

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities at 31st December, 2005 are set out in notes 52, 53 and 54 to the financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company are set out in the consolidated income statement on page 34 and in the accompanying notes to the financial statements.

The Directors have proposed the payment of a final dividend of HK10 cents per share payable to shareholders whose names appear on the register of members of the Company on Friday, 26th May, 2006. Since no interim dividend was paid, the total dividend for the year is HK10 cents per share. Details are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

During the year, the Group spent HK\$2,605,000 on investment properties and acquired a further HK\$39,362,000 of investment property on the acquisition of subsidiaries. Certain of the Group's properties held for sale with carrying value of HK\$47,160,000 were transferred to investment properties.

The Group's investment properties were revalued on 31st December, 2005 at HK\$2,784,100,000. The net increase in fair value of HK\$522,250,000 has been credited to the income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK\$19,472,000 on property, plant and equipment and acquired a further HK\$11,028,000 of property, plant and equipment on the acquisition of subsidiaries. The Group also disposed of certain of its property, plant and equipment with a net carrying value of HK\$813,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

PROPERTIES HELD FOR DEVELOPMENT

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

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

Details of these and other movements in the properties held for development of the Group during the year are set out in note 18 to the financial statements.

PROPERTIES

Particulars of major properties of the Group at 31st December, 2005 are set out on pages 130 to 132.

SHARE CAPITAL

Details of movement in the share capital of the Company during the year are set out in note 35 to the financial statements.

DIRECTORS

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

Executive Directors:

Patrick Lee Seng Wei

Li Chi Kong

Non-Executive Directors:

Henry Lai Hin Wing

Steven Lee Siu Chung

Independent Non-Executive Directors:

John Douglas Mackie

Steven Samuel Zoellner

Alan Stephen Jones

(appointed on 3rd January, 2006)

Gordon Macwhinnie

(retired on 30th December, 2005)

In accordance with Article 105(A) of the Company's Articles of Association, Messrs. Patrick Lee Seng Wei and John Douglas Mackie will retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 96 of the Company's Articles of Association, Mr. Alan Stephen Jones, who has been appointed since the last AGM and before the date of this report, will retire at the forthcoming AGM and, being eligible, offers himself for re-appointment as Director.

DIRECTORS' SERVICE CONTRACTS

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

TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS

At 31st December, 2005, Messrs. Patrick Lee Seng Wei, Li Chi Kong and Steven Lee Siu Chung, Directors of the Company, had the following interests in the shares and underlying shares of the Company and 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:

Name of Director	Name of Company	Number of shares and underlying shares held	Approximate % of the relevant issued share capital	Nature of interest
Patrick Lee Seng Wei	The Company	270,000 (Note 1)	0.05%	Personal interest (held as beneficial owner)
	Allied Group (Note 2)	550,000 (Note 3)	0.21%	Personal interest (held as beneficial owner)
Li Chi Kong	SAC (Note 2)	600,000 (Note 4)	0.08%	Personal interest (held as beneficial owner)
Steven Lee Siu Chung	Allied Group (Note 2)	200 (Note 3)	0.00000078%	Personal interest (held as beneficial owner)
	Sun Hung Kai (Note 2)	1,000 (Note 5)	0.00000080%	Personal interest (held as beneficial owner)

Notes:

- This represents an interest in 270,000 shares of the Company.
- Allied Group is the ultimate holding company of the Company. Sun Hung Kai is an indirect non wholly-owned subsidiary of the Company. A controlled corporation (within the meaning of Part XV of the SFO) of the Company has a direct interest in more than 20% of the issued share capital of SAC. Therefore, Allied Group, Sun Hung Kai and SAC are associated corporations of the Company within the meaning of Part XV of the SFO.
- These represent interests in 550,000 shares and 200 shares of Allied Group.
- This represents an interest in 600,000 share options of SAC giving rise to an interest in 600,000 underlying shares of SAC. The share options were granted on 28th July, 2003 for a consideration of HK\$10.00 and are exercisable at an exercise price of HK\$0.70 at any time during the period from 28th January, 2004 to 27th July, 2013 (both days inclusive).
- This represents an interest in 1,000 shares of Sun Hung Kai.
- All interests stated above represent long positions.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, Messrs. Patrick Lee Seng Wei and Li Chi Kong, Directors of the Company (not being the INEDs), are considered to have interests in the following competing businesses pursuant to the Listing Rules:

- (i) Mr. Patrick Lee Seng Wei is a director of Sun Hung Kai which, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;
- (ii) Mr. Li Chi Kong is a director of AG Capital, a subsidiary of Allied Group, which is partly engaged in the business of money lending;
- (iii) Mr. Li Chi Kong was a director of The Building and Loan Agency (Asia) Limited (formerly known as Goldnet Investment Limited), a subsidiary of Allied Group, which is partly engaged in the business of money lending. He resigned on 7th December, 2005;
- (iv) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Tian An which, through a subsidiary, is partly engaged in the business of money lending; and
- (v) Messrs. Patrick Lee Seng Wei and Li Chi Kong are directors of Allied Kajima which, through certain of its subsidiaries, is partly engaged in the businesses of property rental, management services and hospitality related activities.

As the Board is independent from the boards of the abovementioned companies and none of the above Directors can control the Board, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

DIRECTORS' INTERESTS IN CONTRACTS

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

Name of Shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Allied Group	402,540,059	74.93%	1
Lee and Lee Trust	402,540,059	74.93%	2, 3

Notes:

- The interest includes the holding of: (i) 167,061,619 shares held by Capscore Limited ("Capcore"); (ii) 4,186,632 shares held by Citiwealth Investment Limited ("Citiwealth"); (iii) 134,953,783 shares held by Sunhill Investments Limited ("Sunhill"); and (iv) 96,338,025 shares held by Allied Group. Capcore, Citiwealth and Sunhill are all wholly-owned subsidiaries of Allied Group. Allied Group was therefore deemed to have an interest in the shares in which Capcore, Citiwealth and Sunhill were interested.
- The figure refers to the same interest of Allied Group in 402,540,059 shares of the Company.
- Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust, being a discretionary trust. They together own approximately 40.06% interest of the issued share capital of Allied Group and were therefore deemed to have an interest in the shares in which Allied Group was interested.
- The interest stated above represents a long position. At 31st December, 2005, no short positions were recorded in the register required to be kept under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

- As disclosed in the announcement of the Company dated 14th September, 2005, the Company entered into a sharing of administrative services and management services agreement ("Services Agreement") with Allied Group on 14th September, 2005, pursuant to which the Company agreed to reimburse Allied Group the costs incurred in respect of the administrative services, which included the secretarial services, provision of office premises, utilities, courier and delivery, telephone (including international telephone), internet, photocopying and other ancillary office services provided by Allied Group to the Group (i.e. the Company and its subsidiaries, but excluding those in the group of Sun Hung Kai) ("Administrative Services") and management services, which included the management, strategic and business advice provided by the senior management of Allied Group to the Group (i.e. the Company and its subsidiaries, but excluding those in the group of Sun Hung Kai) ("Management Services"). Since Allied Group is the controlling shareholder and ultimate holding company of the Company, the entering into of the Services Agreement and the transactions contemplated thereunder regarding the sharing of the Management Services constituted continuing connected transactions for the Company under Rule 14A.14 of the Listing Rules. Pursuant to Rule 14A.31(8) of the Listing Rules, the transactions regarding the sharing of Administrative Services between the Company and Allied Group contemplated thereunder are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS (CONT'D)

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs have reviewed the transactions regarding the sharing of the Management Services and have confirmed that the transactions were:

- (i) entered into in the ordinary and usual course of business of the Company;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the Services Agreement governing the transactions regarding the sharing of the Management Services and on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the above continuing connected transaction and the auditors have reported their factual findings on these procedures to the Board.

Pursuant to Rule 14A.34 of the Listing Rules, details of the Services Agreement and the aggregate amount of the Management Services for the year ended 31st December, 2005 of HK\$4,900,000 are required to be included in this report of the Company in accordance with Rule 14A.45 of the Listing Rules.

2. As disclosed in the announcement of the Company dated 4th January, 2006, a tenancy agreement ("Tenancy Agreement") was entered into on 30th December, 2005 between Hillcrest Development Limited ("Hillcrest"), a wholly-owned subsidiary of the Company, as the landlord and Allied Group as the tenant for the renewal of a tenancy of 60 Plantation Road, The Peak, Hong Kong for residential use for a further term of two years commencing from 1st January, 2006 to 31st December, 2007 at a monthly rental of HK\$238,000 (exclusive of rates and management fee). This property is held by Hillcrest for investment purposes. The rent was based on the prevailing market rent as reviewed by Savills (Hong Kong) Limited ("Savills") on 19th December, 2005. Savills is an independent firm of international property consultants and is not a connected person of the Company under the Listing Rules. Since Allied Group is the controlling shareholder and ultimate holding company of the Company, the renewed tenancy constituted a continuing connected transaction for the Company under Rule 14A.34 of the Listing Rules and is exempt from the independent shareholders' approval requirement.

CONTINUING CONNECTED TRANSACTIONS (CONT'D)

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs have reviewed the transactions regarding the entering of the Tenancy Agreement and have confirmed that the transaction was:

- (i) entered into in the ordinary and usual course of business of the Company;
- (ii) conducted on normal commercial terms; and
- (iii) entered into in accordance with the terms of the Tenancy Agreement governing it and on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the above continuing connected transaction and the auditors have reported their factual findings on these procedures to the Board.

Pursuant to Rule 14A.34 of the Listing Rules, details of the Tenancy Agreement and the annual cap of HK\$2,856,000 are required to be included in this report of the Company in accordance with Rule 14A.45 of the Listing Rules.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

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

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

Name of Entity	Advances at 31st December, 2005
Tian An	HK\$ 323,456,000

The advances comprise the following:

- (i) loan note issued by Tian An of HK\$78,000,000 to Sun Hung Kai on 29th August, 2003 which is unsecured and bears interest at 2.5% per annum payable on an annual basis. The loan note will mature on 29th August, 2008;
- (ii) term loans of HK\$245,000,000 drawn from a loan facility amounted to HK\$280,000,000 granted to a subsidiary of Tian An for a term of 36 months from 7th November, 2005. The interest on the term loans is charged at prime rate plus 1% per annum. The loans are guaranteed by Tian An; and
- (iii) other trade receivables of HK\$456,000 which are unsecured, non-interest bearing and repayable on demand.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES (CONT'D)

- (b) At 31st December, 2005, the Group had advances to certain affiliated companies totalling HK\$414,002,000, which exceeded 8% of the market capitalisation of the Company. Pursuant to Rule 13.22 of the Listing Rules, the proforma combined balance sheet of these companies based on their latest financial statements available is set out as follows:

Pro-forma combined balance sheet:	HK\$'000
Non-current assets	7,201,427
Current assets	3,238,004
Current liabilities	(3,523,605)
Non-current liabilities	(1,831,558)
Minority interests	(416,889)
	<u>4,667,379</u>
Group's proforma attributable interests	<u>1,681,345</u>

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 10 to the financial statements respectively.

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

DONATIONS

The Group made charitable donations of HK\$354,000 during the year.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 14 to 23.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

On behalf of the Board



Patrick Lee Seng Wei

Chief Executive

Hong Kong, 12th April, 2006