Introduction

The core businesses of the Company and its subsidiaries and associates consist of property investment, property development, hospitality related activities and financial services. The Company is a subsidiary of Allied Group Limited ("Allied Group"). The Company's interests in property investment and development and hospitality related activities in Hong Kong are mainly held through its wholly owned subsidiaries or the 50% owned Allied Kajima Limited ("Allied Kajima"), and in respect of property investment and development and hospitality related activities in The People's Republic of China ("PRC"), through Tian An China Investments Company Limited ("Tian An"), being an associate held by Sun Hung Kai & Co. Limited ("Sun Hung Kai"). The Company's financial services business is mainly conducted through its 74.99% holding in Sun Hung Kai.

Financial Results

The profit attributable to the equity holders of the Company for the year was approximately HK$935.3 million. (2004: HK$563.0 million, as restated). The increase was mainly represented by the gain in fair value of the investment property portfolio of the Group partially reduced by the termination of release of negative goodwill and amortisation of negative goodwill from the beginning 2005. Earnings per share amounted to HK$1.74 (2004: HK$1.14, as restated). The effects of the changes in accounting policies are outlined in note 3 to the financial statements.

Dividend and Book Close

The board of directors of the Company ("Board") has proposed a final dividend of HK10 cents per share (2004: HK5 cents) payable to shareholders whose names appear on the register of members of the Company on Friday, 26th May, 2006.

The register of members of the Company will be closed from Monday, 22nd May, 2006 to Friday, 26th May, 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 19th May, 2006. Subject to approval by the shareholders at the forthcoming annual general meeting ("AGM") of the Company to be held on Friday, 26th May, 2006, dividend warrants are expected to be despatched on Tuesday, 27th June, 2006.

Proposed Bonus Issue of Warrants

The Board is also pleased to announce that the Company has proposed a bonus issue of warrants ("Bonus Issue") to the shareholders of the Company on the basis of one bonus warrant for every five shares held, at an initial subscription price of HK$10.00 per share with a term of three years. Details of the Bonus Issue are set out in an announcement of the Company dated 12th April, 2006 and a circular for further details of the Bonus Issue will be sent to the shareholders as soon as practicable.

Financial Review

Segmental Information

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

Financial Resources, Liquidity and Capital Structure

The Group is principally financed by net cash inflow from operating activities and banking facilities granted by the banks. The banking facilities of the Group are reviewed from time to time and new banking facilities will be obtained or renewed to meet the funding requirements for capital commitments, investments and operations of the Group.

At 31st December, 2005, the current ratio (current assets/current liabilities) of the Group was 1.73 times, which increased from the 1.70 times applicable at the end of the preceding year.

At 31st December, 2005, the Group's net borrowings amounted to HK$1,408.0 million (2004: HK$1,179.9 million), representing bank borrowings and loan notes of HK$1,890.2 million (2004: HK$1,779.4 million) less bank deposits, bank balances and cash of HK$482.2 million (2004: HK$599.5 million) and the Group had equity attributable to equity holders of the Company of HK$7,070.5 million (2004: HK$5,376.5 million, as restated). Accordingly, the Group's gearing ratio of net borrowings to equity attributable to equity holders of the Company was 19.9% (2004: 21.9%).

	2005	2004
	HK$'000	HK$'000
Bank borrowings of the Group are repayable as follows:		
Within one year or on demand	**950,233**	603,180
More than one year but not exceeding two years	**606,939**	226,738
More than two years but not exceeding five years	**211,214**	733,469
More than five years	**57,610**	86,362
	1,825,996	1,649,749
Loan notes repayable within five years	**64,252**	129,637
	1,890,248	1,779,386

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

Risk of Foreign Exchange Fluctuation

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

Acquisitions and Disposals

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

Financial Review (Cont'd)

Acquisitions and Disposals (Cont'd)

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

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

Contingent Liabilities

Details of contingent liabilities are set out in note 44 to the financial statements.

Material Litigation Update

(a) An update on the litigation by Shanghai Finance Holdings Limited ("SFHL") against Sun Tai Cheung Credits Limited ("STCC") and Sun Hung Kai Investment Services Limited ("SHKIS") (200/2004) and the litigation by New World Development Company Limited and Stapleton Development Limited against Sun Hung Kai Securities Limited, a wholly-owned subsidiary of Sun Hung Kai are set out in paragraphs (b) and (c) of note 44 to the financial statements on "Contingent Liabilities".

(b) Shun Loong Finance Limited and Shun Loong Holdings Limited (together the "Petitioners"), both indirect wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("B.V.I.") seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. The B.V.I. proceedings were stayed by order of the B.V.I. court. The Petitioners have appealed that decision but have agreed not to pursue the appeal during the stay of 200/2004.

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

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

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

Financial Review (Cont'd)

Pledge of Assets

Details regarding pledge of assets are set out in note 48 to the financial statements.

Events After the Balance Sheet Date

Details regarding events after the balance sheet date are set out in note 51 to the financial statements.

Operational Review

PROPERTIES

Hong Kong

The Group's investment property portfolio continued to record improving results, benefiting from the buoyant local property market. St. George Apartments, Century Court, Allied Cargo Centre, Park Place, 22nd Floor of No. 9 Queen's Road Central and China Online Centre all achieved higher rental income as and when leases were renewed during the year. Contribution from Ibis North Point continued to strengthen during the second half of the year. The hotel operating income almost doubled compared with that of last year due to the rise in the number of rooms and the increased average room rates.

With the application of the new Hong Kong Accounting Standards, the Group has adopted the fair value model for its investment properties. As at the year end, the investment properties of the Group were revalued by an independent professional firm of valuers, resulting in a valuation surplus of approximately HK$522.3 million which was reported in the consolidated income statement for the year.

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

Mainland PRC

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

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

Operational Review (Cont'd)

Mainland PRC (Cont'd)

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

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

FINANCIAL SERVICES

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

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

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

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

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

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

Operational Review (Cont'd)

INVESTMENTS

Quality HealthCare Asia Limited ("QHA")

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

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

At 7th April, 2006, the Company, Sun Hung Kai and Allied Group, being the ultimate holding company, jointly announced that Wah Cheong Development (B.V.I.) Limited ("Wah Cheong"), a wholly-owned subsidiary of Sun Hung Kai, had entered into a conditional option agreement pursuant to which Wah Cheong was granted an option to acquire further 34,155,666 shares in QHA from CLSA Capital Limited ("CLSA") at an option consideration of HK$27,752,291. Details of the transaction are set out in note 51 to the financial statements.

Yu Ming Investments Limited ("Yu Ming")

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

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

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

Operational Review (Cont'd)

INVESTMENTS (Cont'd)

Shanghai Allied Cement Limited ("SAC")

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

Major Customers and Suppliers

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

Employees

The total number of staff of the Group at 31st December, 2005 was 1,662 (2004: 1,774). Total staff costs, including Directors' emoluments, amounted to HK$224.5 million (2004: HK$231.7 million). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

Management of Risks

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

Financial Risk

The financial risk management is discussed in note 6 to the financial statements on "Financial Risk Management Objectives and Policies".

Management of Risks (Cont'd)

Operational Risk

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

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

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

Reputational Risk

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

Outlook

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

The Group expects its office and residential portfolio will continue to benefit from the positive local property market, with occupancy rates of the Group's investment properties expected to remain high. The promising tourism industry in Hong Kong will be beneficial to the Group's hotel business.

Barring any unexpected external factors, the Group takes a positive outlook on local business conditions in the year 2006. However, given the high oil prices and interest rates, the rate of economic growth is anticipated to be slower than that of last year. The Group will maintain its cautious strategy by maintaining healthy cash management, balanced capital structure and will seek viable business opportunities that will deliver long term and sustainable values to the shareholders of the Company.

Appreciation

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

Patrick Lee Seng Wei
Chief Executive
Hong Kong, 12th April, 2006