	–	–	–	–	7,741
Bank and other borrowings	12%	(6,000)	–	–	–	–	–	(6,000)
Loan notes (note)	7.0% to 7.9%	–	–	–	(220,525)	–	–	(220,525)

Note: The coupon rates of the loan notes are ranging from 2.25% to 4.00% per annum. The interest rates disclosed in the table above represent the effective interest rates applied in calculating the corresponding amortised costs of the loan notes.

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6. Financial Risk Management Objectives and Policies (Cont'd)

Interest rate risk (Cont'd)

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

	Interest rates	Within first year HK$'000	In second year HK$'000	In third year HK$'000	In fourth year HK$'000	In fifth year HK$'000	More than 5 years HK$'000	Total HK$'000
At 31 December 2005								
Secured margin loans	7.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,293,285
Term loans	7.00% to 26.82%	375,909	–	–	–	–	–	375,909
Bank overdrafts	4.85% to 8.50%	(92,696)	–	–	–	–	–	(92,696)
Bank and other borrowings	4.89% to 6.69%	(1,397,193)	(606,939)	(36,119)	(100,473)	(74,622)	(57,610)	(2,272,956)
At 31 December 2004								
Secured margin loans	4.00% to 30.00%	N/A	N/A	N/A	N/A	N/A	N/A	1,441,056
Term loans	5.00% to 26.82%	181,310	3,200	–	–	–	–	184,510
Bank overdrafts	4.0% to 5.5%	(59,304)	–	–	–	–	–	(59,304)
Bank and other borrowings	0.86% to 4.00%	(900,275)	(226,738)	(613,160)	(28,981)	(91,328)	(86,362)	(1,946,844)

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7. Revenue [#]

Revenue represents the gross proceeds received and receivable derived from the sale of properties, securities trading and broking, consumer finance, property rental, hotel operations and property management services, provision of consultancy and other services, interest and dividend income, income from corporate finance and advisory services, and income from securities margin financing and term loan financing and insurance broking services, and the following stated net of losses: income from bullion transactions and differences on foreign exchange transactions.

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

[#] Revenue is also the Group's turnover.

8. Segmental Information

The Group has the following main business segments:

– Investment, broking and finance – trading in securities, provision of securities broking and related services, provision of broking services in forex, bullion and commodities, provision of securities margin financing and insurance broking services, provision of related financing and advisory products, and provision of term loan financing.

– Consumer finance – providing consumer loan finance products.

– Property development and investment – development and sale of properties, property rental, provision of property management services and hotel operations managed by third parties.

– Corporate and other operations – including corporate revenue and expenses and results of unallocated operations.

Business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

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8. SEGMENTAL INFORMATION (CONT'D)

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

	2005				
	Investment, broking and finance HK$'000	**Consumer finance** HK$'000	**Property development and investment** HK$'000	**Corporate and other operations** HK$'000	**Total** HK$'000
Revenue	979,373	872,925	177,957	16,413	2,046,668
Less: inter-segment revenue	(22,883)	–	(6,999)	(12,220)	(42,102)
	956,490	872,925	170,958	4,193	2,004,566
Segment results	281,383	551,539	624,668	(14,222)	1,443,368
Other finance costs					(102,245)
Share of results of associates					150,388
Share of results of jointly controlled entities	2	–	105,296	–	105,298
Profit before taxation					1,596,809
Taxation					(170,042)
Profit for the year					1,426,767
Segment assets	4,374,707	2,909,818	3,497,890	10,532	10,792,947
Interests in associates					2,710,057
Interests in jointly controlled entities	935	–	865,459	–	866,394
Deferred tax assets					40,336
Amounts due from associates					7,384
Amount due from a jointly controlled entity	–	–	2,159	–	2,159
Taxation recoverable					3,842
Total assets					14,423,119
Segment liabilities	1,070,973	805,734	55,705	5,541	1,937,953
Amounts due to associates					62,828
Amount due to a jointly controlled entity	–	–	81,063	–	81,063
Tax payable					44,214
Bank and other borrowings					1,971,901
Deferred tax liabilities					212,155
Total liabilities					4,310,114
Other information					
Depreciation	20,158	6,075	7,626	587	34,446
Amortisation of prepaid land lease payments	1,645	–	2,895	–	4,540
Amortisation of intangible assets	3,662	–	–	–	3,662
Impairment losses recognised (reversed)	37,462	–	(86,576)	–	(49,114)
Increase in fair value of investment properties	–	–	489,975	–	489,975
Bad and doubtful debts	1,079	78,531	10,963	(855)	89,718
Capital expenditure	28,147	8,464	5,958	1,247	43,816

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8. Segmental Information (Cont'd)

	2004				
	Investment, broking and finance HK$'000 (Restated)	Consumer finance HK$'000 (Restated)	Property development and investment HK$'000 (Restated)	Corporate and other operations HK$'000 (Restated)	Total HK$'000 (Restated)
Revenue	942,593	790,692	197,618	17,090	1,947,993
Less: inter-segment revenue	(14,776)	–	(5,300)	(16,965)	(37,041)
	927,817	790,692	192,318	125	1,910,952
Profit from operations	243,596	434,192	157,309	9,118	844,215
Other finance costs					(49,386)
Amortisation of goodwill					(7,142)
Release of negative goodwill					257,610
Amortisation of capital reserve					17,267
Share of results of associates					165,856
Share of results of jointly controlled entities	(3,624)	–	29,330	–	25,706
Profit before taxation					1,254,126
Taxation					(151,472)
Profit for the year					1,102,654
Segment assets	3,281,944	2,237,855	2,990,888	5,696	8,516,383
Interests in associates					2,463,020
Interests in jointly controlled entities	1,201	–	816,597	–	817,798
Deferred tax assets					43,114
Amounts due from associates					231
Amount due from a jointly controlled entity	–	–	2,040	–	2,040
Taxation recoverable					1,677
Total assets					11,844,263
Segment liabilities	1,154,079	317,232	86,953	6,159	1,564,423
Amounts due to associates					49,260
Amount due to a jointly controlled entity	–	–	141,063	–	141,063
Tax payable					66,800
Bank and other borrowings					1,870,350
Deferred tax liabilities					170,762
Total liabilities					3,862,658
Other information					
Depreciation	17,302	5,062	8,408	633	31,405
Amortisation of prepaid land lease payments	616	–	2,798	–	3,414
Amortisation of intangible assets	2,701	–	–	–	2,701
Impairment losses recognised (reversed)	16,418	–	(30,238)	–	(13,820)
Increase in fair value of investment properties	–	–	55,819	–	55,819
Bad and doubtful debts	(528)	149,351	(374)	(612)	147,837
Capital expenditure	26,749	5,132	20,501	161	52,543

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8. Segmental Information (Cont'd)

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

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

9. Changes in Values of Properties

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

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

10. Bad and Doubtful Debts

	2005 HK$'000	2004 HK$'000
Bad debts written off	**131,227**	146,935
Impairment of debts based on individual assessment	**33,407**	–
Impairment of debts written back based on collective assessment	**(7,661)**	–
Allowances for doubtful debts	**–**	38,094
Bad debts recovered	**(67,255)**	(37,192)
	89,718	147,837

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11. Information Regarding Directors' and Employees' Emoluments

(a) The emoluments paid or payable to each of the eight (2004: eight) Directors were as follows:

	2005				
	Directors' fees	**Salaries, consultancy fees and other benefits**	**Performance related incentive payments**	**Retirement benefits scheme contributions**	**Total emoluments**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note)		
Gordon Macwhinnie**	**10**	**1,568**	**–**	**–**	**1,578**
Lee Seng Hui	**–**	**4,873**	**1,200**	**47**	**6,120**
Edwin Lo King Yau	**–**	**1,248**	**500**	**58**	**1,806**
Lee Su Hwei	**–**	**–**	**–**	**–**	**–**
Arthur George Dew	**12**	**2,747**	**1,000**	**98**	**3,857**
Wong Po Yan	**–**	**150**	**–**	**–**	**150**
David Craig Bartlett	**10**	**200**	**–**	**–**	**210**
John Douglas Mackie	**–**	**100**	**–**	**–**	**100**
	32	**10,886**	**2,700**	**203**	**13,821**

The Company provided management services to certain listed subsidiaries and associates and charged these companies management fees. The above emoluments include all amounts paid or payable to the Company's directors by the Company or the subsidiaries during 2005. However, it should be noted that the amount above for Mr. Edwin Lo includes an amount of HK$612,000 that has been included in the 2005 management fee charged by the Company to a listed associate, Tian An China Investments Company Limited ("Tian An"), for management services performed by Mr. Lo as a director of Tian An and Tian An has disclosed in its 2005 annual report the HK$612,000 as part of the emoluments of Mr. Lo.

Note: The amounts represented the actual bonus of year 2004 paid to the respective directors during 2005. The bonus of year 2005 has yet to be decided.

	2004				
	Directors' fees	Salaries, consultancy fees and other benefits	Performance related incentive payments	Retirement benefits scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Gordon Macwhinnie	10	1,548	–	–	1,558
Lee Seng Hui	–	4,722	300	46	5,068
Edwin Lo King Yau	–	1,235	238	57	1,530
Lee Su Hwei	–	–	–	–	–
Arthur George Dew	12	2,530	800	97	3,439
Wong Po Yan	–	150	–	–	150
David Craig Bartlett	10	200	–	–	210
John Douglas Mackie*	–	92	–	–	92
	32	10,477	1,338	200	12,047

* Appointed on 1st February, 2004

** Retired on 30th December, 2005

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11. Information Regarding Directors' and Employees' Emoluments (Cont'd)

(b) Employees' emoluments

The five highest paid individuals included two (2004: two) of the Directors, details of whose emoluments are set out in 11(a) above. The combined emoluments of the remaining three (2004: three) individuals are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**9,757**	15,532
Performance related incentive payments	**12,693**	9,740
Retirement benefit scheme contributions	**381**	330
	22,831	25,602

The emoluments of the above employees who were not Directors of the Company, were within the following bands:

	Number of employees	
	2005	2004
HK$3,000,001 – HK$3,500,000	–	1
HK$4,000,001 – HK$4,500,000	**1**	–
HK$5,000,001 – HK$5,500,000	**1**	–
HK$7,000,001 – HK$7,500,000	–	1
HK$13,000,001 – HK$13,500,000	**1**	–
HK$15,000,001 – HK$15,500,000	–	1

12. Finance Costs

	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**100,541**	38,681
Other borrowings wholly repayable within five years	**802**	687
Bank borrowings not wholly repayable within five years	**6,151**	4,749
Loan notes wholly repayable within five years	**14,159**	9,459
Obligations under a finance lease	–	26
	121,653	53,602
Less: Amount capitalised in respect of properties held for development	–	(135)
	121,653	53,467
Total finance costs included in:		
Cost of sales	**19,408**	4,081
Other finance costs	**102,245**	49,386
	121,653	53,467

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13. Profit Before Taxation

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	**6,967**	6,111
Overprovision in prior years	**(1,034)**	(239)
	5,933	5,872
Amortisation of intangible assets (included in other operating expenses)	**3,662**	2,701
Amortisation of prepaid land lease payments	**4,540**	3,414
Commission expenses and sales incentives to account executives and certain staff	**135,592**	128,783
Depreciation		
Owned assets	**34,404**	30,892
Assets under a finance lease	**42**	513
	34,446	31,405
Impairment loss recognised in respect of an associate	**4,981**	–
Impairment loss recognised in respect of available-for-sale financial assets transferred from investment revaluation reserve	**14,411**	–
Impairment loss recognised in respect of intangible assets	**980**	–
Impairment loss recognised in respect of goodwill of associates	**13,323**	–
Impairment loss recognised in respect of goodwill of a subsidiary	**267**	–
Impairment loss recognised in respect of non-trading securities	**–**	16,418
Impairment loss recognised in respect of property, plant and equipment	**3,680**	–
Loss on dilution of interests in an associate	**–**	4,492
Loss on disposal of partial interests in a subsidiary	**1,423**	–
Loss on disposal of property, plant and equipment	**662**	589
Loss on write off of intangible assets	**23**	96
Net unrealised loss on derivatives	**744**	–
Net unrealised loss on trading securities	**–**	1,174
Premium on acquisition of loan receivables of consumer finance customers	**–**	12,016
Provision for interest in respect of a litigation with NWDC (note)	**–**	2,934
Retirement benefit scheme contributions, net of forfeited contributions of HK$506,000 (2004: HK$1,452,000) (note 51)	**16,629**	14,943
Staff costs (including Directors' emoluments but excluding retirement benefit scheme contributions)	**328,810**	326,982
and after crediting:		
Dividend income from listed equity securities	**17,850**	37,250
Dividend income from unlisted equity securities	**4,581**	29,540
Excess of net fair value over consideration arising from acquisition of additional interest in a subsidiary (included in other income)	**5,652**	–
Excess of net fair value over consideration arising from acquisition of subsidiaries (included in other income)	**199**	–
Net profit on other dealing activities	**7,733**	8,141
Net realised profit on derivatives	**20,513**	15,455
Net realised profit on financial assets at fair value through profit or loss	**4,680**	–
Net realised profit on trading securities	**–**	4,659
Net unrealised profit on financial assets at fair value through profit or loss	**5,441**	–
Profit on dealing in foreign currencies	**6,753**	18,180
Profit on deemed disposal of a jointly controlled entity	**–**	942

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13. PROFIT BEFORE TAXATION (CONT'D)

	2005	2004
	HK$'000	HK$'000
Profit on disposal of a jointly controlled entity	**1,219**	–
Profit on disposal of available for sale financial assets	**57,473**	–
Profit on disposal of an investment properties	**2,061**	–
Profit on disposal of non-trading securities	–	2,483
Profit on disposal of partial interest in a subsidiary	–	789
Profit on disposal of subsidiaries	**62**	8,647
Profit on repurchase of loan notes	–	11,219
Rental income from investment properties under operating leases, net of outgoings of HK$21,369,000 (2004: HK$18,000,000)	**63,441**	48,552
Repayment of interest in respect of litigation with NWDC pursuant to Court of Appeal Judgment (note)	**14,783**	–
Reversal of impairment loss of intangible assets	**320**	–
Write back of loss arising from default of loan agreement with Millennium Touch Limited	–	2,847

Note:

On 1st April, 2004, the High Court of Hong Kong awarded the Judgment in favour of NWDC against SHKS, a wholly-owned subsidiary of Sun Hung Kai & Co. Limited ("Sun Hung Kai"), following legal proceedings regarding a joint venture in respect of land and two hotels in Kuala Lumpur, Malaysia. The Judgment was for a principal amount of HK$80,117,653 together with interest of HK$25,416,366 and interest at judgment rate from 16th December, 1998 until payment, and costs.

SHKS has since year 2000 recorded as "Investments" (note 28) (redesignated as loans and receivables on 1st January, 2005 on adoption of HKAS39) an amount of approximately HK$118,003,000 including payments already made to NWDC in a total sum of HK$35,319,000. A provision of approximately HK$18,700,000 for interest was made in 2000. Additionally, a provision of HK$58,364,000 was made in these accounts in respect of interest and legal costs in 2003 and interest expense of HK$2,934,000 was paid in 2004.

SHKS appealed against the Judgment to the Court of Appeal. The Court of Appeal has handed down the Court of Appeal Judgment in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The Final Appeal will be heard on 19th June, 2006.

Pending any judgment pursuant to such appeal to the Court of Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC, and/or SDL and/or SHKS to Great Union Properties Sdn Bhd ("GUP")) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and that SDL holds 12.5% of the shares in GUP on trust for SHKS.

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14. Taxation

	2005 HK$'000	2004 HK$'000 (Restated)
The charge comprises:		
Current tax:		
Hong Kong	**121,638**	116,357
Outside Hong Kong	**229**	3,099
	121,867	119,456
Deferred tax (note 31)	**48,175**	32,016
	170,042	151,472

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

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

The charge for the year can be reconciled to the profit before taxation as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit before taxation	**1,596,809**	1,254,126
Less: share of results of associates	**(150,388)**	(165,856)
share of results of jointly controlled entities	**(105,298)**	(25,706)
Profit attributable to the Company and subsidiaries	**1,341,123**	1,062,564
Tax at Hong Kong Profits Tax rate at 17.5% (2004: 17.5%)	**234,696**	185,949
Effect of different income tax rate of overseas subsidiaries	**1,289**	(1,476)
Tax effect of expenses that are not deductible for tax purpose	**16,591**	51,103
Tax effect of income that is not assessable for tax purposes	**(89,608)**	(100,724)
Tax effect of tax losses not recognised	**13,633**	8,508
Tax effect of utilisation of tax losses not previously recognised	**(6,870)**	(3,377)
Tax effect of utilisation of unrecognised deductible temporary difference	**41**	(2,951)
Tax effect of initial recognition exemption	**–**	13,652
Others	**270**	788
Taxation for the year	**170,042**	151,472

Details of deferred taxation are set out in note 31.

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15. Dividend

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim dividend of HK5 cents per share (2004: Nil)	**12,918**	–
Proposed final dividend of HK15 cents per share (2004: 10 cents)	**37,637**	26,006
	50,555	26,006

A final dividend of HK15 cents (2004: 10 cents) per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting of the Company.

The amount of the proposed final dividend for the year ended 31st December, 2005 has been calculated by reference to 250,916,423 shares in issue at 12th April, 2006.

16. Earnings per Share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$901,480,000 (2004: HK$713,735,000, as restated) and on the weighted average number of 258,925,626 (2004: 263,031,343) shares in issue during the year.

Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on basic earnings per share:

	2005 HK$	2004 HK$
Figure before adjustments	**4.14**	2.89
Adjustments arising from changes in accounting policies	**(0.66)**	(0.18)
As reported/restated	**3.48**	2.71

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

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17. Investment Properties

	Hotel property HK$'000	Others HK$'000	Total HK$'000
The Group			
Valuation			
At 1st January, 2004, as originally stated	278,038	1,890,035	2,168,073
Effect on adoption of HKAS 17, HKAS 40 and HK-INT 2			
– transferred to property, plant and equipment and prepaid land lease payments	(278,038)	(22,980)	(301,018)
At 1st January 2004, as restated	–	1,867,055	1,867,055
Additions	–	110	110
Acquisition of a subsidiary	–	126,375	126,375
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Increase in fair value during the year		55,819	55,819
At 31st December, 2004	–	2,091,768	2,091,768
Addition	–	780	780
Acquisition of subsidiaries	–	39,362	39,362
Disposal	–	(12,600)	(12,600)
Transfer from properties held for sale	–	47,160	47,160
Transfer to property, plant and equipment and prepaid land lease payments	–	(17,531)	(17,531)
Overprovision of construction costs	–	(12,814)	(12,814)
Increase in fair value during the year	–	489,975	489,975
At 31st December, 2005	–	2,626,100	2,626,100

The carrying amount of investment properties held by the Group at 31st December, 2005 and 2004 comprises:

	2005 HK$'000	2004 HK$'000
Properties in Hong Kong:		
Long-term	**2,142,400**	1,699,968
Medium-term	**440,300**	391,800
Medium-term properties outside Hong Kong	**43,400**	–
	2,626,100	2,091,768

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17. Investment Properties (Cont'd)

The Group's investment properties are held for rental purposes under operating leases. The fair value of the Group's investment properties at 31st December, 2005 has been arrived at on the basis of a valuation carried out at that date by Norton Appraisals Limited, independent valuers not connected with the Group. Norton Appraisals Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors, was based on rental capitalisation.

Details of the Group's investment properties and other assets being pledged to secure loans and general banking facilities are set out in note 52.

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18. Property, Plant and Equipment

	Hotel properties HK$'000	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
The Group						
Cost						
At 1st January, 2004, as originally stated	–	137,481	74,655	134,158	25,109	371,403
Effect on adoption of HKASs 17, 40 and HK-INT2	339,755	(72,892)	147	–	–	267,010
At 1st January, 2004, as restated	339,755	64,589	74,802	134,158	25,109	638,413
Exchange adjustments	–	–	(1)	(4)	–	(5)
Additions	–	–	8,754	19,364	3,904	32,022
Disposal of subsidiaries	–	–	–	(268)	(377)	(645)
Transferred from properties held for development	32,049	–	–	–	–	32,049
Other disposals	–	–	(1,190)	(2,318)	(1,588)	(5,096)
At 31st December, 2004	371,804	64,589	82,365	150,932	27,048	696,738
Exchange adjustments	–	–	6	(264)	–	(258)
Additions	2,395	–	8,594	20,861	2,795	34,645
Transfer from investment properties	–	5,849	–	–	–	5,849
Acquisition of subsidiaries	–	5,228	–	5,800	–	11,028
Disposals	–	–	(2,270)	(5,338)	(348)	(7,956)
At 31st December, 2005	374,199	75,666	88,695	171,991	29,495	740,046
Accumulated depreciation and impairment						
At 1st January, 2004, as originally stated	–	20,703	60,377	100,415	23,286	204,781
Effect on adoption of HKASs 17, 40 and HK-INT2	242,719	(1,871)	21	–	–	240,869
At 1st January, 2004, as restated	242,719	18,832	60,398	100,415	23,286	445,650
Exchange adjustments	–	–	(1)	(3)	–	(4)
Provided for the year	2,064	2,241	8,027	18,021	1,052	31,405
Eliminated on disposal of subsidiaries	–	–	–	(268)	(377)	(645)
Eliminated on other disposals	–	–	(661)	(2,119)	(1,588)	(4,368)
Impairment loss reversed	(4,314)	–	–	–	–	(4,314)
At 31st December, 2004	240,469	21,073	67,763	116,046	22,373	467,724
Exchange adjustments	–	–	29	(89)	–	(60)
Provided for the year	2,863	1,312	9,439	19,124	1,708	34,446
Eliminated on other disposals	–	–	(1,629)	(5,137)	(302)	(7,068)
Impairment loss (reversed)	(4,284)	–	–	3,675	5	(604)
At 31st December, 2005	239,048	22,385	75,602	133,619	23,784	494,438
Carrying amounts						
At 31st December, 2005	135,151	53,281	13,093	38,372	5,711	245,608
At 31st December, 2004	131,335	43,516	14,602	34,886	4,675	229,014

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18. Property, Plant and Equipment (Cont'd)

The carrying amounts of furniture, fixtures and equipment at 31st December, 2005 of HK$38,372,000 (2004: HK$34,886,000) includes nil amount (2004: HK$1,067,000) in respect of asset held under a finance lease.

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
The Company				
Cost				
At 1st January, 2004	6,239	5,745	936	12,920
Additions	–	161	–	161
Disposals	–	(95)	–	(95)
At 31st December, 2004	6,239	5,811	936	12,986
Additions	105	42	–	147
At 31st December, 2005	6,344	5,853	936	13,133
Accumulated depreciation				
At 1st January, 2004	5744	5,149	253	11,146
Additions	169	276	187	632
Disposals	–	(94)	–	(94)
At 1st January, 2005	5,913	5,331	440	11,684
Provided for the year	180	257	149	586
At 31st December, 2005	6,093	5,588	589	12,270
Carrying amounts				
At 31st December, 2005	251	265	347	863
At 31st December, 2004	326	480	496	1,302

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19. Properties Held for Development

	The Group	
	2005	2004
	HK$'000	HK$'000
At cost, less impairment loss recognised:		
At 1st January, as originally stated	**97,377**	131,174
Effect on adoption of HKAS 17	**–**	(19,200)
At 1st January, as restated	**97,377**	111,974
Exchange adjustments	**(241)**	131
Additions, including interest of nil amount (2004: HK$135,000) capitalised	**–**	14,321
Impairment loss reversed	**34,700**	3,000
Transferred to properties held for sale and other inventories	**(131,836)**	–
Transferred to property, plant and equipment	**–**	(32,049)
At 31st December	**–**	97,377

The carrying value of properties held for development held by the Group at 31st December, 2004 represented freehold properties outside Hong Kong.

The impairment loss reversed in 2005 was determined with reference to the fair value based on an independent professional valuation at 31st December, 2005.

20. Prepaid Land Lease Payments

The Group's prepaid land lease payments comprise:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Leasehold land in Hong Kong		
Long-term	**290,806**	283,377
Leasehold land outside Hong Kong		
Medium-term	**8,693**	–
Short-term	**730**	810
	300,229	284,187
Analysed for reporting purposes as:		
Non-current portion	**295,670**	279,947
Current portion included in current assets	**4,559**	4,240
	300,229	284,187

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21. Goodwill

	The Group	
	2005	2004
	HK$'000	HK$'000
Cost		
At 1st January	**34,820**	34,820
Elimination against accumulated amortisation upon adoption of HKFRS 3	**(26,186)**	–
Acquisition of subsidiaries (note 45)	**29,966**	–
Disposal of partial interest in subsidiaries	**(5,066)**	–
Impairment loss recognised	**(267)**	–
At 31st December	**33,267**	34,820
Amortisation		
At 1st January	**26,186**	19,044
Amortised during the year	**–**	7,142
Elimination upon adoption of HKFRS 3	**(26,186)**	–
At 31st December	**–**	26,186
Carrying amounts		
At 31st December	**33,267**	8,634

Goodwill at 31st December, 2005 is allocated to the following cash generating units.

	HK$'000
Consumer finance segment	
The Hong Kong Building and Loan Agency Limited	24,633
United Asia Finance Limited	5,921
SHK Finance Limited	2,713
	33,267

The recoverable amount of the consumer finance segment has been determined based on a value-in-use calculation. Such calculation uses cash flow projection based on financial budgets approved by management covering a 3-year period for The Hong Kong Building and Loan Agency Limited and a 1-year period for United Asia Finance Limited and SHK Finance Limited at a discount rate of 4.3 per cent. Management of the Group believes that possible changes in any of these assumptions would not cause the aggregate carrying amount of goodwill to exceed the recoverable amount.

At 31st December, 2005, the management of the Group determine that there was no impairment of goodwill.

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22. Negative Goodwill

	The Group HK$'000
Gross amount	
At 1st January, 2004	1,266,795
Adjustment on acquisition of subsidiaries in prior year	15,700
Acquisition of additional interest in subsidiaries	12,918
At 31st December, 2004	1,295,413
Released to income statement	
At 1st January, 2004	435,646
Released during the year	257,610
At 31st December, 2004	693,256
Carrying amount	
At 31st December, 2004	602,157
Derecognised upon adoption of HKFRS 3	(602,157)
At 31st December, 2005	–

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23. Intangible Assets

	Computer software HK$'000	Exchange participation rights HK$'000	Club debentures HK$'000	Total HK$'000
The Group				
Cost				
At 1st January, 2004	9,633	–	–	9,633
Additions	6,091	–	–	6,091
Write off	(120)	–	–	(120)
At 31st December, 2004	15,604	–	–	15,604
Opening balance adjustments arising from changes in accounting policies	–	2,507	6,868	9,375
Exchange adjustments	284	–	–	284
Acquisition of subsidiaries	–	1,200	–	1,200
Additions	5,962	–	2,430	8,392
Write off	–	–	(23)	(23)
At 31st December, 2005	21,850	3,707	9,275	34,832
Amortisation and impairment				
At 1st January, 2004	2,552	–	–	2,552
Provided for the year	2,701	–	–	2,701
Eliminated on write off	(24)	–	–	(24)
At 31st December, 2004	5,229	–	–	5,229
Opening balance adjustment arising from changes is accounting policies	–	–	180	180
Exchange adjustments	85	–	–	85
Provided for the year	3,662	–	–	3,662
Impairment loss	10	240	730	980
Impairment loss reversed	–	–	(320)	(320)
At 31st December, 2005	8,986	240	590	9,816
Carrying amounts				
At 31st December, 2005	12,864	3,467	8,685	25,016
At 31st December, 2004	10,375	–	–	10,375

The computer software included above have finite useful lives, over which the assets are amortised whereas the exchange participation rights and club debenture have infinite useful lives and were not subject to amortisation. The amortisation period for computer software is three to five years.

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24. Interests in Subsidiaries

	The Company	
	2005	2004
	HK$'000	HK$'000
Listed securities in Hong Kong, at cost	**714,414**	714,414
Unlisted shares at cost, less impairment loss recognised	**–**	–
Amounts due from subsidiaries, less allowances	**1,979,940**	1,978,161
	2,694,354	2,692,575
Market value of listed securities in Hong Kong	**443,155**	390,169

The amounts due from subsidiaries are unsecured and interest-free. These amounts are considered as quasi-equity loans to the subsidiaries.

Other than the loan notes issued by Sun Hung Kai, the terms of which are shown in note 42, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Particulars of the Company's principal subsidiaries at 31st December, 2005 are set out in note 56.

25. Interests in Associates

	The Group	
	2005	2004
	HK$'000	HK$'000
Listed securities in Hong Kong (note 25 (i))	**2,560,483**	2,305,571
Unlisted shares (note 25 (ii))	**149,574**	157,449
	2,710,057	2,463,020

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25. Interests in Associates (Cont'd)

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Notes:		
(i) Listed securities in Hong Kong		
Cost of investment	**1,806,717**	1,801,125
Share of post-acquisition reserve	**753,766**	579,140
Negative goodwill on acquisition of associates (note (iv))	**–**	(152,694)
	2,560,483	2,227,571
Amount due from an associate	**–**	78,000
	2,560,483	2,305,571
Market value of listed securities	**1,301,161**	1,109,200

Included in cost of investment is goodwill of HK$86,127,000 (2004: HK$84,998,000) arising on acquisition of certain associates. The movement is set out in note (iii) and (iv) below.

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
(ii) Unlisted shares		
Cost of investment	**35,376**	35,376
Share of post-acquisition reserve	**76,489**	80,178
Negative goodwill on acquisition of associates (note (vi))	**–**	(787)
	111,865	114,767
Less: impairment loss recognised	**(26,873)**	(21,892)
	84,992	92,875
Amounts due from associates	**64,582**	64,574
	149,574	157,449

In 2004, cost of investment included goodwill of HK$894,000 arising on acquisition of certain associates. The movement is set out in note (v) below.

The amounts due from associates are unsecured and repayable on demand. They are considered as quasi-equity loans.

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25. Interests in Associates (Cont'd)

(iii) Goodwill on acquisition of listed associates

	The Group
	HK$'000
Cost	
At 1st January, 2004	232,304
Acquisition of associates	3,469
Disposal of associates	(433)
At 31st December, 2004	235,340
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(150,342)
Acquisition of additional interests in associates	13,683
Disposal of associates	(125)
At 31st December, 2005	98,556
Amortisation	
At 1st January, 2004	119,899
Provided for the year	30,860
Disposal of associates	(417)
At 31st December, 2004	150,342
Eliminated upon adoption of HKFRS 3	(150,342)
	–
Impairment	
Amount recognised during the year and at 31st December, 2005	12,429
Carrying amounts	
At 31st December, 2005	86,127
At 31st December, 2004	84,998

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25. Interests in Associates (Cont'd)

(iv) Negative goodwill on acquisition of listed associates

	The Group HK$'000
Gross amount	
At 1st January, 2004	(339,190)
Acquisition of associates	(11,997)
Disposal of associates	1,755
At 31st December, 2004	(349,432)
Released to income statement	
At 1st January, 2004	(138,821)
Released during the year	(58,693)
Disposal of associates	776
At 31st December, 2004	(196,738)
Carrying amount	
At 31st December, 2004	(152,694)
Derecognised upon adoption of HKFRS 3	152,694
At 31st December, 2005	–

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25. Interests in Associates (Cont'd)

(v) Goodwill on acquisition of unlisted associates

	The Group HK$'000
Cost	
At 1st January, 2004	14,169
Adjustment in goodwill	(5,145)
At 31st December, 2004	9,024
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(8,130)
At 31st December, 2005	894
Amortisation	
At 1st January, 2004	8,229
Adjustment in amortisation	(343)
Provided for the year	244
At 31st December, 2004	8,130
Eliminated upon adoption of HKFRS 3	(8,130)
	–
Impairment	
Amount recognised during the year and at 31st December, 2005	894
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	894

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25. Interests in Associates (Cont'd)

(vi) Negative goodwill on acquisition of unlisted associates

	The Group HK$'000
Gross amount	
At 1st January, 2004 and at 31st December, 2004	(2,981)
Release to income statement	
At 1st January, 2004	(1,606)
Released during the year	(588)
At 31st December, 2004	(2,194)
Carrying amount	
At 31st December, 2004	(787)
Derecognised upon adoption of HKFRS 3	787
At 31st December, 2005	–

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

Particulars of the Company's principal associates at 31st December, 2005 are set out in note 57.

The summarised financial information in respect of the Group's associates is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	**12,504,896**	10,936,258
Total liabilities	**(6,112,961)**	(5,117,700)
Minority Interests	**(569,177)**	(451,110)
Net assets	**5,822,758**	5,367,448
Revenue	**2,990,345**	3,157,413
Profit for the year	**469,356**	338,208

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26. Interests in Jointly Controlled Entities

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Unlisted shares		
Cost of investment	**1,536**	3,830
Share of post-acquisition reserve	**882,480**	831,590
	884,016	835,420
Elimination of unrealised profit	**(17,622)**	(17,622)
	866,394	817,798

In 2004, cost of investment included goodwill of HK$506,000 arising from acquisition certain jointly controlled entities. The movement is set out in note below.

Note:

Goodwill on acquisition of a jointly controlled entity

	The Group
	HK$'000
Cost	
Acquisition of a jointly controlled entity	1,253
Released on deemed disposal	(626)
At 31st December, 2004	627
Eliminated against accumulated amortisation upon adoption of HKFRS 3	(121)
Disposal of jointly controlled entities	(506)
At 31st December, 2005	–
Amortisation	
Provided for the year	219
Released on deemed disposal	(98)
At 31st December, 2004	121
Eliminated upon adoption of HKFRS 3	(121)
At 31st December, 2005	–
Carrying amounts	
At 31st December, 2005	–
At 31st December, 2004	506

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out in note 58.

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26. Interests in Jointly Controlled Entities (Cont'd)

The summarised financial information of the Group's jointly controlled entities is set out below:

	2005 HK$'000	2004 HK$'000
Non-current assets	**2,115,265**	1,929,003
Current assets	**319,212**	409,289
Non-current liabilities	**(575,870)**	(567,377)
Current liabilities	**(89,638)**	(103,837)
Revenue	**371,773**	335,303
Expenses	**(294,621)**	(287,093)
Increase in fair value of investment properties	**183,297**	–

27. Available-for-sale Financial Assets

	The Group 2005 HK$'000	The Group 2004 HK$'000
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	**554,159**	–
Outside Hong Kong	**4,444**	–
	558,603	–
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong	**3**	–
Outside Hong Kong	**58,251**	–
	58,254	–
	616,857	–

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28. Investments

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
The Group								
Listed equity securities, at market values,								
issued by corporate entities								
Hong Kong	–	476,810	–	43,585	–	–	–	520,395
Outside Hong Kong	–	4,474	–	3,740	–	–	–	8,214
issued by banks								
Hong Kong	–	–	–	13,133	–	–	–	13,133
Outside Hong Kong	–	–	–	59	–	–	–	59
issued by public utility entities								
Hong Kong	–	–	–	32	–	–	–	32
	–	481,284	–	60,549	–	–	–	541,833
Unlisted equity securities								
issued by corporate entities								
Hong Kong	–	24,696	–	–	–	–	–	24,696
Outside Hong Kong (note)	–	122,078	–	–	–	–	–	122,078
	–	146,774	–	–	–	–	–	146,774
Unlisted marketable debt securities issued by overseas government	–	–	–	7,741	–	–	–	7,741
Other unlisted securities	–	–	–	406	–	–	–	406
Club debentures, exchange seats, statutory deposits and other deposits with Exchange and Clearing Companies	–	–	–	–	–	35,819	–	35,819
Amounts due from investee companies, less impairment losses recognised (note)	–	–	–	–	–	90,883	–	90,883
	–	–	–	–	–	126,702	–	126,702
	–	628,058	–	68,696	–	126,702	–	823,456
Carrying amount analysed for reporting purposes as:								
Non-current	–	628,058	–	–	–	126,702	–	754,760
Current	–	–	–	68,696	–	–	–	68,696
	–	628,058	–	68,696	–	126,702	–	823,456

Note: Included a sum of totaling HK$118,003,000 for the interests in the Kuala Lumpur hotels project in comparative figures of 2004. Please refer to footnotes of note 30.

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29. Loans and Advances to Consumer Finance Customers

	The Group	
	2005	2004
	HK$'000	HK$'000
Loans and advances to consumer finance customers	**2,722,602**	2,209,728
Allowance for doubtful debts	**(181,412)**	(183,922)
	2,541,190	2,025,806
Less: Amount due within one year and shown under current assets	**(1,485,499)**	(1,221,501)
Amount due after one year	**1,055,691**	804,305

The fair value of the Group's loans and advances to consumer finance customers at 31st December, 2005 was approximate to the corresponding carrying amounts.

30. Loans and Receivables

	The Group	
	2005	2004
	HK$'000	HK$'000
Loan note of a listed associate	**78,000**	–
Amounts due from investee companies (note)	**124,687**	–
Other	**1,066**	3,200
	203,753	3,200
Less: impairment	**(1,447)**	–
	202,306	3,200

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

Note: Pending any Judgment pursuant to such appeal to the Court of Final Appeal, Sun Hung Kai's present understanding of the effect of the Court of Appeal Judgment is that SHKS now effectively owns 25% ("SHKS Interest") of NWDC's entire interest (including the shareholder loans advanced by, or on behalf of, NWDC, and/or SDL and/or SHKS to GUP) in the Joint Venture (as defined in the Judgment), being the 50-50 joint venture between NWDC and/or SDL and IGB Corporation Bhd. to purchase land and to build two hotels of 1,000 rooms and a 200 unit service apartment block at the city centre of Kuala Lumpur and SDL holds 12.5% of the shares in GUP on trust for SHKS. A sum totalling HK$118,003,000 (2004: HK$118,003,000) is included in "amounts due from investee companies" being the amount, (excluding interest which has been expensed in prior years) which represents the carrying value of the SHKS Interest.

The Group has decided that is not presently appropriate to make any provisions in respect of the litigation or for impairment of the value of its interest in the total Kuala Lumpur hotels project pursuant to the Judgment and the Court of Appeal Judgment (together "Judgments"). This decision has been taken because it is considered that the current circumstances regarding the nature and value of the interest existing under the Judgments and the uncertainty of the Final Appeal, result in a situation where it is not possible to decide with any degree of accuracy as to what the final position may be. On the one hand if SHKS is completely successful in the Final Appeal then it may be entitled to recovery of monies already paid. On the other hand if it is not successful or only partially successful then it may be possible that further provision for impairment of the value of its final interests in the Kuala Lumpur hotels project may be required. The extent of such provision is not presently capable of determination as the holding company of the hotel namely GUP has not provided a current valuation of the project and SHKS has not had sufficient access to the detailed books and records of GUP to reach a supportable view as to the value of the project.

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31. Deferred Taxation

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current year and prior reporting year.

	Accelerated tax depreciation HK$'000	Revaluation of properties and other assets HK$'000	Provision HK$'000	Allowance for doubtful debts HK$'000	Unrealised profits HK$'000	Undistributed earnings and others HK$'000	Tax losses HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1st January, 2004									
As originally stated	49,122	13,282	(5,431)	(25,175)	1,393	1,708	(49,986)	750	(14,337)
Effect of changes in accounting policies	97,053	44,759	(377)	–	–	–	(35,171)	–	106,264
At 1st January, 2004, as restated	146,175	58,041	(5,808)	(25,175)	1,393	1,708	(85,157)	750	91,927
Exchange adjustments	–	–	–	–	(13)	–	–	–	(13)
Transferred from tax payable	–	–	–	–	–	2,726	–	–	2,726
Acquisition of a subsidiary	770	–	–	–	–	–	–	–	770
Charged (credit) to income statement	23,616	24,564	(2,078)	(6,136)	(106)	(869)	(6,225)	(750)	32,016
Charged to equity	–	167	–	–	–	55	–	–	222
At 31st December, 2004	170,561	82,772	(7,886)	(31,311)	1,274	3,620	(91,382)	–	127,648
Opening balance adjustments arising from changes in accounting policies	–	–	–	(883)	–	–	–	–	(883)
At 1st January, 2005	170,561	82,772	(7,886)	(32,194)	1,274	3,620	(91,382)	–	126,765
Exchange adjustments	–	–	–	–	67	–	–	–	67
Acquisition of subsidiaries	–	–	–	–	132	–	(3,404)	–	(3,272)
Charged to equity	–	(26)	–	–	–	110	–	–	84
Charged (credited) to income statement	9,650	41,723	1,447	750	31	(866)	(4,560)	–	48,175
At 31st December, 2005	180,211	124,469	(6,439)	(31,444)	1,504	2,864	(99,346)	–	171,819

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31. Deferred Taxation (Cont'd)

The following is the analysis of the deferred tax balances (after offset) for balance sheet purpose:

	The Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Deferred tax liabilities	**212,155**	170,762
Deferred tax assets	**(40,336)**	(43,114)
	171,819	127,648

At 31st December, 2005, the Group had unrecognised deductible temporary differences of HK$5,880,000 (2004: HK$6,023,000) and estimated unused tax losses of HK$2,221,144,000 (2004: HK$2,168,969,000, as restated) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$555,525,000 (2004: HK$527,213,000, as restated) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,665,619,000 (2004: HK$1,641,756,000, as restated) due to the unpredictability of future profit streams. There were no other significant temporary differences that are not recognised arising during the year or at the balance sheet date.

Included in unrecognised tax losses are losses of HK$4,467,000, HK$54,000 and HK$13,349,000 that will expire in 2006, 2007 and 2008, respectively. Other losses may be carried forward indefinitely.

At 31st December, 2004, the Company had estimated unused tax losses of HK$53,400,000 (2004: HK$38,540,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

32. Properties Held for Sale and Other Inventories

	The Group	
	2005	2004
	HK$'000	HK$'000
Properties in Hong Kong at net realisable value	**389,000**	401,600
Non-current freehold properties outside Hong Kong, at net realisable value	**131,836**	–
Other inventories, at cost	**114**	121
	520,950	401,721

Certain of the Group's properties previously held for sales with a net realisable value of HK$55,535,000 (2004: HK$44,795,000) were rented out under operating leases during the year and were therefore reclassified as investment properties.

The cost of properties held for sale recognised as an expense in 2005 was nil (2004: HK$20,753,000).

The non-current freehold properties outside Hong Kong represent a property project in the United States of America. The Group has the intention to realise this asset. The freehold properties are included in the Group's property development and investment for segment reporting purpose (note 8).

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33. Financial Assets at Fair Value Through Profit or Loss

	The Group 2005 HK$'000	2004 HK$'000
Listed equity securities, at market value		
issued by corporate entities		
Hong Kong	**94,329**	–
Outside Hong Kong	**2,534**	–
issued by banks		
Hong Kong	**20,654**	–
Outside Hong Kong	**87**	–
issued by public utilities		
Hong Kong	**33**	–
	117,637	–
Unlisted equity securities, at fair value		
issued by a corporate entity outside Hong Kong	**119,514**	–
Warrants and options listed in Hong Kong, at fair value	**3,508**	–
Others	**478**	–
	241,137	–

34. Accounts Receivable, Deposits and Prepayments

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK$1,181,355,000 (2004: HK$833,906,000, as restated), the aged analysis of which is as follows:

	The Group 2005 HK$'000	2004 HK$'000 (Restated)
0 to 30 days	**1,155,721**	790,286
31 to 180 days	**16,849**	20,671
181 to 365 days	**778**	2,888
over 365 days	**167,080**	218,207
	1,340,428	1,032,052
Allowance for doubtful debts	**(159,073)**	(198,146)
	1,181,355	833,906

No ageing analysis on margin client's receivables is disclosed as, in the opinion of the Directors, an ageing analysis is not meaningful in view of the nature of the business of securities margin financing.

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34. Accounts Receivable, Deposits and Prepayments (Cont'd)

Details of the interest rates and maturity dates of terms loans and margin loans are disclosed in note 6.

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

35. Accounts Payable and Accrued Charges

Included in accounts payable and accrued charges are trade payables of HK$848,151,000 (2004: HK$921,363,000), the aged analysis of which is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**820,787**	855,672
31 to 180 days	**4,336**	9,787
181 to 365 days	**508**	1,296
over 365 days	**22,520**	54,608
	848,151	921,363

36. Financial Liabilities at Fair Values Through Profit or Loss

	The Group	
	2005	2004
	HK$'000	HK$'000
Stock borrowings	**17,700**	–
Stock option	**56**	–
	17,756	–

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37. Current Assets and Current Liabilities

The fair value of the Group's accounts receivable, amounts due from associates, amount due from a jointly controlled entity, short-term pledged bank deposit, bank deposits, bank balances and cash, amount due to associates, amount due to jointly controlled entity and accounts payable and accrued charges at 31st December was approximate to the corresponding carrying amounts.

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

Amounts due from associates of the Group are unsecured and non-interest bearing and are expected to be settled within one year.

The fair value of the Company's accounts receivable, amounts due from subsidiaries, bank balances and cash, and accounts payable and accrued charges at 31st December was approximate to the corresponding carrying amount.

38. Share Capital

	Number of shares	**Value** HK$'000
Authorised:		
Ordinary shares of HK$0.20 each at 1st January, 2004	6,500,000,000	1,300,000
Consolidation of shares	(5,850,000,000)	–
Ordinary shares of HK$2.00 each at 31st December, 2004 and 31st December, 2005	650,000,000	1,300,000
Issued and fully paid:		
Ordinary shares of HK$0.20 each at 1st January, 2004	2,656,868,308	531,374
Share repurchased and cancelled	(25,400,000)	(5,080)
Consolidation of shares	(2,368,321,478)	–
Ordinary shares of HK$2.00 each at 23rd July, 2004	263,146,830	526,294
Share repurchased and cancelled	(2,495,800)	(4,992)
Ordinary shares of HK$2.00 each at 31st December, 2004	260,651,030	521,302
Share repurchased and cancelled	(6,322,607)	(12,645)
Ordinary shares of HK$2.00 each at 31st December, 2005	254,328,423	508,657

On 22nd July, 2004, an ordinary resolution was passed at an Extraordinary General Meeting of the Company pursuant to which every ten shares of HK$0.20 each in the issued and unissued share capital of the Company were consolidated into one share of HK$2.00 each with effect from 23rd July, 2004.

39. Share Option Scheme

The share option scheme of the Company ("Scheme") was adopted pursuant to a resolution passed by the Company's shareholders on 3rd June, 2002 ("Adoption Date") for the primary purpose of providing the eligible participants an opportunity to have a personal stake in the Company and to help motivate, attract and retain the eligible participants whose contributions are important to the long-term growth and profitability of the Group. Eligible participants of the Scheme include any employees, directors of the Company, its subsidiaries or any entity in which the Group holds an equity interest ("Invested Entity"), supplier of goods or services to the Group or any Invested Entity, customer of the Group or any Invested Equity, any minority shareholders of the Group or Invested Entity and any other person or entity who in the opinion of the Directors have contributed or may contribute to the development and growth of the Group. The Scheme will expire on 2nd June, 2012.

The maximum number of shares which may be issuable under the Scheme and any other schemes of the Company (excluding options lapsed pursuant to the Scheme and any other schemes of the Company) must not exceed 10% of the issued shares of the Company at the Adoption Date. At 31st December, 2005, the maximum number of shares issuable under the Scheme was 10% of the Company's shares in issue as at that date.

The total number of shares issued and to be issued to each eligible participant under the Scheme in any 12-month period must not exceed 1% of the issued shares of the Company unless approved in advance by the shareholders of the Company in general meeting.

Any option to be granted under the Scheme to a director, chief executive or substantial shareholder of the Company or to any of their respective associates must be approved by Independent Non-Executive Directors of the Company. In addition, any option to be granted to a substantial shareholder or an Independent Non-Executive Director of the Company or to any of their respective associates which will result in the shares issued and to be issued in excess of 0.1% of the issued shares or with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5,000,000 within any 12-month period is subject to approval by the shareholders of the Company in general meeting.

The offer of a grant of options under the Scheme may be accepted within 28 business days from the date of the offer and by payment of HK$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the Scheme at any time during a period as to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the Adoption Date.

The exercise price is determined by the Directors and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant of an option, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant of an option; and (iii) the nominal value of the Company's shares.

No option was granted under the Scheme since its adoption and accordingly there were no options outstanding at 31st December, 2005 and 2004.

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40. Reserves

	2005	2004
	HK$'000	HK$'000
		(Restated)
The Group		
Share premium	**1,519,481**	1,519,481
Property revaluation reserve	**–**	58,914
Investment revaluation reserve	**238,263**	177,371
Capital redemption reserve	**193,491**	180,846
Translation reserve	**(17,449)**	(34,838)
Non-distributable reserve (note 40 (a))	**55,226**	55,226
Capital (goodwill) reserve (note 40 (b))	**3,410**	263,805
Accumulated profits	**3,576,028**	1,862,173
Dividend reserve	**37,637**	26,006
	5,606,087	4,108,984

	Share premium	**Capital redemption reserve**	**Accumulated profits**	**Dividend reserve**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
The Company					
At 1st January, 2004	1,519,481	170,774	263,095	–	1,953,350
Final dividend	–	–	(26,006)	26,006	–
Share repurchased and cancelled	–	–	(25,298)	–	(25,298)
Transferred on share repurchase	–	10,072	(10,072)	–	–
Profit attributable to equity holders of the Company	–	–	133,685	–	133,685
At 31st December, 2004	1,519,481	180,846	335,404	26,006	2,061,737
Opening balance adjustment arising from changes in accounting policies	–	–	13,631	–	13,631
Balance after opening balance adjustment	1,519,481	180,846	349,035	26,006	2,075,368
Interim dividend	–	–	(12,918)	12,918	–
Dividend paid	–	–	–	(38,838)	(38,838)
Overprovision of dividend	–	–	86	(86)	–
Proposed final dividend	–	–	(37,637)	37,637	–
Shares repurchased and cancelled	–	–	(56,081)	–	(56,081)
Transferred on share repurchase	–	12,645	(12,645)	–	–
Profit attributable to equity holders of the Company	–	–	137,136	–	137,136
At 31st December, 2005	1,519,481	193,491	366,976	37,637	2,117,585

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40. Reserves (Cont'd)

The Company's reserves available for distribution to shareholders at 31st December, 2005 are represented by accumulated profits and dividend reserve totalling HK$404,613,000 (2004: HK$361,410,000).

Notes:

(a) Non-distributable reserve represents the share of a subsidiary's capital redemption reserve.

(b)

	Goodwill	Capital reserve	Statutory reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000
The Group				
At 1st January, 2004	(46,864)	341,285	848	295,269
Released on dilution of interest in an associate	–	–	(2)	(2)
Amortisation of capital reserve	–	(33,046)	–	(33,046)
Transferred from accumulated profits	–	–	1,584	1,584
At 31st December, 2004	(46,864)	308,239	2,430	263,805
Opening balance adjustment arising from changes in accounting policies	46,864	(308,239)	(527)	(261,902)
Balance after opening balance adjustments	–	–	1,903	1,903
Share of post-acquisition reserve movements of associates	–	1,310	–	1,310
Transferred from accumulated profits	–	–	197	197
At 31st December, 2005	–	1,310	2,100	3,410

Statutory reserve represents reserve required under relevant rules and regulations of Mainland China.

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41. Bank and Other Borrowings

	The Group	
	2005	2004
	HK$'000	HK$'000
Bank loans, overdrafts and other borrowings comprise:		
Bank loans	**2,527,956**	1,946,844
Overdrafts	**92,696**	59,304
Other borrowings	**7,000**	6,000
	2,627,652	2,012,148
Analysed as:		
Secured	**1,832,537**	1,726,148
Unsecured	**795,115**	286,000
	2,627,652	2,012,148
Bank loans and overdrafts are repayable as follows:		
Within one year or on demand	**1,244,889**	884,579
More than one year but not exceeding two years	**626,939**	246,738
More than two years but not exceeding five years	**691,214**	788,469
More than five years	**57,610**	86,362
	2,620,652	2,006,148
Other borrowings repayable within one year or on demand	**7,000**	6,000
	2,627,652	2,012,148
Less: Amount repayable within one year and shown under current liabilities	**(1,251,889)**	(890,579)
Amount due after one year	**1,375,763**	1,121,569

Most of the bank loans and overdrafts are in Hong Kong dollars. Details of the interest rates and dates of maturity are disclosed in note 6.

Details of the assets of the Group and the Company pledged to secure bank and other borrowings are set out in note 52.

The fair value of the Group's bank and other borrowings was approximate to the corresponding carrying amounts.

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42. Loan Notes

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Issued by the Company				
Principal				
At 1st January	**90,888**	138,892	**90,888**	138,892
Repurchased and cancelled	**–**	(48,004)	**–**	(48,004)
At 31st December	**90,888**	90,888	**90,888**	90,888
Difference using the effective interest method				
At 1st January	**–**	–	**–**	–
Adjustments to opening balance on the adoption of HKAS 39	**(13,631)**	–	**(13,631)**	–
Interest expenses	**3,422**	–	**3,422**	–
At 31st December	**(10,209)**	–	**(10,209)**	–
Carrying amounts at 31st December	**80,679**	90,888	**80,679**	90,888
Issued by a listed subsidiary				
Principal				
At 1st January	**129,637**	231,637		
Repurchased and cancelled	**(60,000)**	(102,000)		
At 31st December	**69,637**	129,637		
Difference using the effective interest method				
At 1st January	**–**	–		
Adjustments to opening balance on the adoption of HKAS 39	**(14,077)**	–		
Interest expenses	**8,692**	–		
At 31st December	**(5,385)**	–		
Carrying amounts at 31st December	**64,252**	129,637		
	144,931	220,525	**80,679**	90,888

The loan notes of the Company and those of the listed subsidiary, Sun Hung Kai, were issued as part of the consideration for the repurchase of shares of the Company and Sun Hung Kai respectively. The loan notes issued by the Company bear interest at 2.25% per annum and are due on 15th August, 2008. The loan notes issued by Sun Hung Kai bear interest at 4% per annum and are due on 7th March, 2008. The effective interest rates are 7.0% and 7.9% per annum respectively.

The fair values of the loan notes were approximate to the corresponding carrying amounts.

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43. Other Liabilities

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision (note)	**35,151**	44,865	**16**	126
Advance from minority shareholders	**974**	1,022	**–**	–
	36,125	45,887	**16**	126
Less: Amount repayable within one year and shown under current liabilities	**(33,382)**	(42,248)	**(16)**	(126)
Amount due after one year	**2,743**	3,639	**–**	–

Note:

	The Group			The Company
	Employee benefits	**Others**	**Total**	**Employee benefits**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2005	43,997	868	44,865	126
Provided for the year	33,449	846	34,295	–
Written back	(13,583)	–	(13,583)	(110)
Utilisation of provision	(11,428)	–	(11,428)	–
Amount paid during the year	(18,922)	(76)	(18,998)	–
At 31st December, 2005	33,513	1,638	35,151	16
Less: Amount repayable within one year and shown under current liabilities	(32,536)	(846)	(33,382)	(16)
	977	792	1,769	–

44. Amount Due to a Subsidiary

The amount is unsecured, interest-free and has no fixed terms of repayment. At 31st December 2004, the subsidiary stated that it will not demand repayment in the next twelve months and the amount is therefore shown as non-current liability.

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45. Acquisition of Subsidiaries

The Group acquired the following subsidiaries during the year:

Name	Principal activities	Date of acquisition	Percentage acquired	Component of cost	Cost including capitalised expenses HK$'000
The Hong Kong Building and Loan Agency Limited	Treasury investment and provision of mortgage finance	From 12th September, 2005 to 29th December, 2005	93.5%	Cash	233,508
Sing Hing Investment Limited	Property investment	18th April, 2005	100%	Cash	38,477
Excalibur Futures Limited	Futures dealing and broking	17th March, 2005	100%	Cash	16,853
Hing Yip Holdings Limited	Property investment	1st February, 2005	100%	Cash	13,811
Excalibur Securities Limited	Securities broking	17th March, 2005	100%	Cash	9,033
Winbest Holdings Limited	Investment holding	From 12th September, 2005 to 29th December, 2005	93.5%	–	–
					311,682

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45. ACQUISITION OF SUBSIDIARIES (CONT'D)

The net assets acquired and the goodwill arising from the acquisition are as follows:

	Acquiree's carrying amount HK$'000	Fair value HK$'000
Net asset acquired		
Investment property	26,934	39,362
Property, plant and equipment	9,565	11,028
Prepaid land lease payments	6,408	8,900
Intangible assets	1,200	1,200
Statutory deposits	1,734	1,734
Loans and advances to consumer finance customers	1,350	1,350
Deferred tax assets	3,396	3,396
Financial assets at fair value through profit or loss	42,735	42,735
Accounts receivable, deposits and prepayments	18,284	17,384
Bank balances and cash	186,994	186,994
Accounts payable and accrued charges	(17,884)	(17,884)
Deferred tax liabilities	(124)	(124)
Minority interests	(14,160)	(14,160)
Net assets	266,432	281,915
Total consideration, satisfied by cash		311,682
		29,767
Excess of net fair value over consideration recognised in the consolidated income statement as other income		199
Goodwill		29,966
Net cash outflow arising on acquisition:		
Cash consideration paid		311,682
Bank balance and cash acquired		(186,994)
		124,688

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45. Acquisition of Subsidiaries (Cont'd)

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

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

	For the year ended 31st December, 2005	**Post acquisition attributable to the Group**
	HK$'000	HK$'000
Total revenue	50,984	45,481
Profit for the year	12,296	10,442

The subsidiary acquired in 2004 did not have any significant impact on the Group's revenue and profit for that year.

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

46. Disposal of Subsidiaries

	2004
	HK$'000
Net assets disposed of:	
Accounts receivable, deposits and prepayments	–
Bank balances	–
Accounts payable and accrued charges	(4,491)
	(4,491)
Translation reserve released upon disposal	(2,339)
Minority interests released upon disposal	(1,817)
Profit on disposal of subsidiaries	8,647
Proceeds on disposal	–
Satisfied by:	
Cash	–
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:	
Cash consideration received	–
Bank balances disposed of	–
	–

The subsidiaries disposed of during 2004 did not have any significant contribution to the Group's revenue and profit for that year.

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47. Major Non-cash Transaction

During the year, dividend income declared by a jointly controlled entity of HK$60,000,000 (2004: HK$60,000,000) was recorded by setting off the amount against the current account with the jointly controlled entity.

48. Contingent Liabilities

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

	2005	2004
	HK$'000	HK$'000
Guarantees for banking facilities granted to an investee company	**6,979**	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	**5,540**	5,540
Other guarantees	**7,084**	3,184
	19,603	15,724

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

While a provision has been made for legal costs, at this stage, the management is of the view that it is not appropriate for any other provision to be made with respect to this action.

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48. Contingent Liabilities (Cont'd)

(c) By the Judgment of the High Court of Hong Kong on 1st April, 2004 ("Judgment") in HCA 3191/1999 between NWDC and SDL against SHKS, SHKS was ordered to pay NWDC the sum of HK$105,534,018 together with interest on the principal sum of HK$80,117,653 at a judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the court found ("Oral Agreement"). As at 17th June, 2004, the date when the Judgment sum was to be paid, the amount was HK$150,115,682 (being HK$105,534,018 plus interest of HK$44,581,664). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum ("Appeal") to the Court of Appeal. The Court of Appeal has now handed down the judgment ("Court of Appeal Judgment") in which the Court of Appeal ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March 2004 previously ordered against SHKS in the High Court but otherwise broadly confirmed the Judgment. The sum repayable amounted to HK$14,783,091 and has now been repaid.

SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal. The appeal to the Court of Final Appeal will be heard on 19th June, 2006.

Since the handing down of the Judgment, NWDC has written to SHKS demanding payment of three further amounts for what it asserts as pro-rata shareholders' contributions advanced by NWDC on behalf of SHKS ("New Claims"):

(a) on 1st March, 2000 in the sum of HK$27,234,754;

(b) on 2nd January , 2001 in the sum of HK$7,697,418 (The Group understands that a further writ was issued by NWDC in April 2004, naming SHKS as defendant, and claiming the aforesaid two amounts as well as interest thereon from March 2000 and January 2001 respectively ("Further Writ"). The Further Writ has not been served on SHKS); and

(c) on 4th June, 2004 in the sum of HK$2,565,839 in respect of a bank loan by GUP (a provision has been made with respect to this claim in the accounts of SHKS).

The Group understands that a second further writ including a statement of claim ("HCA 376/2006") was issued by NWDC and SDL in February 2006, claiming, inter alia, the sum of HK$37,498,011 being the aggregate of amounts of the New Claims, together with interest thereon at such rate and for such period as the Court considers appropriate. This second further writ has not been served on SHKS.

The outcome of the Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC asserts are due under the Oral Agreement. Accordingly, the Group takes the view that the New Claims are a contingent liability, and that while a provision has been made for legal costs, it is considered that it is not presently appropriate for any other provision to be made with respect to the Final Appeal or the Further Writ. An analysis as to the possible financial implications for the Group depending on the ultimate outcome of the Final Appeal was provided in note 26.

At 31st December, 2005, the Company had guarantees of HK$155,000,000 (2004: HK$155,000,000) given to banks in respect of banking facilities utilised by a subsidiary. Facilities amounting to HK$39,656,000 (2004: HK$76,399,000) were utilised at 31st December, 2005.

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49. Capital Commitments

	The Group	
	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided for in the financial statements	**32,124**	33,629
Capital expenditure authorised but not contracted for	**2,259**	2,209

The Company did not have any significant capital commitments at 31st December, 2005 and 2004.

50. Operating Lease Arrangements

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
As lessee				
Minimum lease payments under operating leases recognised in the income statement for the year:				
Land and buildings	**44,198**	39,222	**4,478**	2,473
Others	**50**	658	**–**	–
	44,248	39,880	**4,478**	2,473

At 31st December, 2005, the Group and the Company had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	The Group				The Company	
	2005		2004		**2005**	2004
	Land and buildings	**Others**	Land and buildings	Others	**Land and buildings**	Land and buildings
	HK$'000	**HK$'000**	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**43,222**	**406**	35,565	578	**8,129**	**4,423**
In the second to fifth years inclusive	**32,771**	**–**	39,729	–	**4,039**	**517**
Over five years	**84**	**–**	–	–	**–**	**–**
	76,077	**406**	75,294	578	**12,168**	**4,940**

Operating leases are negotiated for terms ranging from one to five years.

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50. Operating Lease Arrangements (Cont'd)

As lessor

Property rental income earned during the year was HK$84,810,000 (2004: HK$66,552,000). The property held has committed tenants whose tenancy agreements expire or are terminable over the next three years.

At 31st December, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**67,060**	37,346
In the second to fifth years inclusive	**37,793**	18,487
	104,853	55,833

The Company did not have any significant lease commitments as lessor under non-cancellable operating leases at 31st December 2005 and 2004.

51. Retirement Benefit Schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group under provident funds managed by independent trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, in accordance with the terms of the schemes, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

At 31st December, 2005 and 2004, there were no material forfeited contributions which arose when employees left the retirement benefit schemes before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in the future years.

The scheme has been closed in December 2000 to new employees as a consequence of the Mandatory Provident Fund Schemes Ordinance introduced by the Hong Kong Government.

From 1st December, 2000 onwards, the new staff in Hong Kong joining the Group are required to join the Mandatory Provident Fund Scheme ("MPF Scheme"). The Group is required to contribute 5%, while the employees are required to contribute 5% of their salaries to the MPF Scheme.

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52. Pledge of Assets

At 31st December, 2005, certain of the Group's investment properties, land and buildings, properties held for development, prepaid land lease payments and properties held for sale with an aggregate carrying value of HK$3,412,058,000 (2004: HK$2,927,135,000, as restated), listed investments belonging to the Group and margin clients with a carrying value of HK$1,387,657,000 (2004: HK$1,074,406,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK$3,171,082,000 (2004: HK$3,177,864,000) were pledged to secure loans and general banking facilities to the extent of HK$3,248,756,000 (2004: HK$3,554,144,000) granted to the Group. Facilities amounting to HK$1,832,537,000 (2004: HK$1,726,148,000) were utilised at 31st December, 2005.

At 31st December, 2005, a bank deposit of HK$972,000 (2004: HK$1,220,000) was pledged to secure a bank guarantee amounting to HK$2,000,000 (2004: HK$2,000,000).

At 31st December, 2005, certain of the Company's interests in a listed subsidiary with an aggregate carrying value of HK$695,969,000 (2004: HK$695,969,000) together with certain investments of its subsidiaries, were pledged to secure banking facilities to the extent of HK$150,000,000 (2004: HK$150,000,000) granted to a subsidiary. Facilities amounting to HK$39,656,000 (2004: HK$76,399,000) were utilised at 31st December, 2005.

53. Related Party Transactions and Balances

The following is a summary of the significant transactions and balances with related parties during the year and as at the year end.

(a) Summary of transactions

	(Income)/Expense	
	2005	2004
	HK$'000	HK$'000
Associates		
Dividend income	**(750)**	(6,182)
Management services fees	**(4,080)**	–
Administration and other fees	**–**	(1,200)
Service fee income	**(2,718)**	(1,137)
Interest income	**(6,788)**	(7,287)
Rent, property management and air-conditioning fees and other related service fees	**(1,674)**	(910)
Insurance premium	**(4,402)**	(4,543)
Jointly controlled entities		
Rent, property management and air-conditioning fees	**8,926**	9,284
Dividend income	**(60,000)**	(60,000)
Property management and air-conditioning fees and other property related service fees	**(13,996)**	(14,020)
Administration, management and consultancy fees	**(3,775)**	(4,860)

53. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

(b) Key management personnel compensation

	2005	2004
	HK$'000	HK$'000
Short term benefits	**32,395**	31,667
Post-employment benefits	**606**	539
	33,001	32,206

(c) During the year, both the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest-free loans from such jointly controlled entity. At 31st December, 2005, the amounts lent to the Group totalled HK$81,000,000 (2004: HK$141,000,000) are unsecured, interest-free and repayable on demand..

(d) During the year, the Group acquired two companies from a subsidiary of a listed associate at a total consideration of HK$52,283,000.

(e) During the year, a loan facility to the extent of HK$280,000,000 was granted to a subsidiary of a listed associate for a term of 36 months from 7th November, 2005. The loan is charged at an interest rate of 1% over prime rate per annum and guaranteed by the listed associate. At 31st December, 2005, the loan drawn down amounted to HK$245,000,000. In additions, term loans of HK$4,000,000 and HK$1,400,000 were granted to subsidiaries of the listed associate on 8th December, 2005 and 29th December, 2005 for a term of one year with interest charged at 10.5% per annum and prime rate plus 3.5% per annum respectively.

The net balances due from (to) related parties at 31st December, 2005 and 2004 are summarised as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Associates	**342,599**	84,644	**5,362**	1,200
Jointly controlled entities	**(78,916)**	(139,023)	**–**	–
	263,683	(54,379)	**5,362**	1,200

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53. Related Party Transactions and Balances (Cont'd)

The above amounts are included in the balance sheets of the Group and the Company in the following ways:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interests in associates	**64,582**	136,953	–	–
Loans and receivables from an associate	**78,000**	–	–	–
Accounts receivable, deposits and prepayments	**255,893**	2,148	**5,362**	1,200
Amounts due from associates	**7,384**	231	–	–
Amount due from a jointly controlled entity	**2,159**	2,040	–	–
Accounts payable and accrued charges	**(444)**	(5,428)	–	–
Amounts due to associates	**(62,828)**	(49,260)	–	–
Amount due to a jointly controlled entity	**(81,063)**	(141,063)	–	–
	263,683	(54,379)	**5,362**	1,200

54. Maturity Profile of Term Assets and Liabilities

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 31st December, 2005					
	On demand	**Within 3 months**	**3 months to 1 year**	**1 year to 5 years**	**After 5 years**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets						
Fixed deposits with banks	–	**281,465**	–	–	–	**281,465**
Loans and advances to consumer finance customers	**182,606**	**387,774**	**1,019,601**	**1,060,670**	**71,951**	**2,722,602**
Term loans of a listed associate	–	**245,000**	–	–	–	**245,000**
Loan notes of a listed associate	–	–	–	**78,000**	–	**78,000**
Term loans	**183,630**	**69,230**	**11,067**	–	–	**263,927**
Treasury bills	–	**7,680**	–	–	–	**7,680**
Liabilities						
Bank and other borrowings	–	**841,566**	**410,323**	**1,318,153**	**57,610**	**2,627,652**
Loan notes	–	–	–	**144,931**	–	**144,931**

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54. Maturity Profile of Term Assets and Liabilities (Cont'd)

	At 31st December, 2004					
	On demand HK$'000	Within 3 months HK$'000	3 months to 1 year HK$'000	1 year to 5 years HK$'000	After 5 years HK$'000	Total HK$'000
Assets						
Fixed deposits with banks	–	154,185	–	–	–	154,185
Loans and advances to consumer finance customers	149,861	391,753	788,265	851,270	28,579	2,209,728
Long-term receivables	–	–	–	3,200	–	3,200
Loan notes of a listed associate	–	–	–	78,000	–	78,000
Term loans	232,911	64,515	34,600	–	–	332,026
Marketable debt securities	–	7,741	–	–	–	7,741
Liabilities						
Bank and other borrowings	–	348,646	541,933	1,035,207	86,362	2,012,148
Loan notes	–	–	–	220,525	–	220,525

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55. Events After the Balance Sheet Date

(a) On 3rd April, 2006, Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, entered into a conditional option agreement with CLSA Capital Limited ("CLSA"), pursuant to which Wah Cheong was granted the option to acquire further 34,156,666 shares in Quality HealthCare Asia Limited ("QHA") from CLSA at an option consideration of HK$27,752,291. The option agreement will only take effect after the approval of the shareholders of the Company, Allied Properties (H.K.) Limited and Sun Hung Kai respectively, and the confirmation from the Securities and Futures Commission on terms that are not considered detrimental that Wah Cheong and CLSA will not be regarded as parties acting in concert and that Wah Cheong is not required to make a mandatory offer to all QHA's shareholders until it exercises the option.

The option will entitle Wah Cheong to:

– acquire all (but not part) of the option shares (being 34,156,666 QHA shares held by CLSA) at an aggregate exercise price of HK$83,256,873 (i.e. HK$2.4375 per option share); and

– exercise all or part of the option warrants (being such number of QHA warrants held by CLSA as would, if exercised, lead to the subscription of 6,943,333 QHA shares at HK$2.5 per share).

The option is exercisable by Wah Cheong, with respect to the option shares, at any time within a period of 4 years and, with respect to the option warrants, on or before 13th January, 2007.

At 7th April, 2006, Wah Cheong has an equity interest of approximately 34.39% in QHA. It also holds such number of warrants as would, if exercised, lead to the subscription of 12,544,632 shares. Exercise of such warrants in full would result in Wah Cheong holding an equity interest of approximately 38.36% in QHA.

Assuming that (i) no new shares are issued by QHA (other than those issued following exercise in full of the option warrants), (ii) the option is exercised in respect of the option shares and the option warrants as mentioned in the option agreement have been exercised, and (iii) Wah Cheong does not exercise any of the warrants held by it, Wah Cheong's equity interest in QHA will increase to approximately 53.54% of the enlarged capital. In case Wah Cheong exercises all the warrants held by it, Wah Cheong's equity interest in QHA will further increase to approximately 56.25%.

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55. EVENTS AFTER THE BALANCE SHEET DATE (CONT'D)

(b) On 6th April, 2006, the following agreements were entered into

– a placing agreement between Sun Hung Kai as vendor and 3V Capital Limited as a placing agent in respect of the placing of 175,000,000 existing shares in Tian An China Investments Company Limited ("Tian An") to independent investors at a price of HK$5.1 per share; and

– a subscription agreement between Sun Hung Kai and Tian An in respect of Sun Hung Kai's subscription for 175,000,000 new shares in Tian An ("Subscription Shares") at the same price on completion of the placing.

The placing agreement is unconditional and completion of the placing has taken place. However, the subscription agreement is conditional upon:

– the Stock Exchange granting listing of and permission to deal in the Subscription Shares;

– granting of a waiver from any obligation to make a general offer under Rule 26 of the Takeover Code arising as a result of the subscription; and

– completion of the placing.

The completion of the above will result in Sun Hung Kai's equity interest in Tian An reducing from approximately 48.60% to approximately 40.51%. The Board does not anticipate any significant gain or loss to the Group arising from this transaction.

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56. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31st December, 2005 which have their principal place of operations in Hong Kong are set out below:

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
AG Capital Limited	2	100	100	Share trading, money lending and business of consultancy
Alaston Development Limited	US$1	100	75	Property trading
Allied Aquatic Produce Development Limited	50,000,000	100*	100	Investment holding
Allied Capital Management Limited	2	100	100	Securities trading
Allied Properties (H.K.) Limited **	1,074,303,802	18* 57	75	Investment holding
Allied Real Estate Agency Limited	2	100	75	Real estate agency
AP Administration Limited	2	100	75	Provision of management and consultancy services
AP Corporate Services Limited	2	100	75	Provision of corporate services
AP Development Limited	2	100	75	Investment holding
AP Diamond Limited	US$1	100	75	Property trading & holding
AP Emerald Limited	US$1	100	75	Investment holding
AP Finance Limited	2	100	75	Money lending
AP Property Management Limited	2	100	75	Building management
Bali International Finance Limited	137,500,000	100	56	Financial service and investment holding
Bali Securities Co. Limited	7,000,000	100	56	Securities dealer
Best Melody Development Limited	5,000	100	75	Property holding
Capscore Limited	2	100*	100	Investment holding
Cheeroll Limited	2	100	56	Investment holding, securities and bullion trading
Citiwealth Investment Limited	2	100*	100	Share trading and investment holding
Cowslip Company Limited	2	100	56	Investment holding
Earnest Finance Limited	100	100	55	Investment holding
Easy Capital Investments Limited	US$1	100	55	Investment holding
Excalibur Futures Limited	20,000,000	100	56	Future dealing and broking
Excalibur Securities Limited	20,000,000	100	56	Securities broking
Fame Arrow Company Limited	100,000	95	71	Loan financing
Florich Development Limited	10,000	100	75	Investment holding
Front Sail Limited	5,000	100	75	Property holding

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56. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company*/ subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
	HK$	%	%	
Gilmore Limited	2	100	75	Property holding
Gloria (Nominees) Limited	200	100	56	Investment holding
Gloxin Limited	2	100	56	Investment holding
Grand Securities Company Limited	20,000,000	100	56	Securities broking
Hilarious (Nominees) Limited	10,000	100	56	Investment holding
Hillcrest Development Limited	20	100	75	Property holding
Hi-Link Limited	200	100	75	Investment holding
Integrated Custodian Limited	2	100	75	Property holding
Itso Limited	2	100	56	Securities trading
Jaffe Development Limited	US$1	100	75	Property holding
Kalix Investment Limited	2	100	75	Property holding
King Policy Development Limited	2	100	75	Property holding
Lexshan Nominees Limited	2	100	56	Nominee service
Macdonnell (Nominees) Limited	10,000	100	56	Investment holding
Maxplan Investment Limited	2	100	75	Securities trading
Mightyton Limited	10,000	100	75	Property holding
Oakfame Investment Limited	2	100	56	Investment holding
Ontone Limited	2	100	75	Hotel operations, property development and property holding
Pioneer Alliance Limited	10,000	100*	100	Investment holding
Pioneer Score Development Limited	2	100	56	Investment holding
Plentiwind Limited	2	100	56	Futures trading
Polyking Services Limited	2	100	49	Building maintenance and cleaning services
Protech Property Management Limited	5,000	100	49	Building management
Quick Art Limited	3,540,000	100	56	Property holding
Ranbridge Finance Limited	20,000,000	100	56	Money lending
Rank Crown Investment Limited	2	100*	100	Investment holding
San Pack Properties Limited	10	100	75	Property holding
Scienter Investments Limited	20	100	56	Share trading
SHK Consultancy Services Limited	2	100	56	Provision of consultancy service
SHK Financial Data Limited	100	51	29	Provision of financial information service

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56. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
SHK Finance Limited	150,000,000	100	55	Consumer financing
SHK Fund Management Limited	5,000,000	100	56	Funds marketing and management
SHK Investment Services Limited	1,000,000	100	56	Asset holding and leasing
SHK Online (Securities) Limited	30,000,000	100	56	Online securities broking and margin financing
SHK Online Limited	20,000,000	100	56	Online financial services
SHK Pearl River Delta Investment Company Limited	75,000,000	100	56	Investment holding
Shun Loong Bullion Limited	6,000,000	100	56	Bullion dealing and broking
Shun Loong Capital Limited	6,500,000	100	56	Investment holding
Shun Loong Finance Limited	1,000,000	100	56	Money lending
Shun Loong Forex Company Limited	32,000,000	100	56	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	15,000,000	100	56	Futures and option dealing
Shun Loong Holdings Limited	200,000,000	100	56	Investment holding
Shun Loong Nominees Limited	100,000	100	56	Provision of nominee and secretarial services
Shun Loong On-line Investment Services (H.K.) Limited	25,000,000	100	56	Computer and marketing advisory service and securities trading
Shun Loong Securities Company Limited	50,000,000	100	56	Securities broking and share margin financing
Sierra Joy Limited	2	100	75	Property holding
Splendid Gain Limited	2	100	56	Investment holding
Sun Hing Bullion Company Limited	5,000,000	100	56	Bullion trading
Sun Hung Kai & Co. Limited**	249,140,631	75	56	Investment holding
Sun Hung Kai (Nominees) Limited	200	100	56	Nominee service
Sun Hung Kai Bullion Company Limited	30,000,000	100	56	Bullion trading and investment holding
Sun Hung Kai Commodities Limited	80,000,600	100	56	Commodities broking
Sun Hung Kai Forex Limited	150,000,000	100	56	Foreign exchange dealing
Sun Hung Kai Insurance Consultants Limited	1,000,000	100	56	Insurance broking and consultancy services

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56. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Paid up issued ordinary share capital HK$	Proportion of nominal value of issued capital held by the Company*/ subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Sun Hung Kai International Limited	10,000,000	100	56	Corporate finance service
Sun Hung Kai International Commodities Limited	5,000,000	100	56	Securities, future and options trading
Sun Hung Kai Investment Services Limited	290,000,000	100	56	Investment holding, share broking and margin financing
Sun Hung Kai Research Limited	100,000	100	56	Securities research service
Sun Hung Kai Securities (Overseas) Limited	60,000	100	56	Investment holding
Sun Hung Kai Securities (Trustees) Limited	3,000,000	100	56	Provision of trustee service
Sun Hung Kai Securities Capital Markets Limited	1,000	100	56	Investment holding
Sun Hung Kai Securities Limited	124,898,589	100	56	Investment holding
Sun Hung Kai Venture Capital Limited	2	100	56	Investment holding
Sun Hung Kai Wealth Management Limited	5,000,000	100	56	Investment advisory, financial planning and wealth management
Sun Tai Cheung Credits Limited	150,000,000	100	56	Share margin financing
Sun Tai Cheung Finance Company Limited	25,000,000	100	56	Financial service
Sunhill Investments Limited	2	100*	100	Investment holding
Texgulf Limited	20	100	56	Property holding
The Building and Loan Agency (Asia) Limited	2	76	42	Money Lending
The Hong Kong Building and Loan Agency Limited **	225,000,000	76	42	Treasury investment and mortgage loan finance
To Wan Development Company Limited	10,000	100	56	Investment holding
Tung Wo Investment Company, Limited	10,000	100	56	Investment holding
United Asia Finance Limited	137,500,000	58	55	Consumer financing
Wah Cheong Development Company, Limited	25,100,000	100	56	Investment holding
Wineur Secretaries Limited	2	100	56	Secretarial service
Yee Li Ko Investment Limited	58,330,000	100	56	Property holding

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56. Particulars of Principal Subsidiaries (Cont'd)

With the exception of Alaston Development Limited, AP Diamond Limited, AP Emerald Limited, Earnest Finance Limited, Easy Capital Investments Limited and Jaffe Development Limited, which were incorporated in the British Virgin Islands, all the above subsidiaries were incorporated in Hong Kong.

Particulars of the Company's principal subsidiaries at 31st December, 2005 which were incorporated and have their principal place of operation outside Hong Kong are set out below:

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Allied Properties China Limited	Cayman Islands	US$1,000	100	75	Investment holding
Best Decision Investments Limited	British Virgin Islands	US$50,000	65	37	Investment holding
Best Delta International Limited	British Virgin Islands	US$1	100	56	Investment holding
Boneast Assets Limited	British Virgin Islands	US$1	100	56	Investment holding
Constable Development S.A.	Panama	US$5	100	56	Investment holding
Elecrent Consultants Limited	British Virgin Islands	US$1	100	75	Investment holding
Hing Yip Holdings Limited	British Virgin Islands	US$1	100	56	Property holding
I-Market Limited	British Virgin Islands	US$1	100	56	Investment holding
Kenworld Corporation	Republic of Liberia	US$1	100	75	Investment holding
Lakewood Development Corporation	United States of America	US$1,000	100	75	Property held for sale
Ranbridge, Inc.	The Philippines	Peso 5,385,000	100	56	Money lending
Shipshape Investments Limited	British Virgin Islands	US$1	100	56	Investment holding
SHK Absolute Return Managers Limited	Cayman Islands	US$10	100	56	Investment holding
SHK Global Managers Limited	British Virgin Islands	US$5,000	100	56	Funds management
SHK Quant Managers Limited	Cayman Islands	US$10	100	56	Funds management
Sing Hing Investment Limited	British Virgin Islands	US$1	100	56	Property holding
SL Meridian Holdings Limited	British Virgin Islands	HK$1,000,000	100	56	Investment holding

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56. Particulars of Principal Subsidiaries (Cont'd)

Subsidiaries	Place of incorporation/ operation	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SGD10,000,000	100	56	International banking business
Sun Hung Kai International Investment Management Limited	British Virgin Islands	US$50,000	100	56	Investment holding
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP 1,000,000	100	56	Property holding
Sun Hung Kai Online Limited	British Virgin Islands	US$1	100	56	Online service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US$12,000	100	56	Investment holding and management service
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	Peso 273,600,000	100	56	Investment holding
Swan Islands Limited	British Virgin Islands	US$1	100	56	Investment holding
Tailwind Consultants Limited	British Virgin Islands	US$1	100	56	Investment holding
Upper Selection Investments Limited	British Virgin Islands	US$1	100	56	Investment holding
Upstand Assets Limited	British Virgin Islands	US$1	100	56	Investment holding
Wah Cheong Development (B.V.I.) Limited	British Virgin Islands	US$2,675,400	100	56	Investment holding
Winbest Holdings Limited	British Virgin Islands	US$1	100	76	Investment holding
Zeal Goal International Limited	British Virgin Islands	US$1	100	56	Investment holding

** The subsidiaries are listed in Hong Kong and further details about these subsidiaries are available in its published audited accounts.

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

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57. Particulars of Principal Associates

Particulars of the Group's principal associates at 31st December, 2005 are set out below.

Associates	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries	Proportion of nominal value of issued capital attributable to the Group	Principal activity
		%	%	
Chronicle Gain Limited	Hong Kong	45	25	Property holding
Drinkwater Investment Limited	Hong Kong	22	12	Property holding
Omicron International Limited	British Virgin Islands	44	25	Investment holding
Quality HealthCare Asia Limited**	Bermuda	34	19	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40	22	Property development
Silver York Development Limited	Hong Kong	40	22	Investment holding
Start Hold Limited	Hong Kong	33	19	Investment holding
Tian An China Investments Company Limited**	Hong Kong	49	27	Investment holding
Yu Ming Investments Limited**	Hong Kong	22	12	Investment holding

** These associates are listed in Hong Kong and further details about these associates are available in their published audited accounts.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

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58. Particulars of Principal Jointly Controlled Entities

Particulars of the Group's principal jointly controlled entities at 31st December, 2005 are set out below.

Jointly controlled entities	Place of incorporation/ operation	Proportion of nominal value of issued capital held by subsidiaries %	Proportion of nominal value of issued capital attributable to the Group %	Principal activity
Allied Kajima Limited	Hong Kong	50	37	Property and investment holding
SHK Corporate Finance (Shanghai) Limited	People's Republic of China	33	19	Corporate finance advisory

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

	Financial year ended 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)	**HK$'000**
Results					
Revenue	1,743,774	1,812,277	1,609,482	1,910,952	**2,004,566**
(Loss) profit from operations	248,220	(210,777)	512,844	844,215	**1,443,368**
Other finance costs	(111,391)	(72,183)	(61,277)	(49,386)	**(102,245)**
Amortisation of goodwill	(4,760)	(7,142)	(7,142)	(7,142)	–
Release of negative goodwill	68,220	136,899	237,923	257,610	–
Amortisation of capital reserve	20,417	17,267	17,267	17,267	–
Warrant reserve realised on warrants expired	–	–	–	–	–
Share of results of associates	123,505	117,473	135,708	165,856	**150,388**
Share of results of jointly controlled entities	51,213	(22,730)	22,900	25,706	**105,298**
(Loss) profit before taxation	395,424	(41,193)	858,223	1,254,126	**1,596,809**
Taxation	(95,366)	(82,972)	(127,518)	(151,472)	**(170,042)**
(Loss) profit for the year	300,058	(124,165)	730,705	1,102,654	**1,426,767**
Attributable to:					
Equity holders of the Company	103,437	(169,595)	486,466	713,735	**901,480**
Minority interests	196,621	45,430	244,239	388,919	**525,287**
	300,058	(124,165)	730,705	1,102,654	**1,426,767**
Basic earnings (loss) per share	HK$0.3	HK$(0.5)	HK$1.53	HK$2.71	**HK$3.48**

	At 31st December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)	**HK$'000**
Assets and liabilities					
Total assets	12,848,540	10,601,116	11,693,463	11,844,263	**14,423,119**
Total liabilities	(4,127,031)	(3,021,926)	(4,433,591)	(3,862,658)	**(4,310,114)**
	8,721,509	7,579,190	7,259,872	7,981,605	**10,113,005**

Certain amounts for the year 2004 have been restated to reflect the adoption of the new and revised HKFRSs.

Particulars of the major properties held by the subsidiaries and jointly controlled entities of the Group at 31st December, 2005 are set out below:

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
Hong Kong					
Park Place 7 Tai Tam Reservoir Road Hong Kong	2056 +	R	3,475	74.94	Existing
Allied Cargo Centre 150-164 Texaco Road Tsuen Wan, New Territories	2047	G	46,594	74.94	Existing
60 Plantation Road, The Peak, Hong Kong	2066	R	639	74.94	Existing
Orchid Court 38 Tung On Street Mongkok, Kowloon	2049	R C	1,011 201	74.94 74.94	Existing Existing
The Redhill Peninsula 18 Pak Pat Shan Road Tai Tam, Hong Kong	2056 +	R CP	596 79 ###	74.94 74.94	Existing Existing (Phase IV)
China Online Centre 333 Lockhart Road Wanchai, Hong Kong	2026 ++	C	15,680	74.94	Existing
St. George Apartments No. 81 Waterloo Road, Ho Man Tin, Kowloon	2006 +	R CP	9,499 75 ###	74.94 74.94	Existing Existing
Ibis North Point 138 Java Road North Point, Hong Kong	2008 +	H	6,825	74.94	Existing
Century Court No. 239 Jaffe Road, Wanchai, Hong Kong	2027 ++	R C	2,592 1,311	74.94 74.94	Existing Existing
No. 9 Queen's Road Central Hong Kong	2854	C	1,277	74.94	Existing
Allied Kajima Building 138 Gloucester Road Wanchai, Hong Kong	2047	C	20,442	37.47 *	Existing
Novotel Century Hong Kong 238 Jaffe Road, Wanchai Hong Kong	2047	H	27,364	37.47 *	Existing
Tregunter Tower 3 14 Tregunter Path, Hong Kong	2051	R	745	74.94	Existing

Name/location	Lease expiry	Type	Gross floor area (S.M.)	Effective % held by the Group	Stage of completion
Admiralty Centre 18 Harcourt Road, Hong Kong	2053 +	C	2,171 #	56.20	Existing
House C7 Hawaii Garden No. 18 Silver Cape Road Sai Kung, New Territories	2047	R	218	56.20	Existing
Wing On House 71 Des Voexu Road Central Hong Kong	2902	C	533 #	56.20	Existing
Outside Hong Kong					
FM2100 Road and Diamond Head Boulevard, Harris County, Texas, U.S.A.	Freehold	R	13,888,933 ##	74.94	Existing
Philippine Plaza Hotel Cultural Centre of the Philippines Complex, Roxas Boulevard, Pasay City, Manila, Philippines	2014 +++	H	73,866	37.47 *	Existing
Tian An Centre No. 338 Nanjing Road West Huangpu District Shanghai People's Republic of China	2044	C	1,873	56.20	Existing

Notes:

Types of properties: R – Residential, C – Commercial, G – Godown, H – Hotel, CP – Car Parking Spaces

*	Indicates properties held through a jointly controlled entity
+	With option to renew for a further term of 75 years
++	With option to renew for a further term of 99 years
+++	With option to renew for a further term of 25 years
#	Saleable area
##	Site area
###	Number of car parking spaces