
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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ALLIED GROUP LIMITED

(聯 合 集 團 有 限 公 司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

DISCLOSEABLE TRANSACTION

Placing of existing shares and subscription of new shares in

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

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DEFINITIONS

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

“APL”	Allied Properties (H.K.) Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange (Stock Code: 56)
“APL Directors”	directors of APL
“Board”	board of Directors
“Company”	Allied Group Limited, a company incorporated in Hong Kong with limited liability, with its shares listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	5th June, 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“SFC”	Securities and Futures Commission
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Shares”	ordinary shares of nominal value of HK\$0.20 each in the share capital of SHK

DEFINITIONS

“SHK”	Sun Hung Kai & Co. Limited, a company incorporated in Hong Kong with limited liability, with its securities listed on the Main Board of the Stock Exchange (Stock Code: 86)
“SHK Directors”	directors of SHK
“SHK Group”	SHK and its subsidiaries
“SHKIS”	Sun Hung Kai Investment Services Limited, a licensed corporation registered under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities and an indirect wholly-owned subsidiary of SHK
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 12th May, 2006 made between the Vendor and SHK in relation to the Subscription (as supplemented on 17th May, 2006)
“Subscription Shares”	the 248,000,000 new Shares to be subscribed for by the Vendor pursuant to the Subscription Agreement
“Vendor”	AP Emerald Limited, a company incorporated in British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of APL and the controlling shareholder of SHK
“1st Announcement”	the joint announcement of the Company, APL and SHK dated 17th May, 2006
“1st Placing”	the placing of 1st Tranche Placing Shares at a price of HK\$7.00 per Share pursuant to the 1st Placing Agreement
“1st Placing Agreement”	the placing agreement dated 12th May, 2006 made between the Vendor and 3V Capital in relation to the 1st Placing (as supplemented on 17th May, 2006)
“1st Tranche Placing Shares”	the 169,000,000 Shares placed by the Vendor through 3V Capital pursuant to the 1st Placing Agreement

DEFINITIONS

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

LETTER FROM THE BOARD



ALLIED GROUP LIMITED

(聯合集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code: 373)

Executive Directors:

Mr. Lee Seng Hui (Chief Executive)

Mr. Edwin Lo King Yau

Mr. Mak Pak Hung

Non-executive Directors:

Ms. Lee Su Hwei

Mr. Arthur George Dew

Independent non-executive Directors:

Mr. Wong Po Yan

Mr. David Craig Bartlett

Mr. John Douglas Mackie

Mr. Alan Stephen Jones

Registered Office:

22nd Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

8th June, 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

Placing of existing shares and subscription of new shares in

SUN HUNG KAI & CO. LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 86)

INTRODUCTION

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

LETTER FROM THE BOARD

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

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

Under Chapter 14 of the Listing Rules, the 1st Placing constitutes a discloseable transaction for the Company, on the basis that the calculation of the consideration ratio for the Company is within the range of 5 per cent. and 25 per cent. The purpose of this circular is to provide the Shareholders with details of the terms of the 1st Placing Agreement and other information in accordance with the requirements of the Listing Rules.

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

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

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

LETTER FROM THE BOARD

- Vendor:** The Vendor, which is the controlling shareholder of SHK.
- Number of Placing Shares:** 169,000,000 Shares placed, representing approximately 13.56 per cent. of the existing issued share capital of SHK.
- Underwriting:** The Placing was fully underwritten by 3V Capital.
- Placing price:** HK\$7.00 per Placing Share, which was agreed after arm's length negotiations and represents:–
- (i) a discount of approximately 10.83 per cent. to the closing price of HK\$7.85 per Share (on a cum dividend and cum warrant basis) as quoted on the Stock Exchange on 11th May, 2006, being the last trading day of the Shares immediately before the date of the 1st Announcement, or a discount of approximately 9.74 per cent. to HK\$7.755 (being such closing price calculated on an ex dividend basis);
 - (ii) a discount of approximately 8.26 per cent. to the average closing price of HK\$7.63 per Share (on a cum dividend and cum warrant basis) as quoted on the Stock Exchange for the last ten trading days of the Shares up to 16th May, 2006, or a discount of approximately 7.10 per cent. to HK\$7.535 (being such average closing price calculated on an ex dividend basis); and
 - (iii) a premium of approximately 7.69 per cent. over the closing price of HK\$6.50 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.
- Placing agent:** 3V Capital.
- 3V Capital and its ultimate owners were all:–
- (i) independent of, and not acting in concert with, the Vendor and parties acting in concert with it; and
 - (ii) independent third parties not connected with SHK or its subsidiaries or any of their respective associates, or any of the connected persons of SHK or its subsidiaries or any of their respective associates.
- Placing commission:** 3V Capital received a placement commission of 2.5 per cent. on the gross proceeds of the 1st Placing.

LETTER FROM THE BOARD

Placees:

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

Such placees and their respective ultimate owners were all:–

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

None of such placees became a substantial shareholder of SHK as a result of the 1st Placing, except that on 29th May, 2006, the Company was notified that Penta Investment Advisers Limited became a substantial shareholder of SHK as a result of the 1st Placing.

Penta Investment Advisers Limited was incorporated in the British Virgin Islands and is beneficially owned by Mr. John Zwaanstra. It was beneficially interested in 1.41 per cent. of the issued share capital of SHK before the 1st Placing and was beneficially interested in 11.45 per cent. of the issued share capital of SHK following completion of the 1st Placing.

Completion:

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

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

THE 2ND PLACING AND THE SUBSCRIPTION

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

LETTER FROM THE BOARD

The 2nd Placing is conditional upon:–

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

None of the above conditions can be waived.

Completion of the 1st Placing took place on 22nd May, 2006.

The 2nd Placing, when aggregated with the 1st Placing, constitutes a major transaction for the Company under the Listing Rules. A separate circular will be despatched to the Shareholders with details of the terms of the 2nd Placing Agreement and the Subscription Agreement as soon as practicable. The circular to be despatched by the Company will also contain a notice to convene an extraordinary general meeting to approve the 2nd Placing and the Subscription Agreement.

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

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

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

Subscriber: The Vendor.

Number of Subscription Shares: 248,000,000 new Shares, representing approximately 19.90 per cent. of the existing issued share capital of SHK and approximately 16.60 per cent. of the issued share capital of SHK as enlarged by the allotment and issue of the Subscription Shares.

LETTER FROM THE BOARD

Subscription price: HK\$7.00 per Subscription Share, which is the same as the placing price of the 1st Tranche Placing Shares and the 2nd Tranche Placing Shares.

Ranking of Subscription Shares: The Subscription Shares will rank equally with the Shares in issue at the time of allotment and issue of the Subscription Shares.

Use of proceeds: Net proceeds from the Subscription of approximately HK\$1,685,500,000, comprising approximately HK\$1,148,500,000 from the subscription of the 169,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 1st Placing and approximately HK\$537,000,000 from the subscription of the 79,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 2nd Placing, will be applied by the SHK Group to fund the possible acquisition of a majority interest in United Asia Finance Limited as announced on 2nd May, 2006 or, if such acquisition does not proceed, to fund new investments and acquisitions in future as and when opportunities arise and require and for general working capital purposes.

Conditions: The Subscription is conditional upon:–

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

None of the above conditions can be waived.

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

LETTER FROM THE BOARD

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

Completion:

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

Costs and expenses

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

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

The shareholding structure of SHK immediately before completion of the 1st Placing and immediately after completion of the 1st Placing but before completion of the Subscription are as follows:–

Parties	Approximate shareholding percentage in SHK (Note 1)	
	Immediately before the 1st Placing and the Subscription	Immediately after the 1st Placing but before the Subscription
The Vendor and parties acting in concert with it	74.99 (Note 2)	61.43 (Note 3)
Places for the 1st Placing (Note 4)	–	13.56
Public	25.01	25.01
Total	<u>100.00</u>	<u>100.00</u>

Notes:

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

LETTER FROM THE BOARD

2. The interests comprise 934,239,892 Shares which are held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
3. The interests comprise 765,239,892 Shares which are held and beneficially owned as to 765,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
4. One of the placees, Penta Investment Advisers Limited, was beneficially interested in 17,516,000 Shares, representing 1.41 per cent. of the issued share capital of SHK before the 1st Placing. Its shareholding increased to 142,623,000 Shares, representing 11.45 per cent. of the issued share capital of SHK after the 1st Placing. In addition, as at the Latest Practicable Date, it held an interest in 149,498,000 Shares representing 12.00 per cent. of the issued share capital of SHK and 3,503,200 units of warrants of SHK giving rise to an interest in 3,503,200 underlying shares of SHK.

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

Approximate shareholding percentage in SHK (Note 1)

Parties	Immediately before the 2nd Placing and the Subscription	Immediately after the 2nd Placing but before the Subscription	Immediately after the 2nd Placing and the Subscription
The Vendor and parties acting in concert with it	61.43 <i>(Note 2)</i>	55.09 <i>(Note 3)</i>	62.55 <i>(Note 4)</i>
Penta Investment Advisers Limited	12.00 <i>(Note 5)</i>	12.00	10.01
Placees for the 2nd Placing	–	6.34	5.29
Public	26.57	26.57	22.15
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Notes:

1. The figures assume that other than the Subscription Shares, no new Shares are issued or purchased by SHK and that other than the 2nd Tranche Placing Shares, no Shares are sold or purchased by the Vendor and parties acting in concert with it, in each case, after the date of 2nd Announcement up to the date of completion of the Subscription.
2. The interests comprise 765,239,892 Shares which are held and beneficially owned as to 765,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
3. The interests comprise 686,239,892 Shares which are held and beneficially owned as to 686,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.

LETTER FROM THE BOARD

4. The interests comprise 934,239,892 Shares which are held and beneficially owned as to 934,198,892 Shares by the Vendor and as to 41,000 Shares by a corporation wholly owned by Mr. Steven Samuel Zoellner, an APL Director.
5. Penta Investment Advisers Limited was beneficially interested in 17,516,000 Shares, representing 1.41 per cent. of the issued share capital of SHK before the 1st Placing. Its shareholding increased to 142,623,000 Shares, representing 11.45 per cent. of the issued share capital of SHK after the 1st Placing. In addition, as at the Latest Practicable Date, it held an interest in 149,498,000 Shares representing 12.00 per cent. of the issued share capital of SHK and 3,503,200 units of warrants of SHK giving rise to an interest in 3,503,200 underlying shares of SHK.

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

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

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

INFORMATION ABOUT THE COMPANY, APL AND SHK

The Company

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

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

APL

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

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

As at the Latest Practicable Date, APL was beneficially owned as to approximately 74.93 per cent. by the Company.

LETTER FROM THE BOARD

SHK

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

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

As at the Latest Practicable Date, SHK was beneficially owned as to approximately 61.42 per cent. by APL.

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

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

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

Net proceeds from the Subscription of approximately HK\$1,685,500,000, comprising approximately HK\$1,148,500,000 from the subscription of the 169,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 1st Placing and approximately HK\$537,000,000 from the subscription of the 79,000,000 new Shares (being a net placing price of approximately HK\$6.80 per Share) in connection with the 2nd Placing, will be applied by the SHK Group to fund the possible acquisition of a majority interest in United Asia Finance Limited as announced on 2nd May, 2006 or, if such acquisition does not proceed, to fund new investments and acquisitions in future as and when opportunities arise and require and for general working capital purposes.

Net profits attributable to the disposal by the Company (through its interest in APL) of 6.34 per cent. shareholding in SHK for the two financial years ended 31st December, 2005 were:—

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

LETTER FROM THE BOARD

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

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

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

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

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

Following completion of the 1st Placing, the 2nd Placing and the Subscription, the market value of the 12.44 per cent. shareholding in SHK deemed to be disposed of by the Company (through its interest in APL) is approximately HK\$1,441,008,000 (calculated on the basis of HK\$7.755 per Share (on an ex dividend basis)). The net assets of the Group will be increased by approximately HK\$1,685,500,000. The liabilities and earnings of the Group remain unchanged after completion of the 1st Placing, the 2nd Placing and the Subscription.

LETTER FROM THE BOARD

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

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

LISTING RULES IMPLICATIONS

Under Chapter 14 of the Listing Rules, the 1st Placing constitutes a discloseable transaction for the Company, on the basis that the calculation of the consideration ratio for the Company is within the range of 5 per cent. and 25 per cent.

The 2nd Placing, when aggregated with the 1st Placing, constitutes a major transaction for the Company under the Listing Rules. A separate circular will be despatched to the Shareholders with details of the terms of the 2nd Placing Agreement and the Subscription Agreement as soon as practicable. The circular to be despatched by the Company will also contain a notice to convene an extraordinary general meeting to approve the 2nd Placing and the Subscription Agreement.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board of
Allied Group Limited
Edwin Lo King Yau
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to in such provisions of the SFO; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules to be notified to the Company and the Stock Exchange:

Name of Director	Number of shares held	Approximate percentage of the issued share capital of the Company	Nature of interest
Lee Seng Hui	101,906,613	40.62	Personal interest (held as beneficial owner) in 22,921 shares and other interest in 101,883,692 shares (<i>Note 1</i>)
Lee Su Hwei	101,883,692	40.61	Other interest (<i>Note 1</i>)

Notes:

- 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.
- The interests stated above represented long positions.

(b) Substantial shareholders' interests

Save as disclosed below and in paragraph (a) above, the Directors and the chief executive of the Company were not aware that there was any person who, as at the Latest Practicable Date, had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or who, as at the Latest Practicable Date, was directly and indirectly interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Group.

(i) Interest in the shares of the Company

Name of Shareholder	Number of shares held	Approximate percentage of the issued share capital	<i>Notes</i>
Cashplus Management Limited ("Cashplus")	26,039,000	10.38	–
Zealous Developments Limited ("Zealous")	26,039,000	10.38	1, 2
Minty Hongkong Limited ("Minty")	75,844,692	30.23	–
Lee and Lee Trust	101,883,692	40.61	3, 4
COL Capital Limited ("COL Capital")	24,272,494	9.67	5

Notes:

- This figure refers to the same interest of Cashplus in 26,039,000 shares of the Company.
- Cashplus is a wholly-owned subsidiary of Zealous. Zealous was therefore deemed to have an interest in the shares in which Cashplus was interested.
- Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.
- Mr. Lee Seng Hui and Ms. Lee Su Hwei, both Directors, 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.
- The interest includes the holding of: (i) 16,817,170 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.
- All interests stated above represented long positions.

(ii) Interests in the shares of other members of the Group

Name of non wholly-owned subsidiaries of the Company	Name of shareholder	Number of shares held	Approximate percentage of the issued share capital
Best Decision Investments Limited	Christophe Lee Kin Ping	17,500	35
Dalian Allied First Financial Centre Co. Ltd.	大連商業集團總公司	N/A	30
Dalian Lianhua Plaza Development Co. Ltd.	大連民興房地產發展有限公司	N/A	20
Hardy Wall Limited	Betterhuge Limited	35	35
SHK Financial Data Limited	Unison Information Limited	49	49
United Asia Finance Limited	ITOCHU Hong Kong Limited	25,625,000	19

3. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors (not being the independent non-executive Directors) or their respective associates (as defined in the Listing Rules) was considered to have interests in any 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 (as defined in the Listing Rules) of each of APL, SHK, Tian An China Investments Company Limited (“Tian An China”) and Lippo Limited (“Lippo”) which, through their subsidiaries, are partly engaged in the businesses as follows:
- APL, through a subsidiary, is partly engaged in the business of money lending;
 - SHK, through certain of its subsidiaries, is partly engaged in the businesses of money lending, provision of financial services and property investment;
 - Tian An China, 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 services and other related services;
- (ii) Mr. Lee Seng Hui is a director of Allied Kajima Limited 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 SHK 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 China 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.

5. LITIGATION

Save as disclosed below, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group:

- (a) By the Judgment of High Court on 1st April, 2004 (“Judgment”) in HCA 3191/1999 between New World Development Company Limited (“NWDC”) and Stapleton Development Limited against Sun Hung Kai Securities Limited (“SHKS”), a wholly-owned subsidiary of SHK, SHKS was ordered to pay NWDC the sum of HK\$105,534,018.22 together with interest on the principal sum of HK\$80,117,652.72 at judgment rate from 16th December, 1998 until payment, pursuant to the terms of an oral agreement which the Court found. As at 17th June, 2004, the date when the Judgment sum was paid, the Judgment amounted to HK\$150,115,681.54 (being HK\$105,534,108.22 plus interest of HK\$44,581,663.32). SHKS has paid the Judgment amounts. SHKS has filed an appeal against the Judgment both as to liability and quantum to the Court of Appeal. That Court of Appeal has handed down the Court of Appeal 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\$14,783,090.86 and has been repaid. SHKS has obtained leave to appeal the Court of Appeal Judgment to the Court of Final Appeal (“Final Appeal”). The Final Appeal is scheduled to commence hearing on 19th June, 2006.
- (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 SHK, 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 shares in Shun Loong Holdings Limited (“SLHL”) (“Shun Loong Shares”) by STCC as assignee to SHKIS (for a consideration of HK\$36,500,000 subject to additional amounts in a total sum not exceeding HK\$15,700,000 which might have been payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and an account as to 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.

- (c) Shun Loong Finance Limited and SLHL (together the “Petitioners”), both indirect wholly-owned subsidiaries of SHK, 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.
- (d) SHK, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (e) SHKIS filed a notice of action on 8th June, 2004 in Canada naming as defendants Sung Chun (“Sung”), Song Lei (“Song”) and the Bank of Montreal claiming from Sung and Song reimbursement for funds totalling US\$1,300,000 transferred by them in addition to costs, and against the Bank of Montreal for an injunction freezing the subject funds or alternatively for payment of the funds into court, SHKIS discontinued the action in respect of the Bank of Montreal, and agreed to a dismissal of the action against Song. On 31st March, 2005, 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 postjudgment interest thereon. On 24th January, 2006, SHKIS received in partial satisfaction of the Summary Judgment order Canadian Dollars \$14,070.99 and United States Dollars \$1,288,555.31 (i.e. together HK\$10,008,867.89) that had been held in the custody of the Superior Court of Justice.
- (f) SHKIS filed a writ on 23rd July, 2004 in Hong Kong naming as defendants Sellon Enterprises Limited (“Sellon”), Sung and Song and seeking a declaration that Sellon holds property wholly or in part on trust for SHKIS. The case remains at an early stage.

6. GENERAL

- (a) The registered office of the Company is 22nd Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong.
- (b) The company secretary of the Company is Ms. Phoebe Lau Mei Yi. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.
- (c) The qualified accountant of the Company is Mr. Kelvin Lam Kam Wing. He obtained a Master’s 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 Hong Kong Institute of Certified Public Accountants.

- (d) The share registrar of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

- (e) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.