



K. WAH INTERNATIONAL HOLDINGS LIMITED
嘉華國際集團有限公司

(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)
(Stock code 股份代號 0173)



Annual Report **2005** 年報

Unless otherwise stated, in this annual report : (i) the **Company** means K. Wah International Holdings Limited and the **Group** includes the Company and its subsidiaries, (ii) the **Board** means the board of directors and **Directors** are the directors of the Company, (iii) **Share** and **Shareholder** are, respectively, ordinary share of the Company and holder of the Share, (iv) **Listing Rules** refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, **Stock Exchange** is The Stock Exchange of Hong Kong Limited, (v) **SFO** is the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, (vi) **Bye-laws** refers to the Bye-laws of the Company, (vii) **GEG** and **Galaxy Casino** are, respectively, Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027) and Galaxy Casino, S.A. (a company incorporated in Macau), and (viii) **2005 Financial Statements** refers to the audited consolidated financial statements of the Company for the year ended 31st December 2005.

除非另有所指，否則在本年報內：(i)「**本公司**」指 K. Wah International Holdings Limited 嘉華國際集團有限公司及「**本集團**」包括本公司及其附屬公司，(ii)「**董事會**」指本公司之董事會及「**董事**」指本公司之董事，(iii)「**股份**」及「**股東**」分別指本公司之普通股份及股份持有人，(iv)「**上市規則**」指聯交所證券上市規則，「**聯交所**」指香港聯合交易所有限公司，(v)「**證券及期貨條例**」指香港法例第五百七十一章證券及期貨條例，(vi)「**公司細則**」指本公司之公司細則，(vii)「**銀河娛樂**」及「**銀河娛樂場**」分別指銀河娛樂集團有限公司（於香港上市股份代號0027）及銀河娛樂場股份有限公司（於澳門註冊成立之公司），及(viii)「**二零零五年財務報表**」指截至二零零五年十二月三十一日止年度本公司已審核綜合賬目。

Contents

02	Our Mission
03	Our Company
04	Major Events and Awards
06	Chairman's Statement
08	Corporate Governance Report
14	Management Discussion and Analysis
36	Five-Year Summary
38	Investor Relations
39	Good Corporate Citizenship
40	Corporate Information
41	Directors and Senior Managers
43	Report of the Directors
53	Report of the Auditors
54	Consolidated Profit and Loss Statement
55	Consolidated Balance Sheet
56	Company Balance Sheet
57	Consolidated Cash Flow Statement
58	Consolidated Statement of Changes in Equity
59	Notes to the Financial Statements
107	Schedule of the Group's Significant Properties

Our Mission

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and competitive pricing.

With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.

Our Company

Since our listing in 1987*, K. Wah International Holdings Limited (Hong Kong listed stock code 0173) has been renowned for being a quality developer. Over the years, we have developed dozens of premium projects in Shanghai, Guangzhou, and Hong Kong, and built a suite of premium investment properties across Mainland China, Hong Kong, and South East Asia. The Great Hill in Hong Kong and our K. Wah Centre in Shanghai are latest additions to this portfolio. We also have significant presence in Macau – a booming and most exciting entertainment and leisure destination in this part of the world – through our strategic 18.7% stake holding in Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027). Our strategic holding in GEG provides an investment gateway for our shareholders to share in the success of the booming Macau economy.

LEADERSHIP IN THE NICHE MARKET

We integrate design, quality, functionalities, and services in our products to re-define the concept of modern living. It is our unique proposition that our products while maintaining good margins for the Company must at the same time offer the highest value to our customers. This philosophy earns trophies and accolades for all products under the K. Wah brand including, lately in 2006, the Business Superbrands.

SOLID FOUNDATION FOR GROWTH

Mainland China has been a core part in our roadmap for growth since the early 90's. This first-mover advantage gives us the edge over our peers in building up sizeable land bank at low cost. We have also accumulated a team of seasoned management and professional staff, and forged strategic partnerships for our business there. Most of our land reserve is at premium locations in Shanghai and Guangzhou, which will remain the key component of our growth play.

* Formerly K. Wah Stones (Holdings) Limited listed in 1987.

04 | Major Events and Awards

06/02/2005

The Company formed a strategic alliance with Shanghai Baosteel Group Corporation, Mitsubishi Corporation and Tokyu Land Corporation to set up the **joint venture Shanghai Baoland Co. Ltd.** with an aim to further enhance its business portfolio in Mainland China property market.



23/04/2005

The opening ceremony of **Shanghai K. Wah Centre** was officiated by the former Prime Minister of France Jean Pierre Raffarin (right), renowned French artist Richard Texier (left), and Chairman of the Group Dr Che-woo Lui.



19/07/2005

The successful **acquisition of Galaxy Casino, S.A.** by GEG (formerly KWCM) marked a major breakthrough of the Company and created a quadruple win for Shareholders, GEG, the Company and Galaxy Casino.





03/10/2005

The sponsorship of the renowned opera Turnadot is one of the major **marketing campaigns** of The Great Hill.



14/11/2005

Chief Executive of the HKSAR Donald Tsang, Deputy Director of the Liaison Office of the Central People's Government Wang Fengchao and Chairman of the Group Dr Che-woo Lui officiated at the **K. Wah Group 50th Anniversary Grand Celebration**.



07/03/2006

K. Wah is the first Hong Kong property developer clinching the **Business Superbrands**, a testimonial of its dedication in developing high quality properties.



**Sustained
Business Growth
Driven by Innovation
and Commitment to
Excellence**

Chairman
Dr Che-woo Lui
GBS, MBE, JP, LLD, DSSc

Dear shareholders,

I am pleased to report on a year of creating value for our shareholders, particularly on back of the 50th anniversary of the K. Wah Group.

Much of 2005 was devoted to unlocking the value of the gaming assets of Galaxy Casino, S.A., through injection into K. Wah Construction Materials Limited, which is now Galaxy Entertainment Group Limited. Galaxy is the first Hong Kong company holding a gaming concession, and the listing is also the first of its kind in Hong Kong.

The separation of Galaxy from the Group not only creates value for our shareholders but also generates substantial profit for the Group and brings clarity to the business focus of the two companies.

Galaxy is an important asset, and the Group's focus, henceforth, will be property development and investment, in Hong Kong and particularly, in Mainland China.

The global trade and investment universe all has its focus on Greater China. Our strategic plan has for years identified Mainland China as the key growth driver of the Group's business.

Mainland China growth momentum continues to be strong. In 2005, her GDP grew by 9.9% to RMB18.23 trillion, and export surged 28.4% to US\$762 billion. Against this backdrop of strong growth is the sheer accumulation of private wealth achieved over two decades of successful economic reforms, and un-locking the private sector wealth looks set to become a theme as Mainland China continues to shape her economic landscape.

Rising private affluence and a strong propensity for home ownership bring sustainable demand for housing. To date, the Group has accumulated a land bank of over two million square metres of land in Shanghai and Guangzhou. Our Shanghai K. Wah Centre highlights the importance of the Group's presence in the municipality, the most exciting landscape in Mainland China.

Hong Kong remains the Group's core area in our Greater China game plan. In 2005, Hong Kong home prices rose by close to 7%. Hong Kong property prices in 2006 look set to return to the uptum. Many predict that interest rate cycle will peak out this year. Increasing number of new families and falling unemployment rate all spur demand for housing.

The Group will capitalize on the improved market conditions in Hong Kong. This year, the Group's two premium residential projects will go on stream for pre-sale, which are The Great Hill in Shatin, and the residential development at Johnston Road, Wanchai. Our luxurious project at The Great Hill has already registered strong purchase interest since commencement of its pre-sale in early March 2006. We are confident that these projects will deliver the results we expect and good value to our shareholders.

The Group has always been known as a quality property developer in the high-end market. Over the years it has accumulated a number of accolades through the uncompromising quest for excellence of the management and staff. The most recent addition to the list is the "Business Superbrands" Award in recognition of our achievements on corporate structure, market positioning, management, and quality of product and services at international level.

As I have emphasized in last year's annual report, people is the key force driving the growth of the Group. Given the Group's extensive business network covering Shanghai, Guangzhou, Hong Kong, Macau and Singapore, the people element has never been more important than now. Our core strength has always been the extent to which our operations in different markets have harnessed the Group's capabilities in enhancing their competitive position in different places. We share experience and best industry practices within this network of operations. This transfer of skills and expertise enables us to create and take business opportunities, and from there we manage growth.

I shall be more than happy for the Group to have a team of seasoned and loyal management and staff. The Group will continue to invest in human resources to enhance our competitiveness in the global business arena.

I thank the directors and all our employees for the professionalism, enterprises and hard work they have dedicated to the Group's business and success.

Che-woo Lui

Chairman

30th March 2006



As early as 2000, corporate governance has already been part of the corporate value of the Company. Over the years, the Company has developed sound governance and disclosures practices as part of its ethical corporate culture with a view for transparency to the investing public. This sets the standards in the way the Group goes about its business.

BOARD AND BOARD PRACTICES

The objectives of the management structures within the Group, headed by the Board and led by the Chairman, are to deliver sustainable value to Shareholders.

The Chairman provides leadership to and oversees the effective functioning of the Board. With support of the Managing Director and the Company Secretary, the Chairman approves Board meeting agenda, and ensures Directors have proper briefing, and timely receive adequate and reliable information, on all Board matters.

The role of the Chairman is separate from that of the Managing Director, and different persons hold the separate offices. Managing Director heads the management and focuses on the day-to-day operations of the Group.

Led by the Chairman, the Board sets the strategy and policies for the Group, approves the annual budget and business plan presented by management for the achievement of the strategic objectives, evaluates performance, and oversees management. The Board confines itself to making strategic and broad policy decisions, delegating responsibility for more detailed considerations to the Executive Board under the leadership of the Chairman, and implementation to the Managing Director.

The Board comprises 6 executive Directors (including the Chairman and the Managing Director), and 7 non-executive Directors (of whom 5 were independent non-executive Directors). Biographical details of the Directors are set out on pages 41 to 42 of this annual report. Non-executive Directors do not participate in the daily business management of the Company but constructively challenge and help develop proposals on the Group's business strategy. Non-executive Directors are appointed for a term of 3 years.

Each of Sir David Akers-Jones, Dr. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun, and Mr. Robert George Nield has provided confirmation of his independence to the Company. The Board considers that all of them met the requirements of the independence guidelines in Rule 3.13 of the Listing Rules. One of the independent non-executive Directors has appropriate accounting professional qualification, and the rest possess appropriate business skills and financial management experience.

In accordance with the requirements of the Bye-laws and the corporate governance practices of the Company, Mr. Eddie Hui Ki On and Mr. William Lo Chi Chung (both executive Directors) as well as Sir David Akers-Jones and Dr. Leo Lee Tung Hai (both independent non-executive Directors) will retire by rotation but offer themselves for re-election, respectively as executive Directors and independent non-executive Directors, at the forthcoming annual general meeting of the Company. None of the Directors who are proposed for re-election has a service contract with the Company that is not terminable by the Company within 1 year without payment of compensation (other than statutory compensation).

Under the Chairman's leadership, the Board is regularly reviewing its succession and nomination policy to ensure that there is a balance of expertise, skill, and experience appropriate for the business and long-term development of the Group. The criteria for selecting and recommending candidates for directorship include their experience and expertise in particular field, and their understanding and familiarity with the business and activities of the Group with which they will be concerned.

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company also regularly updates Directors on compliance developments, and has directors & officers insurance in place against risks and exposure arising from the Group's business and activities.

The Board schedules regular meetings in advance, at least 4 times a year at approximately quarterly intervals to give Directors opportunity to attend. The Company Secretary circulates Board agenda and papers at least 3 days in advance. Both the Qualified Accountant and the Company Secretary attend Board meetings to answer queries and assist Directors thereat. The Company Secretary keeps and circulates copy of Board minutes to all Directors. All Directors have full and timely access to relevant information, and are entitled to independent professional advice if found necessary. In between scheduled Board meetings, the executive Directors receive information from management on the activities and developments in the Group's business. The Board had 4 meetings in 2005 (79% average attendance rate).

Directors' attendance in Board and other meetings of the Company in 2005

	Shareholders		Independent		
	Board Meeting (4)	Audit Committee (2)	Annual/Special General Meeting (2)	Ad Hoc Board Committee (5)	Board Committee (1)
Executive Directors					
Lui Che Woo (Chairman) ¹	2/4	N/A	0/2	N/A	N/A
Francis Lui Yiu Tung (Managing Director) ²	4/4	N/A	2/2	N/A	N/A
Lennon Lun Tsan Kau (Deputy Managing Director)	4/4	N/A	2/2	5/5	N/A
Eddie Hui Ki On	4/4	N/A	2/2	5/5	PAT
William Lo Chi Chung	4/4	N/A	2/2	PAT	PAT
Paddy Tang Lui Wai Yu ³	4/4	N/A	2/2	N/A	N/A
Non-executive Directors					
Michael Leung Man Kin ⁴	4/4	1/1	2/2	2/5	N/A
Philip Wong Kin Hang ⁵	2/4	0/1	0/2	N/A	N/A
Independent Non-executive Directors					
Sir David Akers-Jones	3/4	N/A	1/2	N/A	1/1
Alex Wu Shu Chih ⁶	N/A	N/A	N/A	N/A	N/A
Leo Lee Tung Hai	3/4	N/A	2/2	N/A	1/1
Robin Chan Yau Hing	0/4	N/A	1/2	N/A	1/1
Charles Cheung Wai Bun	4/4	2/2	2/2	N/A	N/A
Robert George Nield	3/4	2/2	1/2	N/A	1/1
Total	41/52	5/6	19/26	12/15	4/4
Average attendance rate	79%	83%	73%	80%	100%

¹ Dr. Lui Che Woo is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

² Mr. Francis Lui Yiu Tung is the son of Dr. Lui Che Woo, and the younger brother of Ms. Paddy Tang Lui Wai Yu.

³ Ms. Paddy Tang Lui Wai Yu is the daughter of Dr. Lui Che Woo, and the elder sister of Mr. Francis Lui Yiu Tung.

⁴ Mr. Michael Leung Man Kin was appointed as audit committee member on 3rd March 2005.

⁵ Dr. Philip Wong Kin Hang resigned as audit committee member on 3rd March 2005.

⁶ Dr. Alex Wu Shu Chih passed away on 9th January 2005.

PAT: Attendance not required but nevertheless participated in the meeting.

MODEL CODE ON SECURITIES TRANSACTIONS

The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons ("Model Code") that complies with Appendix 10 of the Listing Rules. Following a specific enquiry, each Director has confirmed he or she has complied with the Model Code throughout the year.

Other than the connected transaction and continuing connected transactions disclosed in the Report of the Directors, none of the Directors had, during the year or at the end of the year, a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiaries.

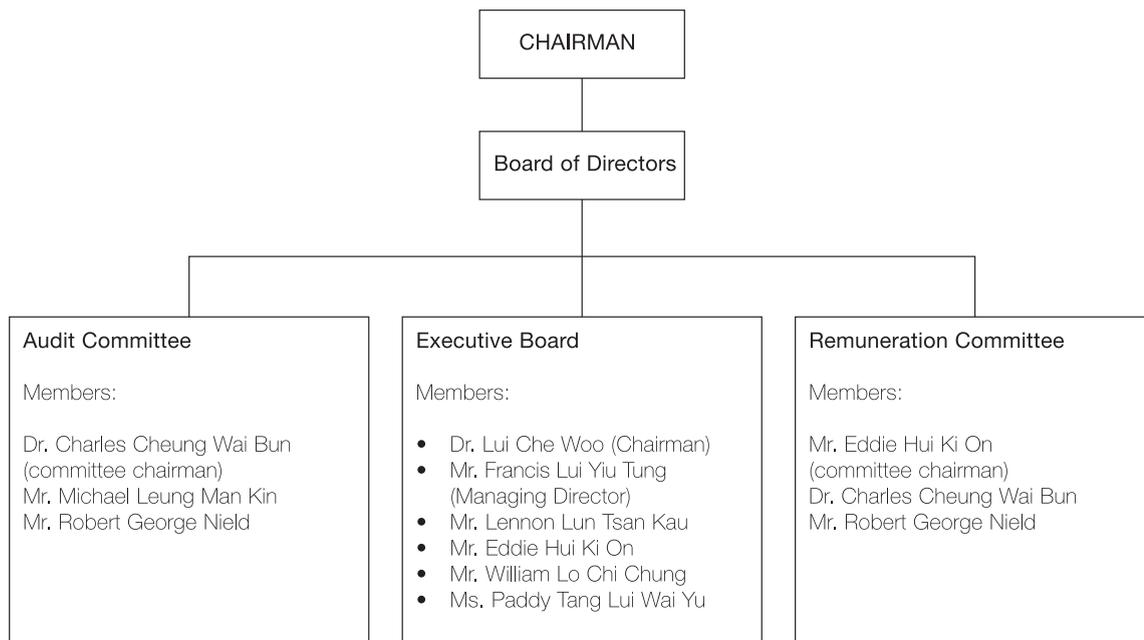
The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by certain of its employees.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which shall give a true and fair view of the results and performance of the Group. Having made appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future, and that, for this reason, it is appropriate to adopt the going concern basis in preparing its financial statements. With the assistance of the finance department who is under the supervision of the Qualified Accountant, the Directors ensure that the financial statements of the Group are being prepared, and published in a timely manner, in accordance with the applicable accounting standards and statutory requirements. The Directors' statements of responsibility for the financial statements should be read in conjunction with — but distinguished from — the Auditors' Report on page 53, which acknowledges the reporting responsibilities of the external auditors.

BOARD COMMITTEES

Under the Board there are the Executive Board, the Audit Committee, and the Remuneration Committee. The Audit Committee and the Remuneration Committee have specific terms of reference along the lines as required by the mandatory requirements ("code provisions") of Appendix 14 of the Listing Rules.



EXECUTIVE BOARD

The Board has clear guidelines, in writing, on the authority delegated to the Executive Board. They stipulate that the Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring shareholders approval, and certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board meets regularly and operates as a general management committee under the direct authority of the Board. Within the parameter of authority delegated by the Board, the Executive Board sees to the implementation of Group strategy set by the Board, monitors the Group's investment and trading performance, funding and finance requirements, and reviews management performance. The Executive Board reports through the Chairman, or the Managing Director if the Chairman is away from Hong Kong, to the Board. The Executive Board sub-delegates day-to-day administration details to members charged with specific operation tasks under the leadership of the Managing Director.

AUDIT COMMITTEE

The Audit Committee has been part of the Company's corporate governance set-up since 1999. The Audit Committee is accountable to the Board and assists the Board in ensuring an effective system for meeting its external financial reporting obligations and internal control and compliance.

The Audit Committee comprises 2 independent non-executive Directors (Dr. Charles Cheung Wai Bun (committee chairman) and Mr. Robert George Nield) and 1 non-executive Director (Mr. Michael Leung Man Kin), who possess the accounting professional skills and other business experience in discharge of their duties.

The Audit Committee's duties and authority are set out in written terms of reference, which requires it to oversee the relationship with the Company's external auditors (currently, PricewaterhouseCoopers ("PwC")), to review the Group's interim results and annual financial statements, and to review the scope, extent and effectiveness of the Group's financial reporting and internal control system, in accordance with the code provisions requirements. The Audit Committee has access to senior management and PwC, and may engage other professional advisers if necessary. The Board revised the Audit Committee's terms of reference on 14th September 2005 to bring them in line with the code provision requirements. The Company has made available the revised terms of reference for Shareholders.

The Audit Committee reports on its activities to the Board, at least twice a year. In 2005, the Audit Committee met twice, first in February 2005 to review the Group's 2004 final results and audited financial statements, and in September 2005 to review the Group's 2005 interim results and unaudited financial statements before they were submitted to the Board. The Audit Committee also considered PwC's reports on the scope and outcome of their independent review of the Group's 2005 interim results and on their annual audit of the Group's consolidated financial statements. Average attendance of Audit Committee meeting by members is 83% for 2005. Representatives of PwC, the Qualified Accountant, and the Company Secretary attended Audit Committee meetings to assist on any queries that members might have. The Company Secretary is the secretary to the Audit Committee, who helps organize agenda papers as well as keep on record and circulate afterwards Committee minutes.

The Audit Committee has reviewed with management the effectiveness of the Group's internal control and risk management system. Starting 2006, in line with the code provision requirements in this regard, the Audit Committee will be tasked to assist the Board to review and evaluate the internal control environment and risk assessment process of the Group, and the way in which the Group's business and control risks are managed when it makes its recommendation to the Board for approval of the consolidated financial statements of the Company for the year.

The Group's policy on external auditors is to ensure that the Company benefits in a cost effective manner from the cumulative knowledge and experience of its auditor whilst also ensuring that the auditor maintains the necessary degree of independence and objectivity. The Audit Committee recommends to the Board on the retention of external auditors, and reviews their fees on audit services.

The remuneration paid to PwC for the last two years is disclosed in note 9 to the 2005 Financial Statements. Upon its review in meeting in March 2006, the Audit Committee is satisfied with PwC's independence and objectivity and the effectiveness of the audit process, and has recommended to the Board that PwC be re-appointed as Auditors at the forthcoming annual general meeting.

REMUNERATION COMMITTEE

Set up in December 2005, the Remuneration Committee comprises 3 members of whom 2 are independent non-executive Directors (viz. Dr. Charles Cheung Wai Bun and Mr. Robert George Nield). Mr. Eddie Hui Ki On (executive Director) is the Remuneration Committee chairman. The Company has made available the terms of reference of the Remuneration Committee to Shareholders.

The Remuneration Committee assists the Board in its objective to attract, retain, and motivate people of the highest caliber that is needed to develop, shape, and execute strategy across the Group's diverse business operations. The Remuneration Committee assists in developing and administering a fair and transparent procedure for setting policy on remuneration of Directors and senior management of the Group. No Director is involved in deciding his own remuneration.

The terms of reference require the Remuneration Committee to meet at least once each year. If necessary, the Remuneration Committee may meet more than once any time during the year to discuss and consider remuneration-related matters. Following each meeting, the Remuneration Committee reports back to the Board on its recommendation. The Company Secretary is the secretary to the Remuneration Committee and attends to organize the meeting as well as the documentation before and afterwards.

Before the setting up of the Remuneration Committee, in 2005, the Board met twice when remuneration-related matters were discussed: (i) in March 2005, on increase of fees paid to Directors for the year ended 31st December 2004 from HK\$50,000 to HK\$80,000 per year for each Director, and similarly, fees for Directors serving on Audit Committee from HK\$20,000 to HK\$80,000, to reflect increased responsibilities and work loads occasioned by recent development in corporate governance requirements, and (ii) in September 2005, on grant of share options to Directors and eligible employees to recognize performance and retain key talent.

The Remuneration Committee met on 24th March 2006, and all members attended. Assisted by the Group Head Human Resources, the Committee reviewed relevant remuneration data and market conditions, in addition to individual performance in relation to the executive Directors under review and profitability of the Group. The Remuneration Committee noted that the executive Directors constituted the senior management as they are under direct responsibilities and perform most of the major functions of the business of the Group. Details of Directors' emoluments and five highest-paid employees of the Group for financial year 2005 appear at notes 11 and 12 to the 2005 Financial Statements.

The Board endorsed the Remuneration Committee's fees proposals for approval by Shareholders at the 2006 Annual General Meeting.

COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders is always of high priority. Every year, upon announcing results, the Company has briefings with the investment community, and the executive Directors also have regular dialogue with institutional investors. In addition to sending annual reports, interim reports, circulars and notices to Shareholders, the Company also makes these materials, which contain extensive information about the Group's activities, timely available for access by shareholders at both the Stock Exchange's and the

Company's own websites. The Company has an executive Director specifically charged with investors relationship. The Company responds to enquires from Shareholders, investors, and individuals on matters relating to their shareholdings and the business of the Company in an informative and timely manner.

The Company encourages its Shareholders to attend the annual general meetings and all its other shareholders meetings to discuss progress. The Chairman and Directors are available there to answer Shareholders' questions on the Group's business. All substantive resolutions at annual general meeting of the Company, insofar as the Listing Rules require, will be decided on a poll, which the Company's Branch Share Registrars in Hong Kong will conduct and which results the Company will publish in newspaper. The Chairman (and chairman of any shareholders meeting) will ensure that in all circulars to Shareholders, the Company will set out in full the procedures for and shareholders' rights in demanding voting by poll, and that in all the Company's Shareholders meetings, all efforts will be made to ensure compliance with the requirements of Rules 13.39(3) and (4) of the Listing Rules.

COMPLIANCE WITH APPENDIX 14

The 2005 Interim Report mentioned a deviation from code provision A.4.2., and the fact that the Chairman did not attend the annual general meeting of the Company held on 28th April 2005 as he had other unexpected engagement. Upon review of the circumstances, the Board concluded that there is no need at this stage to amend Bye-law 189(viii) as, in substance, the spirit of code provision A.4.2 has been upheld, since in practice (except for the case of the Chairman and the Managing Director) over one-third of the Directors do retire by rotation every 3 years. Besides, it is not in the best interest of the Group to have the Chairman and Managing Director in compulsory retirement every 3 years as their profound knowledge of the Group's widespread geographical business, vision, and leadership has always been a considerable benefit to and is an asset of the Company. Any risk of entrenchment is balanced by the fact that the Company has a strong, diversified, and well-represented Board, with over half of its members being non-executive and nearly 40% independent non-executive Directors. Other than these, for the accounting year covered by this 2005 Annual Report, the Company has complied with all the code provisions.

样板间

Residential

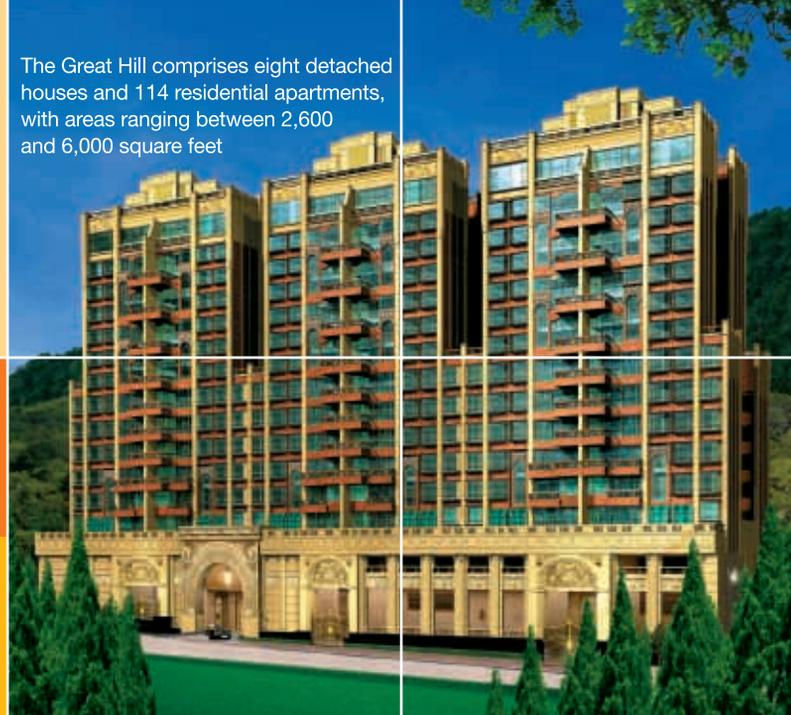






Featuring prime location, superb design and exceptional layouts,
The Great Hill signifies the Group's commitment to offering high quality products to customers

The Great Hill comprises eight detached houses and 114 residential apartments, with areas ranging between 2,600 and 6,000 square feet

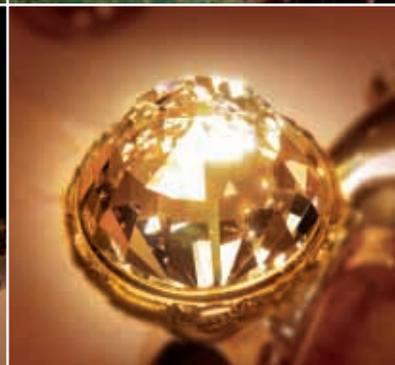


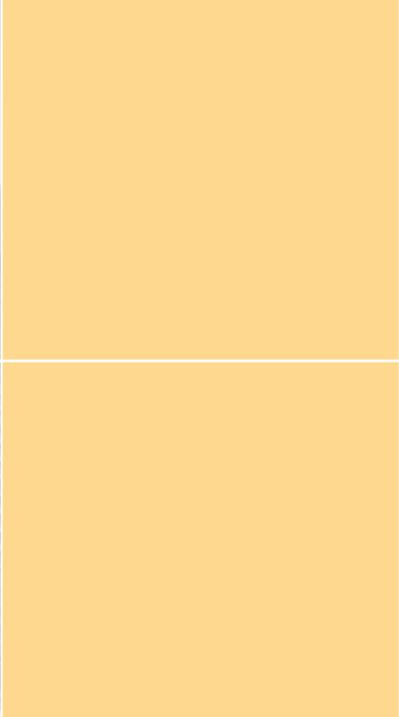
THE GREAT HILL 嘉御山

沙田南半山 複式大宅



The Great Hill has drawn tremendous market response and achieved overwhelming sales





Shanghai
Westwood





Modeled on the Westwood district in Los Angeles, US, Shanghai Westwood is a multi-function community catering for modern living

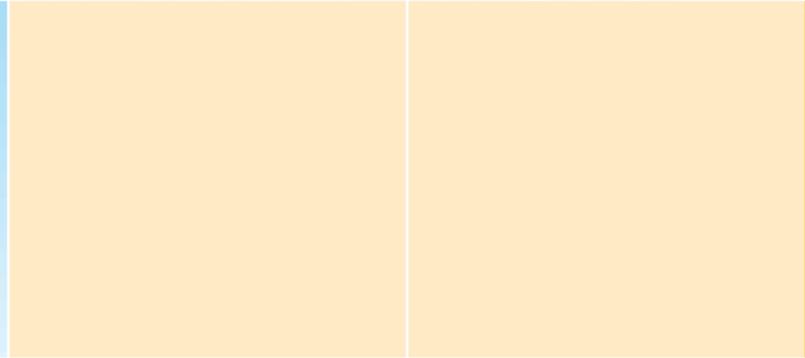
Shanghai Westwood is situated on a 150,000 square metres site at Da Ning International Community, the largest land transportation hub in Shanghai



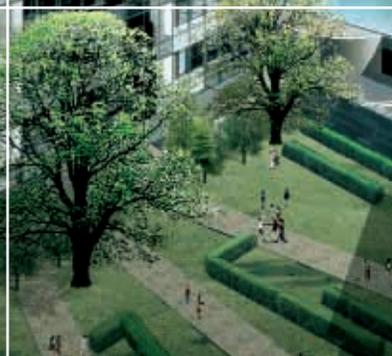
The premium residential project at Johnston Road, Wanchai, Hong Kong, is scheduled for launching in the third quarter of 2006



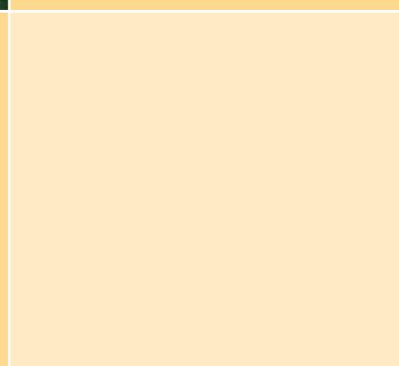
Baoland East Garden, Yangpu District, Shanghai, a JV project with Shanghai Baosteel



Jianguo Xi Road Project, Xuhui District, Shanghai



Yanjiazhai Project, Jingan District, Shanghai



Baoland Green Garden City, Baoshan District, Shanghai, a JV project with Shanghai Baosteel







商業

Commercial



Located on Huaihai Zhong Road, Shanghai K. Wah Centre is a landmark and one of the most sophisticated commercial buildings in downtown Shanghai, with 100% occupancy

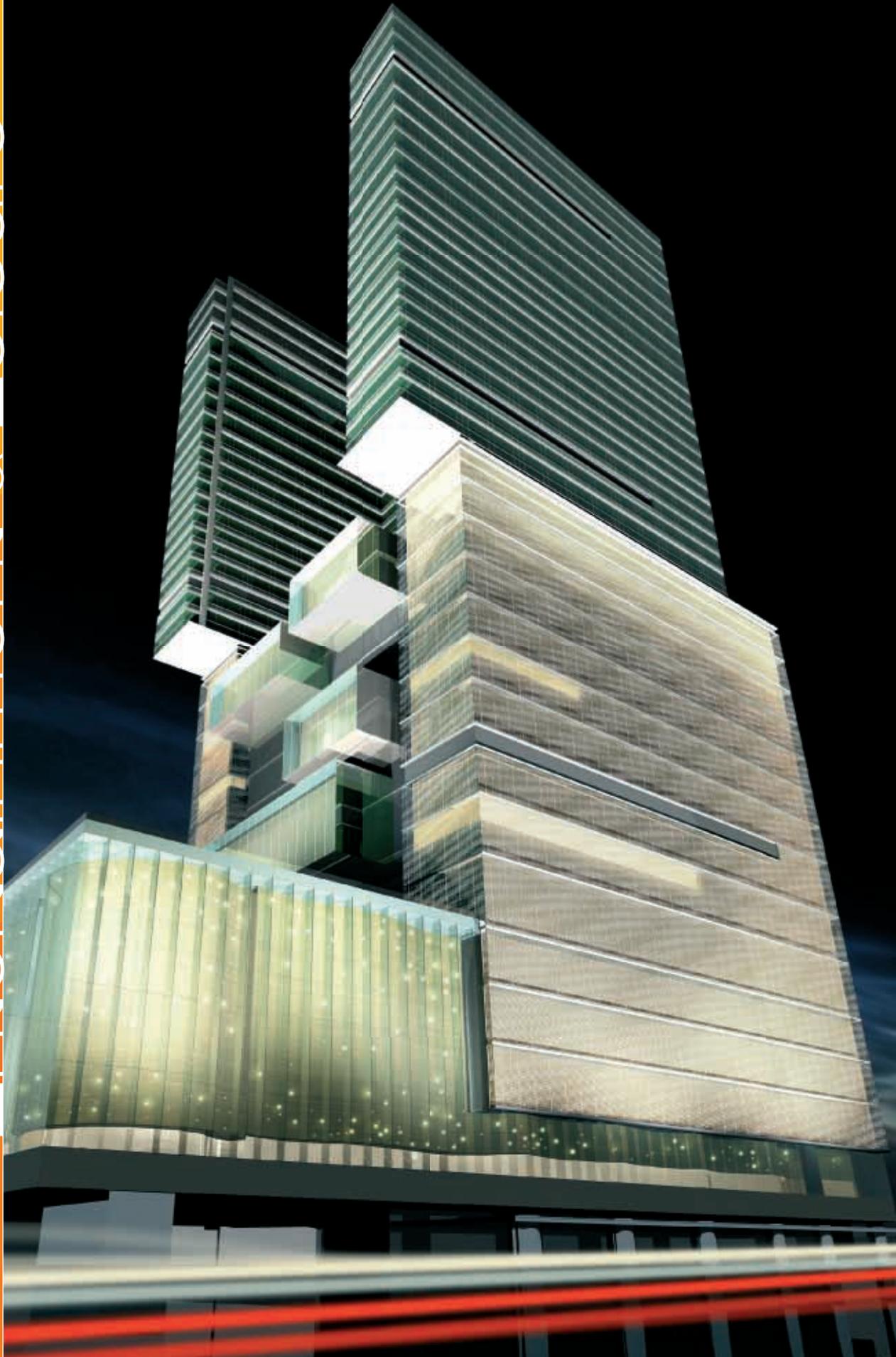


Shanghai K. Wah Centre, a Grade-A office building, is equipped with an advanced security management system and a full spectrum of amenities including a gymnasium and indoor swimming pool

StarWorld Hotel & Casino, a flagship project of Galaxy Entertainment Group scheduled for launching in the fourth quarter of 2006, will become the tallest hotel in Macau

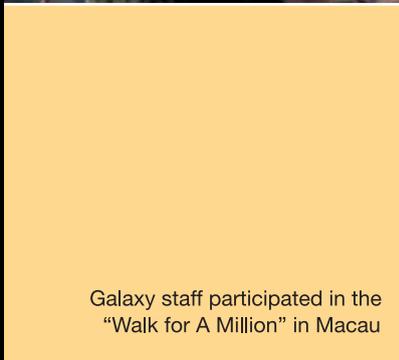
娛樂休閒

Entertainment & Leisure





Galaxy Cotai Mega Resort, which is targeted to commence operation in 2008, will be a one-stop destination for gaming, entertainment, shopping and dining



Galaxy staff participated in the "Walk for A Million" in Macau



REVIEW OF PERFORMANCE

The year of 2005 witnessed the successful acquisition of Galaxy Casino (88.1% voting and 97.9% economic interest) ("Acquisition") by GEG. Following the Acquisition, GEG is no longer a subsidiary, and upon the distribution of one GEG share for every ten shares of the Company by way of special interim dividend to Shareholders in September 2005, the Group no longer equity accounts for the results and performance of GEG.

Profit attributable to Shareholders for the 2005 financial year has increased by HK\$3,403 million to HK\$3,644 million (an increase of 1,411%), as compared to the restated profit of last year. Earnings per share also increased from HK\$0.12 for the previous year to HK\$1.58 for the year under review. This comes by mainly as a result of the combined effect amounting to HK\$3.5 billion due to the operating performance of GEG before it ceased to be accounted for in the Group's results and performance and the deemed profit for the Company arising out of GEG's top-up placement of 146 million new shares and its further issuing of 1,840,519,798 new shares for the Acquisition, all at HK\$8 per share.

Turnover for the 2005 financial year decreased to HK\$289 million, a 31% decrease as compared to the restated turnover for the 2004 financial year. During 2005, although turnover of the Group's property development segment decreased as compared to 2004, property rental and profits attributable to leasing activities have increased as a result of which the gross profit for 2005 was higher than that of the previous year.

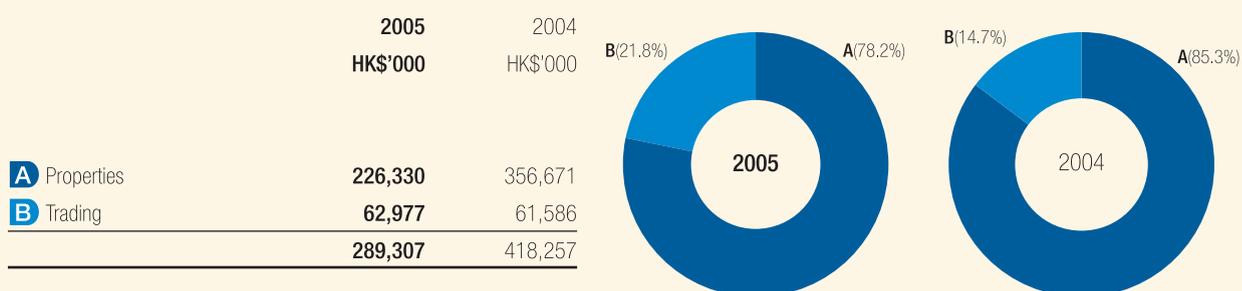
This is the Group's first financial report under the new Hong Kong Financial Reporting Standards. The changes in accounting policies did not have any material effect on the financial statements under review other than certain presentation changes with the comparative figures being realigned. The changes, however, can affect the Group's future results on, particularly, revenue recognition for development properties.

Set out below are the segmental analysis of the Group's continuing operations for the year ended 31st December 2005.

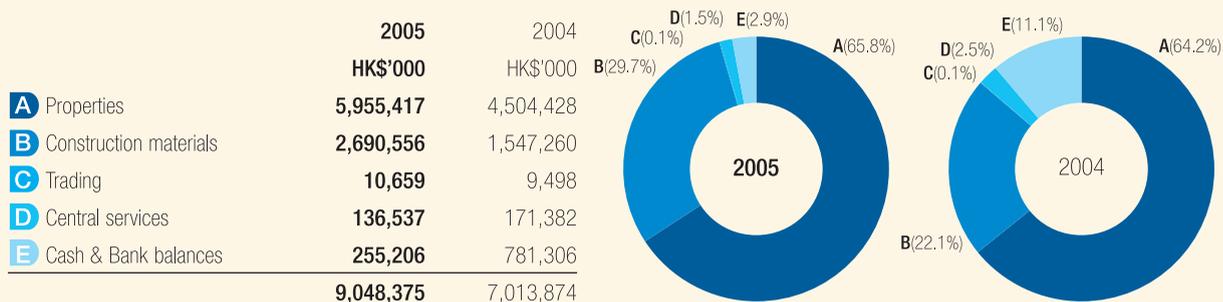
By Division

	Properties	Trading	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	226,330	62,977	—	289,307
Cost of sales	(102,786)	(55,360)	—	(158,146)
	123,544	7,617	—	131,161
Other revenues	2,609	8	2,681	5,298
Other operating income	53,637	162	447	54,246
Administrative expenses	(71,202)	(7,166)	(13,534)	(91,902)
Other operating expenses	(62,155)	(69)	(3,017)	(65,241)
Operating profit/(loss)	46,433	552	(13,423)	33,562

Turnover by Division



Employment of Gross Assets

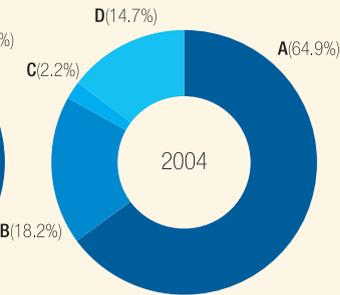
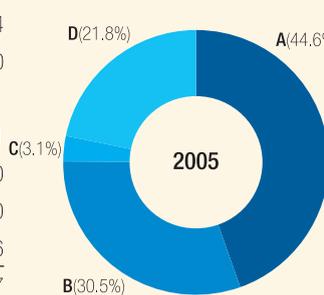


By Geographical Spread

	Mainland				Total HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Singapore HK\$'000	Japan HK\$'000	
Turnover	129,115	88,275	8,940	62,977	289,307
Cost of sales	(63,694)	(35,596)	(3,496)	(55,360)	(158,146)
	65,421	52,679	5,444	7,617	131,161
Other revenues	4,595	682	13	8	5,298
Other operating income	1,936	53,784	(1,636)	162	54,246
Administrative expenses	(51,831)	(31,103)	(1,802)	(7,166)	(91,902)
Other operating expenses	(28,883)	(36,287)	(2)	(69)	(65,241)
Operating (loss)/profit	(8,762)	39,755	2,017	552	33,562

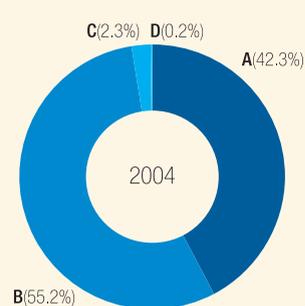
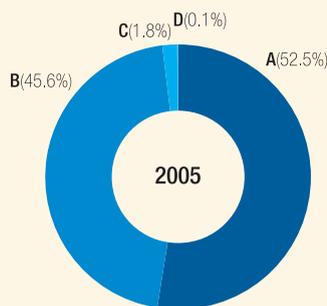
Turnover by Geographical Spread

	2005 HK\$'000	2004 HK\$'000
A Hong Kong	129,115	271,591
B Mainland China	88,275	75,890
C Singapore	8,940	9,190
D Japan	62,977	61,586
	289,307	418,257



Gross Assets by Geographical Spread

	2005 HK\$'000	2004 HK\$'000
A Hong Kong	4,745,909	2,964,374
B Mainland China	4,126,776	3,871,412
C Singapore	162,374	166,075
D Japan	13,316	12,013
	9,048,375	7,013,874



REVIEW OF OPERATION

Separation of GEG from the Group brings clarity to the business objective, and enables management of the Group and GEG to focus on their respective core competence. Core business of the Group is property development and property investment, principally in Hong Kong and Mainland China. The Group is fully committed to building its brand as a quality developer with excellence in architectural design, functionality, up-market facilities, and customer-oriented after sales services.

Hong Kong

The 2005 Hong Kong property market was punctuated by interest rate increase. Home prices in Hong Kong consolidated in the 2nd half of 2005. Not many new residential projects by other developers went on pre-sale last year. The Group adjusted sales programs to time market turnaround, and fewer properties were sold in 2005 than previously. Hong Kong office leasing market has been performing well in 2005. The Group achieved satisfactory occupancy with its investment properties.

(A) Current Major Development Properties

- (i) *The Great Hill, Tung Lo Wan Hill Road (100% owned)*

The project has a site area of approximately 11,000 square metres and the gross floor area of approximately 24,000 square metres for low-density development. Pre-sale marketing of the project's 114 apartments and 8 detached town houses was launched in March 2006 and construction of the superstructure is well underway. We expect completion of the development by 2007.

- (ii) *Inland Lot 8997, Johnston Road, Wan Chai*

This is a joint development project with the Urban Renewal Authority ("URA"). The site area is approximately 2,000 square metres and the gross floor area approximately 19,000 square metres. Construction works is in progress. We expect completion by 2007.

(B) Other Major Properties (all 100% owned)

- (i) *Skyline Commercial Centre, Wing Lok Street, Sheung Wan*

This is a 24-storey commercial building comprising approximately 3,900 square metres of office space and ground floor shops. The property is held for long-term investment purpose. It enjoys almost full occupancy and contributes a steady rental income to the Group.

- (ii) *Kingsfield Centre, Shell Street, North Point*

This is a 26-storey commercial building with approximately 1,900 square metres of office space. The property is held for sale and is currently leased for rental. Occupancy is satisfactory.

Mainland China

The year of 2005 saw Mainland China property market punctuated by austerity measures of the Central Government, and housing price suffered a bumpy ride. The Group adjusted its pre-sale program for the Shanghai Westwood (a luxurious residential project in Shanghai), to avoid the falling market, and this accounts in part for the decrease in the results of the property development segment for financial year 2005.

(A) Current Major Development Properties

(Total gross floor area of approximately 2,000,000 square metres)

- (i) *Shanghai Westwood, No. 701 Guangzhong Road, Da Ning International Community, Shanghai (100% owned)*

The total gross floor area of this project is approximately 380,000 square metres. Modeled on the Los Angeles Westwood in US, the Shanghai Westwood is a luxurious condominium with full amenities. We develop Shanghai Westwood by three development phases. We have started pre-sale of the 1st phase (with gross floor area of about 140,000 square metres) in mid-2005. Handover is expected for April 2007. We will commence

development on the 2nd and 3rd phase (with gross floor area of approximately 140,000 square metres and 100,000 square metres) in 2006 and 2007 respectively.

- (ii) *Lot A&B No.68 Jianguo Xi Road, Xuhui District, Shanghai (100% owned)*

The land in this project is one of the last sizable pieces of land in the heritage area of Xuhui District. The project is located in Shanghai's traditional up-scale residential area, which is always scarce in land supply. We plan to develop this premium site (total gross floor area of approximately 140,000 square metres) into a residential landmark in this prestigious area of the city. Designed with heavy French savour, this development is set to enhance the heritage of this prestigious location. Demolition work is in progress and construction work will commence in 2006.

- (iii) *Phase III, Yanjiazhai, Jingan District, Shanghai (99% owned)*

The project is located at Urumqi Road Jingan District close to the prosperous central business district of the Nanjing West Road. We will turn this prime location into a luxurious residential development with a total gross floor area of approximately 100,000 square metres. The site measures 450 metres from East to West. We design all the units to have a south-facing orientation, which guarantees an unobstructed view of the Nanjing West Road and the Yan On Highway. Demolition work is in progress and construction work will commence in 2006.

- (iv) *Xinhua Zhen, Hua Dou City, Guangzhou (99.99% owned)*

The Group's 2 pieces of land at Xinhua Zhen, Hua Dou City — total permissible buildable floor area of approximately 1,400,000 square metres — are held as land bank for future development. Currently, they are at preliminary planning stage.

(B) *Investment Property*

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai ("Shanghai K. Wah Centre") — 35.75% owned)

The Group completed the Shanghai K. Wah Centre in 2005. This flagship investment property is a joint venture of which the Group (as the single largest shareholder) holds an effective 35.75% equity interest. The other joint-venture parties are SVA Electron Co., Ltd. (30%), Tidefull Investment Ltd. (15.4%), Shanghai Xu Fang (Group) Co., Ltd. (15%) and Nissho Iwai Hong Kong Corporation Ltd. (3.85%). The Group is also the project manager of this development.

Located in the inner ring area of Shanghai and in the heart of the thriving downtown Huaihai Road commercial area, the development comprises a Grade A office tower and two ancillary buildings of a total of approximately 72,000 square metres. Soon upon its completion in early 2005, this flagship property has already achieved full occupancy, counting Fortune-500 and household local corporations as its anchor tenants, and a Shanghai grade-A benchmarking rental of approximately US\$1 per square metre per day. Good leasing activities at the Shanghai K. Wah Centre contributes to an increase of property rental revenue and profits attributable to leasing activities. The management believes that premium grade office leasing market at Shanghai will continue to perform.

New Joint Venture Company in Mainland China — Shanghai Baoland Co., Ltd.

In 2005, the Group has invested in an equity joint venture, namely, the Shanghai Baoland Co., Ltd. ("Baoland") by taking an equity interest of 41.5% therein. The other joint venture partners are the Shanghai Baosteel Group (41.5%), Mitsubishi Corporation (15%) and Tokyu Land Corporation (2%). One of the principal assets held by Baoland is a piece of composite land in Yangpu district, Shanghai, with total gross floor area of approximately 300,000 square metres, of which 200,000 square metres are for residential use and 100,000 square metres for commercial use. Baoland started pre-sale of the residential project in latter part of 2005. So far, about 160 units of the residential property have been pre-sold.

Major Properties in Singapore

San Centre, Chin Swee Road (100% owned)

This property comprises approximately 5,800 square metres of office space inside a 12-storey building with carparks. Approximately 3,700 square metres of the development is held for long-term investment purpose and the remaining area is held for sale. The property has maintained satisfactory occupancy with a stable income contribution to the Group.

Macau

Following the Acquisition and the distribution, which saw the Group's interest in GEG came down from 65.8% (pre-Acquisition) to 18.7% (post-distribution), GEG is no longer a subsidiary and has now become a long term investment (classified, accordingly, as an "available-for-sale financial asset" in the financial statements) of the Group. Although the Group no longer accounts for the operating results of GEG, this 18.7% holding still remains an important investment asset of the Group, and represents the gateway for shareholders to share in the success of the booming Macau economy.

OUTLOOK

Into 2006, the Hong Kong residential market is likely to return to the upward trend. Supply for newly completed flats remains tight, and demand remains strong. General expectation is that interest cycle will peak out in 2006, and market sentiment has improved in the first quarter of 2006. To capture this market opportunity, the Group has already launched pre-sale marketing of The Great Hill (attracting strong purchase interest), and will launch later this year its other luxurious residential projects at Johnston Road. The Group will continue to participate in land sale program of the Hong Kong Government, the tender program of the KCR Corporation, the MTR Corporation and the URA, and if suitable opportunities arise, make private acquisitions as well, to replenish its Hong Kong land bank.

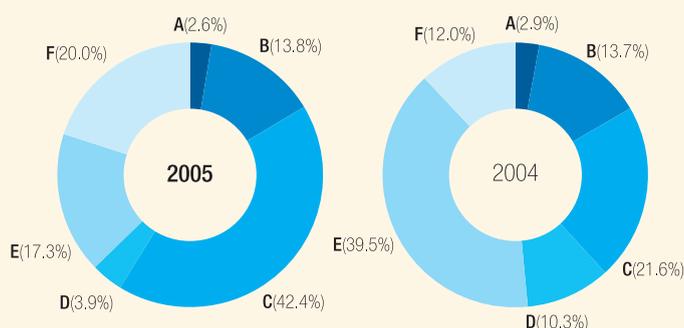
For Mainland China, the Group is optimistic about the long-term prospect of her property market. To date, the Group has accumulated development rights over two million square metres of land in Shanghai and Guangzhou. Into 2006, the Group will re-launch the Shanghai Westwood when the Shanghai property market conditions become favorable in order to maximize profits. In 2006, the Group will also be pushing ahead with demolition and construction planning for its other two top-of-the-range residential projects at Jianguo Xi Road (Xuhui District) and Yanjiazhai (Jingan District).

Going forward, the Group counts Mainland China's trade conflict with US and Europe and her political tension with Taiwan as uncertainties, as deterioration in trade prospect can dent her economic growth and affect the Group's business prospect there. Any further property market rectification measures by the Central Government can also be unpredictable for our business in Mainland China. While in the first quarter of 2006, there have been signs of price recovering in cities like Guangzhou and Beijing, the Group will continue with a prudent and cautious approach on its business strategy in Mainland China commensurate with changing market situation.

REVIEW OF FINANCE

Sources of Funding

	2005	2004
	HK\$'000	HK\$'000
A Share capital	237,792	201,564
B Other reserves	1,245,281	959,950
C Revenue reserves	3,833,597	1,511,240
D Minority interests	355,968	723,354
E Borrowings	1,567,857	2,773,224
F Current portion of borrowings	1,807,880	844,542
	9,048,375	7,013,874

**(1) Financial Position**

Total funds employed at 31st December 2005 was HK\$9 billion, an increase of 29% compared with HK\$7 billion at 31st December 2004.

Number of the issued shares of the Company increased as a result of conversion of convertible bonds and exercise of share options during the year. The dilution effect, however, was offset by the profit earned for the year.

(2) Group Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was maintained at a satisfactory level during the year. Cash and bank balances at 31st December 2005 amounted to HK\$255 million.

The total long-term bank borrowings at 31st December 2005 amounted to HK\$2,492 million as compared to HK\$2,619 million at 31st December 2004. Out of the total long-term bank borrowings, over 55% of these borrowings matures over a period of one year and above.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a healthy level of 31% at the year ended 31st December 2005 as compared to 36% for last year.

In addition to the aggregate cash balances, the total un-drawn banking facilities of the Group at 31st December 2005 amounted to over HK\$1.6 billion.

The Group's liquidity position and gearing ratio stayed at a healthy level and the Group has sufficient funds to meet its commitments and operational requirements.

As at 30th March 2006, the total face value of remaining outstanding convertible bonds (due 2009) was HK\$68 million representing 7.9% of the total face value of the same.

(3) Treasury Policies

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimize risk. The majority of the Group's borrowings are in Hong Kong Dollars. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilized when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation. The Group has not engaged in the use of derivative products.

(4) Charges on Group Assets

As of 31st December 2005, investment properties and land and buildings with carrying values of HK\$2,016,387,000 (2004: HK\$261,298,000) and

HK\$111,586,000 (2004: HK\$287,050,000) respectively were pledged to banks to secure the Group's borrowing facilities.

(5) Contingent Liabilities

The Company has executed guarantees in favor of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$3,571,683,000 (2004: HK\$3,844,074,000) of which HK\$2,078,682,000 (2004: HK\$1,903,793,000) have been utilized.

The Company has executed guarantees in respect of the convertible bonds issued by a subsidiary amounting to HK\$104,000,000 (2004: HK\$864,260,000).

The Company has executed a guarantee in favor of the Government of the HKSAR in respect of the performance by an investee's obligation under a contract with the Government of the HKSAR.

EMPLOYEES AND REMUNERATION POLICY

At 31st December 2005, the Group, excluding associated companies and jointly controlled entities, employs 283 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK\$147 million for 2005.

The Group believes its success and long-term growth and development depends upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to attract, retain and motivate competent individuals based on merits and development potentials. The Group believes the remuneration we offer to our employees is fair and competitive in relation to comparable organizations in the areas in which the Group operates its principal business.

Following approval by the shareholders in 1989, the Group has put in place a share option scheme for executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market pay levels and the Group puts emphasis on provision of training and development opportunities.

TRAINING AND DEVELOPMENT

Human talent is the driving force of the Group, and continuous education is a key part in enhancement of the core competence of the Group's work force. To this end, the Group supports a suite of training and development programmes for its employees at various levels.

This year, the Group enters into its 19th Anniversary of its Annual Corporate Seminar, the theme of which is "Risk Management". Several professional consultants and keynote speakers spoke at the forum to share with the Group's executives their knowledge, experience and practices on risk assessment and management. The interactive workshop focused on the application of risk management principles and practices to businesses/operations and the skillset in turning risks into opportunities, which are essential for the long term success of the Group.

Besides, the Group is committed to providing staff with training initiatives to enhance their management capabilities and up-date their technical know-how. We sponsor staff to attend external job-related courses/workshops in Hong Kong and Mainland China which are being organized by the accredited educational institutions and professional bodies. These training and development programs cover executives management courses, leadership and management skills, business strategies, communication, language, customer services, finance, taxation, laws, human resources, computer software applications, etc.

To support the long-term growth and development of the Group's business in Mainland China, we have re-launched the Management Trainee Programme in Shanghai. We recruit and develop high potential graduates from leading universities. Through our structured training programme headed by management staff of various functions, we prepare these promising individuals to become our managers and leaders of the future.

	2001	2002	2003	Restated 2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Turnover	2,274,900	2,134,552	3,076,143	418,257	289,307
Profit before tax	159,290	136,509	183,220	231,153	393,249
Taxation (charge)/credit	(11,103)	(11,365)	(45,831)	1,461	(142,869)
Profit from continuing operations	148,187	125,144	137,389	232,614	250,380
Profit from discontinued operations	—	—	—	29,757	3,553,418
Minority interests	(47,951)	(22,810)	(17,009)	(21,157)	(159,750)
Profit attributable to shareholders	100,236	102,334	120,380	241,214	3,644,048
Earnings per share (HK cents)	5.6	5.4	6.2	12.1	157.7
Dividend per share (HK cents) (note 2)	3.0	3.0	3.0	6.0	53.7

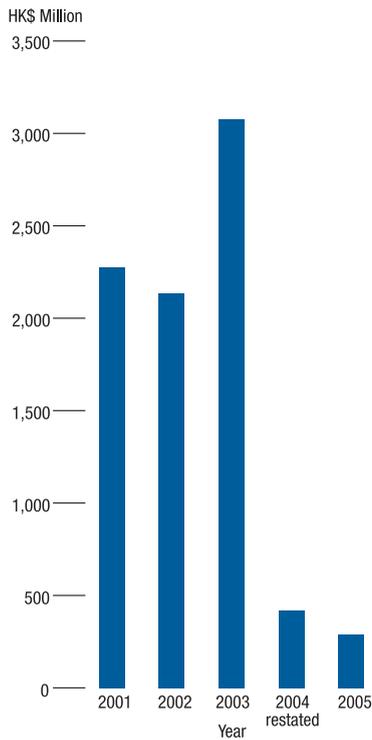
CONSOLIDATED BALANCE SHEET

Property, plant and equipment, investment properties and leasehold land and land use rights	988,610	1,091,920	1,136,196	1,090,200	2,140,863
Associated companies and jointly controlled entities	634,976	551,952	553,128	508,389	577,261
Other non-current assets	163,650	303,491	433,227	440,947	2,698,833
Net current assets	2,953,616	3,436,640	2,884,322	4,389,180	2,033,802
Employment of capital	4,740,852	5,384,003	5,006,873	6,428,716	7,450,759
Financed by:					
Share capital	187,075	191,955	197,797	201,564	237,792
Reserves	2,196,995	2,233,979	2,333,890	2,471,190	5,078,878
Shareholders' funds	2,384,070	2,425,934	2,531,687	2,672,754	5,316,670
Minority interests	1,071,648	1,067,785	1,083,869	723,354	355,968
Long-term liabilities	1,263,460	1,800,916	1,302,184	2,773,224	1,567,857
Non-current liabilities	21,674	89,368	89,133	259,384	210,264
Capital employed	4,740,852	5,384,003	5,006,873	6,428,716	7,450,759
Net assets value per share (HK\$)	1.27	1.26	1.28	1.34	2.30

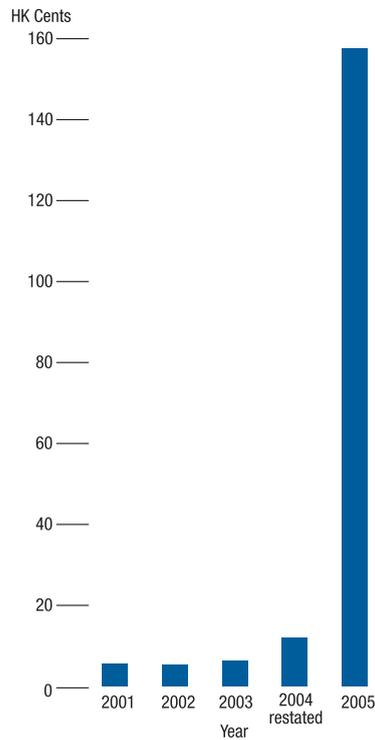
Note:

- 1 The summary of 2001, 2002 and 2003 have not been restated following the adoption of the new and revised Hong Kong Financial Reporting Standards in 2005
- 2 Dividend in 2005 includes the special interim dividend in specie of one GEG share for every ten shares of the Company.

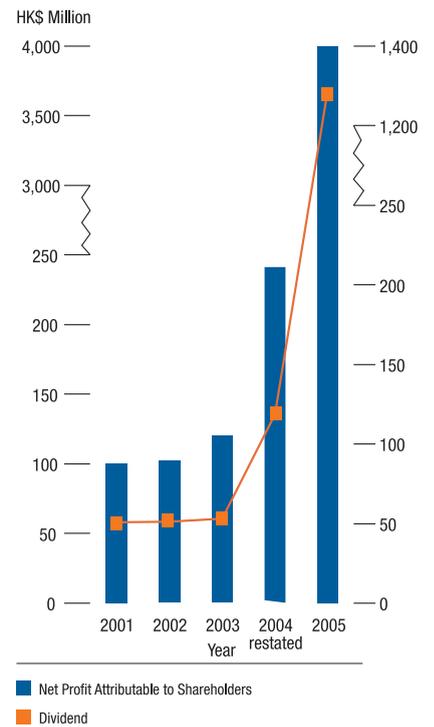
Consolidated Turnover



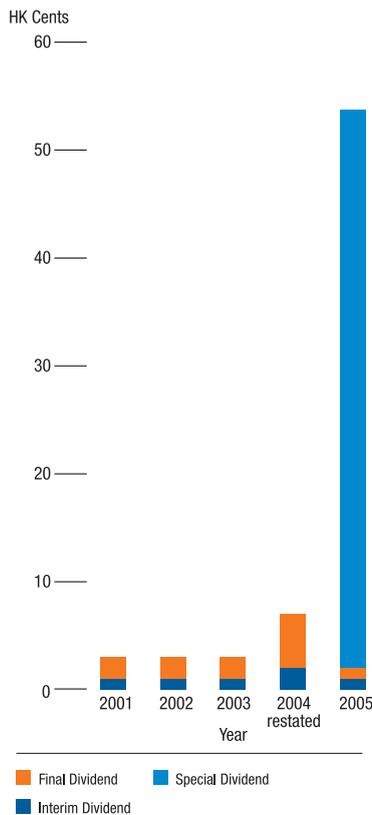
Earnings Per Share



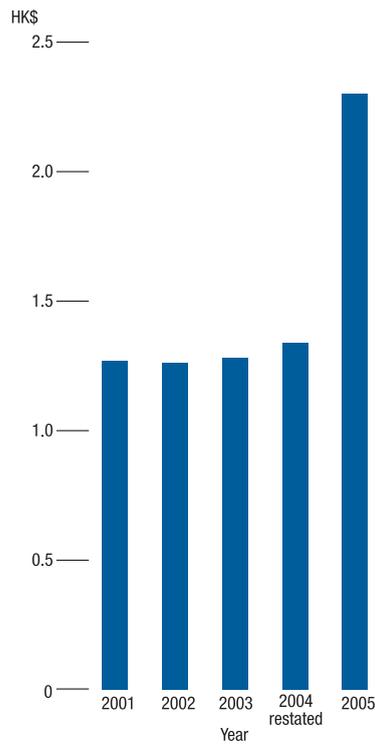
Dividend and Net Profit Attributable to Shareholders



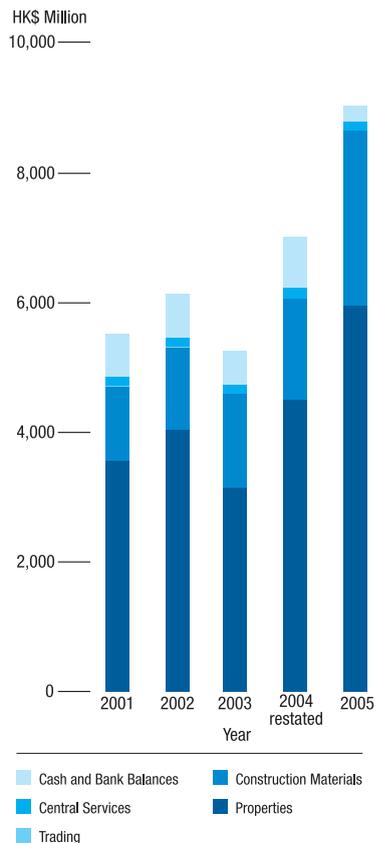
Dividend Per Share



Net Assets Value Per Share



Gross Assets





The Group values communications with investors through various channels to keep them abreast of our latest development. Brokers' Happy Hour is one of the regular activities we organize.



Regular tours to the Group's projects are arranged to enhance investors' knowledge of the Group's business. Recently, analysts have been invited to visit the show flat of The Great Hill, a signature luxurious project of the Group in 2006.



The Group recognizes the importance of communication with Shareholders and the investment community in a professional, forthcoming and timely manner. It is the Group's management philosophy to maintain a high degree of transparency to provide appropriate and prompt disclosure of the Group's corporate strategies and new business development.

The Group's financial and operational information is disseminated in the annual and interim reports. Annual general meetings provide a communication channel between the Board and the Shareholders.

Immediately after the results are announced, press conferences, analysts briefings and investor meetings are held with Directors and senior management present to answer questions on the Group.

Other communication channels include press releases, investor news updates and periodicals such as the quarterly "K. Wah News", all of which can be found on the Group's website "www.kwih.com" together with annual and interim reports.

Senior management regularly meets with research analysts and institutional investors, attends major investors' conference and participates in non-deal roadshows in Hong Kong and overseas. The Group also hosts tours for research analysts to visit its operations in Mainland China and casual functions for the stock broker community.



To us, corporate social responsibility is as important as our business pursuits and the Group firmly believes that the two values complement each other. With this belief as part of the Group's mission, we practise good corporate citizenship at all levels evolving into a collective behaviour with strong management support and unwavering employee commitment.

In 2005, the Group continued to initiate and support a wide range of community welfare activities, both in Hong Kong and Mainland China, through the volunteering services of its staff and their family members. These activities include building strategic partnership with social service organizations, giving help to the underprivileged and the needy, supporting charitable donations, promoting and cultivating the value of corporate citizenship in other commercial organizations through experience sharing.

Through encouraging active participation in community services, the Group not only helps cultivate a strong sense of belonging and team spirit among its staff, but also enables its staff to lead a more fruitful and balanced life fostering our bonding with society.

PICTURES ABOVE: 1. **Volunteering Experience Sharing** provides a platform to promote volunteering to another corporation 2. **Uncle Long Leg Mail Box** enables adolescence to address their concerns to our staff 3. **Learning English Fun Fun Fun** was conducted for children from single-parent families 4. Charitable activity organized by **Shanghai Charity Foundation** 5. **Blood Donation Campaign** 6. **21st Century Elderly Competition** 7 & 8. **Po Leung Kuk Day Camp** (left) and **Ocean Park Tour** (right) bring our staff and family members, and children from single-parent families together 9. **Shanghai 6th Special Olympics Games**

CHAIRMAN

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc

MANAGING DIRECTOR

Mr. Francis Lui Yiu Tung

DEPUTY MANAGING DIRECTOR

Mr. Lennon Lun Tsan Kau

EXECUTIVE DIRECTORS

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM

Mr. William Lo Chi Chung

Ms. Paddy Tang Lui Wai Yu, JP

NON-EXECUTIVE DIRECTORS

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP*

Mr. Michael Leung Man Kin, CBE, JP

Dr. Philip Wong Kin Hang, GBS, JP, LLD, DH

Dr. Leo Lee Tung Hai, GBS, LLD, JP*

Dr. Robin Chan Yau Hing, GBS, LLD, JP*

Dr. Charles Cheung Wai Bun, JP*

Mr. Robert George Nield*

* Independent Non-executive Directors

COMPANY SECRETARY

Mr. Ricky Chan Ming Tak, LLM

QUALIFIED ACCOUNTANT

Mr. Ken Wong Chun Keung, FCCA, AHKICPA

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

Nanyang Commercial Bank

Wing Lung Bank Limited

SOLICITORS

Baker & McKenzie

Mallesons Stephen Jaques

Philip K.H. Wong, Kennedy Y.H. Wong & Co.

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

BRANCH SHARE REGISTRARS IN HONG KONG

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

AMERICAN DEPOSITARY RECEIPTS DEPOSITARY

The Bank of New York
101 Barclay Street
New York, NY 10286
USA

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

Stock Exchange : 173
Bloomberg : 173 HK
Reuters : 0173.HK

BOND LISTING

Luxembourg Stock Exchange

EXECUTIVE DIRECTORS

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc, aged 76, the founder of the Group, has been a Director since June 1989 and is the Chairman of the Company. Dr. Lui is also the Chairman and an executive director of GEG. He has over 47 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and the Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong — Guangdong Economic Development Association and an Honorary President of Hong Kong — Shanghai Economic Development Association. Further, Dr. Lui was a Committee Member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 50, joined the Group in 1979. He has been an executive Director since June 1989 and is the Managing Director of the Company. Mr. Lui is also the Deputy Chairman and a director of GEG. He holds a bachelor of science degree in civil engineering and a master of science degree in structural engineering from the University of California at Berkeley, USA. He is a member of the Town Planning Board of Hong Kong and a Member of the Shanghai Committee of the Chinese People's Political Consultative Conference. Mr. Lui is a son of Dr. Lui Che Woo and the younger brother of Ms. Paddy Tang Lui Wai Yu.

Mr. Lennon Lun Tsan Kau, aged 51, joined the Group in 1999 and has been an executive Director and the Deputy Managing Director of the Company since December 2001. Mr. Lun holds a master of science degree in Electronics and Computer Science from the University of California at Berkeley, USA and a master of business administration degree from the University of Hong Kong. Prior to joining the Group, he has held various senior executive and management positions in renowned multinational companies and has extensive operations experience in Mainland China.

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM, aged 62, joined the Group in 2003 and is the Group Director, General Affairs. He has been a Director since April 2003. Mr. Hui has been appointed the chairman of the remuneration committee of the Company in December 2005. Prior to joining the Group, he has served the Hong Kong Police Force for 38 years. He retired from the Police Force as Commissioner of Police in 2001. In 2001, Mr. Hui was awarded the Gold Bauhinia Star

by the Government of the HKSAR. He is also a member of the Scout Association of Hong Kong and is currently the Assistant Chief Commissioner (International and Liaison) of the Association. He is the Vice-Chairman of The Hong Kong Football Association Ltd.

Mr. William Lo Chi Chung, aged 45, joined the Group in 2003 and is the Group Finance Director. He has been an executive Director since April 2004. Mr. Lo is also an executive director of GEG. Mr. Lo holds a master's degree in Business Administration from the University of Warwick in the UK and a Professional Diploma in Accountancy from the Hong Kong Polytechnic. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Chartered Association of Certified Accountants in the UK. He has over 23 years of broad experience in auditing, accounting, financial management, corporate finance, strategic planning and investor relations.

Ms. Paddy Tang Lui Wai Yu, JP, aged 52, joined the Group in 1980 and has been an executive Director since June 1989. She is also an executive director of GEG. She holds a bachelor of commerce degree from the McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Tang is a member of the Election Committee of the HKSAR. She is also a member of the Hong Kong Arts Development Council and a member of the Hong Kong Antiquities Advisory Board. Ms. Tang was appointed the Justice of Peace by the Government of the HKSAR on 1st July 2005. Ms. Tang is the daughter of Dr. Lui Che Woo and the elder sister of Mr. Francis Lui Yiu Tung.

NON-EXECUTIVE DIRECTORS

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP, (Independent non-executive Director) aged 79, was Adviser to the boards of the Company and K. Wah Construction Materials Limited (now known as GEG) from 1989 to 1997. He has been a Director since July 1997. He holds non-executive director positions in various companies and is member of many charitable organizations. He was previously a member of the Hong Kong Civil Service and held appointments concluding with that of Chief Secretary and acting Governor before he retired in 1987. He was awarded the highest award of the Grand Bauhinia Medal in 2002 by the Government of the HKSAR.

Mr. Michael Leung Man Kin, CBE, JP, (Non-executive Director) aged 67, joined the Group in 1998 as Deputy Chairman — Administration and is presently an Adviser. He was appointed an executive Director in September 1998 and became a non-executive Director in March 2001. Mr. Leung has been appointed a member of the audit committee of the Company since March 2005. Mr. Leung holds an honours bachelor's degree in arts from the University of Hong Kong

and a certificate in government and development from Oxford University in the UK. He has served the Hong Kong Government for 32 years in a wide range of top level positions, including Secretary for Transport, Secretary for Education and Manpower and Commissioner, Independent Commission Against Corruption. He has also served as an Official Member of the Legislative Council.

Dr. Philip Wong Kin Hang, GBS, JP, LL.D, DH, (Non-executive Director) aged 73, has been a Director since June 1989. He was appointed a member of the audit committee of the Company from 1999 to March 2005. Dr. Wong is a consultant of a Hong Kong firm of solicitors and is also a Notary Public and a China Appointed Attesting Officer. In addition, Dr. Wong is a director of Raymond Industrial Limited.

Dr. Leo Lee Tung Hai, GBS, LL.D, JP, (Independent non-executive Director) aged 84, has been a Director since June 1989. Dr. Lee is the Chairman of the Tung Tai Group of Companies and an independent non-executive director or non-executive director of several publicly listed companies in Hong Kong, including Beijing Enterprises Holdings Limited. He is a member of a number of public services committees and heads many social service organizations, including as an Adviser of the Advisory Board of the Tung Wah Group of Hospitals, Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals, Chairman of Friends of Hong Kong Association and Vice President of the China Overseas Friendship Association. Dr. Lee served as a Standing Committee Member of the eighth and ninth National Committees of the Chinese People's Political Consultative Conference; an Adviser on Hong Kong Affairs to the Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Selection Committee for the First Government of the HKSAR. He has been honoured with awards by different governments, which include Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de l'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Hong Kong Special Administrative Region Government in 1999. Dr. Lee has over 40 years of experience in business management.

Dr. Robin Chan Yau Hing, GBS, LL.D, JP, (Independent non-executive Director) aged 73, has been a Director since June 1989. A banker with over 40 years of experience, he is the Chairman of Asia Financial Holdings Limited, which is the holding company of Asia Commercial Bank Limited and Asia Insurance Company Limited. Dr. Chan is also a director of Liu Chong Hing Bank Limited and numerous other companies. In addition, he is a Deputy to the Chinese National People's Congress and the Ex-officio Life Hon. Chairman of The Chinese General Chamber of Commerce, Hong Kong.

Dr. Charles Cheung Wai Bun, JP, (Independent non-executive Director) aged 69, joined the Group in 1986. He was appointed an executive Director in June 1989 and has been a non-executive Director since 1995. He is the chairman of the audit committee and a member of the remuneration committee of the Company. Dr. Cheung holds an honorary doctor's degree, a master's degree in business administration and a bachelor of science degree. He has over 30 years experience at senior management level of companies in various industries including over 22 years experience in banking. He is the Group Chief Executive and Executive Deputy Chairman of Mission Hills Group. He is also an independent non-executive director and chairman of the audit committee of GEG, Shanghai Electric Group Company Limited, Pioneer Global Group Limited and Prime Investments Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. Dr. Cheung is also a Senior Adviser of the Metropolitan Bank & Trust Company, Philippines. Dr. Cheung was a former director and adviser of the Tung Wah Group of Hospitals and is a Vice Chairman of Guangdong Province Golf Association. He received the Director of the Year Award (Listed Company — Non-Executive Director) in 2002 and Dr. Cheung was re-appointed by the HKSAR Government as a member of the Estate Agents Authority in November 2004.

Mr. Robert George Nield, (Independent non-executive Director) aged 53, has been a Director and a member of the audit committee of the Company since September 2004. Mr. Nield has been appointed a member of the remuneration committee of the Company in December 2005. He is a Fellow of The Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales and has over 30 years of experience in professional auditing and accounting. Mr. Nield worked for PwC from 1980 to 2002. He was admitted as an audit partner in 1985 and, in addition to managing a portfolio of audit clients, he was from time to time in charge of PwC's Computer Audit, Continuing Education and Human Resources Departments. He retired from PwC in June 2002.

SENIOR MANAGERS

Assisted by heads of departments (including the Qualified Accountant), the executive Directors are under the direct responsibilities for the business and major functions of the Company and the executive Directors are therefore regarded as senior management of the Company.

The Directors present their report together with the 2005 Financial Statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Our principal subsidiaries and jointly controlled entities are primarily engaged in property development and property investment in Hong Kong, Mainland China and Singapore, and their activities are set out in note 47 to the 2005 Financial Statements.

RESULTS AND APPROPRIATIONS

The 2005 Financial Statements starting page 54 of this annual report set out the results of the Group for the year ended 31st December 2005.

An interim cash dividend of HK\$0.01 per share, and a special interim dividend of approximately HK\$0.52 per share, were paid during the year. The Board recommends the payment of a final scrip dividend of HK\$0.01 per share with a cash option. Together, the total dividends per share for the year amounts to HK\$0.54 (2004: HK\$0.06). Details of dividends are set out in note 16 to the 2005 Financial Statements.

SHARE CAPITAL

Note 32 to the 2005 Financial Statements contains details on the Company's share capital during the year.

On 21st October 2005, the Company granted 20,729,000 share options (all at subscription price of HK\$1.906 per share) to Directors and selected employees of the Company and its affiliates, of which 500,000 has since lapsed.

Increase in issued share capital of the Company during the year due to exercise of share options and the exercise of convertible bonds is set out in notes 33 and 35(b) to the 2005 Financial Statements.

CONVERTIBLE BONDS

Details of the 0.5% Guaranteed Convertible Bonds due 2009 in issue during the year appear in note 35(b) to the 2005 Financial Statements.

DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its Shares or bonds during the year ended 31st December 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares and bonds during the year.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 34 to the 2005 Financial Statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$6,010,000 (2004: HK\$3,379,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the 2005 Financial Statements.

SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31st December 2005 for investment and development purposes are set out on pages 107 to 108 of this annual report.

DIRECTORS

The Directors who served during the year were Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Lennon Lun Tsan Kau, Mr. Eddie Hui Ki On, Mr. William Lo Chi Chung, Ms. Paddy Tang Lui Wai Yu, Sir David Akers-Jones, Mr. Michael Leung Man Kin, Dr. Alex Wu Shu Chih (who passed away on 9th January 2005), Dr. Philip Wong Kin Hang, Dr. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun and Mr. Robert George Nield.

Biographical details of the Directors are set out on pages 41 to 42 of this annual report.

In accordance with Bye-law 109(A), Mr. Eddie Hui Ki On, Mr. William Lo Chi Chung, Sir David Akers-Jones and Dr. Leo Lee Tung Hai will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of Shareholders at the forthcoming annual general meeting, the following fees in respect of year ended 31st December 2005 will be payable to the Directors:

	Chairman HK\$	Member HK\$
The Board	100,000	80,000
Audit Committee	100,000	80,000
Remuneration Committee	50,000	40,000

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Directors' Report, no contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31st December 2005 or at any time during the year ended on that date.

DIRECTORS' INTERESTS IN SECURITIES

At 31st December 2005, the interests and short positions of each Director in the Shares, underlying shares and debentures of the Company and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions 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 Appendix 10 of the Listing Rules, were as follows:

(A) Ordinary Shares

Name of Directors	Number of Shares				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	6,468,014	7,130,234 ⁽¹⁾	38,129,737 ⁽²⁾	1,257,389,151 ⁽³⁾	1,309,117,136	55.05
Francis Lui Yiu Tung	5,799,164	—	—	1,257,389,151 ⁽³⁾	1,263,188,315	53.12
Lennon Lun Tsan Kau	2,224,000	—	—	—	2,224,000	0.09
Eddie Hui Ki On	580,000	—	—	—	580,000	0.02
William Lo Chi Chung	630,000	—	—	—	630,000	0.03
Paddy Tang Lui Wai Yu	8,308,166	—	—	1,257,389,151 ⁽³⁾	1,265,697,317	53.23
Sir David Akers-Jones	150,000	—	—	—	150,000	0.01
Michael Leung Man Kin	700,000	—	—	—	700,000	0.03
Philip Wong Kin Hang	600,000	—	—	—	600,000	0.03
Leo Lee Tung Hai	650,000	—	—	—	650,000	0.03
Robin Chan Yau Hing	928,977	—	—	—	928,977	0.04
Charles Cheung Wai Bun	907,239	—	—	—	907,239	0.04
Robert George Nield	500,000	—	—	—	500,000	0.02

(B) Share Options

Details are set out in the SHARE OPTION SCHEME section below.

Notes:

- (1) Dr. Lui Che Woo was deemed to be interested in 7,130,234 Shares through the interests of his spouse.
- (2) 35,075,725 Shares and 3,054,012 Shares were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were controlled by Dr. Lui Che Woo.
- (3) 1,257,389,151 Shares representing more than one-third of the Company's issued share capital were held by the discretionary trusts established by Dr. Lui Che Woo as founder. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, were deemed to be interested in those Shares held by the trusts.
- (4) All personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

All the interests stated above represent long positions.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu were deemed to be interested in the issued share capital of every other subsidiary and jointly controlled entity of the Company.

Save as disclosed above, as at 31st December 2005, none of the Directors had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31st December 2005, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying shares in the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Number of Ordinary Shares (Long Position)	Approximate % of Issued Share Capital
HSBC International Trustee Limited	1,257,579,151 ⁽¹⁾	52.89
Marapro Co., Ltd.	190,228,080 ⁽²⁾	8.00
Symmetry Co., Ltd.	190,228,080 ⁽²⁾	8.00
Polymate Co., Ltd.	190,228,080 ⁽²⁾	8.00
Penta Investment Advisers Ltd.	253,584,104 ⁽³⁾	10.66
Moore Michael William	253,584,104 ⁽³⁾	10.66
Zwannstra John	253,584,104 ⁽³⁾	10.66

Notes:

- (1) HSBC International Trustee Limited is the trustee of discretionary trusts which holds 1,257,579,151 Shares.
- (2) Marapro Co., Ltd. is a beneficiary and Symmetry Co., Ltd. is a trustee of a trust which is interested in 190,228,080 Shares. Polymate Co., Ltd. is the ultimate holding company of Marapro Co., Ltd. and Symmetry Co., Ltd.
- (3) Penta Investment Advisers Ltd. was interested in 253,584,104 Shares in the capacity of investment manager. Moore Michael William and Zwaanstra John each controlled more than one-third of the issued share capital of Penta Investment Advisers Ltd.

There was duplication of interests of:

- (i) 1,257,389,151 Shares among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. These Shares are also interested by HSBC International Trustee Limited and of these Shares, 190,228,080 Shares were also interested by Marapro Co., Ltd., Symmetry Co., Ltd. and Polymate Co., Ltd.; and
- (ii) 253,584,104 Shares among Penta Investment Advisers Ltd., Moore Michael William and Zwannstra John.

Save as disclosed above, as at 31st December 2005, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme adopted by the Shareholders at the annual general meeting on 30th May 2002 is summarised below:

(1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to Shareholders.

(2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

“Affiliate” means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

(3) Total number of Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at 30th May 2002, being 187,563,607 Shares.

Overriding Limit — The Company may by ordinary resolutions of the Shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to Shareholders before such approval is sought. The overriding limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 143,676,607 Shares, which represented approximately 6.04% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the Shares in issue.

Subject to separate approval by the Shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to Shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the Shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which an option must be held before it can vest

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the Shares on the date of grant;
- (ii) the average closing prices of the Shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing from 30th May 2002 and will expire on 29th May 2012.

Particulars of the movement of the options held by each of the Directors, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31st December 2005, were as follows:

Holders	Date of grant	Number of Options					Held at 31st December 2005	Exercise price per Share (HK\$)	Exercise period
		Held at 1st January 2005	Granted during the year ^(a)	Exercise during the year	Lapsed during the year	Exercise during the year			
Lui Che Woo	20th May 1998	1,500,000	—	1,500,000 ^(b)	—	—	0.5586	20th May 1999 – 19th May 2008	
	30th Dec 1999	1,350,000	—	1,350,000 ^(b)	—	—	0.3600	30th Dec 2000 – 29th Dec 2009	
	28th Feb 2003	2,000,000	—	2,000,000 ^(b)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013	
	21st Oct 2005	—	1,350,000	—	—	1,350,000	1.9060	22nd Oct 2006 – 21st Oct 2011	

Holders	Date of grant	Number of Options				Held at 31st December 2005	Exercise price per Share (HK\$)	Exercise period
		Held at 1st January 2005	Granted during the year ^(a)	Exercise during the year	Lapsed during the year			
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	1,000,000 ^(c)	—	—	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,200,000	—	1,200,000 ^(c)	—	—	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,868,000	—	1,868,000 ^(c)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	1,340,000	—	—	1,340,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Lennon Lun Tsan Kau	30th Dec 1999	500,000	—	500,000 ^(d)	—	—	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,054,000	—	1,054,000 ^(d)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	670,000	—	—	670,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Eddie Hui Ki On	21st Oct 2005	—	580,000	—	—	580,000	1.9060	22nd Oct 2006 – 21st Oct 2011
William Lo Chi Chung	21st Oct 2005	—	530,000	—	—	530,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	600,000 ^(e)	—	—	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	870,000	—	870,000 ^(e)	—	—	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,269,000	—	1,269,000 ^(e)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	930,000	—	—	930,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Sir David Akers-Jones	28th Feb 2003	150,000	—	—	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	500,000	—	500,000	—	1.9060	22nd Oct 2006 – 21st Oct 2011
Michael Leung Man Kin	28th Feb 2003	300,000	—	300,000 ^(f)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	400,000	—	—	400,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Philip Wong Kin Hang	28th Feb 2003	300,000	—	300,000 ^(g)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	300,000	—	—	300,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Leo Lee Tung Hai	28th Feb 2003	150,000	—	150,000 ^(h)	—	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	—	500,000	—	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011

Holders	Date of grant	Number of Options					Held at 31st December 2005	Exercise price per Share (HK\$)	Exercise period
		Held at 1st January 2005	Granted during the year ^(a)	Exercise during the year	Lapsed during the year	Held at 31st December 2005			
Robin Chan Yau Hing	28th Feb 2003	150,000	—	150,000 ⁽ⁱ⁾	—	—	0.7200	1st Mar 2004 – 28th Feb 2013	
	21st Oct 2005	—	500,000	—	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011	
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	300,000 ⁽ⁱ⁾	—	—	0.7200	1st Mar 2004 – 28th Feb 2013	
	21st Oct 2005	—	600,000	—	—	600,000	1.9060	22nd Oct 2006 – 21st Oct 2011	
Robert George Nield	21st Oct 2005	—	500,000	—	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011	
Employees (in aggregate)	20th May 1998	628,000	—	395,000 ^(k)	200,000	33,000	0.5586	20th May 1999 – 19th May 2008	
	30th Dec 1999	1,570,000	—	1,270,000 ⁽ⁱ⁾	—	300,000	0.3600	30th Dec 2000 – 29th Dec 2009	
	28th Feb 2003	4,550,000	—	3,935,000 ^(m)	—	615,000	0.7200	1st Mar 2004 – 28th Feb 2013	
	29th Dec 2003	3,000,000	—	1,000,000 ⁽ⁿ⁾	—	2,000,000	1.3000	30th Dec 2003 – 29th Dec 2013	
	21st Oct 2005	—	11,689,000	—	—	11,689,000	1.9060	22nd Oct 2006 – 21st Oct 2011	
Others	28th Feb 2003	522,000*	—	372,000 ^(c)	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013	
	29th Dec 2003	3,000,000	—	3,000,000 ^(d)	—	—	1.3000	30th Dec 2003 – 29th Dec 2013	
	21st Oct 2005	—	340,000	—	—	340,000	1.9060	22nd Oct 2006 – 21st Oct 2011	

* after reclassification of share options held by Dr. Alex Wu Shu Chih under "Directors" to "Others" following his demise on 9th January 2005.

Note:

- (a) The closing price of the Shares immediately before the date on which the options were granted was HK\$1.78.
- (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.215.
- (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.215.
- (d) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$1.976.
- (e) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$1.845.
- (f) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.235.
- (g) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.235.
- (h) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.235.
- (i) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.235.
- (j) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.235.
- (k) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.327.
- (l) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.063.
- (m) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.168.

(n) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$1.971.

(o) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.540.

(p) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.215.

Except for the options granted on 29th December 2003 which were fully vested at the date of grant, the other options referred to above were subject to a one-year vesting period.

The fair value of the share options granted during the year is set out in note 33 to the 2005 Financial Statements.

The consideration paid by each grantee for each grant of the options was HK\$1.00. No options was cancelled during the year.

Other than grant of share options pursuant to the Company's share option scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire Shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

1. The Acquisition of Galaxy Casino is a connected transaction and a deemed disposal under the Listing Rules, full details of which appear in the joint circular dated 30th June 2005 by the Company and GEG. Shareholders in special general meeting on 19th July 2005 approved the Acquisition.
2. Upon completion of the Acquisition which took place on 22nd July 2005, the Company and GEG become connected person to each other and transaction between them — if continuing/recurring — becomes continuing connected transaction under the Listing Rules. In 2005, the Company had these continuing connected transactions with GEG:
 - (a) On 2nd June 2005, Jia Hui Da Real Estate Development Co. Ltd. Shanghai (an indirect 35.75% owned subsidiary of the Company) entered into 3 tenancy agreements with Shanghai Jiajian Concrete Co. Ltd., Shanghai Xin Cai Concrete Co. Ltd., and Shanghai Jia Shen Concrete Co. Ltd. (all indirect subsidiaries of GEG), pursuant to which the former leased office units 1802, 1803, and 1804 on the 18th Floor of Shanghai K. Wah Centre to the latter. The leases are — in all cases — for 3 years from 1st June 2005 to 31st May 2008, and constitute continuing connected transactions. Details of them appear in the joint announcement of the Company and GEG dated 23rd August 2005. These continuing connected transactions were carried out during the year within the annual cap for 2005. The independent non-executive Directors have reviewed the continuing connected transactions as represented by the 3 tenancy agreements who confirmed that they were conducted and entered into in the ordinary and usual course of the Group's business, on normal commercial terms, in accordance with the relevant agreements governing such transactions, and on terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.
 - (b) The revolving facilities of up to HK\$330 million granted on 22nd July 2002 by Brighten Lion Limited, an indirect wholly-owned subsidiary of GEG to Great Place Developments Limited, an indirect wholly-owned subsidiary of the Company are subsisting as of the year-end and constitute continuing connected transaction between the Company and GEG. Details of the revolving facilities appear in the circular of the Company dated 5th August 2002. The Shareholders in special general meeting on 22nd August 2002 approved the revolving facilities and the Company has also reported the same in each of its 2003 and 2004 annual reports. No annual cap was involved. The Company's independent non-executive Directors have also reviewed this continuing connected transaction and confirmed that they were conducted and entered into on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties, and (in accordance with the relevant agreement governing them, i.e. the loan agreement dated 22nd July 2002) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

PRE-EMPTIVE RIGHTS

There are no shareholder pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

DIRECTORS' COMPETING BUSINESS

Dr. Lui Che Woo, and also Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, through a family trust directly or indirectly, are also interested in companies engaged in the business of property investment and development in Hong Kong, Mainland China and Singapore. As the Board is independent of the boards of these companies, the Group is therefore capable of carrying on its business independently of, and at arm's length from, the business of these companies.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2005 Financial Statements and adjusted as appropriate, is shown on pages 36 to 37 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2005:

- (1) The aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover;
- (2) The aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's major suppliers are as follows:

The largest supplier	11.77%
Five largest suppliers	42.14%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (not including or a capital nature).

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

AUDITORS

The 2005 Financial Statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board

Francis Lui Yiu Tung
Managing Director

Hong Kong, 30th March 2006



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF
K. WAH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 54 to 106 which have been prepared in accordance with Hong Kong Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30th March 2006

For the year ended 31st December 2005

	Note	2005 HK\$'000	Restated 2004 HK\$'000
Continuing operations			
Turnover	8	289,307	418,257
Cost of sales		(158,146)	(289,775)
Gross profit		131,161	128,482
Other revenues	8	5,298	9,526
Other operating income		54,246	32,452
Administrative expenses		(91,902)	(85,851)
Other operating expenses		(65,241)	(18,701)
Operating profit	9	33,562	65,908
Change in fair value of investment properties		348,679	(8,995)
Finance costs	10	(36,689)	(10,140)
Share of profits less losses of jointly controlled entities		47,697	184,380
Profit before taxation		393,249	231,153
Taxation (charge)/credit	14	(142,869)	1,461
Profit from continuing operations		250,380	232,614
Discontinued operations			
Profit from discontinued operations	7	3,553,418	29,757
Profit for the year		3,803,798	262,371
Attributable to:			
Shareholders of the Company		3,644,048	241,214
Minority interests		159,750	21,157
		3,803,798	262,371
Dividends			
Interim paid		23,771	40,195
Proposed final		23,972	89,859
		47,743	130,054
Special interim in specie		1,229,143	—
	16	1,276,886	130,054
Earnings per share			
		HK cents	HK cents
Earnings per share from continuing operations			
Basic	17	4.10	11.50
Diluted		4.06	9.68
Earnings per share from discontinued operations			
Basic	17	153.58	0.59
Diluted		152.32	0.52
Earnings per share from operations			
Basic	17	157.68	12.09
Diluted		156.38	10.20

As at 31st December 2005

	<i>Note</i>	2005 HK\$'000	Restated 2004 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	53,974	506,055
Investment properties	19	2,016,387	326,798
Leasehold land and land use rights	20	70,502	257,347
Jointly controlled entities	21	577,261	489,739
Associated companies	23	—	18,650
Available-for-sale financial assets	24	2,690,556	152,375
Other non-current assets	25	8,277	288,572
		5,416,957	2,039,536
Current assets			
Development properties	26	4,134,038	4,535,461
Inventories	27	—	93,175
Debtors and prepayments	28	134,545	820,597
Tax recoverable		3,368	4,384
Other investments	29	39,126	44,547
Cash and bank balances	30	255,206	781,306
		4,566,283	6,279,470
Total assets		9,983,240	8,319,006
EQUITY			
Share capital	32	237,792	201,564
Reserves	34	5,078,878	2,471,190
Shareholders' funds		5,316,670	2,672,754
Minority interests		355,968	723,354
Total equity		5,672,638	3,396,108
LIABILITIES			
Non-current liabilities			
Borrowings	35	1,567,857	2,773,224
Deferred taxation liabilities	36	210,264	78,375
Negative goodwill	37	—	136
Provisions	38	—	180,873
		1,778,121	3,032,608
Current liabilities			
Creditors and accruals	31	719,237	1,005,969
Current portion of borrowings	35	1,807,880	844,542
Tax payable		5,364	39,779
		2,532,481	1,890,290
Total liabilities		4,310,602	4,922,898
Total equity and liabilities		9,983,240	8,319,006

Francis Lui Yiu Tung

Director

Paddy Tang Lui Wai Yu

Director

As at 31st December 2005

	Note	2005 HK\$'000	Restated 2004 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	22	259,561	259,561
Jointly controlled entities	21	438,568	—
		698,129	259,561
Current assets			
Loans to subsidiaries	22	600,000	300,000
Amounts due from subsidiaries	22	2,448,632	1,734,970
Debtors and prepayments	28	420	270
Tax recoverable		1,435	1,077
Cash and bank balances	30	584	320,893
		3,051,071	2,357,210
Total assets		3,749,200	2,616,771
EQUITY			
Share capital	32	237,792	201,564
Reserves	34	2,810,320	1,993,479
Shareholders' funds		3,048,112	2,195,043
LIABILITIES			
Non-current liabilities			
Borrowings	35	200,000	25,000
Deferred taxation liabilities	36	4,901	—
		204,901	25,000
Current liabilities			
Creditors and accruals	31	3,187	1,728
Current portion of borrowings	35	493,000	395,000
		496,187	396,728
Total liabilities		701,088	421,728
Total equity and liabilities		3,749,200	2,616,771

Francis Lui Yiu Tung

Director

Paddy Tang Lui Wai Yu

Director

For the year ended 31st December 2005

		2005	Restated 2004
	<i>Note</i>	HK\$'000	HK\$'000
Cash flows from operating activities			
Cash used in operations	39(a)	(526,452)	(1,325,625)
Net tax paid		(37,035)	(7,249)
Interest paid		(96,843)	(52,956)
Net cash used in operating activities		(660,330)	(1,385,830)
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,730)	(2,471)
Acquisition of a jointly controlled entity	42(a)	(438,568)	—
Proceeds from sale of property, plant and equipment		—	22
Increase in investments in jointly controlled entities		—	(4,407)
Proceeds from disposal of unlisted investments		—	44,404
Interest received		3,706	7,719
Dividends received from listed investments		1,592	1,807
Net cash (used in)/from investing activities		(439,000)	47,074
Cash flows from financing activities			
Issue of new shares	39(b)	17,443	4,940
Issue costs for convertible bonds		—	(16,348)
New long-term loans		652,889	2,189,036
Repayment of long-term loans		(458,814)	(344,460)
Increase/(decrease) in short-term bank loans repayable after three months from date of advance		668,387	(50,851)
Dividends paid to shareholders		(113,630)	(40,757)
Net cash from financing activities		766,275	1,741,560
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		610,354	210,711
Changes in exchange rates		(22,093)	(3,161)
Cash and cash equivalents at end of year (excluding discontinued operations)		255,206	610,354
Cash and cash equivalents in discontinued operations		—	170,952
Cash and cash equivalents at end of year		255,206	781,306

For the year ended 31st December 2005

	Share capital	Reserves	Shareholders' funds	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004					
As previously reported	201,564	2,529,671	2,731,235	745,308	3,476,543
Prior year adjustments					
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(67,379)	(67,379)	(3,366)	(70,745)
Transfer of leasehold land to investment properties (HKAS 40)	—	22,230	22,230	—	22,230
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(13,332)	(13,332)	(18,588)	(31,920)
As restated, before opening adjustments	201,564	2,471,190	2,672,754	723,354	3,396,108
Opening adjustments					
Equity element of convertible bonds and related interest (HKAS 39)	—	167,611	167,611	—	167,611
Negative goodwill written off (HKFRS 3)	—	90	90	46	136
At 1st January 2005, as restated	201,564	2,638,891	2,840,455	723,400	3,563,855
Exchange differences	—	37,095	37,095	5,838	42,933
Conversion of convertible bonds, net of tax	33,790	573,413	607,203	—	607,203
Issue of shares upon exercise of share options	2,438	15,005	17,443	—	17,443
Fair value of share options	—	2,383	2,383	—	2,383
Capital contributions from minority interests	—	—	—	1,138,480	1,138,480
Gain on deemed partial disposal of a subsidiary	—	—	—	(577,123)	(577,123)
Deemed disposal of a subsidiary	—	—	—	(1,089,524)	(1,089,524)
Acquisition of a subsidiary	—	—	—	368	368
Change in fair value of available-for-sale financial assets	—	(489,184)	(489,184)	(777)	(489,961)
Profit for the year	—	3,644,048	3,644,048	159,750	3,803,798
2004 final dividend	—	(89,859)	(89,859)	(4,444)	(94,303)
2005 interim dividend	—	(23,771)	(23,771)	—	(23,771)
2005 special interim dividend in specie	—	(1,229,143)	(1,229,143)	—	(1,229,143)
At 31st December 2005	237,792	5,078,878	5,316,670	355,968	5,672,638
At 31st December 2003					
As previously reported	197,797	2,333,890	2,531,687	623,705	3,155,392
Prior year adjustments					
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(66,708)	(66,708)	(11,077)	(77,785)
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(13,286)	(13,286)	(18,524)	(31,810)
At 1st January 2004, as restated	197,797	2,253,896	2,451,693	594,104	3,045,797
Exchange differences	—	(6,566)	(6,566)	742	(5,824)
Issue of shares upon exercise of share options	687	4,253	4,940	13,840	18,780
Loss on deemed partial disposal of a subsidiary	—	—	—	10,501	10,501
Shares issued as scrip dividends	3,080	(3,080)	—	4,088	4,088
Reserve arising on scrip dividends	—	39,081	39,081	—	39,081
Capital contributions from minority interests	—	—	—	88,302	88,302
Transfer of leasehold land to investment properties (HKAS 40)	—	22,230	22,230	—	22,230
Profit for the year	—	241,214	241,214	21,157	262,371
2003 final dividend	—	(39,643)	(39,643)	—	(39,643)
2004 interim dividend	—	(40,195)	(40,195)	(9,380)	(49,575)
At 31st December 2004	201,564	2,471,190	2,672,754	723,354	3,396,108

1. GENERAL INFORMATION

The principal activities of K. Wah International Holdings Limited (the "Company") and its subsidiaries (together the "Group") are property development and property investment, manufacture, sale and distribution of construction materials in Hong Kong and Mainland China.

The Company is a limited liability company incorporated in Bermuda and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

As at 31st December 2004, the Group held 65.8% equity interest in the subsidiary, Galaxy Entertainment Group Limited ("GEG", formerly known as K. Wah Construction Materials Limited), which is principally engaged in the manufacture, sale and distribution of construction materials.

On 4th May 2005, GEG issued 146,000,000 new shares at the issue price of HK\$8 per share for cash. On 22nd July 2005, GEG completed the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. at an aggregated consideration of HK\$18,405 million, which was partially settled by the issue of 1,840,519,798 new shares of GEG. Following the issuance of the new shares by GEG, the equity interest of the Group in GEG was diluted from 65.8% to 25.9% and therefore constituted a deemed disposal by the Group of its equity interest in GEG. As a result, GEG ceased to be a subsidiary of the Group and became an associated company on 22nd July 2005, with its results being accounted for in the consolidated financial statements using the equity accounting method.

On 14th September 2005, the Company declared a special interim dividend to be effected by way of distribution in specie of shares of GEG on the basis of one GEG share for every ten shares of the Company. Following the distribution in specie on 4th November 2005, the equity interest in GEG was further reduced to 18.7% with the Lui's Family Trusts and members of the Lui family holding an aggregate of 50.5% in GEG. As a result, the Group ceased to exercise significant influence in the management of GEG and the investment in GEG has therefore been reclassified as an available-for-sale financial asset.

The Group ceased to carry on manufacture, sale and distribution of construction materials following the deemed disposal and distribution in specie of the equity interest in GEG.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention as modified by the revaluation of investment properties, available-for-sale financial assets and other investments, which are carried at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5 below.

2. BASIS OF PREPARATION (cont'd)

- (a) In 2005, the Group adopted the following new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and interpretations ("HK-Int", "HK(SIC)-Int" and "HK(IFRIC)-Int") (collectively the "new HKFRSs"), which are effective for accounting periods commencing on or after 1st January 2005 and relevant to the operations of the Group:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HK-Int 3	Revenue — Pre-completion Contracts for the Sale of Development Properties
HK(SIC)-Int 12	Consolidation — Special Purpose Entities
HK(SIC)-Int 15	Operating Leases — Incentives
HK(SIC)-Int 21	Income Taxes — Recovery of Revalued Non-Depreciated Assets
HK(IFRIC)-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

2. BASIS OF PREPARATION (cont'd)

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures in the financial statements whereas HKAS 24 has affected the identification of related parties and some other related-party disclosures. The adoption of the new HKASs 2, 7, 8, 10, 21, 23, 27, 28, 31, 33 and HK(SIC)-Ints 12, 15 and 21 does not have any material effect on the accounting policies of the Group. The major changes in the accounting policies are summarised as follows:

- (1) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of prepayments of lease premiums from property, plant and equipment and development properties to leasehold land and land use rights. The up-front prepayments made for leasehold land and land use rights are expensed in the profit and loss statement on a straight-line basis over the period of the lease or when there is impairment, in which case the impairment is expensed in the profit and loss statement. In previous years, leasehold land classified under property, plant and equipment was accounted for at valuation or cost less accumulated depreciation and impairment, whereas development properties were stated at cost, including land and construction costs, less provisions for foreseeable losses.
- (2) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss (including other investments) and available-for-sale financial assets. It has also resulted in a change in the recognition and measurement of loans and receivables, borrowings and hedging activities. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using the effective interest method. The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond while the equity component is recognised in the capital reserve when the bonds are derecognised, either converted, redeemed or lapsed.

In previous years, the Group classified its investments, other than subsidiaries, associated companies and jointly controlled entities, as long-term investments and short-term investments. Securities intended to be held for an identified long-term purpose or for strategic reasons were included in the balance sheet under non-current assets and were carried at cost less provision for impairment. The carrying amounts of individual investments were reviewed at each balance sheet date to assess for impairment. Securities which were acquired principally for the purpose of generating a profit from short-term fluctuation in prices were included in the balance sheet under current assets and were carried at fair value. In addition, long-term borrowings and convertible bonds were included under long term liabilities at face value. Expenses incurred in connection with the issuance of convertible bonds were deferred and amortised on a straight line basis over the relevant tenure of the finance.

HKAS 39 does not permit the Group to recognise, derecognise or measure financial assets and liabilities in accordance with this standard on a retrospective basis. The comparative amounts as at 31st December 2004 have therefore not been restated.

- (3) The adoption of revised HKAS 40 has resulted in a change in the accounting policy by which the changes in fair values of investment properties are recognised in the profit and loss statement. In previous years, a deficit in valuation was charged to the profit and loss statement; an increase was first credited to the profit and loss statement to the extent of any valuation deficit previously charged and thereafter was credited to the investment properties revaluation reserve. As at 31st December 2004, the valuation of investment properties was less than their original cost and the revaluation deficits had already been charged to the profit and loss statement in previous years and there was no investment properties revaluation reserve. Consequently, no prior period adjustment is required.

2. BASIS OF PREPARATION (cont'd)

- (4) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of the business combination is recognised immediately in the profit and loss statement.

In previous years, goodwill arising on acquisitions was included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill was reviewed annually and provision was made when, in the opinion of the Directors, there was impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceeded the purchase consideration, such differences were recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of the non-monetary assets acquired. As a result of this change, the Group has adopted the transitional provision to write off negative goodwill against the opening revenue reserve as at 1st January 2005 whereas the comparative amounts as at 31st December 2004 have not been restated.

- (5) The adoption of HKAS 16, HKAS 37 and HK(IFRIC)-Int 1 has resulted in a change in the accounting policy for provision for environmental restoration and its related asset. Any changes in the measurement of provision for environmental restoration are added to or deducted from its related asset. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as finance cost as it occurs.

In previous years, cost of the asset related to the provision for environmental restoration was not adjusted by the changes in the provision.

- (6) The adoption of HK-Int 3 has resulted in a change in the accounting policy by which sales of properties are recognised when the risk and rewards of the property have been passed to the purchasers.

In previous years, sales of properties under construction were recognised over the course of development based on the proportion of the construction work completed or, if lower, the proportion of sales proceeds received and receivable at the balance sheet date. The Group has elected to adopt the transitional provision and change the recognition policy in relation to sales of properties occurring on or after 1st January 2005.

- (7) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense in the profit and loss statement.

In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss statement. The Group has applied the transitional provision. As all the outstanding share options at 31st December 2004 had vested on or before 1st January 2005, a prior year adjustment is not required.

- (8) The adoption of HKFRS 5 has resulted in a change in the accounting policy for the recognition of a discontinued operation. HKFRS 5 has defined the timing of the classification of an operation as "discontinued" to be the date when the operation meets the criteria as "held for sale" or has already been disposed of.

Following the deemed disposal of GEG and the distribution in specie of GEG shares as more fully described in note 1 above, GEG was no longer a subsidiary or an associated company of the Group and therefore its operations have been disclosed as discontinued operations.

The application of HKFRS 5 does not impact on the financial statements for the previous year other than a change in the presentation of the results, cash flows and segment reporting relating to the discontinued operations. The Group adopted HKFRS 5 from 1st January 2005 prospectively and the effects are summarised in note 7 to the financial statements.

2. BASIS OF PREPARATION (cont'd)

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, which require retrospective application other than HKAS 39, HK-Int 3, HKFRS 2, 3 and 5. As a result, the 2004 comparative figures have also been restated or amended in accordance with the relevant requirements. The effects of all the changes in accounting policies are summarised in notes (b) and (c) below.

(b) The following tables set out the impact of the relevant headings in the consolidated profit and loss statement and the consolidated balance sheet for the financial year ended 31st December 2005 following the adoption of new HKFRSs:

(i) Consolidated profit and loss statement

	HKAS 1	HKAS 17	HKAS 32, 39	HKFRS 2	HKFRS 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of sales		7,281				7,281
Other operating income					18,991	18,991
Administrative expenses		(5,077)	12,616	(2,383)		5,156
Operating profit						31,428
Finance costs			(10,471)			(10,471)
Share of results of jointly controlled entities	(17,459)					(17,459)
Profit before taxation						3,498
Taxation	17,459	587				18,046
Profit for the year	—	2,791	2,145	(2,383)	18,991	21,544
Attributable to:						
Shareholders of the Company	—	2,104	2,145	(2,383)	18,991	20,857
Minority interests	—	687	—	—	—	687
	—	2,791	2,145	(2,383)	18,991	21,544

(ii) Consolidated balance sheet

	HKAS 17	HKAS 32, 39	HKAS 40	HKFRS 2	HKFRS 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets						
Property, plant and equipment	(70,502)		(2,016,387)			(2,086,889)
Investment properties			2,016,387			2,016,387
Leasehold land and land use rights	70,502					70,502
Current assets						
Development properties	(24,185)					(24,185)
Debtors and prepayments		(1,279)				(1,279)
Total assets	(24,185)	(1,279)	—	—	—	(25,464)
Equity						
Share premium		15,870				15,870
Convertible bonds reserve		23,109				23,109
Share option reserve				2,383		2,383
Revenue reserve	(16,446)	(22,281)		(2,383)	18,991	(22,119)
Minority interests	(4,053)					(4,053)
Total equity						15,190
Non-current liabilities						
Borrowings		(22,878)				(22,878)
Deferred taxation liabilities	(3,686)	4,901				1,215
Negative goodwill					(18,991)	(18,991)
Total liabilities						(40,654)
Total equity and liabilities	(24,185)	(1,279)	—	—	—	(25,464)

2. BASIS OF PREPARATION (cont'd)

- (c) The following tables set out the adjustments made in accordance with the transitional provisions of the respective new HKFRSs as set out above to each of the relevant headings in the consolidated profit and loss statement and consolidated balance sheet as previously reported in the financial statements for the year ended 31st December 2004.

(i) Consolidated profit and loss statement

	As previously reported	HKAS 16, 37				Restated
		HKAS 1	HKAS 17	HK(IFRIC)-Int 1	HKFRS 5	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,730,538				(1,312,281)	418,257
Costs of sales	(1,548,383)		10,149		1,248,459	(289,775)
Gross profit	182,155					128,482
Other revenues	17,164				(7,638)	9,526
Other operating income	56,281				(23,829)	32,452
Administrative expenses	(136,755)		(3,168)		54,072	(85,851)
Other operating expenses	(41,001)			(110)	22,410	(18,701)
Operating profit	77,844					65,908
Change in fair value of investment properties	(8,892)				(103)	(8,995)
Finance costs	(13,425)				3,285	(10,140)
Share of profits less losses of						
Jointly controlled entities	238,976	(40,730)			(13,866)	184,380
Associated companies	3,371	(810)			(2,561)	—
Profit before taxation	297,874					231,153
Taxation (charge)/credit	(42,434)	41,540	60		2,295	1,461
Profit from continuing operations	255,440					232,614
Profit from discontinued operations	—				29,757	29,757
Minority interests	(21,117)	3,145	(104)	64	18,012	—
Profit for the year	234,323	3,145	6,937	(46)	18,012	262,371
Attributable to:						
Shareholders of the Company	234,323	—	6,937	(46)	—	241,214
Minority interests	—	3,145	—	—	18,012	21,157
	234,323	3,145	6,937	(46)	18,012	262,371
Earnings per share from operations	HK cents					HK cents
Basic	11.70					12.09
Diluted	9.90					10.20
Earnings per share from continuing operations						
Basic						11.50
Diluted						9.68
Earnings per share from discontinued operations						
Basic						0.59
Diluted						0.52

2. BASIS OF PREPARATION (cont'd)

(ii) Consolidated balance sheet

	As previously	HKAS 16, 37					
	reported	HKAS 1	HKAS 17	HKAS 32, 39	HKAS 40	HK(IFRIC)-	Restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Int 1	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets							
Property, plant and equipment	1,115,426		(304,803)		(304,568)		506,055
Investment properties	—				326,798		326,798
Leasehold land and land use rights	—		257,347				257,347
Jointly controlled entities	440,476	49,263					489,739
Associated companies	18,650						18,650
Available-for-sale financial assets	—			152,375			152,375
Other non-current assets	304,898			(152,375)		136,049	288,572
	1,879,450						2,039,536
Current assets							
Development properties	4,561,850		(26,389)				4,535,461
Debtors and prepayments	665,360	155,237					820,597
Other current assets	923,412						923,412
	6,150,622						6,279,470
Total assets	8,030,072	204,500	(73,845)	—	22,230	136,049	8,319,006
Equity							
Share capital	201,564						201,564
Other reserves	1,017,733		(57,783)				959,950
Revenue reserve	1,511,938		(9,596)		22,230	(13,332)	1,511,240
Shareholders' funds	2,731,235						2,672,754
Minority interests	1,147,265	(401,957)	(3,366)			(18,588)	723,354
Total equity	3,878,500						3,396,108
Non-current liabilities							
Borrowings	2,675,209	98,015					2,773,224
Deferred taxation liabilities	81,474		(3,100)			1	78,375
Negative goodwill	136						136
Provisions	—					180,873	180,873
	2,756,819						3,032,608
Current liabilities							
Creditors and accruals	510,432	508,442				(12,905)	1,005,969
Current portion of borrowings	844,542						844,542
Tax payable	39,779						39,779
	1,394,753						1,890,290
Total liabilities	4,151,572						4,922,898
Total equity and liabilities	8,030,072	204,500	(73,845)	—	22,230	136,049	8,319,006

2. BASIS OF PREPARATION (cont'd)

- (d) Standards, amendments and interpretations to published standards which are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not yet adopted.

Effective for year ending 31st December 2006

HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Effective for year ending 31st December 2007

HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for those stated in note 2(a) above.

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December and the share of post acquisition results and reserves of its jointly controlled entities and associated companies attributable to the Group.

Results attributable to subsidiaries, jointly controlled entities and associated companies acquired or disposed of during the year are included in the consolidated profit and loss statement from the date of acquisition or to the date of disposal as applicable.

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.2 Subsidiaries

Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company, generally accompanying a direct or indirect shareholding of more than half of the voting power, or holds more than half of the issued share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

3.3 Minority interests

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity interests to minority interests result in gains and losses for the Group that are recorded in the profit and loss statement. Purchases of equity interests from minority interests result in goodwill, which is the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired.

3.4 Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

Jointly controlled entities are accounted for under the equity method whereby the share of results of the Group is included in the consolidated profit and loss statement and the share of net assets of the Group is included in the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Jointly controlled entities (cont'd)

In the balance sheet of the Company, investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend income.

3.5 Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management, accompanying a shareholding of between 20% to 50% of the voting rights.

Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost. The investments in associated companies of the Group include goodwill (net of any accumulated impairment loss) identified on acquisition.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the profit and loss statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary, jointly controlled entity or associated company attributable to the Group at the effective date of acquisition and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference represents negative goodwill and is recognised directly in the profit and loss statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss statement during the financial year in which they are incurred.

Buildings on leasehold land and improvements are depreciated over their respective lease periods using the straight-line method. Depreciation of other property, plant and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Plant and machinery	9 to 25%
Other assets	10 to 25%

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the Group. The residual values and useful lives of assets are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

Profit or loss on disposal is determined as the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss statement.

3.8 Investment properties

Property that is held for long-term rental yield or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out annually by external valuers. Changes in fair values are recognised in the profit and loss statement.

Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss statement during the financial year in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Investment properties (cont'd)

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as properties under development and carried at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment. However, if the fair value gives rise to a reversal of a previous impairment loss, this write-back is recognised in the profit and loss statement.

3.9 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

3.10 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including other investments), loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss (including other investments)*

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss statement, and subsequently carried at fair value.

(b) *Loans and receivables*

Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Investments (cont'd)

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. Available-for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Regular purchases and sales of investments are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the specific circumstances of the issuer.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss statement is removed from equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss statement on equity instruments are not reversed through the profit and loss statement.

3.11 Development properties

Development properties are included under current assets and comprise leasehold land and land use rights at cost less amortisation, construction costs, an appropriate proportion of overhead expenditure and interest attributable to the development, less provisions for possible losses. Completed properties held for sale are carried at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

The cost of acquiring land held under operating leases and land use rights is amortised on a straight line basis over the lease term. During the course of development or re-development of the property, the amortisation charge is included as part of the costs of the property under development. In all other cases, the amortisation charge is recognised in the profit and loss statement immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss statement.

3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

3.14 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks and financial institutions repayable within three months from the date of placement, less bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When the Company re-purchases its equity share capital, the consideration paid, including any directly attributable incremental costs, net of tax, is deducted from equity attributable to the equity holders and the shares are cancelled.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' equity, net of any tax effects. The equity component is recognised in the capital reserve when the bonds are derecognised, either converted, redeemed or lapsed.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease except where the property is classified as an investment property or where there is impairment, the impairment is expensed in the profit and loss statement. The amortisation of leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

3.18 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.19 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.20 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

Contributions to defined contribution retirement schemes are charged to the profit and loss statement in the year to which the contributions relate.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Employee benefits (cont'd)

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss statement with a corresponding adjustment to equity.

3.21 Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss statement in the year in which they are incurred.

3.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of properties and services in the ordinary course of the activities of the Group. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of properties*

Sales of properties are recognised when the risk and rewards of the property have been passed to the purchasers.

(b) *Rental income*

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis.

(c) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the principal amounts outstanding and the interest rates applicable.

(d) *Dividend income*

Dividend income is recognised when the right to receive payment is certain.

3.23 Foreign currencies

(a) *Functional and presentation currency*

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the "*functional currency*"). The consolidated financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.23 Foreign currencies (cont'd)

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the profit and loss statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items of equity instruments held at fair value through profit or loss is reported as part of the fair value gain or loss. Translation differences on non-monetary items of equities classified as available-for-sale financial assets are included in the foreign exchange reserve.

(c) *Group companies*

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss statement as part of the gain or loss on sale.

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

3.24 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A discontinued segment is separately presented from continuing segments.

3.25 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the financial statements in the period in which the dividend payable becomes legal and constructive obligations of the Company.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks, including credit risk, liquidity risk, cash flow and fair value interest rate risk, foreign exchange risk and price risk. The overall risk management programme of the Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Financial risk management is carried out by the Finance Department under policies approved by the Board of Directors.

(a) *Credit risk*

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(b) *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding to the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby facilities are established to provide contingency liquidity support.

(c) *Cash flow and fair value interest rate risk*

Interest rate is the risk that the position of the group may be adversely affected by the change in market interest rate.

The Group has followed a policy of developing long-term banking facilities to match its long-term investment in Hong Kong and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise.

(d) *Foreign exchange risk*

The Group has no significant foreign exchange risk due to there being limited foreign currency transactions. Translation exposure arising on consolidation of the net assets of entities denominated in foreign currencies is accounted for in the foreign exchange reserve.

(e) *Price risk*

The Group is exposed to equity securities price risk through investments held by the Group classified either as available-for-sale financial assets or other investments.

4. FINANCIAL RISK MANAGEMENT (cont'd)

4.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

In assessing the fair value of non-trading securities and other financial assets, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, debtors and prepayments, cash and cash equivalents, creditors and accruals and current borrowings are assumed to approximate their fair values.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Estimates of fair value of investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration is given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(b) Estimated impairment of assets

The Group tests at least annually whether goodwill or assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(c) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Convertible bonds

The fair value of convertible bonds is estimated by independent professional valuers based on actual transactions of the financial instruments in the market or transactions of similar financial instruments generally represent the best estimate of the market value.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

(e) Share-based payments

The fair value of option granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

6. SEGMENT INFORMATION

The Group is principally engaged in property development and investment and trading of plant and machinery. The Group ceased to carry on manufacture, sale and distribution of construction materials following the deemed disposal of GEG (note 1). There are no other significant identifiable separate businesses. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets primarily consist of property, plant and equipment, other non-current assets, inventories, properties, debtors and prepayments and mainly exclude certain investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals and provisions. There are no sales or trading transactions between the business segments.

A summary of the business segments is set out as follows:

	Continuing operations			Total HK\$'000	Discontinued operations HK\$'000
	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000		
Year ended 31st December 2005					
Turnover	226,330	62,977	—	289,307	546,158
Other revenues	2,609	8	2,681	5,298	20,142
Operating profit/(loss)	46,433	552	(13,423)	33,562	9,298
Change in fair value of investment properties				348,679	—
Finance costs				(36,689)	(5,998)
Share of profits less losses of					
Jointly controlled entities				47,697	7,945
Associated companies				—	1,492
Profit before taxation				393,249	12,737
Taxation				(142,869)	(280)
Profit after taxation				250,380	12,457
Gain on deemed partial disposal				—	3,611,466
Share of losses				—	(70,505)
Profit for the year				250,380	3,553,418
Capital expenditure	5,607	123	—	5,730	24,465
Depreciation	2,913	83	—	2,996	36,440
Amortisation	35,654	—	—	35,654	19,307
Fair value loss/(gain) of listed investments	—	—	1,204	1,204	(81)
As at 31st December 2005					
Segment assets	6,387,786	29,428	2,691,065	9,108,279	
Jointly controlled entities	577,261	—	—	577,261	
Unallocated assets				297,700	
Total assets				9,983,240	
Segment liabilities	697,297	18,712	3,228	719,237	
Unallocated liabilities				3,591,365	
Total liabilities				4,310,602	

6. SEGMENT INFORMATION (cont'd)

	Continuing operations				Discontinued operations
	Properties	Trading	Unallocated	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December 2004					
Turnover	356,671	61,586	—	418,257	1,312,281
Other revenues	7,034	10	2,482	9,526	7,638
Operating profit	55,843	415	9,650	65,908	29,308
Change in fair value of investment properties				(8,995)	103
Finance costs				(10,140)	(3,285)
Share of profits less losses of					
Jointly controlled entities				184,380	13,866
Associated companies				—	2,561
Profit before taxation				231,153	42,553
Taxation credit/(charge)				1,461	(2,295)
Profit for the year				232,614	40,258
Loss on deemed partial disposal					(10,501)
					29,757
Capital expenditure	2,454	17	—	2,471	73,039
Depreciation	2,591	102	—	2,693	71,143
Amortisation	37,808	—	—	37,808	39,287
Fair value (gain)/loss of listed investments	—	—	(16,128)	(16,128)	933

	Properties	Trading	Unallocated	Sub-total	Construction materials	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31st December 2004						
Segment assets	5,051,008	16,175	10,270	5,077,453	1,802,417	6,879,870
Jointly controlled entities	241,496	—	—	241,496	248,243	489,739
Associated companies	—	—	—	—	18,650	18,650
Unallocated assets						930,747
Total assets						8,319,006
Segment liabilities	563,705	7,030	2,809	573,544	613,298	1,186,842
Unallocated liabilities						3,736,056
Total liabilities						4,922,898

A summary of the geographical segments is set out as follows:

	Continuing operations		Discontinued operations		Capital expenditure	Total assets
	Turnover	Operating profit/(loss)	Turnover	Operating profit		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December 2005						
Hong Kong	129,115	(8,762)	242,417	5,900	2,060	4,907,515
Mainland China	88,275	39,755	303,741	3,398	3,525	4,878,348
Singapore	8,940	2,017	—	—	22	165,292
Japan	62,977	552	—	—	123	32,085
	289,307	33,562	546,158	9,298	5,730	9,983,240
Year ended 31st December 2004						
Hong Kong	271,591	49,026	474,938	8,577	1,914	3,709,013
Mainland China	75,890	11,744	837,343	20,731	528	4,421,887
Singapore	9,190	4,723	—	—	12	169,035
Japan	61,586	415	—	—	17	19,071
	418,257	65,908	1,312,281	29,308	2,471	8,319,006

7. DISCONTINUED OPERATIONS

	2005	2004
	HK\$'000	HK\$'000
Construction materials		
Turnover	546,158	1,312,281
Other revenues	20,142	7,638
Operating profit	9,298	29,308
Change in fair value of investment properties	—	103
Finance costs	(5,998)	(3,285)
Share of profits less losses of		
Jointly controlled entities	7,945	13,866
Associated companies	1,492	2,561
Profit before taxation	12,737	42,553
Taxation	(280)	(2,295)
Profit for the period/year	12,457	40,258
Gain/(loss) on deemed partial disposal	3,611,466	(10,501)
Share of losses	(70,505)	—
Profit from discontinued operations	3,553,418	29,757
Operating cash flows	4,435	(15,276)
Investing cash flows	(87,566)	(208,435)
Financing cash flows	1,192,300	86,566
Net increase/(decrease) in cash and bank balances	1,109,169	(137,145)
Change in exchange rate	242	1,743
Cash and cash equivalents at beginning of period/year	170,952	306,354
Total cash flows	1,280,363	170,952

The discontinued operations represent the manufacture, sale and distribution of construction materials carried out by GEG, which ceased to be a subsidiary during the year (note 1).

8. TURNOVER AND OTHER REVENUES

	2005	2004
	HK\$'000	HK\$'000
Turnover		
Sale of properties	126,285	332,135
Rental income	100,045	24,536
Sale of goods	62,977	61,586
	289,307	418,257
Other revenues		
Interest income from banks	2,410	1,231
Interest income from mortgage loans	1,296	6,488
Dividend income from listed investments	1,592	1,807
	5,298	9,526
Total revenues	294,605	427,783

9. OPERATING PROFIT

	2005	2004
	HK\$'000	HK\$'000
Operating profit is stated after crediting:		
Dividend income from listed investments	1,592	1,807
Change in fair value of listed investments	—	16,128
Negative goodwill arising from acquisition of a jointly controlled entity	19,991	—
Net foreign exchange gain	31,914	7,314
and after charging:		
Cost of inventories sold	55,360	53,236
Depreciation	2,996	2,693
Amortisation		
Leasehold land and land use rights	35,654	35,356
Issue cost for convertible bonds	—	2,452
Staff costs including Directors' remuneration (a)	94,984	84,373
Auditors' remuneration		
Audit fees	989	946
Non-audit fees	1,193	871
Change in fair value of listed investments	1,204	—
Loss on disposal of property, plant and equipment	117	97
Loss on disposal of unlisted investments	—	7,800
Operating lease rental for land and buildings	852	—
Outgoing in respect of investment properties		
Direct operating expense of investment properties that generate rental income	2,645	2,122
Direct operating expense of investment properties that did not generate rental income	430	821

(a) Staff costs include the fair value of share options of HK\$2,383,000 (2004: nil).

10. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest expense		
Bank loans, overdrafts and others	95,493	49,715
Finance cost of convertible bonds	10,759	3,241
Capitalised as cost of properties under development	(69,563)	(42,816)
	36,689	10,140

The capitalisation rates applied to funds borrowed generally and used for the development of properties are between 2% and 4% per annum (2004: 1% to 5% per annum).

11. DIRECTORS' REMUNERATION

Name	Salaries, allowances and benefits in kind		Discretionary bonuses	Pension scheme contribution	Share options (a)	2005	2004
	Director fee	HK\$'000				HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lui Che Woo	160	4,200	294	428	155	5,237	4,669
Francis Lui Yiu Tung	160	3,123	234	294	154	3,965	4,451
Lennon Lun Tsan Kau	80	2,100	74	105	77	2,436	2,149
Eddie Hui Ki On	80	1,800	125	12	66	2,083	1,562
William Lo Chi Chung	114	1,805	126	78	61	2,184	1,814
Paddy Tang Lui Wai Yu	160	1,393	88	208	107	1,956	1,416
Sir David Akers-Jones	80	—	—	—	—	80	50
Michael Leung Man Kin	80	600	—	—	46	726	2,041
Alex Wu Shu Chih	80	—	—	—	—	80	50
Philip Wong Kin Hang	160	—	—	—	35	195	70
Leo Lee Tung Hai	80	—	—	—	58	138	50
Robin Chan Yau Hing	80	—	—	—	58	138	50
Charles Cheung Wai Bun	320	—	—	—	69	389	140
Robert George Nield	50	—	—	—	58	108	—
	1,684	15,021	941	1,125	944	19,715	18,512

(a): The value of the share options granted to the Directors under the share option scheme of the Company represents the fair value of these options charged to the profit and loss statement for the year in accordance with HKFRS 2. The remuneration for 2004 does not include any value for the share options granted since HKFRS 2 becomes effective for 2005 and does not require retrospective application for share options vested on or before 1st January 2005.

12. FIVE HIGHEST PAY INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include four (2004: two) directors whose emoluments are reflected in note 11 above. The emolument of the remaining one (2004: three) individual is as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other emoluments	2,170	7,609
Retirement benefits	193	322
Discretionary bonuses	153	—
Share options	80	—
	2,596	7,931

The emolument of the individual (2004: three) fell within the following bands:

	Number of employees	
	2005	2004
HK\$2,000,001–HK\$2,500,000	—	2
HK\$2,500,001–HK\$3,000,000	1	—
HK\$3,000,001–HK\$3,500,000	—	1
	1	3

13. RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance (ORSO) and Mandatory Provident Fund (MPF) Schemes Ordinance. All the assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF Scheme follow the MPF Schemes Ordinance while contributions to the ORSO Scheme are based on a percentage ranging from 5% to 10% (depending upon the length of employment) of the basic salary of the employee, minus the mandatory contributions to the MPF Scheme. The Group's contributions to the ORSO Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to the full vesting of the employer's contributions on the employee.

13. RETIREMENT BENEFIT SCHEMES (cont'd)

The employees in the Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The retirement benefit schemes cost charged to the profit and loss statement during the year comprises contributions made by the Group to the schemes of HK\$11,420,000 (2004: HK\$16,124,000), less forfeitures of HK\$144,000 (2004: HK\$518,000), leaving no balance (2004: nil) available at the balance sheet date to reduce future contribution.

14. TAXATION CHARGE/(CREDIT)

	2005	2004
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	2,867	1,311
Overseas taxation	227	4,179
Deferred taxation (<i>note 36</i>)	139,775	(6,951)
	142,869	(1,461)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward. Taxation assessable on profits generated overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates.

Share of taxation of jointly controlled entities for the year ended 31st December 2005 amounting to HK\$17,185,000 (2004: HK\$39,974,000) was included in the profit and loss statement as share of profits less losses of jointly controlled entities.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	393,249	231,153
Tax calculated at applicable tax rate	120,184	7,401
Income not subject to taxation	(9,257)	(13,589)
Expenses not deductible for taxation purposes	18,228	7,440
Utilisation of previously unrecognised tax losses	(3,909)	(7,370)
Tax loss not recognised	17,291	4,695
Over provision in previous years	332	(38)
Taxation charge/(credit)	142,869	(1,461)

15. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK\$1,187,969,000 (2004: HK\$88,371,000).

16. DIVIDENDS

	2005	2004
	HK\$'000	HK\$'000
Interim cash dividend of 1 cent (2004: Interim scrip dividend with a cash option of 2 cents) per share	23,771	40,195
Proposed final scrip dividend with a cash option of 1 cent (2004: cash dividend of 4 cents) per share (a)	23,972	89,859
	47,743	130,054
Special interim dividend in specie (2004: nil) (b)	1,229,143	—
	1,276,886	130,054
The dividends have been partially settled by cash as follows:		
Interim	23,771	33,284
Final	—	89,859
	23,771	123,143

(a) The Board of Directors recommended a final scrip dividend with a cash option in respect of 2005 of 1 cent (2004: cash dividend of 4 cents) per share. This dividend will be accounted for as an appropriation of revenue reserve in the year ending 31st December 2006.

(b) On 14th September 2005, the Board of Directors declared a special interim dividend effected by way of distribution in specie of shares of GEG on the basis of one GEG share for every ten shares of the Company. The dividend in specie was distributed on 4th November 2005.

17. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year is based on the following:

	Continuing operations		Discontinued operations	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders of the Company	94,638	229,467	3,549,410	11,747
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds, net of tax	—	2,675	—	—
Unamortised issue costs for convertible bonds, net of tax	—	(11,464)	—	—
Profit for calculation of diluted earnings per share	94,638	220,678	3,549,410	11,747

	Number of shares	
	2005	2004
Weighted average number of shares for calculating basic earnings per share	2,311,056,000	1,996,230,000
Effect of dilutive potential ordinary shares:		
Convertible bonds	—	265,522,000
Share options	19,123,000	17,563,000
Weighted average number of shares for calculating diluted earnings per share	2,330,179,000	2,279,315,000

The calculation of the diluted earnings per share for 2005 does not take into account of the convertible bonds which are anti-dilutive for the year.

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Other assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31st December 2004	83,192	700,383	312,444	1,096,019
Exchange difference	91	—	(91)	—
Additions	98	20,073	9,861	30,032
Transfer from development properties	12,137	—	—	12,137
Disposals	—	(1,929)	(6,150)	(8,079)
Deemed disposal of a subsidiary	(40,394)	(716,027)	(291,573)	(1,047,994)
At 31st December 2005	55,124	2,500	24,491	82,115
Accumulated depreciation				
At 31st December 2004	14,165	396,713	179,086	589,964
Exchange difference	39	—	(87)	(48)
Charge for the year	1,535	23,037	14,864	39,436
Disposals	—	(1,886)	(4,856)	(6,742)
Deemed disposal of a subsidiary	(5,293)	(417,864)	(171,312)	(594,469)
At 31st December 2005	10,446	—	17,695	28,141
Net book value				
At 31st December 2005	44,678	2,500	6,796	53,974
Cost				
At 31st December 2003	66,965	668,523	317,301	1,052,789
Exchange difference	—	—	67	67
Additions	16,227	42,448	9,293	67,968
Disposals	—	(10,588)	(14,217)	(24,805)
At 31st December 2004	83,192	700,383	312,444	1,096,019
Accumulated depreciation				
At 31st December 2003	10,720	360,423	162,644	533,787
Exchange difference	—	—	35	35
Charge for the year	3,445	42,782	27,609	73,836
Disposals	—	(6,492)	(11,202)	(17,694)
At 31st December 2004	14,165	396,713	179,086	589,964
Net book value				
At 31st December 2004	69,027	303,670	133,358	506,055

Buildings with carrying values of HK\$42,881,000 (2004: HK\$31,552,000) were pledged to secure the Group's banking facilities. Other assets comprise barges, furniture and equipment, leasehold improvements and motor vehicles.

19. INVESTMENT PROPERTIES

Group

	2005	2004
	HK\$'000	HK\$'000
At beginning of year	326,798	308,904
Exchange difference	(1,849)	3,389
Transfer from development properties/leasehold land and land use rights	1,408,259	23,397
Deemed disposal of a subsidiary	(65,500)	—
Change in fair value	348,679	(8,892)
At end of year	2,016,387	326,798

- (a) Investment properties held under long-term leases outside Hong Kong amounting to HK\$84,449,000 were valued at 31st December 2005 on an open market value basis by CB Richard Ellis (Pte) Ltd., independent professional valuers. Investment properties held under medium-term leases outside Hong Kong amounting to HK\$1,808,338,000 were valued at 31st December 2005 on an open market value basis by Knight Frank Hong Kong Limited and Savills Property Services (Shanghai) Company Limited, independent professional valuers. Investment properties held under long-term leases in Hong Kong amounting to HK\$123,600,000 were valued at 31st December 2005 on an open market value basis by Savills (Hong Kong) Limited, independent professional valuers.
- (b) Investment properties with carrying values of HK\$2,016,387,000 (2004: HK\$261,298,000) were pledged to secure the Group's banking facilities.
- (c) The Group had no unprovided contractual obligations for future repairs and maintenance.

20. LEASEHOLD LAND AND LAND USE RIGHTS

Group

	Hong Kong	Outside Hong Kong	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term leases	67,826	—	67,826	255,498
Medium-term leases	—	2,676	2,676	1,849
	67,826	2,676	70,502	257,347

The interests in leasehold land and land use rights represent prepaid operating lease payments. Leasehold land and land use rights with carrying values of HK\$68,705,000 (2004: HK\$255,498,000) were pledged to secure the Group's banking facilities.

	2005	2004
	HK\$'000	HK\$'000
At beginning of year	257,347	283,064
Transfer from development properties	879	—
Additions	—	3,397
Transfer to investment properties	—	(23,397)
Deemed disposal of a subsidiary	(183,971)	—
Amortisation of prepaid operating lease payments	(3,753)	(5,717)
At end of year	70,502	257,347

21. JOINTLY CONTROLLED ENTITIES

Group

	2005	2004
	HK\$'000	HK\$'000
At beginning of year	489,739	194,638
Acquisitions	458,559	100,290
Share of results		
Profit before taxation	73,101	238,976
Taxation	(17,459)	(40,730)
Share of exchange reserve	9,511	(212)
Dividends	(180,000)	(3,223)
Deemed disposal of a subsidiary	(256,190)	—
At end of year	577,261	489,739

The Group's share of the aggregate amounts of the assets, liabilities and results of the jointly controlled entities are as follows:

	2005	2004
	HK\$'000	HK\$'000
Assets		
Non-current assets	232,955	292,443
Current assets	1,133,896	547,107
Liabilities		
Long-term liabilities	(117,610)	(101,564)
Current liabilities	(671,980)	(248,247)
Net assets	577,261	489,739
Income	252,787	1,109,611
Expenses	(179,686)	(870,635)
Profit before taxation	73,101	238,976
Representing:		
Continuing operations	64,882	224,354
Discontinued operations	8,219	14,622
	73,101	238,976

Details of jointly controlled entities of the Group are given in note 47(b). The jointly controlled entities do not have any material contingent liabilities as at 31st December 2005.

Company

	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	438,568	—

22. SUBSIDIARIES

Company

	2005	2004
	HK\$'000	HK\$'000
(a) Unlisted shares, at cost less provision	259,561	259,561

Details of subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 47(a).

- (b) The loans receivable are unsecured, carry interest at prevailing market rate and have no fixed terms of repayment. The amounts receivable are unsecured, interest-free and have no fixed terms of repayment.

23. ASSOCIATED COMPANIES

Group

	2005	2004
	HK\$'000	HK\$'000
At beginning of year	18,650	16,098
Share of results		
(Loss)/profit before taxation	(68,830)	3,371
Taxation	(183)	(810)
Share of exchange reserve	—	(9)
Deemed disposal of a subsidiary	(20,143)	—
Transfer from deemed disposal of a subsidiary (note 42b)	4,478,360	—
Dividend in specie (note 16)	(1,229,143)	—
Transfer to available-for-sale financial assets	(3,178,711)	—
At end of year	—	18,650

The Group's share of the aggregate amounts of the assets, liabilities and results of the associated companies are as follows:

	2005	2004
	HK\$'000	HK\$'000
Assets		
Non-current assets	—	6,265
Current assets	—	24,118
Liabilities		
Non-current liabilities	—	(4,116)
Current liabilities	—	(7,617)
Net assets	—	18,650
Income	116,700	39,528
Expenses	(185,530)	(36,157)
(Loss)/profit before tax	(68,830)	3,371

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS**Group**

	2005	2004
	HK\$'000	HK\$'000
Listed in Hong Kong		
Market value	2,690,556	152,375

The available-for-sale financial assets in 2005 represent the Group's 18.7% equity interest in Galaxy Entertainment Group Limited ("GEG" formerly known as K. Wah Construction Materials Limited), a company incorporated in Hong Kong. The principal activities of GEG are gaming, sale, manufacture and distribution of construction materials. There was no provision for impairment on the financial assets in 2005.

25. OTHER NON-CURRENT ASSETS**Group**

	2005	2004
	HK\$'000	HK\$'000
Deferred expenditure		
Overburden removal costs	—	99,679
Quarry site development	—	14,073
Issue costs for convertible bonds	—	13,896
	—	127,648
Quarry site improvements	—	136,049
Deferred receivable	—	6,707
Mortgage loans	8,277	18,168
	8,277	288,572

Mortgage loans are advances to purchasers of development properties of the Group and are secured by second mortgages on the related properties. The current portion of the loans is included under other receivables. The Group has recognised an impairment loss of HK\$3,039,000 (2004: Nil) for its mortgage loans during the year ended 31st December 2005. The loss has been included in other operating expenses in the profit and loss statement.

26. DEVELOPMENT PROPERTIES

Group

	Completed	Under development	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold land and land use rights	52,135	1,801,845	1,853,980	1,935,636
Development costs	92,860	2,187,198	2,280,058	2,599,825
	144,995	3,989,043	4,134,038	4,535,461

The leasehold land and land use rights represent prepaid operating lease payments and under the following terms:

	Hong Kong	Outside Hong Kong	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term lease	12,666	982,499	995,165	1,015,361
Medium-term lease	858,815	—	858,815	920,275
	871,481	982,499	1,853,980	1,935,636

27. INVENTORIES

Group

	2005	2004
	HK\$'000	HK\$'000
Aggregates and sand	—	36,959
Concrete pipes and blocks	—	16,762
Cement	—	8,750
Spare parts	—	22,620
Consumables	—	8,084
	—	93,175

28. DEBTORS AND PREPAYMENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors, net of provision	23,756	471,934	—	—
Other receivables, net of provision	105,781	130,293	—	—
Amounts due from jointly controlled entities	—	155,237	—	—
Prepayments	5,008	63,133	420	270
	134,545	820,597	420	270

The Group has established credit policies which follow local industry standards. The average normal credit period ranges from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

The carrying amounts of the debtors, prepayments and amounts due from jointly controlled entities are approximate to their fair value based on prevailing market interest rate.

Approximate 52% (2004: 71%) of the debtors and prepayments are denominated in RMB, Japanese Yen and Singapore dollars. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers.

The Group has recognised an impairment loss of HK\$20,553,000 (2004: nil) for its trade and other receivables during the year ended 31st December 2005. The loss has been included in other operating expenses in the profit and loss statement.

The aging analysis of the Group's trade debtors based on the date of the invoices and net of provision for bad and doubtful debts is as follows:

	2005	2004
	HK\$'000	HK\$'000
Within one month	14,566	135,270
Two to three months	3,137	157,988
Four to six months	987	89,423
Over six months	5,066	89,253
	23,756	471,934

29. OTHER INVESTMENTS

Group

	2005	2004
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	39,126	44,547

30. CASH AND BANK BALANCES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	203,268	295,103	584	239
Short-term bank deposits	51,938	486,203	—	320,654
	255,206	781,306	584	320,893

The effective interest rate on short-term bank deposits was 3.0% (2004: 0.6%); these deposits have an average maturity of 54 days (2004: 30 days).

The cash and bank balances include HK\$25,074,000 (2004: HK\$24,476,000) which have been pledged or assigned for specific purposes under certain conditions.

31. CREDITORS AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	210,515	300,403	—	—
Other creditors	29,944	79,849	1,763	1,547
Amounts due to jointly controlled entities	69,007	204,500	—	—
Amounts due to minority shareholders	208,341	303,942	—	—
Accrued operating expenses	24,833	88,403	1,424	181
Deposits received	176,597	28,872	—	—
	719,237	1,005,969	3,187	1,728

Amounts due to jointly controlled entities are unsecured, interest free and have no fixed terms of repayments.

Amounts due to minority shareholders are unsecured, carry interest at prevailing market rates and have no fixed terms of repayments.

The carrying amounts of the creditors and accruals are approximate to their fair value based on prevailing market interest rate.

Approximate 79% (2004: 30%) of the trade creditors and accruals are denominated in RMB, Japanese Yen and Singapore dollars.

31. CREDITORS AND ACCRUALS (cont'd)

The aging analysis of the Group's trade creditors based on the dates of the invoices is as follows:

	2005	2004
	HK\$'000	HK\$'000
Within one month	209,998	186,800
Two to three months	517	63,237
Four to six months	—	26,502
Over six months	—	23,864
	210,515	300,403

32. SHARE CAPITAL

	2005		2004	
	Ordinary Shares of HK\$0.10 each	HK\$'000	Ordinary Shares of HK\$0.10 each	HK\$'000
Authorised:				
At beginning of year	5,000,000,000	500,000	3,888,000,000	388,800
Increase during the year (a)	—	—	1,112,000,000	111,200
At end of year	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At beginning of year	2,015,644,738	201,564	1,977,968,748	197,797
Share options exercised (b)	24,383,000	2,438	6,875,000	687
Conversion of convertible bonds (c)	337,893,311	33,790	—	—
Issued as scrip dividends	—	—	30,800,990	3,080
At end of year	2,377,921,049	237,792	2,015,644,738	201,564

(a) By a special resolution passed on 31st May 2004, the authorised share capital of the Company was increased from HK\$388,800,000 to HK\$500,000,000 by the creation of additional 1,112,000,000 ordinary shares of HK\$0.10 each.

(b) During the year, share options to subscribe for 24,383,000 shares were exercised, of which HK\$2,438,000 was credited to share capital and the balance of HK\$15,005,000 to the share premium account.

(c) During the year, convertible bonds with face value of HK\$760,260,000 were converted into 337,893,311 ordinary shares of the Company, of which HK\$33,790,000 was credited to share capital and the balance to the share premium account.

33. SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected executives. Under the scheme, share options may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Options are exercisable at a price equal to the average closing prices of the shares for the five business days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00. The vesting period is one year. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than 10 years from the date of grant of the option.

Movements in the number of share options outstanding and their related weighted average exercise prices during the year are as follows:

	Average exercise price HK\$	2005 Number of share options	Average exercise price HK\$	2004 Number of share options
At beginning of year	0.7524	27,831,000	0.7163	39,767,000
Granted	1.9060	20,729,000	—	—
Exercised	0.7154	(24,383,000)	0.7221	(6,725,000)
Lapsed	1.5210	(700,000)	0.5162	(5,211,000)
At end of year	1.7865	23,477,000	0.7524	27,831,000
Vested at end of year	1.0423	3,248,000	0.7524	27,831,000

The weighted average share price at the date of exercise for share options during the year was HK\$2.1403 (2004: HK\$1.6781). The options outstanding at 31st December 2005 have exercise prices ranging from HK\$0.36 to HK\$1.906 (2004: HK\$0.36 to HK\$1.30) with weighted average remaining contractual life of 6.04 years (2004: 7.09 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise period	Exercise price per share	Number of share options	
	HK\$	2005	2004
Directors			
20th May 1999 to 19th May 2008	0.5586	—	3,100,000
30th December 2000 to 29th December 2009	0.3600	—	3,920,000
1st March 2004 to 28th February 2013	0.7200	150,000	7,691,000
22nd October 2006 to 21st October 2011	1.9060	8,200,000	—
Employees and others			
20th May 1999 to 19th May 2008	0.5586	33,000	628,000
30th December 2000 to 29th December 2009	0.3600	300,000	1,570,000
1st March 2004 to 28th February 2013	0.7200	765,000	4,922,000
30th December 2003 to 29th December 2013	1.3000	2,000,000	6,000,000
22nd October 2006 to 21st October 2011	1.9060	12,029,000	—
		23,477,000	27,831,000

The fair value of options granted during the year, as determined by using the Black-Scholes valuation model, is HK\$4.8 million. The significant inputs into the model are share price of HK\$1.78 at the valuation date, exercise price at the date of granting the options, expected volatility of 25%, expected life of options of 2.5 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 260 trading days.

34. RESERVES

(a) Group

	Share premium	Share option reserve	Contributed surplus	Capital redemption reserve	Capital reserve	Convertible bonds reserve	Investment reserve	Property revaluation reserve	Foreign exchange reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004											
As previously reported	810,646	—	99,089	13	34,188	—	—	68,037	5,760	1,511,938	2,529,671
Prior year adjustments											
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	—	—	—	—	—	—	(57,783)	—	(9,596)	(67,379)
Transfer of leasehold land to investment properties (HKAS 40)	—	—	—	—	—	—	—	—	—	22,230	22,230
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int1)	—	—	—	—	—	—	—	—	—	(13,332)	(13,332)
As restated, before opening adjustments	810,646	—	99,089	13	34,188	—	—	10,254	5,760	1,511,240	2,471,190
Opening adjustments											
Equity element of convertible bonds and related interest (HKAS 39)	—	—	—	—	—	192,037	—	—	—	(24,426)	167,611
Negative goodwill written off (HKFRS 3)	—	—	—	—	—	—	—	—	—	90	90
As 1st January 2005, as restated	810,646	—	99,089	13	34,188	192,037	—	10,254	5,760	1,486,904	2,638,891
Exchange differences	—	—	—	—	—	—	—	—	37,095	—	37,095
Conversion of Convertible bonds, net of tax	742,341	—	—	—	—	(168,926)	—	—	—	—	573,413
Exercise of share options	15,005	—	—	—	—	—	—	—	—	—	15,005
Fair value of share options	—	2,383	—	—	—	—	—	—	—	—	2,383
Change of fair value of available-for-sale financial assets	—	—	—	—	—	—	(489,184)	—	—	—	(489,184)
Realised on disposed of properties	—	—	—	—	—	—	—	(10,254)	—	10,254	—
Deemed disposal of a subsidiary	—	—	—	—	(33,706)	—	1,029	—	(2,487)	35,164	—
Profit for the year	—	—	—	—	—	—	—	—	—	3,644,048	3,644,048
2004 final dividend	—	—	—	—	—	—	—	—	—	(89,859)	(89,859)
2005 interim dividend	—	—	—	—	—	—	—	—	—	(23,771)	(23,771)
2005 special interim dividend in specie	—	—	—	—	—	—	—	—	—	(1,229,143)	(1,229,143)
At 31st December 2005	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878
Retained by:											
Company and subsidiaries	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	30,857	3,745,724	4,981,494
Jointly controlled entities	—	—	—	—	—	—	—	—	9,511	87,873	97,384
	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878
At 31st December 2003											
As previously reported	809,473	—	99,089	13	34,188	—	—	68,037	12,326	1,310,764	2,333,890
Prior year adjustments											
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	—	—	—	—	—	—	(57,783)	—	(8,925)	(66,708)
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int1)	—	—	—	—	—	—	—	—	—	(13,286)	(13,286)
As 1st January 2004, as restated	809,473	—	99,089	13	34,188	—	—	10,254	12,326	1,288,553	2,253,896
Exchange differences	—	—	—	—	—	—	—	—	(6,566)	—	(6,566)
Exercise of share options	4,253	—	—	—	—	—	—	—	—	—	4,253
Shares issued as scrip dividends	(3,080)	—	—	—	—	—	—	—	—	—	(3,080)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	—	39,081	39,081
Transfer of leasehold land to investment properties (HKAS 40)	—	—	—	—	—	—	—	—	—	22,230	22,230
Profit for the year	—	—	—	—	—	—	—	—	—	241,214	241,214
2003 final dividend	—	—	—	—	—	—	—	—	—	(39,643)	(39,643)
2004 interim dividend	—	—	—	—	—	—	—	—	—	(40,195)	(40,195)
At 31st December 2004	810,646	—	99,089	13	34,188	—	—	10,254	5,760	1,511,240	2,471,190
Retained by:											
Company and subsidiaries	810,646	—	99,089	13	34,188	—	—	10,254	4,429	1,287,814	2,246,433
Jointly controlled entities	—	—	—	—	—	—	—	—	1,324	202,417	203,741
Associated companies	—	—	—	—	—	—	—	—	7	21,009	21,016
	810,646	—	99,089	13	34,188	—	—	10,254	5,760	1,511,240	2,471,190

34. RESERVES (cont'd)

(b) Company

	Share premium	Share option reserve	Contributed surplus	Capital redemption reserve	Convertible bonds reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004							
As previously reported	810,646	—	213,560	13	—	969,260	1,993,479
Opening adjustments							
Equity element of convertible bonds and related interest (HKAS 39)	—	—	—	—	192,037	—	192,037
As 1st January 2005, as restated	810,646	—	213,560	13	192,037	969,260	2,185,516
Exercise of share options	15,005	—	—	—	—	—	15,005
Conversion of convertible bonds, net of tax	742,341	—	—	—	(168,928)	—	573,413
Fair value of share options	—	2,383	—	—	—	—	2,383
Profit for the year	—	—	—	—	—	1,187,969	1,187,969
2004 final dividend	—	—	—	—	—	(89,858)	(89,858)
2005 interim dividend	—	—	—	—	—	(23,771)	(23,771)
2005 special interim dividend in specie	—	—	—	—	—	(1,040,337)	(1,040,337)
At 31st December 2005	1,567,992	2,383	213,560	13	23,109	1,003,263	2,810,320
At 31st December 2003	809,473	—	213,560	13	—	921,646	1,944,692
Premium on shares issued	4,253	—	—	—	—	—	4,253
Shares issued as scrip dividends	(3,080)	—	—	—	—	—	(3,080)
Reserve arising on scrip dividends	—	—	—	—	—	39,081	39,081
Profit for the year	—	—	—	—	—	88,371	88,371
2003 final dividend	—	—	—	—	—	(39,643)	(39,643)
2004 interim dividend	—	—	—	—	—	(40,195)	(40,195)
At 31st December 2004	810,646	—	213,560	13	—	969,260	1,993,479

The distributable reserves of the Company at 31st December 2005, under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$1,216,823,000 (2004: HK\$1,182,820,000).

35. BORROWINGS

Group

	2005	2004
	HK\$'000	HK\$'000
Long-term bank loans (a)		
Secured	2,212,055	1,874,622
Unsecured	279,798	744,736
	2,491,853	2,619,358
Convertible bonds (b)	81,122	864,260
Loans from minority shareholders (c)	98,242	98,015
	2,671,217	3,581,633
Short-term bank loans (a)		
Secured	10,000	—
Unsecured	694,520	36,133
	3,375,737	3,617,766
Current portion included in current liabilities	(1,807,880)	(844,542)
	1,567,857	2,773,224

The long-term bank loans are repayable within the following periods:

	2005	2004
	HK\$'000	HK\$'000
Within one year	1,103,360	808,409
Between one to two years	384,886	636,537
Between two to five years	1,003,607	1,174,412
	2,491,853	2,619,358

(a) The carrying amounts of the long-term and short-term bank borrowings are approximate to their fair value based on prevailing market interest rate. The effective interest rate at the balance sheet date was approximately 4% (2004: 2%). Approximate 54% (2004: 67%) of the borrowings are denominated in Hong Kong dollars, the remaining are denominated in RMB, Singapore dollars and Japanese Yen.

(b) In March 2004, the Group issued an aggregate amount of HK\$864,260,000 0.5% guaranteed convertible bonds due in March 2009. The bonds are listed on the Luxembourg Stock Exchange and are convertible into shares of the Company on or after 23rd April 2004 up to 8th March 2009. The initial conversion price was HK\$2.25 per share, which was adjusted to HK\$1.88 per share in November 2005 due to the payment of the special interim dividend in specie. The bonds are redeemable at 91.49% of their principal amount on 23rd March 2009 according to relevant terms and conditions of the bonds.

Until 31st December 2004, the convertible bonds were carried at face value. Upon adoption of HKAS 39 on 1st January 2005, the values attributed to the liability component and option component were determined on issue of the bonds. The fair value of the liability component was calculated using a market interest rate for an equivalent non-conversion option. The residual value on issue, representing the value of the conversion option component, is recognised separately as convertible bond reserve under equity. As at 31st December 2005, face value of convertible bonds amounted to HK\$760,260,000 have been converted into 337,893,311 ordinary shares of the Company and the remaining convertible bonds not yet converted were carried at amortised cost.

The fair value of the liability component of the convertible bonds at 31st December 2005 amounted to HK\$78 million. The fair value is calculated using the cash flows discounted at a rate based on the borrowing rate of 7%. Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 5.5% to the liability component.

(c) The carrying amounts of the loans from minority shareholders are approximate to their fair values based on prevailing market interest rates. The loans are unsecured and wholly repayable in 2007. The effective interest rate at the balance sheet date was approximately 5.76% (2004: 5.76%).

35. BORROWINGS (cont'd)

Company

	2005	2004
	HK\$'000	HK\$'000
Long-term bank loans — unsecured	225,000	420,000
Short-term bank loans — unsecured	468,000	—
	693,000	420,000
Current portion included in current liabilities	(493,000)	(395,000)
	200,000	25,000

The long-term bank loans are repayable within the following periods:

	2005	2004
	HK\$'000	HK\$'000
Within one year	25,000	395,000
Between one to two years	200,000	25,000
	225,000	420,000

36. DEFERRED TAXATION LIABILITIES

Group

	Tax losses	Other provisions	Accelerated depreciation allowance	Fair value gains	Convertible Bonds	Other	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004	(25,579)	(3,099)	40,181	—	—	66,872	78,375
Translation adjustment	—	(55)	—	—	—	1,152	1,097
Opening adjustment: restatement of equity	—	—	—	—	40,735	—	40,735
Conversion of convertible bonds	—	—	—	—	(35,834)	—	(35,834)
Deemed disposal of a subsidiary	25,579	—	(39,463)	—	—	—	(13,884)
Charged to profit and loss statement	—	2,042	—	125,341	—	12,392	139,775
At 31st December 2005	—	(1,112)	718	125,341	4,901	80,416	210,264
At 31st December 2003	(29,426)	(3,859)	44,607	—	—	74,004	85,326
Charged/(credited) to profit and loss statement	3,847	760	(4,426)	—	—	(7,132)	(6,951)
At 31st December 2004	(25,579)	(3,099)	40,181	—	—	66,872	78,375

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts. All deferred tax liabilities are expected to be settled after twelve months.

Deferred taxation assets of HK\$93,985,000 (2004: HK\$112,856,000) arising from unused tax losses and other temporary differences totaling of HK\$429,783,000 (2004: HK\$548,080,000) have not been recognised in the financial statements. Unused tax losses of HK\$308,664,000 (2004: HK\$416,344,000) have no expiry date and the balance will expire at various dates up to and including 2011.

36. DEFERRED TAXATION LIABILITIES (cont'd)**Company**

	Convertible Bonds
	HK\$'000
At 31st December 2004	—
Opening adjustment: Restatement of equity	40,735
Conversion of convertible bonds	(35,834)
At 31st December 2005	4,901

37. NEGATIVE GOODWILL

	2005	2004
	HK\$'000	HK\$'000
At beginning of year	136	2,663
Opening adjustment: Negative goodwill written off (HKFRS 3)	(136)	—
Accumulated amortisation	—	(2,527)
At end of year	—	136

38. PROVISIONS**Group**

	Environment restoration	Quarrying right	Total
	HK\$'000	HK\$'000	HK\$'000
At 31st December 2003	145,894	54,880	200,774
Charged to the profit and loss statement	11,580	12,820	24,400
Used during the year	(18,502)	(8,710)	(27,212)
At 31st December 2004	138,972	58,990	197,962
Charged to profit and loss statement	825	6,410	7,235
Used during the year	(9,276)	(4,360)	(13,636)
Deemed disposal of a subsidiary	(130,521)	(61,040)	(191,561)
At 31st December 2005	—	—	—

In 2004, the current portion of the provisions amounting to HK\$17,089,000 was included under other creditor.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash used in operations

	2005	2004
	HK\$'000	HK\$'000
Operating profit	33,562	65,908
Depreciation	2,996	2,693
Amortisation of deferred expenditure	—	2,452
Amortisation of leasehold land and land use rights	35,654	35,356
Loss on disposal of an unlisted investment	—	7,800
Change in fair value of listed investments	1,204	(16,128)
Interest income	(3,706)	(7,719)
Interest capitalised on properties under development	69,563	42,816
Dividend income from a listed investment	(1,592)	(1,807)
Loss on sale of property, plant and equipment	117	97
Impairment of trade and other receivables	20,553	—
Provision for mortgage loans	3,039	—
Share options expenses	2,383	—
Negative goodwill arising from acquisition of a jointly controlled entity	(19,991)	—
Operating profit before working capital changes	143,782	131,468
Increase in development properties	(881,711)	(2,083,214)
(Increase)/decrease in debtors and prepayments	(15,878)	249,930
Decrease in mortgage loans receivable	6,735	174,332
Increase in creditors and accruals	220,620	201,859
Cash used in operations	(526,452)	(1,325,625)

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing

	Share capital and share premium	Minority interests	Loans	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2004				
As previously reported	1,012,210	1,147,265	3,519,751	5,679,226
Reclassification (HKAS 1)	—	(401,957)	98,015	(303,942)
As restated, before prior year adjustments	1,012,210	745,308	3,617,766	5,375,284
Prior year adjustments				
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(3,366)	—	(3,366)
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(18,588)	—	(18,588)
As restated, before opening adjustments	1,012,210	723,354	3,617,766	5,353,330
Opening adjustments				
Negative goodwill written off (HKFRS 3)	—	46	—	46
At 1st January 2005, as restated	1,012,210	723,400	3,617,766	5,353,376
Change in exchange rates	—	5,838	226	6,064
Conversion of convertible bonds	776,131	—	(783,138)	(7,007)
Minority interests' share of profits	—	159,750	—	159,750
Deemed disposal of a subsidiary	—	(1,667,056)	(388,370)	(2,055,426)
Cash inflow from financing	17,443	1,134,036	929,253	2,080,732
At 31st December 2005	1,805,784	355,968	3,375,737	5,537,489
At 31st December 2003				
As previously reported	1,007,270	1,083,869	1,635,246	3,726,385
Reclassification (HKAS 1)	—	(460,164)	178,709	(281,455)
As restated, before prior year adjustments	1,007,270	623,705	1,813,955	3,444,930
Prior year adjustments				
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(11,077)	—	(11,077)
Increase in provisions (HKAS 16, 37 and HK(IFRIC)-Int 1)	—	(18,524)	—	(18,524)
At 1st January 2004, as restated	1,007,270	594,104	1,813,955	3,415,329
Change in exchange rates	—	742	—	742
Deemed partial disposal of a subsidiary	—	10,501	—	10,501
Minority interests' share of profits	—	21,157	—	21,157
Cash inflow from financing	4,940	96,850	1,803,811	1,905,601
At 31st December 2004	1,012,210	723,354	3,617,766	5,353,330

40. COMMITMENTS

Group

	2005	2004
	HK\$'000	HK\$'000
(a) Contracted but not provided for		
Commitments in respect of property developments	1,655,263	969,302
Commitments in respect of capital expenditure	—	75,198

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	2005	2004
	HK\$'000	HK\$'000
First year	2,388	7,497
Second to fifth years inclusive	—	24,843
After fifth year	—	22,696
	2,388	55,036

41. OPERATING LEASE RENTAL RECEIVABLE

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

Group

	2005	2004
	HK\$'000	HK\$'000
First year	170,697	68,883
Second to fifth years inclusive	303,353	165,595
After fifth year	618	21,720
	474,668	256,198

42. BUSINESS COMBINATIONS

(a) Acquisition of a jointly controlled entity

	Acquiree's	
	carrying amount	Fair value
	HK\$'000	HK\$'000
Non-current assets	183,074	209,183
Current assets	515,772	949,224
	698,846	1,158,407
Non-current liabilities	—	(2,721)
Current liabilities	(319,684)	(697,127)
	(319,684)	(699,848)
Net assets	379,162	458,559
Cash consideration		438,568
Negative goodwill		19,991

In April 2005, the Group acquired 41.5% equity interest in Shanghai Baoland Co., Ltd., a company principally engaged in property development and investment in Shanghai.

(b) Disposal of subsidiaries

	2005	2004
	HK\$'000	HK\$'000
Net assets disposed		
Property, plant and equipment	453,525	—
Leasehold land and land use rights	183,971	—
Investment properties	65,500	—
Jointly controlled entities	256,190	—
Associated companies	20,143	—
Available-for-sale financial assets	92,054	—
Goodwill	16,617	—
Other non-current assets	240,108	—
Inventories	94,047	—
Debtors and prepayments	762,202	—
Tax recoverable	1,145	—
Other investments	69,534	—
Bank balances	1,280,363	—
Borrowings	(140,970)	—
Deferred tax liabilities	(13,884)	—
Provisions	(191,561)	—
Creditors and accruals	(407,237)	—
Current portion of borrowings	(247,400)	—
Tax payable	(806)	—
Minority interests	(1,666,647)	—
Net assets	866,894	—
Transfer to associated companies (Note 23)	4,478,360	—
Gain on deemed partial disposal	3,611,466	—

The above represents the deemed disposal of GEG as more fully described in note 1 above.

43. CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$3,571,683,000 (2004: HK\$3,844,074,000) of which HK\$ 2,078,682,000 (2004: HK\$1,903,793,000) have been utilised.

The Company has executed guarantees in favour of convertible bondholders in respect of the convertible bonds issued by a subsidiary amounting to HK\$104,000,000 (2004: HK\$864,260,000).

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

44. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions between the Group and related parties, in addition to those disclosed elsewhere in the financial statements which in the opinion of the directors, were carried out in the normal course of business during the year:

- (a) Rental income from an associated company (deemed as disposed following the deemed disposal of GEG) amounted to HK\$5,602,000 (2004: HK\$9,737,000) based on the terms of rental agreement between the parties.
- (b) Sales of aggregates to an associated company (deemed as disposed following the deemed disposal of GEG) amounted to HK\$10,634,000 (2004: HK\$18,640,000). These were made at prices and terms no less than those charged to other third party customers of the Group.
- (c) On 22nd July 2002, Brighten Lion Limited, formerly a 66% owned subsidiary, granted a guaranteed unsecured revolving loan facility of HK\$330,000,000 to Great Place Developments Limited, a wholly-owned subsidiary. The facility carries interest at the rate of 2.38% per annum over three-month HIBOR, with a maturity of three years and an option to extend the maturity for further one or two years. There was no loan outstanding during the year (2004: Maximum HK\$70,000,000).
- (d) Key management personnel comprise Executive Directors of the Company. Their emoluments are set out as follows:

	2005	2004
	HK\$'000	HK\$'000
Fee	754	400
Salaries and other emoluments	14,421	14,568
Discretionary bonus	941	—
Retirement benefits	1,125	1,093
Share options	620	—
	17,861	16,061

- (e) Rental income from an investee company amounted to HK\$1,172,000 (2004: Nil) based on the terms of rental agreement between the parties.

45. POST BALANCE SHEET EVENTS

As at 30th March 2006, face value of HK\$36,000,000 of the convertible bonds have been converted into 19.1 million ordinary shares of the Company at the conversion price of HK\$1.88 per share.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 30th March 2006.

47. PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Directly held by the Company					
Incorporated in the British Virgin Islands					
Sutimar Enterprises Limited	Hong Kong	100	US\$ 1	100	Investment holding
Indirectly held by the Company					
Incorporated in Hong Kong					
Bright City Development Limited	Hong Kong	2	HK\$ 1	100	Property development
Chely Well Limited	Hong Kong	1,000	1	65	Investment holding
Chinapex Company Limited	Singapore	1,000	10	100	Property investment and development
China Win Enterprise Limited	Hong Kong	5,000,000	1	100	Investment holding
Colour Day International Limited	Hong Kong	2	1	100	Investment holding
Full Wealth Limited	Hong Kong	2	1	100	Property development
Grand Spark Limited	Hong Kong	1	1	100	Property development and investment
Greenwell Investments Limited	Guangzhou	2	1	100	Investment holding and property development
Goldstar Power Limited	Hong Kong	1	1	100	Investment holding and property development
Hero Plaza Limited	Hong Kong	2	1	100	Property development
Kingrand Limited	Hong Kong	2	1	100	Property investment
K. Wah Management Services Limited	Hong Kong	100	100	100	Provision of management services
K. Wah Properties Investment Limited	Hong Kong	1,000	10	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	0.2	100	Investment holding
Lucky Way Investment Limited	Hong Kong	2	1	100	Property development
Minter Limited	Hong Kong	2	1	100	Investment holding
Netrich Limited	Hong Kong	2	1	100	Property development
New Fine Limited	Hong Kong	1	1	100	Property development
Orient Profit Limited	Hong Kong	1	1	100	Property development
Origin World Limited	Hong Kong	2	1	100	Property investment
Perfect Development Limited	Hong Kong	2	1	100	Property development
Polynice Limited	Hong Kong	2	1	100	Provision of finance
Union Profits Limited	Hong Kong	2	1	100	Property development
Victory Way Limited	Hong Kong	9,901,000	1	99.9	Investment holding
Incorporated in Japan					
Asahi Kohatsu Corporation	Japan	240	Yen 50,000	75	Trading

47. PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (cont'd)

(a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Incorporated in the British Virgin Islands					
			US\$		
All Smart Profits Limited	Hong Kong	10	1	100	Investment holding
Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
Great Place Developments Limited	Hong Kong	10	1	100	Investment holding
K. Wah International Finance Limited	Hong Kong	10	1	100	Provision of finance
Lehorne Properties Limited	Hong Kong	10	1	100	Investment holding
Ontrack Developments Limited	Hong Kong	10	1	100	Investment holding
Ragon Properties Ltd.	Hong Kong	10	1	100	Investment holding
Repton Developments Limited	Hong Kong	10	1	100	Investment holding
Select Vantage Profits Ltd.	Hong Kong	10	1	100	Investment holding
Top Ridge Management Limited	Singapore	10	1	100	Property investment
Incorporated in Mainland China					
Wholly-owned foreign enterprise		Registered capital			
廣州市嘉華花都置業有限公司	Guangzhou		HK\$93,600,000	100	Property development
K. Wah (China) Investment Co., Ltd.	Shanghai		US\$30,000,000	100	Investment holding
Shanghai Guoguang Real Estate Development Co., Ltd.	Shanghai		US\$31,000,000	100	Property development
Cooperative joint venture					
Hui Cheng Real Estate Development Co. Ltd. Guangzhou	Guangzhou		HK\$200,000,000	99.9	Property development
Shanghai Jia Zhao Real Estate Development Co., Ltd.	Shanghai		US\$24,000,000	100	Property development
Yue Hua Real Estate Development Co. Ltd. Guangzhou	Guangzhou		HK\$187,000,000	100	Property development
廣州東鏡泰豐房地產開發經營有限公司	Guangzhou		US\$10,000,000	100	Property development
Equity joint venture					
Jia Hui Da Real Estate Development Co., Ltd. Shanghai	Shanghai		US\$53,000,000	36	Property development and investment
Shanghai Jiagangcheng Real Estate Development Co., Ltd.	Shanghai		US\$13,000,000	95	Property development
Shanghai Jiashen Real Estate Development Co., Ltd.	Shanghai		US\$38,000,000	99	Property development

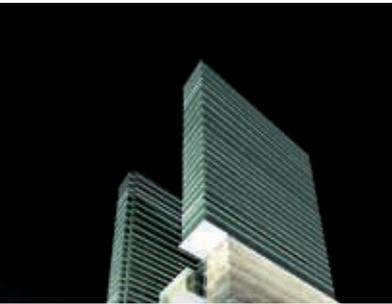
(b) Jointly Controlled Entities

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Incorporated in Hong Kong					
			HK\$		
Anglers' Bay Property Management Company Limited	Hong Kong	2	1	50	Property management
Golden Famous International Limited	Hong Kong	2	1	25	Property development
Prime Force Limited	Hong Kong	2	1	50	Property development
Top Falcon Limited	Hong Kong	2	1	50	Provision of finance
Incorporated in Mainland China		Registered capital			
Shanghai Baoland Co., Ltd.	Shanghai		RMB717,674,797	41.5	Property development

	Type of Property	Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
INVESTMENT AND OTHER PROPERTIES						
Singapore						
San Centre, 171 to 187 Chin Swee Road, Singapore (Note)	Office	5,747	100	2068	Completed	Existing
Hong Kong						
K. Wah Centre, 28th, 29th and 30th Floors, 191 Java Road, North Point	Office	2,926	100	2106	Completed	Existing
Skyline Commercial Centre, 71, 73, 75 & 77 Wing Lok Street, Sheung Wan	Office/ Commercial	3,894	100	2841	Completed	Existing
Mainland China						
Shanghai K. Wah Centre, Lot No. 26, Street No. 6, Huaihai Zhong Road, Xuhui District, Shanghai	Office	72,000	35.75	2047	Completed	Existing
Parkview Place/Parkview Centre, 148 Dongfeng Road West, Guangzhou City Phase 1	Commercial	3,527	100	2033	Completed	Existing

Note: Floor area of 1,964 sq. metres of San Centre is held for sale.

	Type of Property	Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
DEVELOPMENT PROPERTIES						
Hong Kong						
Kingsfield Centre, 18–20 Shell Street, North Point,	Office	1,873	100	2069	Completed	Existing
Anglers' Bay 18A Castle Peak Road, Tsing Lung Tau	Residential	492	50	2050	Completed	Existing
Tung Lo Wan Hill Road, Sha Tin Town Lot 510, Sha Tin	Residential	24,227	100	2054	Construction	2007
Mainland China						
Songbolang Cun, Dongjing Cun, Xinhua Zhen, Hua Dou City, Guangdong	Mix Use	1,147,000	100	2034 to 2068	Planning	2008 and beyond
花都置業地塊新華鎮清布村迎賓大道北	Residential/ Commercial/ Office	267,560	100	2039 to 2069	Planning	2008 and beyond
Lot A&B, No. 68 Jianguo Xi Road, Xuhui District, Shanghai	Residential	140,000	100	2065	Demolition and relocation	2008
Plot Phase III of Yanjiazhai Jingan District, Shanghai	Residential	100,000	99	2072	Demolition and relocation	2008
Lot No. 701 Guangzhong Road, Zhabei District, Shanghai	Residential	380,000	100	2073	Construction	2007 (Phase 1)



K. WAH INTERNATIONAL HOLDINGS LIMITED
嘉華國際集團有限公司

29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong
香港北角渣華道 191 號嘉華國際中心 29 樓

Tel 電話 : (852) 2880 0178 Fax 傳真 : (852) 2880 5610