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**BOARD OF DIRECTORS**

Gordon Macwhinnie

*Non-Executive Chairman and  
Independent Non-Executive Director*

Lee Seng Hui

*Chief Executive*

Edwin Lo King Yau

*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*

**EXECUTIVE COMMITTEE**

Lee Seng Hui *Chairman*

Edwin Lo King Yau

**REMUNERATION COMMITTEE**

David Craig Bartlett *Chairman*

Gordon Macwhinnie

Arthur George Dew

Wong Po Yan

John Douglas Mackie

**AUDIT COMMITTEE**

Gordon Macwhinnie *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

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**

P. C. Woo & Co.

Mallesons Stephen Jaques

Haldanes

Leland Chu & Co.

# Condensed Consolidated Income Statement

for the six months ended 30th June, 2005

The Board of Directors ("Board") of Allied Group Limited ("Company") is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six months ended 30th June, 2005 with comparative figures are as follows:

	Notes	Six months ended 30th June,	
		2005 Unaudited HK\$'000	2004 Unaudited HK\$'000 (Restated)
Turnover	4	955,144	952,164
Other operating income		28,470	26,744
Total income		983,614	978,908
Cost of sales	5	(138,807)	(95,542)
Brokerage and commission expenses		(70,611)	(98,324)
Selling expenses		(31,564)	(23,123)
Administrative expenses		(216,537)	(214,334)
Changes in values of properties	6	337,285	–
Bad and doubtful debts		(30,303)	(79,107)
Other operating expenses		(67,485)	(66,544)
Other finance costs	5	(31,441)	(28,709)
Amortisation of goodwill		–	(3,570)
Release of negative goodwill		–	129,256
Amortisation of capital reserve		–	8,633
Share of results of associates		79,972	79,681
Share of results of jointly controlled entities		58,116	11,585
Profit before taxation	7	872,239	598,810
Taxation	8	(90,541)	(56,822)
Profit for the period		781,698	541,988
Attributable to			
Equity holders of the Company		498,576	347,000
Minority interest		283,122	194,988
		781,698	541,988
Dividend	9	12,918	–
Earnings per share	10		
Basic		HK\$1.9	HK\$1.3
Diluted		N/A	N/A

## Condensed Consolidated Balance Sheet

at 30th June, 2005

	Notes	At 30th June, 2005 Unaudited HK\$'000	At 31st December, 2004 Audited HK\$'000 (Restated)
<b>Non-current assets</b>			
Investment properties	11	2,438,637	2,091,768
Property, plant and equipment	12	246,046	228,448
Properties held for development		97,311	97,377
Prepaid land lease payments		288,075	281,389
Goodwill		8,901	8,634
Negative goodwill		–	(602,157)
Intangible assets		23,927	10,375
Interests in associates		2,682,631	2,508,633
Interests in jointly controlled entities		875,125	817,798
Available-for-sale financial assets	13	692,575	–
Investments	14	–	754,760
Loans and advances to consumer finance customers due after one year	15	941,321	804,305
Long-term loan receivable		4,401	3,200
Deferred tax assets		34,517	43,114
		<b>8,333,467</b>	<b>7,047,644</b>
<b>Current assets</b>			
Properties held for sale and other inventories		426,657	401,721
Financial assets at fair value through profit or loss	16	139,543	–
Investments	14	–	68,696
Prepaid land lease payments		2,798	2,798
Loans and advances to consumer finance customers due within one year	15	1,258,965	1,221,501
Accounts receivable, deposits and prepayments	17	2,428,507	2,376,017
Amounts due from associates		50,065	231
Amount due from a jointly controlled entity		1,038	2,040
Tax recoverable		1,703	1,677
Short-term pledged bank deposit		1,159	1,220
Bank deposits, bank balances and cash		884,831	765,765
		<b>5,195,266</b>	<b>4,841,666</b>
<b>Current liabilities</b>			
Accounts payable and accrued charges	18	1,173,898	1,197,915
Amounts due to associates		5,018	49,260
Amount due to a jointly controlled entity		141,063	141,063
Tax payable		106,416	69,526
Bank and other borrowings due within one year		1,042,488	890,579
Other liabilities due within one year	19	549	585
Dividend payable		25,957	–
		<b>2,495,389</b>	<b>2,348,928</b>
<b>Net current assets</b>		<b>2,699,877</b>	<b>2,492,738</b>
<b>Total assets less current liabilities</b>		<b>11,033,344</b>	<b>9,540,382</b>

at 30th June, 2005

	Notes	At 30th June, 2005 Unaudited HK\$'000	At 31st December, 2004 Audited HK\$'000 (Restated)
<b>Capital and reserves</b>			
Share capital	20	519,138	521,302
Reserves	21	5,208,340	4,174,025
<b>Equity attributable to equity holders of the Company</b>		<b>5,727,478</b>	4,695,327
<b>Minority interest</b>		<b>3,715,632</b>	3,384,808
<b>Total equity</b>		<b>9,443,110</b>	8,080,135
<b>Non-current liabilities</b>			
Bank and other borrowings due after one year		1,287,420	1,121,569
Loan notes	22	160,525	220,525
Deferred tax liabilities		140,200	115,345
Other liabilities due after one year	19	2,089	2,808
		<b>1,590,234</b>	1,460,247
		<b>11,033,344</b>	9,540,382

# 6 Condensed Consolidated Statement of Changes in Equity

for the six months ended 30th June, 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	Total HK\$'000	Minority interest 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	-	-	(36,691)	-	-	71,420	-	-	(254,141)	(219,412)	(67,602)	(287,014)
As restated	531,374	1,519,481	-	80,027	170,774	(32,820)	55,226	295,269	1,317,162	3,936,493	3,036,365	6,972,858
Surplus arising on revaluation	-	-	-	7,131	-	-	-	-	-	7,131	5,635	12,766
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	446	-	-	-	446	151	597
Share of post-acquisition reserve movements of associates	-	-	-	247	-	(2)	-	-	-	245	95	340
Share of post-acquisition reserve movements of jointly controlled entities	-	-	-	-	-	463	-	-	-	463	161	624
Net income recognised directly in equity	-	-	-	7,378	-	907	-	-	-	8,285	6,042	14,327
Profit attributable to equity holders	-	-	-	-	-	-	-	-	347,000	347,000	194,988	541,988
Released on impairment of non-trading securities	-	-	-	386	-	-	-	-	-	386	304	690
Released on disposal of non-trading securities	-	-	-	650	-	-	-	-	-	650	513	1,163
Released on disposal of subsidiaries	-	-	-	-	-	(2,504)	-	-	-	(2,504)	(21,568)	(24,072)
Released on dilution of interests in an associate	-	-	-	23	-	1	-	(2)	-	22	(4,181)	(4,159)
Capital reserve released on amortisation	-	-	-	-	-	-	-	(16,095)	-	(16,095)	(2,191)	(18,286)
Transferred from accumulated profits to capital reserve	-	-	-	-	-	-	-	619	(619)	-	-	-
Total recognised income and expenses for the period	-	-	-	8,437	-	(1,596)	-	(15,478)	346,381	337,744	173,907	511,651
Dividend distribution to minority interest	-	-	-	-	-	-	-	-	-	-	(63,250)	(63,250)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	(7,213)	(7,213)
Shares repurchased and cancelled	(4,364)	-	-	-	-	-	-	-	(9,923)	(14,287)	-	(14,287)
Transferred on share repurchase	-	-	-	-	4,364	-	-	-	(4,364)	-	-	-
At 30th June, 2004	527,010	1,519,481	-	88,464	175,138	(34,416)	55,226	279,791	1,649,256	4,259,950	3,139,809	7,399,759

for the six months ended 30th June, 2005

	Attributable to equity holders of the Company												Total equity HK\$'000
	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 interest HK\$'000	
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	-	-	(43,355)	-	-	71,438	-	-	(282,180)	-	(254,097)	(79,570)	(333,667)
As restated, before opening balance adjustments	521,302	1,519,481	-	177,371	180,846	(34,838)	55,226	263,805	1,986,128	26,006	4,695,327	3,384,808	8,080,135
Opening balance adjustments arising from changes in accounting policies	-	-	-	-	-	-	-	(261,902)	842,451	-	580,549	165,397	745,946
As restated after prior period and opening balance adjustments	521,302	1,519,481	-	177,371	180,846	(34,838)	55,226	1,903	2,828,579	26,006	5,275,876	3,550,205	8,826,081
Surplus arising on revaluation	-	-	-	(5,804)	-	-	-	-	-	-	(5,804)	(4,545)	(10,349)
Deferred taxation arising on revaluation of assets	-	-	-	55	-	-	-	-	-	-	55	32	87
Exchange differences arising on translation of operations outside Hong Kong	-	-	-	-	-	(212)	-	-	-	-	(212)	(97)	(309)
Share of post-acquisition reserve movements of associates	-	-	-	(3,229)	-	-	-	2,127	-	-	(1,102)	(863)	(1,965)
Share of post-acquisition reserve movements of jointly controlled entities	-	-	-	-	-	(390)	-	-	-	-	(390)	(131)	(521)
Net income and expenses recognised directly in equity	-	-	-	(8,978)	-	(602)	-	2,127	-	-	(7,453)	(5,604)	(13,057)
Profit attributable to equity holders	-	-	-	-	-	-	-	-	498,576	-	498,576	283,122	781,698
Released on disposal of available-for-sale financial assets	-	-	-	(1,625)	-	-	-	-	-	-	(1,625)	(1,271)	(2,896)
Released on disposal of a jointly controlled entity	-	-	-	-	-	(5)	-	-	-	-	(5)	(4)	(9)
Transferred from accumulated profits to capital reserve	-	-	-	-	-	-	-	176	(176)	-	-	-	-
Total recognised income and expenses for the period	-	-	-	(10,603)	-	(607)	-	2,303	498,400	-	489,493	276,243	765,736
Final dividend	-	-	-	-	-	-	-	-	-	(25,957)	(25,957)	-	(25,957)
Interim dividend	-	-	-	-	-	-	-	-	(12,918)	12,918	-	-	-
Overprovision of dividend	-	-	-	-	-	-	-	-	49	(49)	-	-	-
Dividend distribution to minority interest	-	-	-	-	-	-	-	-	-	-	-	(110,816)	(110,816)
Shares repurchased and cancelled	(2,164)	-	-	-	-	-	-	-	(9,770)	-	(11,934)	-	(11,934)
Transferred on share repurchase	-	-	-	-	2,164	-	-	-	(2,164)	-	-	-	-
At 30th June, 2005	519,138	1,519,481	-	166,768	183,010	(35,445)	55,226	4,206	3,302,176	12,918	5,727,478	3,715,632	9,443,110

## Condensed Consolidated Cash Flow Statement

for the six months ended 30th June, 2005

	Six months ended 30th June,	
	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000
Net cash from operating activities	57,455	195,280
Net cash (used in) from investing activities	(82,083)	157,649
Net cash from (used in) financing activities	61,764	(261,772)
Increase in cash and cash equivalents	37,136	91,157
Exchange adjustments	9	(159)
Cash and cash equivalents at 1st January	706,460	607,825
Cash and cash equivalents at 30th June	743,605	698,823
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents, being		
Bank deposits, bank balances and cash	884,831	791,404
Bank overdrafts	(141,226)	(92,581)
	743,605	698,823



for the six months ended 30th June, 2005

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

## 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the 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 interest 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 periods are prepared and presented.

### Business combinations

In the current period, 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 periods, 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. (See note 3 for the financial impact).

#### *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 periods, 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. (See note 3 for the financial impact).

### Interests in jointly controlled entities

In previous periods, interests in jointly controlled entities were accounted for using the equity method. In the current period, 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.

for the six months ended 30th June, 2005

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Financial instruments

In the current period, 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 to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and 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.

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	Financial assets at fair value through profit or loss HK\$'000	Available- for-sale financial assets HK\$'000	Interests in associates HK\$'000
<b>Investment in securities</b>							
Non-trading securities	628,058	(2,096)	625,962	-	-	625,962	-
Trading securities	68,696	(223)	68,473	-	68,473	-	-
<b>Other investments</b>							
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	90,883	(1,447)	89,436	-	250	89,186	-
<b>Interests in associates #</b>	<b>2,483,113</b>	<b>2,469</b>	<b>2,485,582</b>	<b>-</b>	<b>2,469</b>	<b>-</b>	<b>2,483,113</b>

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

# The warrants of a listed associate which were previously grouped under "interests in associates" at 31st December, 2004 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.

for the six months ended 30th June, 2005

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Financial instruments (Cont'd)

#### *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.

#### *Bad and doubtful debts*

In previous periods, 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 considers 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 individual insignificant items or items where no impairment has been identified on an individual basis is made using formula based approaches and statistical methods. Impairment provisions for advances will be presented as individually assessed and collectively assessed instead of general provisions.

### Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model, as appropriate. In the current period, 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. (See note 3 for the financial impact).

### Investment properties

In the current period, 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 periods, 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.

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 periods, 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. According to HKAS 40, 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 period, the Group applied HKAS 40 and has reclassified certain 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. (See note 3 for the financial impact).

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Hotel properties

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-INT 2") clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group's self-operated hotel properties were carried at revalued amounts and were not subject to depreciation. 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. (See note 3 for the financial impact).

### Deferred taxes related to investment properties

In previous periods, 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 period, 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 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. (See note 3 for the financial impact).

### Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company ("Directors") anticipate that the applications of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-INT 4	Determining whether an Arrangement Contains a Lease
HKFRS-INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

for the six months ended 30th June, 2005

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

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

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Decrease in bad and doubtful debts	28,053	–
Decrease in amortisation of intangible assets	423	–
Release of negative goodwill and decrease in amortisation of goodwill	(125,364)	–
Increase in deferred tax charge in relation to investment properties	(22,930)	(1,741)
Decrease in deferred tax credit arising from decrease in bad and doubtful debts	(4,909)	–
Increase in depreciation arising from reclassification of investment properties to property, plant and equipment	(1,458)	(1,088)
Increase in amortisation of prepaid land lease payments	(1,395)	(1,187)
Loss arising from changes in fair value of financial liabilities, measured at fair value through profit or loss	(807)	–
Increase in deferred tax charge arising from restatement of property at cost	(35)	(26)
Increase in depreciation arising from restatement of property at cost	(16)	(16)
Decrease in deferred tax charge arising from reclassification of hotel property from investment properties to property, plant and equipment	–	4,022
Decrease in deferred tax charge arising from reclassification of land premium to prepaid land lease payments	–	15
Increase in share of results of associates	11,394	11,683
Increase (decrease) in share of results of jointly controlled entities	34,684	(7,127)
(Decrease) increase in net profit for the period	<u>(82,360)</u>	<u>4,535</u>
Attributable to		
Equity holders of the Company	(79,264)	1,210
Minority interest	(3,096)	3,325
	<u>(82,360)</u>	<u>4,535</u>

for the six months ended 30th June, 2005

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

Analysis of (decrease) increase in net profit for the period by line items presented according to their function:

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Decrease in other operating income	(3,998)	–
Increase in other operating expenses	(3,806)	(3,744)
Decrease in administrative expenses	553	130
Reclassification of impairment losses recognised in respect of non-trading securities	–	690
Decrease in bad and doubtful debts	28,053	–
Decrease in release of negative goodwill	(121,368)	–
Decrease in amortisation of goodwill	3,571	–
Decrease in share of results of associates	(20,559)	(16,857)
Increase (decrease) in share of results of jointly controlled entities	22,261	(13,063)
Decrease in taxation	12,933	37,379
	<b>(82,360)</b>	<b>4,535</b>

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)		At 31st December, 2004 (Restated)		At 1st January, 2005 (Restated)	
	HK\$'000	Adjustments HK\$'000 (note)	HK\$'000	Adjustments HK\$'000	HK\$'000	Adjustments HK\$'000
Investment properties	2,487,436	(395,668)	2,091,768	–	2,091,768	–
Property, plant and equipment	167,238	61,210	228,448	–	228,448	–
Interests in associates	2,483,113	25,520	2,508,633	149,242	2,657,875	–
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	882	43,996	–
Deferred tax liabilities	(25,029)	(90,316)	(115,345)	(1,295)	(116,640)	–
Other assets/liabilities	797,883	–	797,883	–	797,883	–
Net assets	<b>8,413,802</b>	<b>(333,667)</b>	<b>8,080,135</b>	<b>745,946</b>	<b>8,826,081</b>	<b>–</b>
Share capital	521,302	–	521,302	–	521,302	–
Property revaluation reserve	43,355	(43,355)	–	–	–	–
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	(282,180)	1,986,128	842,451	2,828,579	–
Other reserves	1,958,930	–	1,958,930	–	1,958,930	–
Minority interest	–	3,384,808	3,384,808	165,397	3,550,205	–
Total equity	<b>4,949,424</b>	<b>3,130,711</b>	<b>8,080,135</b>	<b>745,946</b>	<b>8,826,081</b>	<b>–</b>
Minority interest	3,464,378	(3,464,378)	–	–	–	–

Note: The amounts represent adjustments to comparative figures for 2004 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 HKAS 40, recognition of deferred tax liabilities in respect of revalued investment properties in accordance with HKAS INT-21 and changes in presentation of balance sheet items in accordance with HKAS 1. These changes of accounting policies have been applied retrospectively.

for the six months ended 30th June, 2005

**4. SEGMENTAL INFORMATION**

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

	Six months ended 30th June, 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
Turnover	458,008	420,777	86,344	2,519	967,648
Less: inter-segment turnover	(7,354)	–	(2,650)	(2,500)	(12,504)
	<b>450,654</b>	<b>420,777</b>	<b>83,694</b>	<b>19</b>	<b>955,144</b>
Segment result	118,909	284,073	373,519	(10,909)	765,592
Other finance costs					(31,441)
Share of results of associates					79,972
Share of results of jointly controlled entities	2	–	58,114	–	58,116
Profit before taxation					872,239
Taxation					(90,541)
Profit for the period					<b>781,698</b>
	Six months ended 30th June, 2004				
	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
Turnover	(Restated) 496,784	(Restated) 378,946	(Restated) 85,279	(Restated) 14,540	(Restated) 975,549
Less: inter-segment turnover	(5,425)	–	(3,430)	(14,530)	(23,385)
	<b>491,359</b>	<b>378,946</b>	<b>81,849</b>	<b>10</b>	<b>952,164</b>
Segment result	150,411	205,635	29,142	16,746	401,934
Other finance costs					(28,709)
Amortisation of goodwill					(3,570)
Release of negative goodwill					129,256
Amortisation of capital reserve					8,633
Share of results of associates					79,681
Share of results of jointly controlled entities	(895)	–	12,480	–	11,585
Profit before taxation					598,810
Taxation					(56,822)
Profit for the period					<b>541,988</b>

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#### 4. SEGMENTAL INFORMATION (CONT'D)

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

During the period under review, less than 10% of the operations of the Group in terms of both turnover and segment result were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

#### 5. FINANCE COSTS

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Total finance costs included in:		
Cost of sales	4,741	1,377
Other finance costs	31,441	28,709
	<u>36,182</u>	<u>30,086</u>

#### 6. CHANGES IN VALUES OF PROPERTIES

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Changes in values of properties comprise:		
Increase in fair value of investment properties	307,507	–
Reversal of write-down of properties held for sale	24,925	–
Reversal of impairment losses in respect of buildings	4,853	–
	<u>337,285</u>	<u>–</u>



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**7. PROFIT BEFORE TAXATION**

	Six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
(Restated)		
Profit before taxation has been arrived at after charging:		
Amortisation of intangible assets	1,686	1,180
Amortisation of prepaid land lease payments	2,214	1,706
Depreciation	17,105	14,328
Impairment losses recognised in respect of non-trading securities	–	690
Interest expenses in respect of litigation (note)	–	2,934
Loss on dilution of interest in an associate	–	4,771
Net unrealised loss on financial assets at fair value through profit or loss	1,219	–
Net unrealised loss on trading securities	–	7,388
Unrealised loss on derivatives	1,358	–
and after crediting:		
Dividend income from investments in listed securities	8,874	29,927
Dividend income from investments in unlisted securities	4,581	29,540
Excess of net fair value over consideration arising from acquisition of subsidiaries	199	–
Interest income	495,074	461,510
Net realised profit on derivatives	10,635	6,709
Net realised profit on financial assets at fair value through profit or loss	2,073	–
Net realised profit on trading securities	–	204
Profit on dealing in foreign currencies	2,817	13,630
Profit on disposal of a jointly controlled entity	1,219	–
Profit on disposal of available-for-sale financial assets	2,951	–
Profit on disposal of non-trading securities	–	3,421
Profit on other dealing activities	2,306	4,149
Refund of interest expenses in respect of litigation (note)	14,011	–
Unrealised profit on derivatives	–	3
Write-back of loss arising from default of loan agreement with Millennium Touch Limited	–	773

Note: On 1st April, 2004, the High Court of Hong Kong awarded a judgment ("Judgment") in favour of New World Development Company Limited ("NWDC") against Sun Hung Kai Securities Limited ("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 booked as "Investments" an amount of approximately HK\$118,000,000 including payments already made to NWDC in a total sum of HK\$35,319,000. Additionally, a provision of approximately HK\$18,700,000 for interest was made in 2000. A further provision of HK\$58,364,000 has been 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 now handed down its judgment ("Court of Appeal Judgment") in which the court ordered a repayment to SHKS of part of the interest element for the period from 16th December, 1998 to 31st March, 2004 previously ordered against SHKS in the 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. It is not presently known when that appeal will be heard.

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 Stapleton Development Limited ("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 the 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 center of Kuala Lumpur, and that SDL holds 12.5% of the shares in GUP on trust for SHKS.

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#### 8. TAXATION

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000 (Restated)
The charge comprises:		
Current tax:		
Hong Kong	58,791	58,738
Outside Hong Kong	209	2,741
	59,000	61,479
Deferred tax	31,541	(4,657)
	90,541	56,822

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

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

#### 9. DIVIDEND

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Ordinary shares:		
Interim dividend of HK5 cents per share (2004: Nil)	12,918	–
	12,918	–

The amount of the interim dividend for the six months ended 30th June, 2005 has been calculated by reference to 258,355,030 shares in issue at 15th September, 2005.

#### 10. 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\$498,576,000 (2004: HK\$347,000,000 as restated) and on the weighted average number of 260,136,058 (2004: 265,291,853) shares in issue during the period.

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

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**11. INVESTMENT PROPERTIES**

	<b>Hotel property HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
<b>The Group Valuation</b>			
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)
As restated	–	1,867,055	1,867,055
Acquisition of a subsidiary	–	126,375	126,375
Additions	–	110	110
Transferred from properties held for sale	–	44,795	44,795
Overprovision of construction costs	–	(2,386)	(2,386)
Fair value changes	–	55,819	55,819
At 31st December, 2004	–	2,091,768	2,091,768
Acquisition of subsidiaries	–	39,362	39,362
Fair value changes	–	307,507	307,507
At 30th June, 2005	–	2,438,637	2,438,637

The carrying amounts of investment properties held by the Group at 30th June, 2005 and 31st December, 2004 comprised:

	<b>At 30th June, 2005 HK\$'000</b>	<b>At 31st December, 2004 HK\$'000</b>
		(Restated)
Properties in Hong Kong:		
Long-term	1,996,175	1,699,968
Medium-term	442,462	391,800
	<b>2,438,637</b>	<b>2,091,768</b>

The Group's investment properties in Hong Kong were revalued on 30th June, 2005 by Norton Appraisals Limited, an independent professional valuer, on an open market value basis.

**12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT**

Following the application of HKAS 17 "Leases", HKAS 40 "Investment Property" and HK-INT 2 "The Appropriate Accounting Policies for Hotel Properties", the hotel property, owner-occupied property and leasehold land of the Group were reclassified to leasehold land and buildings and prepaid land lease payments, as appropriate. The impact of the above application on the financial statements for the current and prior periods was adjusted retrospectively (see note 3 for the financial impact).

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**13. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Listed equity securities, at market value, issued by corporate entities		
Hong Kong	447,199	–
Outside Hong Kong	3,809	–
	<u>451,008</u>	–
Unlisted equity securities, at fair value, issued by corporate entities		
Hong Kong	23,605	–
Outside Hong Kong (note)	103,742	–
	<u>127,347</u>	–
Statutory deposits and other deposits with exchange and clearing companies	26,746	–
Amounts due from investee companies (note)	87,474	–
	<u>692,575</u>	–

Note: A sum totalling HK\$118,003,000 (2004: HK\$118,003,000) is included in "unlisted equity securities" and "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 circumstances surrounding which are further described in note 7 and note 24(c).

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

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**14. INVESTMENTS**

	Investments in securities							
	Non-trading securities		Trading securities		Other investments		Total	
	At 30th	At 31st	At 30th	At 31st	At 30th	At 31st	At 30th	At 31st
	June,	December,	June,	December,	June,	December,	June,	December,
2005	2004	2005	2004	2005	2004	2005	2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities, at market value,								
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
	<u>-</u>	<u>481,284</u>	<u>-</u>	<u>60,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>541,833</u>
Unlisted equity securities								
issued by corporate entities								
Hong Kong	-	24,696	-	-	-	-	-	24,696
Outside Hong Kong *	-	122,078	-	-	-	-	-	122,078
	<u>-</u>	<u>146,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,774</u>
Unlisted marketable debt securities								
issued by an 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 *	-	-	-	-	-	90,883	-	90,883
	<u>-</u>	<u>628,058</u>	<u>-</u>	<u>68,696</u>	<u>-</u>	<u>126,702</u>	<u>-</u>	<u>823,456</u>
Carrying amount analysed for reporting purposes as:								
Non-current	-	628,058	-	-	-	126,702	-	754,760
Current	-	-	-	68,696	-	-	-	68,696
	<u>-</u>	<u>628,058</u>	<u>-</u>	<u>68,696</u>	<u>-</u>	<u>126,702</u>	<u>-</u>	<u>823,456</u>

\* Please refer to footnote of note 13.

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**15. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS**

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Loans and advances to consumer finance customers	2,372,262	2,209,728
Allowance for doubtful debts	(171,976)	(183,922)
	<u>2,200,286</u>	<u>2,025,806</u>
Less: Amount due within one year shown under current assets	(1,258,965)	(1,221,501)
Amount due after one year	<u>941,321</u>	<u>804,305</u>

**16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Listed equity securities, at market value		
issued by corporate entities		
Hong Kong	35,337	–
Outside Hong Kong	2,861	–
issued by banks		
Hong Kong	12,503	–
Outside Hong Kong	70	–
issued by public utilities		
Hong Kong	32	–
	<u>50,803</u>	<u>–</u>
Unlisted equity securities, at fair value		
issued by a corporate entity outside Hong Kong	77,536	–
Marketable debt securities issued by an overseas government	7,718	–
Derivatives listed in Hong Kong	2,956	–
Others	530	–
	<u>139,543</u>	<u>–</u>

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#### 17. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,196,104,000 (at 31st December, 2004: HK\$2,244,106,000), the aged analysis of which is as follows:

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
0 to 30 days	2,165,277	2,207,115
31 to 180 days	9,102	20,671
181 to 365 days	2,168	2,888
over 365 days	319,700	413,930
	<b>2,496,247</b>	2,644,604
Allowance for doubtful debts	<b>(300,143)</b>	(400,498)
	<b>2,196,104</b>	2,244,106

The above balance of HK\$2,496,247,000 (at 31st December, 2004: HK\$2,644,604,000) includes term loans of HK\$333,825,000 (at 31st December, 2004: HK\$332,026,000). The maturity profile of term loans is shown in note 30.

There were listed securities, unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 30th June, 2005 was HK\$5,950,779,000 (at 31st December, 2004: HK\$6,420,945,000).

The granting of credit in respect of trade receivables of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective credit and risk management committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit and risk management committees. Trade receivables in the balance sheet are stated net of such allowances.

#### 18. ACCOUNTS PAYABLE AND ACCRUED CHARGES

Included in accounts payable and accrued charges are trade payables of HK\$857,998,000 (at 31st December, 2004: HK\$921,363,000), the aged analysis of which is as follows:

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
0 to 30 days	776,069	855,672
31 to 180 days	23,910	9,787
181 to 365 days	1,611	1,296
Over 365 days	56,408	54,608
	<b>857,998</b>	921,363

for the six months ended 30th June, 2005

**19. OTHER LIABILITIES**

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Obligations under a finance lease	–	76
Other employee benefits	1,450	2,295
Advance from minority shareholders	1,188	1,022
	<b>2,638</b>	3,393
Less: Amount repayable within one year shown under current liabilities	<b>(549)</b>	(585)
Amount due after one year	<b>2,089</b>	2,808

**20. SHARE CAPITAL**

	Number of shares	Value HK\$'000
Ordinary shares of HK\$2 each		
Authorised:		
At 31st December, 2004 and 30th June, 2005	650,000,000	1,300,000
Issued and fully paid:		
At 1st January, 2005	260,651,030	521,302
Shares repurchased and cancelled	(1,082,000)	(2,164)
At 30th June, 2005	259,569,030	519,138

During the period, the Company repurchased a total of 1,082,000 of its own ordinary shares at an aggregate cost of approximately HK\$11,934,000, which included transaction costs of approximately HK\$46,000, on the Stock Exchange. The repurchased shares were cancellable upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal amount thereof. The premium on repurchase was charged against accumulated profits.



for the six months ended 30th June, 2005

**21. RESERVES**

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
		(Restated)
Share premium	1,519,481	1,519,481
Investment revaluation reserve	166,768	177,371
Capital redemption reserve	183,010	180,846
Translation reserve	(35,445)	(34,838)
Non-distributable reserve	55,226	55,226
Capital (goodwill) reserve	4,206	263,805
Accumulated profits	3,302,176	1,986,128
Dividend reserve	12,918	26,006
	<b>5,208,340</b>	<b>4,174,025</b>

**22. LOAN NOTES**

	HK\$'000
<b>Loan notes issued by the Company</b>	
At 1st January, 2004	138,892
Repurchased and cancelled	(48,004)
At 31st December, 2004 and 30th June, 2005	90,888
<b>Loan notes issued by a listed subsidiary</b>	
At 1st January, 2004	231,637
Repurchased and cancelled	(102,000)
At 31st December, 2004	129,637
Repurchased and cancelled	(60,000)
At 30th June, 2005	69,637
<b>Total</b>	
At 30th June, 2005	160,525
At 31st December, 2004	220,525

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 a listed subsidiary, Sun Hung Kai, bear interest at 4% per annum and are due on 7th March, 2008.

for the six months ended 30th June, 2005

### 23. ACQUISITION OF SUBSIDIARIES

The Group acquired the following subsidiaries during the period:

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

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

	Acquiree's carrying amount HK\$'000	Fair value HK\$'000
Cash and cash equivalents	15,758	15,758
Intangible assets	618	618
Investment property	26,934	39,362
Prepaid land lease payments	6,376	8,900
Property, plant and equipment	10,179	11,610
Available-for-sale financial assets	1,734	1,734
Accounts receivable, deposits and prepayments	17,723	16,823
Accounts payable and accrued charges	(16,575)	(16,575)
Deferred tax liabilities	(124)	(124)
Net assets	62,623	78,106
Total purchase consideration		78,174
		68
Excess of net fair value over consideration recognised in income statement		199
Goodwill		267
Purchase consideration settled in cash		78,174
Cash and cash equivalents in subsidiaries acquired		(15,758)
Cash outflow on acquisition		62,416

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

for the six months ended 30th June, 2005

### 23. ACQUISITION OF SUBSIDIARIES (CONT'D)

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

	Six months ended 30th June, 2005 HK\$'000	Post acquisition attributable to the Group HK\$'000
Total revenue	<u>19,080</u>	<u>12,774</u>
Profit for the period	<u>1,215</u>	<u>1,233</u>

### 24. CONTINGENT LIABILITIES

(a) At 30th June, 2005, the Group had guarantees as follows:

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Guarantee for banking facility granted to an investee company	6,996	7,000
Indemnities on banking guarantees made available to a clearing house and regulatory body	5,540	5,540
Other guarantees	<u>5,238</u>	<u>3,184</u>
	<u>17,774</u>	<u>15,724</u>

(b) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS"), both indirect wholly-owned subsidiaries of 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 ("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. 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.

for the six months ended 30th June, 2005

#### 24. CONTINGENT LIABILITIES (CONT'D)

- (c) By the Judgment of High Court on 1st April, 2004 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 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 paid, the Judgment amounted to 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 to the Court of Appeal. The Court of Appeal has now 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. It is not presently known when the Final Appeal will be heard.

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"):

1. on 1st March, 2000 in the sum of HK\$27,234,754;
2. on 2nd January, 2001 in the sum of HK\$7,697,418 (Sun Hung Kai 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
3. on 1st 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 outcome of the Final Appeal as well as other issues will be relevant to the determination of whether SHKS is liable to pay the New Claims which NWDC 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 13.

#### 25. CAPITAL COMMITMENTS

	At 30th June, 2005 HK\$'000	At 31st December, 2004 HK\$'000
Capital expenditure contracted for but not provided for in the financial statements	<u>11,960</u>	<u>33,629</u>
Capital expenditure authorised but not contracted for	<u>2,382</u>	<u>2,209</u>

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## 26. OPERATING LEASE ARRANGEMENTS

At 30th June, 2005, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2005		At 31st December, 2004	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within one year	44,319	4	35,565	578
In the second to fifth years inclusive	38,329	–	39,729	–
	<b>82,648</b>	<b>4</b>	<b>75,294</b>	<b>578</b>

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

## 27. PLEDGE OF ASSETS

At 30th June, 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\$3,233,944,000 (at 31st December, 2004: HK\$2,927,135,000 as restated), listed investments belonging to the Group and margin clients with a carrying value of HK\$1,175,026,000 (at 31st December, 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\$3,171,767,000 (at 31st December, 2004: HK\$3,177,864,000 ) were pledged to secure loans and general banking facilities to the extent of HK\$3,346,483,000 (at 31st December, 2004: HK\$3,554,144,000) granted to the Group. Facilities amounting to HK\$1,897,293,000 (at 31st December, 2004: HK\$1,726,148,000) were utilised at 30th June, 2005.

At 30th June, 2005, a bank deposit of HK\$1,159,000 (at 31st December, 2004: HK\$1,220,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (at 31st December, 2004: HK\$2,000,000).

## 28. RELATED PARTY TRANSACTIONS

A. The following is a summary of the significant transactions with related parties during the period:

(a) Summary of income and expense items:

	(Income)/Expense Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
<b>Jointly controlled entity</b>		
Property management and air-conditioning fees and other property related service fees	(7,010)	(6,999)
Administration and management fees	(1,180)	(1,180)
Rent, property management and air-conditioning fees	4,625	4,710
<b>Associates</b>		
Interest income	(1,330)	(4,004)
Insurance premiums	(3,147)	(3,250)
Rent, property management and air-conditioning fees and other related service fees	(847)	(659)
Service fee income	(1,513)	–

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## 28. RELATED PARTY TRANSACTIONS (CONT'D)

- (b) During the period, both a subsidiary of 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 30th June, 2005, the amounts lent to the Group totalled HK\$141,000,000 (at 30th June, 2004: HK\$179,000,000).
- (c) During the period, the Group acquired two companies from a subsidiary of a listed associate at total consideration of HK\$52,283,000.
- (d) On 2nd March, 2005, a loan facility up to HK\$100,000,000 was granted by the Group to a subsidiary of a listed associate with interest charged at prime rate of The Hong Kong and Shanghai Banking Corporation Limited plus 1% per annum and guaranteed by the listed associate. At 30th June, 2005, the term loan facilities utilised amounted to HK\$48,000,000.
- B. Key management personnel compensation:

	Six months ended 30th June,	
	2005 HK\$'000	2004 HK\$'000
Short-term benefits	4,997	5,749
Retirement benefit costs	87	85
	<b>5,084</b>	<b>5,834</b>

## 29. SUBSEQUENT EVENT

Subsequent to the interim reporting date, Island New Finance Limited ("INFL"), an indirect non-wholly owned subsidiary of the Company, completed its acquisition of approximately 74.8% of the issued share capital of The Hong Kong Building and Loan Agencies Limited ("HKBLA"). The acquisition was completed on 12th September, 2005 and the purchase consideration of HK\$184,000,000 million was satisfied in cash. Details of the acquisition are set out in the Company's announcement and circular dated 6th July, 2005 and 28th July, 2005 respectively.

Pursuant to the Code on Takeovers and Mergers, INFL has made a mandatory unconditional cash offer to acquire the remaining shares in HKBLA. Details of the mandatory unconditional cash offer are set out in the offer document dated 14th September, 2005 issued by Sun Hung Kai International Limited, INFL's financial advisor.

More details of the acquisition and the mandatory unconditional cash offer will be provided in the 2005 annual report of the Company.

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**30. 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 30th June, 2005					Total HK\$'000
	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	
<b>Assets</b>						
Fixed deposits with banks	-	188,027	-	-	-	188,027
Loans and advances to consumer finance customers	134,507	307,143	920,059	961,767	48,786	2,372,262
Long-term loan receivable	-	-	-	4,401	-	4,401
Term loan/loan note of a listed associate	-	48,000	-	78,000	-	126,000
Term loans	228,428	94,860	10,537	-	-	333,825
Marketable debt securities	-	7,718	-	-	-	7,718
<b>Liabilities</b>						
Bank and other borrowings	-	742,505	299,983	1,210,069	77,351	2,329,908
Loan notes	-	-	-	160,525	-	160,525
<b>31st December, 2004</b>						
	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
<b>Assets</b>						
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 loan receivable	-	-	-	3,200	-	3,200
Loan note 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
<b>Liabilities</b>						
Bank and other borrowings	-	348,646	541,933	1,035,207	86,362	2,012,148
Loan notes	-	-	-	220,525	-	220,525
Obligations under a finance lease	-	76	-	-	-	76

## Interim Dividend and Book Close

The Board has declared an interim dividend of HK5 cents per share (2004: Nil) payable to the shareholders whose names appear on the register of members of the Company on 28th October, 2005. The register of members will be closed from 24th October, 2005 to 28th October, 2005, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim 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 21st October, 2005. Dividends warrants are expected to be despatched on 4th November, 2005.

## Financial Review

Turnover for the period was approximately HK\$955.1 million (2004: HK\$952.2 million). The Group reported a profit attributable to equity holders of the Company for the period of approximately HK\$498.6 million, representing an increase of 43.7% compared to approximately HK\$347.0 million (as restated) for the corresponding period of last year. The increase was mainly represented by the gain in fair value of the investment property portfolio of the Group as well as a strong contribution from the consumer finance division. Earnings per share amounted to HK\$1.9 (2004: HK\$1.3)

The period to period changes are not strictly comparable following the adoption of the new HKFRS. Details of the effects of the adoption of new accounting standards are outlined in note 3 to the condensed financial statements.

### FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

At 30th June, 2005, the net assets of the Group amounted to HK\$5,727.5 million, representing an increase of HK\$1,032.2 million or approximately 22% from that of 31st December, 2004. The Group's short-term bank deposits, bank balances and cash amounted to HK\$886.0 million (at 31st December, 2004: HK\$767.0 million). The Group's bank loans and other borrowings, together with loan notes, totalled HK\$2,490.4 million (at 31st December, 2004: HK\$2,232.7 million) of which the portion due on demand or within one year was HK\$1,042.5 million (at 31st December, 2004: HK\$890.6 million), and the remaining long-term portion was HK\$1,447.9 million (at 31st December, 2004: HK\$1,342.1 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 2.08 times (at 31st December, 2004: 2.06 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/net assets) was 28.0% (at 31st December, 2004: 31.2% as restated). The Group's capital expenditure, investments and repurchases of shares and loan notes were primarily funded by net cash inflow from operating activities and bank and other borrowings.

Most of the bank and other borrowings of the Group are denominated in Hong Kong dollars and subject to floating interest rate.

### ACQUISITION AND DISPOSAL

During the period, Sun Hung Kai group acquired all the interest in Hing Yip Holdings Limited and Sing Hing Investment Limited from a wholly-owned subsidiary of Tian An Investments Company Limited ("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 the Tian An Centre in Shanghai. A portion of the office premises is occupied by Sun Hung Kai's Shanghai offices to facilitate expansion while the presently unused units have been leased out for rental income.

In March 2005, Sun Hung Kai group acquired all the 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.

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

### RISK OF FOREIGN EXCHANGE FLUCTUATION

There have been no significant changes in the exposure to foreign exchange risks from those outlined in the Company's annual report for 2004.

### CONTINGENT LIABILITIES

Details regarding the contingent liabilities are set out in note 24 to the condensed financial statements on pages 27 and 28.



**MATERIAL LITIGATION UPDATE**

- (a) On 28th February, 2005, by order of the Hong Kong High Court, the claim by Shenzhen Building Materials Group Co. Limited against SHKIS was dismissed with costs to SHKIS. SHKIS is continuing to seek recovery of its costs.
- (b) By the Judgment of High Court on 1st April, 2004 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 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 paid, the Judgment amounted to 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 to the Court of Appeal. That Court of Appeal has now 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. It is not presently known when the Final Appeal will be heard. Matters relating to the Judgment and the Court of Appeal Judgment are further described in notes 7, 13 and 24(c) to the condensed financial statements.

- (c) On 4th February, 2004, STCC and SHKIS were served with a writ attaching a statement of claim ("200/2004") by SFHL, claiming, inter alia, that the sale of the shares in 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.
- (d) Shun Loong Finance Limited and SLHL (together the "Petitioners"), both 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.
- (e) 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.
- (f) 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 in the amount of Canadian currency sufficient to purchase HK\$10,533,000 plus prejudgment and postjudgment interest thereon. SHKIS has instructed its legal advisers to effect the payment to it of the funds, as well as interest that has accrued thereon, that are held in the custody of the Superior Court of Justice. SHKIS is continuing to seek recovery of its costs from Sung in Canada.
- (g) 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 the pledge of assets are set out in note 27 to the condensed financial statements on page 29.

**FINANCIAL SERVICES***Consumer finance*

United Asia Finance Limited (“UAF”) continued its strong performance from last year. The profit contribution from UAF increased by 38.1% when compared to the corresponding period of last year. The increase in profit of UAF was mainly due to the decrease in bad and doubtful debts. UAF’s performance continued to benefit in the first half of 2005 from the continued growth in the local economy. UAF achieved an 11.0% increase in turnover during the period and a 15.4% year-on-year growth in the balance of loans and advances to consumer finance customers at the period end.

The total number of branches as at 30th June, 2005 increased to thirty with the opening of Tseung Kwan O and Shek Tong Tsui branches in April and May respectively. UAF’s present intention is to open more branches once appropriate sites with sustainable customer flow are located.

UAF, through an indirect wholly-owned subsidiary, Island New Finance Limited (“INFL”), has recently completed its acquisition of 74.8% of the listed issued share capital of The Hong Kong Building and Loan Agency Limited (“HKBLA”) on 12th September, 2005. Pursuant to the Code on Takeovers and Mergers, INFL has made a mandatory unconditional cash offer to acquire the remaining shares in HKBLA. Details of the mandatory unconditional cash offer are set out in the offer document dated 14th September, 2005 issued by Sun Hung Kai International Limited, INFL’s financial adviser.

The principal business activity of HKBLA comprises investment holding, treasury investment and the provision of mortgage finance. It is UAF’s intention to expand the mortgage finance business through the use of HKBLA brand name.

*Broking and finance*

Sun Hung Kai recorded a profit attributable to its shareholders of HK\$215.6 million (2004: HK\$214.6 million as restated), with all of its major business segments reporting profitable results.

The turnover and commission income of the securities broking division recorded a decline as retail broking activities slowed amid market uncertainty on interest rates and oil prices.

The corporate finance division experienced a reduction in turnover. However, it successfully sponsored two IPOs on the main board of the Stock Exchange, completed the secondary placement of shares in a number of listed companies and was also actively involved in a number of underwriting exercises for IPO and rights issues. The division will continue to focus on IPO projects for medium-sized enterprises in both Hong Kong and China and the financial advisory and placing services for listed companies in Hong Kong.

The first half of 2005 saw steady growth in Sun Hung Kai’s margin loan book. Term lending activity has been pleasing during the period.

A hedge fund division was set up in the first half of 2005 to take advantage of investor demand and growth in the Asian hedge fund industry. The division is planning further fund launches in the second half of 2005.

Shun Loong group has adopted a range of business initiatives directed at increasing revenues and broadening the client base. In March 2005, Sun Hung Kai completed the acquisitions of Excalibur Futures and Excalibur Securities. Since the acquisitions, Excalibur Futures’ turnover has increased and its client base has expanded. It continues to rank highly in the HSI futures market and Sun Hung Kai expects a positive contribution to its profitability for 2005.

**PROPERTIES***Hong Kong*

Allied Properties (H.K.) Limited (“Allied Properties”) reported a profit attributable to its shareholders amounting to HK\$541.3 million, a 114% increase. The increase was mainly represented by the gain in fair value of the investment property portfolio of Allied Properties. Allied Properties’ rental property portfolio continued to record improving results, benefiting from the buoyant local property market. St. George Apartments, Century Court, Allied Cargo Centre and China Online Centre all achieved higher rental income, reflecting the benefits from the higher market rental rates as leases were renewed.

Following the completion of phase two of Ibis North Point at the end of last year, the Group’s recurrent income from hotel business has been strengthened. The hotel operating income almost doubled compared with the corresponding period of last year due to the rise in the number of rooms and the increased average room rates as a result of the strong tourism industry in Hong Kong.

**FINANCIAL SERVICES (CONT'D)***Broking and finance (Cont'd)*

To take advantage of the booming tourism industry in Hong Kong, Allied Properties is seeking opportunities to increase its investment in the hospitality industry. Application has been made to redevelop Allied Cargo Centre in Tsuen Wan into a hotel complex.

Allied Kajima Limited, 50% indirectly owned by Allied Properties and holding properties including Allied Kajima Building, Novotel Century Hong Kong hotel and the Westin Philippine Plaza Hotel, contributed a profit of 365.7% over the corresponding period in 2004. The increase was mainly due to a strong performance of Novotel Century Hong Kong hotel resulted from higher average room rates, together with the benefit of the gain in value of its investment property.

*Mainland PRC*

Although total sales of gross floor areas attributable to Tian An, a 48.6% owned listed associate of Sun Hung Kai, decreased to 56,000 sq. m. from 120,100 sq. m. during the period under review, Tian An achieved a profit attributable to its shareholders of HK\$83.0 million for the period (2004: HK\$77.8 million as restated), representing a 6.6% increase over the previous period. This was due to the improved contribution from its jointly controlled entities and gain in fair values of its investment properties in the People's Republic of China ("PRC").

The introduction of various policies of macro-economic adjustments have affected property sales and investment sentiment in the PRC. Tian An is fortunate that its major development projects such as the next phase of Shanghai Tian An Villa in Sheshan, the development project at Caobao Road in Shanghai as well as Phase III of Tian An Golf Garden in Shenzhen will only be coming on stream towards the end of next year. It is expected that the property market should have improved by then. In the meantime, Tian An will take advantage of the present market sentiment to increase its landbank should opportunities arise.

**INVESTMENTS***Quality HealthCare Asia Limited ("QHA")*

QHA, a 34.40% owned listed associate of Sun Hung Kai, continued to deliver growth in its overall profit performance. Net profit for the period attributable to its equity holders achieved a 15.1% increase to HK\$23.2 million. All of its three core healthcare divisions, including medical services, associated health services and elderly services, were profitable.

In April 2005, QHA applied approximately HK\$43.3 million cash to repurchase 10% of its ordinary share capital then issued.

The Hong Kong SAR Government has repeatedly delivered very clear messages and directives for healthcare reform and public private partnership opportunities. QHA is supportive of these initiatives and looks forward to participating in these reforms.

*Yu Ming Investments Limited ("Yu Ming")*

Yu Ming, a 22.43% owned listed associate of Sun Hung Kai, reported a profit attributable to its shareholders of HK\$188.3 million. As at 30th June, 2005, Yu Ming's major investments were a 13.5% interest in AsiaWorld-Expo, which was held through a private sector consortium, Argyle Centre, CR Airways Limited, Oriental Cashmere Limited, high-yield bonds and equity securities. The increase in profit from HK\$22.8 million of the same period of last year to HK\$188.3 million was mainly as a result of share of profit from investment in the Argyle Centre, which has appreciated significantly in value.

*Shanghai Allied Cement Limited ("SAC")*

SAC, a 54.77% owned listed subsidiary of Tian An, reported a loss attributable to its shareholders of HK\$16.3 million. The loss resulted from the continuous decline in cement prices while the cost of domestic raw materials and coal remained at a high level in the first half year of 2005, together with the keen competition among some major producers. 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.

**EMPLOYEES**

The total number of staff of the Group at 30th June, 2005, was 2,151 (at 31st December, 2004: 2,180). 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**

The management of risks in respect of the Group's finance businesses is primarily conducted by UAF and Sun Hung Kai. There have not been any significant changes in the management of such risks from that described in the Company's annual report for 2004.

## Business Outlook

The recent structural changes to the PRC currency regime and the continuing fine-tuning of austerity measures imposed by the Mainland government have produced encouraging development opportunities for the Mainland economy. Pursuant to increasing business integration with the Mainland, Hong Kong should continue to benefit from a prosperous Mainland economy.

Following improved performance in various business sectors such as finance, retailing, tourism and services, local economic prospects remain optimistic for the second half-year as employment rates improve and consumer confidence grows. With the recent opening of the Hong Kong Disneyland, the Group is anticipating a further improvement in the retail and hospitality sector.

On the other hand, Hong Kong is facing higher interest rates and persistently high oil prices. These two factors may bring inflationary pressures to bear on operating and finance costs. The management is wary of these factors but remains committed to its objective of delivering a satisfactory set of 2005 full year results for the benefit of all shareholders.

## Share Option Scheme

No option was granted under the share option scheme of the Company during the six months ended 30th June, 2005, nor was there any option outstanding at 31st December, 2004 and 30th June, 2005.

## Directors' Interests

At 30th June, 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 Securities and Futures Ordinance ("SFO"):

Name of Director	Number of shares held	Approximate % of the issued share capital	Nature of interest
Lee Seng Hui	101,906,613	39.25%	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	39.25%	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. All interests stated above represent long positions.

Save as disclosed above, at 30th June, 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 for Securities Transactions by Directors of Listed Issuers ("Model Code").

At 30th June, 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	10.03%	–
Zealous Developments Limited ("Zealous")	26,039,000	10.03%	1,2
Minty Hongkong Limited ("Minty")	75,844,692	29.21%	–
Lee and Lee Trust	101,883,692	39.25%	3,4
COL Capital Limited ("COL Capital")	23,792,494	9.17%	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, both 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 30th June, 2005, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

## Corporate Governance

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005, except for the following deviations:

#### **Code Provision A.1.7**

This code provision stipulates that there should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the issuer's expense.

To comply with this code provision, the Board has established in June 2005 a procedure to enable its Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

#### **Code Provision A.2.1**

This code provision stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Chairman of the Company is Sir Gordon Macwhinnie who is primarily responsible for the leadership of the Board, while the functions of a CEO are performed by the Chief Executive, Mr. Lee Seng Hui, who is also an Executive Director of the Company. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board in June 2005.

**CODE ON CORPORATE GOVERNANCE PRACTICES (CONT'D)*****Code Provisions A.4.1 and A.4.2***

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election, and code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Non-Executive Directors of the Company had no fixed term of office prior to June 2005, but retired from office on a rotational basis in accordance with the relevant provision of the Articles of Association of the Company. 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, provided that no Director holding office as 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 of the Company and would then be eligible for re-election at the meeting.

To fully comply with the code provision A.4.1, the term of office of all the Non-Executive Directors of the Company was fixed in June 2005, 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, relevant amendments to the Articles of Association of the Company were proposed and approved by the shareholders of the Company at its annual general meeting held on 3rd June, 2005.

***Code Provision A.5.4***

This code provision stipulates that the board should establish written guidelines on no less exacting terms than the Model Code as set out in Appendix 10 of the Listing Rules for the relevant employees, who are likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities, in respect of their dealings in the securities of the issuer.

To comply with this code provision, the Company has adopted in June 2005 the Model Code for securities transactions by certain employees of the Company, who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

***Code Provisions B.1.3 and B.1.4***

Code provision B.1.3 stipulates that the terms of reference of the remuneration committee should include, as a minimum, those specific duties as set out in the provision, and code provision B.1.4 stipulates that the remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the remuneration committee of the Company ("Remuneration Committee") have been revised in June 2005 to comply with the code provision B.1.3, 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 an issuer. The Board considers that the Remuneration Committee 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 executives and that this evaluation process is more effectively carried out by the Executive Directors;
- (ii) the Remuneration Committee members only consist of Independent Non-Executive Directors ("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 also been placed on the Company's website in June 2005 to ensure full compliance with the code provision B.1.4.



**CODE ON CORPORATE GOVERNANCE PRACTICES (CONT'D)****Code Provisions C.3.3 and C.3.4**

Code provision C.3.3 stipulates that the terms of reference of the audit committee should include at least those duties as set out in the provision, and code provision C.3.4 stipulates that the audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

The terms of reference of the audit committee of the Company ("Audit Committee") have been revised in June 2005 to comply with the code provision C.3.3, 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 that 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 issuer.

The Board considers that the Audit Committee should recommend (as opposed to implement) the policy on the engagement of the external auditors to supply non-audit services 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 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 the internal and external auditors but it can promote the same. Similarly, the Audit Committee cannot ensure that the internal audit function is adequately resourced but it can check whether it is adequately resourced.

The revised terms of reference of the Audit Committee have been placed on the Company's website in June 2005 to ensure full compliance with the code provision C.3.4.

**Code Provision D.1.2**

This code provision stipulates that an issuer should formalise the functions reserved to the board and those delegated to the management and should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.

The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in June 2005. The Board will review the same once a year.

**Code Provision D.2.1**

This code provision stipulates that, where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

To comply with this code provision, the Board has adopted in June 2005 sufficiently clear terms of reference for all the board committees of the Company to enable such committees to discharge their functions properly.

**CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the 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 fully complied with the required standard as set out in the Model Code throughout the period under review.

## Purchase, Sale or Redemption of Shares

During the period under review, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchases	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
February 2005	200,000	11.05	–	2,210,000
March 2005	394,000	11.60	10.60	4,423,500
April 2005	132,000	11.00	10.60	1,429,900
May 2005	356,000	10.90	10.60	3,824,200

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 six months ended 30th June, 2005.

## Audit Committee Review

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2005. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKICPA, and on the interim results announcements of the listed associates, as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

By Order of the Board  
**Sir Gordon Macwhinnie**  
*Chairman*

15th September, 2005