



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)

跨越·創新領域
Building Blocks
for the Future



Annual Report 2006 年報

Contents

Our Mission	02
Our Company	03
Chairman's Statement	04
Corporate Governance Report	06
Management Discussion and Analysis	11
Five Years Summary	16
Corporate Information	18
Biographical Information of Directors	20
Report of the Directors	22
Report of the Independent Auditors	29
Consolidated Profit and Loss Statement	30
Consolidated Balance Sheet	31
Company Balance Sheet	32
Consolidated Cash Flow Statement	33
Consolidated Statement of Changes in Equity	34
Notes to the Financial Statements	35
Schedule of the Group's Significant Properties	75

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 as 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. Our strategic 18.7% stake in Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027) provides an investment gateway for our Shareholders to share in the success of Macau, a booming and the most exciting entertainment and leisure destination in this part of the world.

Leader in the Niche Market

We integrate architectural design, quality, functionalities, and top-notch building services in our products to redefine the concept of modern living. It is our proposition that our products while maintaining good margins for the Company must also offer the highest value to our customers. This philosophy earns trophies and accolades for all products under the K. Wah brand.

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 is the key driver of our growth play.

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

Chairman's Statement

Dear Shareholders,

It gives me great pleasure to report year 2006 as another year of solid operating performance for the Group. During the year, the Company has registered increase in operating profit attributable to shareholders, strong property sales, and growth in value of our assets.

Mainland China closed year 2006 with continuous growth momentum, with GDP growth up to 10.5% for 2006. It is pleasing to see growing evidence that our strategy of managing growth in Mainland China on the back of the success we have in Hong Kong is bearing fruit with value being created and delivered to our Shareholders. Rising private affluence spurs not only demand for quality accommodations but also the desire for leisure and life quality. Moving in lockstep with this trend, the Group is enhancing its capabilities on commercial and hotel properties. This strengthens not only our financial fundamentals but also our brand in Mainland China as the delivery platform for complete and integrated property development and investment.

In the years that I can now foresee, Mainland China will remain the key growth driver for our property business. We ride on our success with the Shanghai K. Wah Center and are firing all cylinders on our property projects in Mainland China. This year, we are commencing works at Phase II of Shanghai Westwood, and the phased development of our other 2 projects in Shanghai and our other project at Guangzhou is well underway. We plan our Shanghai Jianguo Xi Road project as a suite hotel-cum-residential development, and we have started construction of our other project at Guangzhou as a hotel-cum-office development. The Group benefits from the leverage it has on the success and experience of the K. Wah group on hospitality and the hotel industry. Going forward, we are looking beyond established municipalities into strategic locations in other Provinces of Mainland China to strengthen our land bank and in search for good investment opportunities. Our alliance with the Shanghai Baosteel Group and other strategic partners has enhanced our ability in Mainland China and opens up opportunities for growth.

While prospects for 2007 are encouraging, there are also challenges. We remain alert to the possibility of further intervention to the property market through macro-economic or fiscal measures from the Central Government. Policy intervention can have unintended consequence but, if properly calibrated, can be positive especially for market players with sound management and governance. Any industry consolidation in Mainland China property market in the wake of policy change becomes expansion opportunity for our business there. On the back of our strong brand recognition and footprints across the country, I firmly believe we are well positioned to take advantage of opportunities in Mainland China as they arise. We will invest in new opportunities in support of our strategy for sustainable growth. We will, though, remain prudent in our approach to business and investment there.

Hong Kong economy is also performing strong, with an average annual increase of 7.6% in her GDP for the last 3 years. I am pleased to report good sales activities at The Great Hill and J Residence. The later half of this year will see J SENSES – a premium shopping arcade at the J Residence – coming on stream to add to the Group's cash generating portfolio. The Group has also strengthened its edge on the Hong Kong luxurious property market through participating with Nan Fung Development, Sino Land and USI Holdings in development of a piece of premium water-front residential land at Tolo Harbour, Tai Po. These are measures of the success of the investments we have made in Mainland China and Hong Kong in the year that passed.

Brand recognition is vitally important, especially in crowded market-place, and is the key foundation for the solid growth and prosperity of the Group. Engaging all our colleagues is critical to the delivery of this strategy of brand building that we are constantly and relentlessly pursuing. We aspire to be the leading brand, and the **BUSINESS SUPERBRANDS** and the

HIGH-FLYER OUTSTANDING ENTERPRISE awards put us in leadership among our peers.

Our management is conscientious of the fact that there cannot be long-term success unless a company conducts itself according to a set of values that are synonymous with trust, integrity, and excellent customer service and in a manner that earns the trust and respect of the community in which it operates its business. In this regard, it is encouraging to see that management is putting in tireless efforts to strengthen the core value and corporate governance from within, and increase the visibility of the Company as the favorite delivery platform for good investment return through investors relationship programs.

Social responsibility is far from being at odds with business success and the profit by which it is measured; rather, they can go hand in hand. I am grateful to see that K. Wah people have been continuing to volunteer in great numbers in support of various community and social projects. Their involvement bears the hallmark of the compassion and sense of social responsibility shown by the K. Wah team throughout.

This is the 20th anniversary of the Company's public listing in Hong Kong. I take this opportunity to thank my entire fellow Board members, the management team, and all the staff for the talent, dedication, and commitment they have brought to bear on the performance and success across the spectrum of business, affairs, and activities of the Group.

Dr. Che-woo Lui

Chairman

29 March 2007



Corporate Governance Report

This is the 2nd year when we report on the corporate governance practice of the Company.

THE BOARD

Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Directors are collectively responsible for promoting the success of the Company by directing strategic objectives and overseeing the management's performance on these objectives.

THE CHAIRMAN AND THE MANAGING DIRECTOR

Dr. Che-woo Lui is the Chairman, and Mr. Eddie Hui Ki On is the Managing Director (Acting) of the Company. The roles of the Chairman and Managing Director of the Company are separate. The Chairman is responsible for the leadership of the Board. Managing Director heads the management and focuses on the day-to-day operations of the Group.

BOARD COMPOSITION

Currently, there are 12 Board members, of whom 5 are executive Directors (including the Chairman) and 7 are non-executive Directors. Of the latter, 5 are independent non-executive Directors ("INEDs") and among them, one has accounting professional qualification. The Board considers that the 5 INEDs are independent as within the guidelines under Rule 3.13 of the Listing Rules. The Company has identified INEDs as such in its announcements and circulars to shareholders. Pages 20 to 21 of this annual report contains biographical details of the Directors.

BOARD PRACTICES

In 2006, the Board held 4 board meetings at approximately quarterly intervals, the dates of which were scheduled at the beginning of the year.

Directors actively participated in person at each Board meeting to review the business progress against budget. Matters requiring Board consents were given by vote at the Board meeting. Between scheduled meetings, routine/operational matters were considered and approved by the Board via the circulation of written resolutions with supporting explanatory write-ups from the Company Secretary or briefings from executives as required.

SUPPLY & ACCESS TO INFORMATION

The Company Secretary circulated Board agenda (with arrangements for Directors to include their items) and supporting papers at least 3 days in advance, and attended Board meetings together with the Qualified Accountant to assist proceedings.

All Directors have had access to senior management for any information they require to make informed decision on matter placed before them. Assisted by the Company Secretary, the Chairman has also ensured that Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating Directors on governance and regulatory matters. The service of independent professional advice at Company expenses is also available to the Audit and the Remuneration Committees. External auditors (being PwC) attended all Audit Committee meetings as well as the Board meetings approving full year and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers are available to all Board members. These minutes record the matters considered by the Board and views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively.

Directors' attendance at Board and other meetings of the Company in 2006 is as follows :

Name of Director	Number of Meetings			Annual General Meeting (1)
	Board Meeting (4)	Audit Committee (3)	Remuneration Committee (1)	
Executive Directors				
Che-woo Lui (Chairman) ¹	3/4	N/A	N/A	1/1
Francis Lui Yiu Tung ²	2/4	N/A	N/A	1/1
Eddie Hui Ki On (Managing Director (Acting)) ³	4/4	N/A	1/1	1/1
Lennon Lun Tsan Kau (Deputy Managing Director)	4/4	N/A	N/A	1/1
William Lo Chi Chung ⁴	4/4	N/A	N/A	1/1
Paddy Tang Lui Wai Yu ⁵	4/4	N/A	N/A	1/1
Non-executive Directors				
Michael Leung Man Kin	4/4	3/3	N/A	1/1
Philip Wong Kin Hang	3/4	N/A	N/A	0/1
Independent Non-executive Directors				
Sir David Akers-Jones	3/4	N/A	N/A	1/1
Leo Lee Tung Hai	3/4	N/A	N/A	1/1
Robin Chan Yau Hing	4/4	N/A	N/A	0/1
Charles Cheung Wai Bun	4/4	3/3	1/1	1/1
Robert George Nield	1/4	3/3	1/1	1/1
Total	43/52	9/9	3/3	11/13
Average attendance rate	83%	100%	100%	85%

- 1 Father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.
- 2 Mr. Francis Lui Yiu Tung resigned as Managing Director on 14 September 2006. He is the younger brother of Ms. Paddy Tang Lui Wai Yu.
- 3 Appointed as Managing Director (Acting) on 14 September 2006.
- 4 Resigned as executive Director and member of the Executive Board on 1 January 2007.
- 5 Daughter of Dr. Che-woo Lui, and the elder sister of Mr. Francis Lui Yiu Tung.

During 2006, the Board did not have conflict of interest situation involving Director or a substantial shareholder. In case it arises, procedures will be put in place to ensure that conflict of interest will be resolved in accordance with the spirit and requirements of Code Provision A.1.8 in Appendix 14 of the Listing Rules.

DELEGATION BY THE BOARD

Within the clear guidelines which it set, the Board has delegated to an executive board ("Executive Board") (comprising all the executive Directors) authority to see to the implementation of Group strategy set by the Board. The Executive Board monitors the Group's investment and trading performance, funding and finance requirements, and reviews management performance. 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. 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.

APPOINTMENT, RE-ELECTION & REMOVAL OF DIRECTORS

All non-executive Directors are appointed for a specified term of 3 years, subject to re-election by shareholders in the annual general meeting of the Company.

Other than the Chairman and the Managing Director, every Director is subject to retirement by rotation. Every year one-third of the Directors will retire.

At the forthcoming annual general meeting of the Company, in accordance with the Bye-laws and corporate governance practices of the Company, 3 Directors will retire by rotation, who are Mr. Lennon Lun Tsan Kau and Ms. Paddy Tang Lui Wai Yu (both executive Directors), and

Corporate Governance Report

Dr. Robin Chan Yau Hing (an INED). All of them offer themselves for re-election but none 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). The Board considers Dr. Robin Chan continues to bring relevant experience and knowledge to the Board and that, notwithstanding his long service in that capacity since 1999, maintains an independent view of the Company's affairs. The Company is also amending its Bye-laws to bring them in line with the Listing Rules changes on right for shareholder to remove director by ordinary resolution.

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 and the setting up of a nomination committee is under consideration.

DIRECTOR'S RESPONSIBILITY

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

Non-executive Directors (including the 5 INEDs) are either senior ex-civil servants or veteran professionals/businessmen who has brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people of the group, through their contribution at Board (83% attendance rate) and at the Audit and the Remuneration Committee (100% attendance rate) meetings during the year. A high majority of the non-executive Directors attended the Company's 2006 annual general 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. Each Director has confirmed he or she has complied with the Model Code throughout the year. 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.

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

REMUNERATION OF DIRECTORS & SENIOR MANAGEMENT

The role and function of the Remuneration Committee are set out in its terms of reference which is posted on the website of the Company. The Remuneration Committee comprises 3 members identified in the table on page 7 of whom 2 are INEDs. Mr. Eddie Hui Ki On is the chairman and the Company Secretary acts as secretary.

In accordance with its terms of reference, the Remuneration Committee:

- on 18 January 2007, reviewed and approved the 2006 year-end bonus paid to the executive Directors of the Company as in line with the Group's remuneration policy for directors and for staff as a whole, and
- at its meeting on 20 March 2007, reviewed the level of remuneration paid to the executive Directors (who constituted senior management of the Company) in 2006 against market pay-level among peer group companies and performance of the executive Directors, and approved individual Director's remuneration packages for 2007.

The Board endorsed the Remuneration Committee's proposals on Directors' remuneration and recommendation on Director's fees for approval by Shareholders at its 2007 annual general meeting.

No Director participates in the determination of his own remuneration.

Details of Directors' Remuneration and Five Highest Paid Individuals of the Group for the financial year 2006 appear respectively at notes 10 and 11 to the 2006 Financial Statements.

ACCOUNTABILITY

The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with the requirements of the Listing Rules and applicable laws and the integrity of financial information so reported. Such responsibility extends to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The Directors' statements of responsibility for the financial statements should be read in conjunction with — but distinguished from — the statements of reporting responsibilities of PwC on page 29.

The management of individual businesses within the Group provides the Directors with such information and explanations as necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

The Group has adopted the going concern basis in preparing its financial statements.

INTERNAL CONTROLS

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls.

The Company has a clear organizational structure with well-defined responsibilities, reporting lines and authority limit, and imposes budgetary controls on managers of operating divisions. The scope of internal control and risk management covering financial, operational, and compliance areas and control procedures is to identify and then manage risks.

The Company's internal audit function — currently staffed by 3 qualified professionals — is set up to provide the Board with reasonable assurance that the internal control systems of the Company are effective, and that the risks associated with the achievement of business objectives of the Group are being managed properly. During the year, the internal audit function drew up internal audit plan, discussed with management on areas of risk identified, and reviewed its internal audit report with the Audit Committee. Chairman of the Audit Committee has open access to the head of the internal audit function.

During financial year 2006 and up to the date of the financial statements, there was no significant control failure, as the internal audit function so reported to the Board through the Audit Committee. The Group Chief Operating Officer endorsed the internal audit report for implementation with operating units.

AUDIT COMMITTEE

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 Committee consists of 3 Non-executive Directors, identified in the table on page 7, 2 of whom are independent with one — being Dr. Charles Cheung Wai Bun — as chairman. All the members served for the whole of 2006 and meetings attendance rate is 100%. The Company Secretary acted as secretary, who has kept full minutes of Audit Committee

Corporate Governance Report

meetings with draft and final versions to members for their comment and record soon after the relevant meeting. Regular attendees at the Audit Committee meetings are the Qualified Accountant, head of internal audit, and senior representatives from PwC. The Company has posted the terms of reference of Audit Committee on its website.

In 2006, the Audit Committee met 3 times, in March 2006 to review Group's 2005 final results and financial statements, then in August 2006 on certain developments in the recently introduced Hong Kong Financial Reporting Standards, and in September 2006 to review the Group's 2006 interim results and financial statements. At its meeting on 20 March 2007, the Audit Committee reviewed the Group's final results for 2006 and also the report on the effectiveness of the risk assessment and internal control systems of the Group by the group's internal audit function. Each meeting received written report and papers from PwC.

The Audit Committee has been satisfied with the independence of PwC during the year and has recommended to the Board that PwC be re-appointed as auditors of the Company at the forthcoming annual general meeting of the Company. An analysis of the fees paid to PwC appears in note 8 to the financial statements.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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 a member of its senior management specifically charged with investors relationship. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Company in an informative and timely manner. Every year, upon announcing results, the Company has press conference and briefings with the investment community, and the executive Directors also have regular dialogue with institutional investors and financial analysts. In between times, the Company organised site visits for analysts to have in depth understanding of our products. The Company received coverage on its

business and stock performance from leading financial commentators and research team from international securities house.

The Company encourages its Shareholders to attend annual general meeting and all its other shareholders meetings to discuss progress and matters. The Chairman and Directors are available there to answer Shareholders' questions. 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

Throughout the year under review, save for Code Provision A.4.2, the Company has complied with all the other Code Provisions in Appendix 14 to the Listing Rules. In relation to the deviation from Code Provision A.4.2, the Board has reviewed but continues to hold the view that, given its rotation policy, the spirit of that Code Provision has been sufficiently upheld. The Board believes that it is in the interest of the Group to have continuity in the leadership of both the Chairman and the Managing Director, without being subject to rotation. Any risk of entrenchment is counteracted by the fact that the Company has a well represented Board. The Board will continue to review and recommend such step and action as appropriate in the circumstances of such deviation.

Management Discussion and Analysis

By Division

	Properties	Trading	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	203,075	72,881	—	275,956
Cost of goods sold	(95,416)	(64,345)	—	(159,761)
	107,659	8,536	—	116,195
Other revenues	—	—	15,429	15,429
Other operating income	57,593	32	61,667	119,292
Administrative expenses	(117,781)	(7,675)	(5,591)	(131,047)
Other operating expenses	(6,448)	—	—	(6,448)
Change in fair value of investment properties	957,958	—	—	957,958
Operating profit	998,981	893	71,505	1,071,379

Turnover by Division

For the year ended 31 December 2006

	2006	2005
	HK\$'000	HK\$'000
Properties	203,075	226,330
Trading	72,881	62,977
	275,956	289,307

Employment of Gross Assets

As at 31 December 2006

	2006	2005
	HK\$'000	HK\$'000
Properties	6,137,681	5,955,417
Non-current investments	4,477,084	2,690,556
Trading	4,341	10,659
Central services	72,001	136,537
Cash & Bank balances	741,060	255,206
	11,432,167	9,048,375

By Geographical Spread

	Hong Kong	Mainland China	Singapore	Japan	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	10,780	177,785	14,510	72,881	275,956
Cost of goods sold	(43,579)	(45,246)	(6,591)	(64,345)	(159,761)
	(32,799)	132,539	7,919	8,536	116,195
Other revenues	12,340	2,384	649	56	15,429
Other operating income	48,505	68,719	2,036	32	119,292
Administrative expenses	(83,391)	(37,750)	(2,200)	(7,706)	(131,047)
Other operating expenses	(6,301)	(95)	(52)	—	(6,448)
Change in fair value of investment properties	27,549	925,527	4,882	—	957,958
Operating (loss)/profit	(34,097)	1,091,324	13,234	918	1,071,379

Turnover by Geographical Spread

For the year ended 31 December 2006

	2006	2005
	HK\$'000	HK\$'000
Hong Kong	10,780	129,115
Mainland China	177,785	88,275
Singapore	14,510	8,940
Japan	72,881	62,977
	275,956	289,307

Gross Assets by Geographical Spread

As at 31 December 2006

	2006	2005
	HK\$'000	HK\$'000
Hong Kong	6,320,358	4,745,909
Mainland China	4,923,645	4,126,776
Singapore	178,595	162,374
Japan	9,569	13,316
	11,432,167	9,048,375

REVIEW OF OPERATIONS

Turnover and profit attributable to shareholders for the year ended 31 December 2006 were HK\$276 million and HK\$230 million respectively, compared to HK\$289 million and HK\$95 million (excluding discontinued operations of HK\$3,549 million) for the last year.

Properties sale during the year continued to improve as a result of the good pre-sale of residential units in various property projects in Shanghai and Hong Kong. Under the current accounting policies, the revenue and profit will be recorded after the development of the projects is completed.

Mainland China

Sales remained strong for the Group's luxury residential development in Shanghai, amidst property market cooling measures from the Central Government in the year. As of the year-end, the Group has pre-sold nearly 90% of Phase I of the Shanghai Westwood. On investment side of the operations, demand for Grade-A office has remained strong, and the Group's Shanghai K. Wah Centre has continued to register 100% occupancy.

(A) **Current Major Development Properties (total gross floor area ("GFA") of approximately 2,000,000 square metres)**

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

Total GFA of this luxurious condominium project is approximately 380,000 square metres. The Group has pre-sold Phase I (GFA of which is about 140,000 square metres) with handover scheduled for the middle of this year. The Group is starting the development of Phase II (GFA of approximately 140,000 square metres) this year and Phase III (GFA of approximately 100,000 square metres) by 2009.

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

The project is located in Shanghai's traditional up-scale residential area with total GFA of approximately 140,000 square metres. The Group is planning an integrated development with luxury residential apartments, high-class

commercial facilities and suite hotel/service apartments. Construction work is in progress and completion of the first phase of this development is expected to be around 2009.

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

Total GFA of this luxurious residential project is approximately 100,000 square metres. Well located at Urumqi Road, Jingan District, the Group is planning a mid-town Manhattan style of residential development. Demolition work is in progress. We have commenced phase construction on this development and expect phase completion by 2009.

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

Guangzhou is the trade hub of southern China and demand for commercial accommodations is always strong.

The Group has a sizeable land reserve at Xinhua Zhen, Hua Dou City (total permissible buildable floor area in contemplation of approximately 1,470,000 square metres), and is planning development by stages. We have already started phased development on one of these plots of our land reserve there which has a GFA in contemplation of approximately 47,000 square metres. This phase will see an integrated development with high-class hotel and office accommodation. The rest of the Group's land reserve in Guangzhou has been planned mostly for residential development.

(B) **Investment Property**

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (35.75% effective interest)

This flagship investment property (totaling approximately 72,000 square metres together with the two ancillary buildings) is located at Huaihai Zhong Road which is a thriving downtown commercial area in the inner ring area of Shanghai. During the year under review, we have maintained full occupancy at this Grade-A office commanding top-end rentals from reputable corporate tenants.

Hong Kong

The Group's The Great Hill and J Residence have both been well received by the market. In the office sector, the leasing market also performed well in 2006. The Group achieved satisfactory occupancy and rental rates with its investment properties.

(A) Current development properties

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

GFA is approximately 30,000 square metres and construction work is on schedule with expected completion around the second half of 2007. The Group is timing to roll out sales of the remaining units this year.

(ii) J Residence, Johnston Road, Wan Chai (a joint development with the URA)

The Group has pre-sold almost all the residential units of this downtown project which is a joint development with the Urban Renewal Authority. Upon completion of the project around the third quarter of 2007, it is expected that the commercial portion – the J Senses – will contribute good rental income to the Group.

(iii) No. 6 Shiu Fai Terrace, Hong Kong (100% owned)

The Group is turning this site into another signature luxury residential development (planned GFA : 6,500 square metres).

(B) Other properties in Hong Kong (all 100% owned)

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

This 24-storey centrally located office building has approximately 3,900 square metres of office space and ground floor shops. It has been enjoying near full occupancy and contributing steady rental income to the Group.

(ii) Kingsfield Centre, Shell Street, North Point

This 26-storey commercial building (approximately 1,900 square metres of office space) has been enjoying high occupancy to contribute steady rental income to the Group.

Major Properties in Singapore

San Centre, Chin Swee Road (100% owned)

This 12-storey office building (approximately 5,800 square metres with carparks) has maintained satisfactory occupancy with stable income.

Investment in Galaxy Entertainment Group Limited

The value of this strategic investment has increased from HK\$4.375 (at 31 December 2005) to HK\$7.28 per share at the close of the year under review enabling the Group to record a change in fair value of approximately HK\$1.8 billion as an increase in reserves.

OUTLOOK

The Group is optimistic about its business prospect in Mainland China, on the back of the quality investments which it has already made and the strong brand recognition it enjoys there. The Group's equity joint venture in Shanghai Baoland Co., Ltd. (41.5% owned) has been performing and contribution to the Group's profit is expected.

The Group believes the luxurious residential market in Hong Kong will continue to perform, and this optimism is reflected in recent Hong Kong Government land auctions. Since the year-end, the Group has unified title to and is commencing development at its Shiu Fai Terrace property, and has also participated in the joint development of a piece of water-front residential land at Tolo Harbor, Tai Po (estimated GFA approximately 69,657 square metres). The Group has been actively examining investment opportunities in both Mainland China and Hong Kong to strengthen land bank and increase returns on assets.

REVIEW OF FINANCE

Sources of Funding

As at 31 December 2006

	2006 HK\$'000	2005 HK\$'000
Share capital	242,995	237,792
Other reserves	3,174,898	1,245,281
Revenue reserves	4,046,470	3,833,597
Minority interests	856,817	355,968
Borrowings	1,914,731	1,567,857
Current portion of borrowings	1,196,256	1,807,880
	11,432,167	9,048,375



(1) Financial Position

The financial position of the Group remained strong during the year. Total funds employed increased by 26% to HK\$11 billion at 31 December 2006 from HK\$9 billion at 31 December 2005.

The number of the issued shares of the Company increased as a result of conversion of convertible bonds and the 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 satisfactory during the year. As of 31 December 2006, total bank borrowings amounted to HK\$3,078 million, and cash and bank balances were HK\$741 million to give a net debt of HK\$2,337 million. This represented a HK\$604 million net debt reduction compared to 31 December 2005, mainly attributable to the presale proceeds received during the year.

Of the total long-term bank borrowings, more than 60% had maturities over a period of one year and above.

The Group successfully arranged a 3/5 years syndicated loan of HK\$1,800 million on 6 September 2006 from a consortium of 14 international and leading local banks.

In addition to the aggregate cash balances, the total un-drawn banking facilities of the Group at 31 December 2006 amounted to over HK\$2.8 billion. The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was reduced to a satisfactory level of 17% at 31 December 2006 as compared to 31% for last year.

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.

(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. During the year, the Group has not engaged in the use of derivative products.

(4) Charges on Group Assets

As of 31 December 2006, investment properties and land and buildings with carrying values of HK\$3,229,669,000 (2005: HK\$2,016,387,000) and HK\$110,313,000 (2005: HK\$111,586,000) respectively were pledged to banks to secure the Group's borrowing facilities.

(5) Contingent Liabilities

As of 31 December 2006, the Company has executed guarantees in favor of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$4,556,608,000 (2005: HK\$3,571,683,000) of which HK\$2,030,336,000 (2005: HK\$2,078,682,000) have been utilized. The Company has also executed guarantees in respect of the convertible bonds issued by a subsidiary the outstanding amount of which as at the end of 2006 is HK\$40,000,000 (2005: HK\$104,000,000).

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

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2006, the Group, excluding associated companies and jointly controlled entities, employs 279 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$82 million for 2006.

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 to management talents with a view for their long term retention. Likewise in Mainland China, employees' remuneration is commensurate with market pay level, and the Group puts particular emphasis on 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.

In 2006, the Group sponsored several company-wide interactive seminars for executives to share among themselves knowledge, experience and good management practices in their respective divisions. These events provide staff with initiatives to enhance their management capabilities and up-date their technical know-how. In addition, the Group also sponsors staff to attend external job-related courses/workshops in Hong Kong and Mainland China organized by the accredited educational institutions and professional bodies. These training programs cover not only technical aspects such as finance, taxation, laws, human resources and information technology but also fundamental development on executives' leadership, business vision and strategies, as well as communication and management skills.

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.

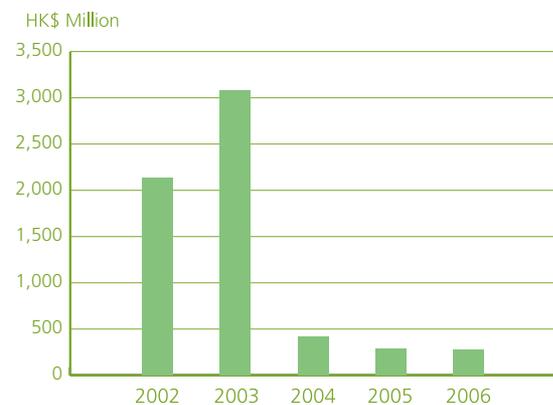
Five Years Summary

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Turnover	2,134,552	3,076,143	418,257	289,307	275,956
Profit before taxation	136,509	183,220	231,153	393,249	1,008,763
Taxation (charge)/credit	(11,365)	(45,831)	1,461	(142,869)	(307,019)
Profit from continuing operations	125,144	137,389	232,614	250,380	701,744
Profit from discontinued operations	—	—	29,757	3,553,418	—
Profit for the year	125,144	137,389	262,371	3,803,798	701,744
Minority interests	(22,810)	(17,009)	(21,157)	(159,750)	(472,041)
Profit attributable to shareholders	102,334	120,380	241,214	3,644,048	229,703
Earnings per share (HK cents)	5.4	6.2	12.1	157.7	9.5
Dividend per share (HK cents) (note 2)	3.0	3.0	6.0	53.7	3.5
CONSOLIDATED BALANCE SHEET					
Non-current assets	1,091,920	1,136,196	1,090,200	2,140,863	3,491,746
Associated companies and jointly controlled entities	551,952	553,128	508,389	577,261	575,502
Other non-current assets	303,491	433,227	440,947	2,698,833	4,486,676
Net current assets	3,436,640	2,884,322	4,389,180	2,033,802	2,206,072
Employment of capital	5,384,003	5,006,873	6,428,716	7,450,759	10,759,996
Financed by:					
Share capital	191,955	197,797	201,564	237,792	242,995
Reserves	2,233,979	2,333,890	2,471,190	5,078,878	7,221,368
Shareholders' funds	2,425,934	2,531,687	2,672,754	5,316,670	7,464,363
Minority interests	1,067,785	1,083,869	723,354	355,968	856,817
Long-term liabilities	1,800,916	1,302,184	2,773,224	1,567,857	1,914,731
Non-current liabilities	89,368	89,133	259,384	210,264	524,085
Capital employed	5,384,003	5,006,873	6,428,716	7,450,759	10,759,996
Net assets value per share (HK\$)	1.26	1.28	1.34	2.30	3.07

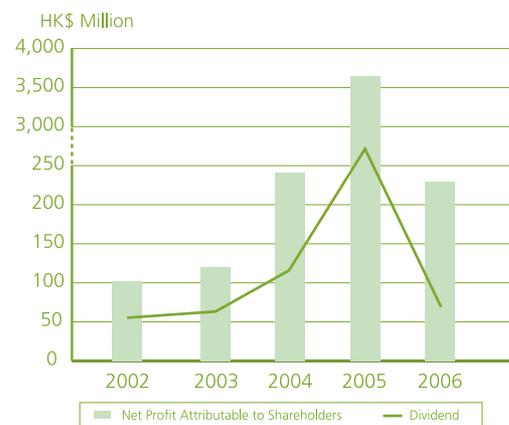
Note:

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

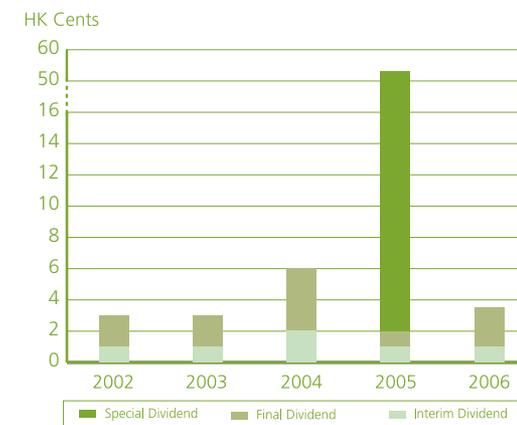
Consolidated Turnover



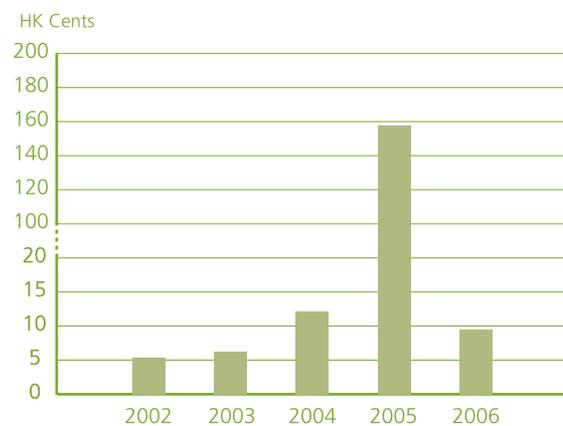
Net Profit Attributable to Shareholders and Dividend



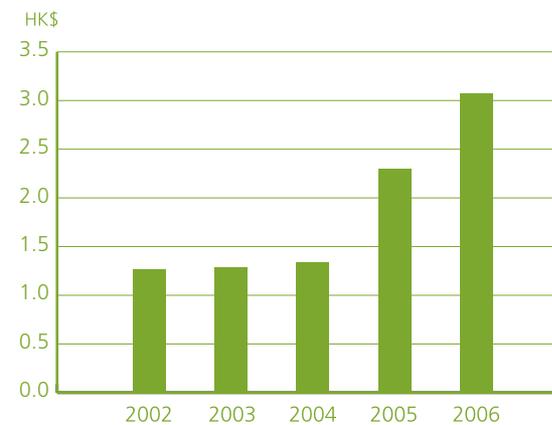
Dividend Per Share



Earnings Per Share



Net Assets Value Per Share



Corporate Information

CHAIRMAN

Dr. Che-woo Lui, GBS, MBE, JP, LLD, DSSc, DBA

MANAGING DIRECTOR

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM, (Acting)

EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung

Mr. Lennon Lun Tsan Kau (Deputy Managing Director)

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. The Hon. Leo Lee Tung Hai, GBM, 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, CPA, FCGA

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

Nanyang Commercial Bank, Limited

Wing Lung Bank Limited

Standard Chartered Bank (Hong Kong) Limited

Bank of Communications Co., Ltd.

SOLICITORS

Baker & Mckenzie

Richards Butler

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 HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

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
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
USA

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

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

BOND LISTING

Luxembourg Stock Exchange

Biographical Information of Directors

EXECUTIVE DIRECTORS

Dr. Che-woo Lui, GBS, MBE, JP, LLD, DSSc, DBA, aged 77, 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 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in 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 has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 51, joined K. Wah group in 1979. He has been an executive Director since June 1989. 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 Shanghai Committee of the Chinese People's Political Consultative Conference. Mr. Lui is a son of Dr. Che-woo Lui and the younger brother of Ms. Paddy Tang Lui Wai Yu.

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM, aged 63, joined the Group in 2003 as the Group Director, General Affairs and is presently the Managing Director (Acting) of the Company. He has been an executive 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. Lennon Lun Tsan Kau, aged 52, 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.

Ms. Paddy Tang Lui Wai Yu, JP, aged 53, joined K. Wah 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 McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Tang was a member of the Election Committee of the HKSAR. She is also a member of various public and social service organisations, including the Board of Ocean Park Corporation, the Hong Kong Arts Development Council, the Statistic Advisory Board and the Standing Committee on Company Law Reform. Ms. Tang was appointed the Justice of Peace by the Government of the HKSAR on 1 July 2005. Ms. Tang has been again elected as a member of the Election Committee of the HKSAR in December 2006. Ms. Tang is the daughter of Dr. Che-woo Lui 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 80, was Adviser to the boards of the Company and K. Wah Construction Materials Limited (now GEG) from 1989 to 1997. He has been a Director since July 1997 and became an independent non-executive Director since 1998. 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 Servants and held senior 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 68, joined the Group in 1998 as Deputy Chairman (Administration) and is presently an Adviser. He was an executive Director in September 1998 and has become a non-executive Director since March 2001. Mr. Leung has been a member of the audit committee of the Company since March 2005. Mr. Leung holds a BA (Hons) from the University of Hong Kong and a certificate in government and development from Oxford University, 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 of the Independent Commission Against Corruption. He also served as an Official Member of the Legislative Council.

Dr. Philip Wong Kin Hang, GBS, JP, LLD, DH, (Non-executive Director) aged 74, has been a Director since June 1989. He has become an independent non-executive Director since 2000 and re-designated as non-executive Director since March 2005. He was 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. The Hon. Leo Lee Tung Hai, GBM, GBS, LLD, JP, (Independent non-executive Director) aged 85, has been a Director since June 1989 and has become an independent non-executive Director since 1998. 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 Vice President of the China Overseas Friendship Association, Chairman of Friends of Hong Kong Association, Adviser of the Advisory Board of the Tung Wah Group of Hospitals and Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals. 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 Government of the HKSAR in 1999. Dr. Lee was awarded the highest honour of the Grand Bauhinia Medal in July 2006 by the Government of the HKSAR. Dr. Lee has over 40 years of experience in business management.

Dr. Robin Chan Yau Hing, GBS, LLD, JP, (Independent non-executive Director) aged 74, has been a Director since June 1989 and has become an independent non-executive Director since 1998. A banker with over 40 years of experience, he is the Chairman of Asia Financial Holdings Limited, which is the holding company of Asia Insurance Company Limited. Dr. Chan is also a director of Chong Hing Bank Limited (formerly known as 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 Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong.

Dr. Charles Cheung Wai Bun, JP, (Independent non-executive Director) aged 70, joined K. Wah 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. He 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. He is also a Council Member of The Hong Kong Institute of Directors.

Mr. Robert George Nield, (Independent non-executive Director) aged 54, has been an independent non-executive Director and a member of the audit committee of the Company since September 2004. Mr. Nield has been a member of the remuneration committee of the Company since 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 (partner since 1985) to 2002. In addition to his audit professional works, 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 operations of the Group and the executive Directors are therefore regarded as the senior management of the Company.

Report of the Directors

The Directors present their report together with the 2006 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 39 to the 2006 Financial Statements.

RESULTS AND APPROPRIATIONS

The 2006 Financial Statements starting page 30 of this annual report set out the results of the Group for the year ended 31 December 2006.

An interim dividend of 1 HK cent per Share was paid during the year. The Board recommends the payment of a final dividend (scrip with cash option) of 2.5 HK cents per Share. Together, the total dividends per Share for the year amounting to 3.5 HK cents (2005: 54 HK cents). Details of dividends are set out in note 15 to the 2006 Financial Statements.

SHARE CAPITAL

Note 29 to the 2006 Financial Statements contains details on the Company's share capital, and increase in issued share capital of the Company during the year due to the allotment of scrip dividends, exercise of share options and exercise of convertible bonds.

CONVERTIBLE BONDS

Details of the 0.5% Guaranteed Convertible Bonds due 2009 and their conversion during the year appear in note 32(c) to the 2006 Financial Statements.

DEALINGS IN LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares or 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 31 to the 2006 Financial Statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$4,442,000 (2005: HK\$6,010,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the 2006 Financial Statements.

SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31 December 2006 for investment and development are set out on pages 75 to 76 of this annual report.

DIRECTORS

The Directors who served during the year were Dr. Che-woo Lui, Mr. Francis Lui Yiu Tung, Mr. Eddie Hui Ki On, Mr. Lennon Lun Tsan Kau, Mr. William Lo Chi Chung (who resigned on 1 January 2007), Ms. Paddy Tang Lui Wai Yu, Sir David Akers-Jones, Mr. Michael Leung Man Kin, Dr. Philip Wong Kin Hang, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun and Mr. Robert George Nield.

Biographical details of the current Directors are set out on pages 20 to 21 of this annual report.

In accordance with Bye-law 109(A), Mr. Lennon Lun Tsan Kau, Ms. Paddy Tang Lui Wai Yu and Dr. Robin Chan Yau Hing will retire by rotation, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 31 December 2006 will be paid to the Directors:

	Chairman	Member
	HK\$	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 any of its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31 December 2006 or at any time during the year ended on that date.

DIRECTORS' INTERESTS IN SECURITIES

As of 31 December 2006, the interests and short positions of each Director in the Shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) 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) or as recorded in the register of the Company 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 to the Listing Rules, were as follows:

(A) Shares

Name of Directors	Number of Shares				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Che-woo Lui	6,511,855	7,191,314 ⁽¹⁾	38,443,830 ⁽²⁾	1,268,160,371 ⁽³⁾	1,320,307,370	54.33
Francis Lui Yiu Tung	5,837,364	—	—	1,268,160,371 ⁽³⁾	1,273,997,735	52.43
Eddie Hui Ki On	580,000	—	—	—	580,000	0.02
Lennon Lun Tsan Kau	2,230,931	—	—	—	2,230,931	0.09
William Lo Chi Chung	630,000	—	—	—	630,000	0.03
Paddy Tang Lui Wai Yu	8,340,371	—	—	1,268,160,371 ⁽³⁾	1,276,500,742	52.53
Sir David Akers-Jones	150,000	—	—	—	150,000	0.01
Michael Leung Man Kin	700,000	—	—	—	700,000	0.03
Philip Wong Kin Hang	601,226	—	—	—	601,226	0.02
Leo Lee Tung Hai	550,000	—	—	—	550,000	0.02
Robin Chan Yau Hing	932,651	—	—	—	932,651	0.04
Charles Cheung Wai Bun	907,239	—	—	—	907,239	0.04
Robert George Nield	500,000	—	—	—	500,000	0.02

Unless otherwise stated, all personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

Notes:

- (1) Dr. Che-woo Lui was deemed to be interested in 7,191,314 Shares through the interests of his spouse.
- (2) 35,376,195 Shares and 3,067,635 Shares were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were directly or indirectly controlled by Dr. Che-woo Lui.
- (3) 1,268,160,371 Shares representing more than one-third of the Company's issued share capital were held by the discretionary trusts established by Dr. Che-woo Lui as founder. Dr. Che-woo Lui, 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.

Report of the Directors

(B) Underlying Shares – Share Options

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

All the interests stated above represent long positions.

Dr. Che-woo Lui, 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 of 31 December 2006, 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 31 December 2006, 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 Shares (Long Position)	Approximate Issued% of Share Capital
HSBC International Trustee Limited	1,268,160,371 ⁽¹⁾	52.19
Penta Investment Advisers Ltd.	312,314,104 ⁽²⁾	12.85
Zwaanstra John	312,314,104 ⁽²⁾	12.85
Marapro Co., Ltd.	191,857,634 ⁽³⁾	7.90
Symmetry Co., Ltd.	191,857,634 ⁽³⁾	7.90
Polymate Co., Ltd.	191,857,634 ⁽⁴⁾	7.90

Notes:

- (1) HSBC International Trustee Limited is the trustee of discretionary trusts which (as of the end of the year) held 1,268,160,371 Shares.
- (2) Penta Investment Advisers Ltd., a company controlled by Zwaanstra John, was (as of the end of the year) interested in 312,314,104 Shares in the capacity of investment manager.
- (3) Marapro Co., Ltd. is a beneficiary and Symmetry Co., Ltd. is a trustee of a trust which (as of the end of the year) was interested in 191,857,634 Shares.
- (4) Polymate Co., Ltd. is the ultimate holding company of those companies which (as of the end of the year) were interested in 191,857,634 Shares.

There was duplication of interests of:

- (i) 1,268,160,371 Shares among Dr. Che-woo Lui, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. These Shares were also interested by HSBC International Trustee Limited and of these Shares, 191,857,634 Shares were also interested by Marapro Co., Ltd., Symmetry Co., Ltd. and Polymate Co., Ltd.; and
- (ii) 312,314,104 Shares between Penta Investment Advisers Ltd. and Zwaanstra John.

Save as disclosed above, as of 31 December 2006, 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 30 May 2002 is summarized 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 of 30 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 of the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 143,986,607 Shares, which represented approximately 5.93% 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.

Report of the Directors

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 and 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 30 May 2002 and will expire on 29 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 31 December 2006, were as follows:

Holders	Date of grant	Number of Options			Held at 31 December 2006	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2006	Exercised during the year	Lapsed during the year			
Che-woo Lui	21 Oct 2005	1,350,000	—	—	1,350,000	1.9060	22 Oct 2006 – 21 Oct 2011
Francis Lui Yiu Tung	21 Oct 2005	1,340,000	—	—	1,340,000	1.9060	22 Oct 2006 – 21 Oct 2011
Eddie Hui Ki On	21 Oct 2005	580,000	—	—	580,000	1.9060	22 Oct 2006 – 21 Oct 2011
Lennon Lun Tsan Kau	21 Oct 2005	670,000	—	—	670,000	1.9060	22 Oct 2006 – 21 Oct 2011
William Lo Chi Chung	21 Oct 2005	530,000	—	—	530,000	1.9060	22 Oct 2006 – 21 Oct 2011
Paddy Tang Lui Wai Yu	21 Oct 2005	930,000	—	—	930,000	1.9060	22 Oct 2006 – 21 Oct 2011
Sir David Akers-Jones	28 Feb 2003	150,000	—	—	150,000	0.7200	1 Mar 2004 – 28 Feb 2013
Michael Leung Man Kin	21 Oct 2005	400,000	—	—	400,000	1.9060	22 Oct 2006 – 21 Oct 2011
Philip Wong Kin Hang	21 Oct 2005	300,000	—	—	300,000	1.9060	22 Oct 2006 – 21 Oct 2011
Leo Lee Tung Hai	21 Oct 2005	500,000	500,000 ^(a)	—	—	1.9060	22 Oct 2006 – 21 Oct 2011
Robin Chan Yau Hing	21 Oct 2005	500,000	—	—	500,000	1.9060	22 Oct 2006 – 21 Oct 2011
Charles Cheung Wai Bun	21 Oct 2005	600,000	—	—	600,000	1.9060	22 Oct 2006 – 21 Oct 2011
Robert George Nield	21 Oct 2005	500,000	—	—	500,000	1.9060	22 Oct 2006 – 21 Oct 2011
Employees (in aggregate)	20 May 1998	33,000	—	—	33,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	#150,000	—	—	150,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	615,000	343,000 ^(b)	—	272,000	0.7200	1 Mar 2004 – 28 Feb 2013
	29 Dec 2003	2,000,000	2,000,000 ^(c)	—	—	1.3000	30 Dec 2003 – 29 Dec 2013
	21 Oct 2005	@12,029,000	1,410,000 ^(d)	310,000	10,309,000	1.9060	22 Oct 2006 – 21 Oct 2011
Others	30 Dec 1999	#150,000	150,000 ^(e)	—	—	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	150,000	150,000 ^(f)	—	—	0.7200	1 Mar 2004 – 28 Feb 2013

- # on reclassification of a total number of 150,000 share options under "Employees" to "Others" after the option holder ceased to be an employee of a subsidiary of the Company.
- @ on reclassification of a total number of 340,000 share options under "Others" to "Employees" after the option holder became an employee of an affiliate of the Company.

Note:

- (a) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$2.380.
- (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.530.
- (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.508.
- (d) The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.463.
- (e) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$2.370.
- (f) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$1.720.

Except for the options granted on 29 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.

No options were granted or cancelled during the year ended 31 December 2006.

Except for 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.

CONTINUING CONNECTED TRANSACTIONS

The Company and GEG are connected persons with respect to each other. In 2006, the Company had the following continuing connected transactions with GEG which were carried out in compliance with the disclosure requirements of Chapter 14A of the Listing Rules:

- (1) Shanghai Jiajian Concrete Co. Ltd., Shanghai Xin Cai Concrete Co. Ltd., and Shanghai Jia Shen Concrete Co. Ltd. (all indirect subsidiaries of GEG) continued to lease office units 1802, 1803, and 1804 on the 18th Floor of Shanghai K. Wah Centre from Shanghai Jia Hui Da Real Estate Development Co. Ltd. (an indirect 35.75% owned subsidiary of the Company) pursuant to 3 (3-year) tenancy agreements entered into on 2 June 2005, details of which appear in the joint announcement of the Company and GEG dated 23 August 2005. These continuing connected transactions were carried out during the year within the annual cap for 2006. The independent non-executive Directors have reviewed this continuing connected transactions and have 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 tenancy 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.
- (2) The revolving facilities of up to HK\$330 million granted on 22 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) were subsisting at the year-end. Details of the facilities appear in the circular of the Company dated 5 August 2002. Such facilities expire by 12 September 2007. The Company has repaid all amounts owing on 30 June 2006 and has not utilized such facilities since then. No annual cap was involved. The Company's independent non-executive Directors have also reviewed this continuing connected transaction and confirmed that it was conducted and entered into on terms no less favorable to the Company than terms otherwise available from independent third parties, and in accordance with the loan agreement dated 22 July 2002, on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (3) The guarantee by the Company dated 5 March 1997 in favour of the Government of HKSAR in respect of Contract No.GE/96/10 for 17 years quarrying rights and rehabilitation of the quarry at Tai Sheung Tok, Anderson Road, Kowloon to KWP Quarry Co. Limited (a subsidiary of GEG) was subsisting at the year-end. Details of this continuing connected transaction appear in the announcement of the Company dated 10 November 2006. The Company has also referred to this guarantee in its annual reports since 1997. No annual cap was involved.

Report of the Directors

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. Che-woo Lui, 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 2006 Financial Statements and adjusted as appropriate, is shown on pages 16 to 17 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006:

(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	11.76%
Five largest suppliers	34.84%

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, has 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 2006 Financial Statements have been audited by PwC, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board

Che-woo Lui
Chairman

Hong Kong, 29 March 2007

TO THE SHAREHOLDERS OF

K. WAH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements of K. Wah International Holdings Limited (the "Company") set out on pages 30 to 74, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated profit and loss statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBILITY OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE AUDITORS

Our responsibility is to express an opinion on these financial statements based on our audit 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.

Report of the Independent Auditors

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the auditors, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2007

Consolidated Profit and Loss Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	7	275,956	289,307
Cost of sales		(159,761)	(158,146)
Gross profit		116,195	131,161
Other revenue	7	15,429	5,298
Other operating income		119,292	54,246
Administrative expenses		(131,047)	(91,902)
Other operating expenses		(6,448)	(65,241)
Change in fair value of investment properties		957,958	348,679
Operating profit	8	1,071,379	382,241
Finance costs	9	(71,891)	(36,689)
Share of profits of jointly controlled entities		9,275	47,697
Profit before taxation		1,008,763	393,249
Taxation charge	13	(307,019)	(142,869)
Profit from continuing operations		701,744	250,380
Profit from discontinued operations	6	—	3,553,418
Profit for the year		701,744	3,803,798
Attributable to:			
Shareholders		229,703	3,644,048
Minority interests		472,041	159,750
		701,744	3,803,798

	Note	2006 HK\$'000	2005 HK\$'000
Dividends			
Interim paid		24,187	23,771
Proposed final		60,843	24,030
		85,030	47,801
Special interim in specie		—	1,229,143
	15	85,030	1,276,944
		HK cents	HK cents
Earnings per share from continuing operations	16		
Basic		9.54	4.10
Diluted		9.47	4.06
Earnings per share from discontinued operations	16		
Basic		N/A	153.58
Diluted		N/A	152.32
Earnings per share from operations	16		
Basic		9.54	157.68
Diluted		9.47	156.38

Consolidated Balance Sheet

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	54,297	53,974
Investment properties	18	3,367,669	2,016,387
Leasehold land and land use rights	19	69,780	70,502
Jointly controlled entities	20	575,502	577,261
Non-current investments	22	4,477,084	2,690,556
Other non-current assets	23	9,592	8,277
		8,553,924	5,416,957
Current assets			
Development properties	24	5,309,940	4,134,038
Debtors and prepayments	25	283,504	134,545
Tax recoverable		46,590	3,368
Other investments	26	—	39,126
Cash and bank balances	27	741,060	255,206
		6,381,094	4,566,283
Total assets		14,935,018	9,983,240

Che-woo Lui

Chairman and Executive Director

Paddy Tang Lui Wai Yu

Executive Director

	Note	2006 HK\$'000	2005 HK\$'000
EQUITY			
Share capital	29	242,995	237,792
Reserves	31	7,221,368	5,078,878
Shareholders' funds		7,464,363	5,316,670
Minority interests		856,817	355,968
Total equity		8,321,180	5,672,638
LIABILITIES			
Non-current liabilities			
Borrowings	32	1,914,731	1,567,857
Deferred taxation liabilities	33	524,085	210,264
		2,438,816	1,778,121
Current liabilities			
Creditors and accruals	28	2,967,505	719,237
Current portion of borrowings	32	1,196,256	1,807,880
Tax payable		11,261	5,364
		4,175,022	2,532,481
Total liabilities		6,613,838	4,310,602
Total equity and liabilities		14,935,018	9,983,240

Company Balance Sheet

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	21	259,561	259,561
Jointly controlled entities	20	438,568	438,568
		698,129	698,129
Current assets			
Loans to subsidiaries	21	—	600,000
Amounts due from subsidiaries	21	2,721,104	2,448,632
Debtors and prepayments	25	420	420
Tax recoverable		1,435	1,435
Cash and bank balances	27	979	584
		2,723,938	3,051,071
Total assets		3,422,067	3,749,200

	Note	2006 HK\$'000	2005 HK\$'000
EQUITY			
Share capital	29	242,995	237,792
Reserves	31	2,908,430	2,810,320
Shareholders' funds		3,151,425	3,048,112
LIABILITIES			
Non-current liabilities			
Borrowings	32	150,000	200,000
Deferred taxation liabilities	33	1,885	4,901
		151,885	204,901
Current liabilities			
Creditors and accruals	28	2,757	3,187
Current portion of borrowings	32	116,000	493,000
		118,757	496,187
Total liabilities		270,642	701,088
Total equity and liabilities		3,422,067	3,749,200

Che-woo Lui

Chairman and Executive Director

Paddy Tang Lui Wai Yu

Executive Director

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	34 (a)	1,237,616	(526,452)
Net tax paid		(47,230)	(37,035)
Interest paid		(181,844)	(96,843)
Net cash from/(used in) operating activities		1,008,542	(660,330)
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,336)	(5,730)
Purchase of investment properties		(296,852)	—
Acquisition of a jointly controlled entity	36 (a)	—	(438,568)
Proceeds from sale of property, plant and equipment		183	—
Purchase of other investments		(836)	—
Proceeds from disposal of other investments		44,841	—
Interest received		14,713	3,706
Dividends received from listed investments		716	1,592
Dividends received from jointly controlled entities		30,041	—
Net cash used in investing activities		(211,530)	(439,000)

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from financing activities			
Issue of new shares	34 (b)	6,650	17,443
Contribution from minority interests		969	—
New long-term bank loans		1,117,382	652,889
Repayment of long-term borrowings		(693,858)	(458,814)
(Decrease)/increase in short-term bank loans repayable after three months from date of advance		(654,351)	668,387
Dividends paid to shareholders		(16,830)	(113,630)
Net cash (used in)/from financing activities		(240,038)	766,275
Net increase/(decrease) in cash and bank balances			
Cash and bank balances at beginning of year		556,974	(333,055)
Changes in exchange rates		255,206	610,354
		(71,120)	(22,093)
Cash and bank balances at end of year		741,060	255,206

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31 December 2005	237,792	5,078,878	5,316,670	355,968	5,672,638
Exchange differences	—	85,306	85,306	27,839	113,145
Conversion of convertible bonds, net of tax	3,404	50,548	53,952	—	53,952
Exercise of share options	456	6,194	6,650	—	6,650
Shares issued as scrip dividends	1,343	(1,343)	—	—	—
Reserve arising on scrip dividends	—	31,387	31,387	—	31,387
Fair value of share options	—	2,384	2,384	—	2,384
Change in fair value of non-current investments	—	1,786,528	1,786,528	—	1,786,528
Capital contributions from minority interests	—	—	—	969	969
Profit for the year	—	229,703	229,703	472,041	701,744
2005 final dividend	—	(24,030)	(24,030)	—	(24,030)
2006 interim dividend	—	(24,187)	(24,187)	—	(24,187)
At 31 December 2006	242,995	7,221,368	7,464,363	856,817	8,321,180
At 31 December 2004	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
Exercise of share options	2,438	15,005	17,443	—	17,443
Fair value of share options	—	2,383	2,383	—	2,383
Change in fair value of non-current investments	—	(489,184)	(489,184)	(777)	(489,961)
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
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 31 December 2005	237,792	5,078,878	5,316,670	355,968	5,672,638

1 GENERAL INFORMATION

The principal activities of K. Wah International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are property development and investment in Hong Kong, Singapore 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. 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 29 Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

The financial statements were approved by the Board of Directors on 29 March 2007.

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 (“HKICPA”) under the historical cost convention as modified by the revaluation of investment properties, non-current 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 Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5 below.

In 2006, the Group has applied the new standards, amendments and interpretations issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2006. However, the adoption of these new standards does not have any significant effect on the accounting policies or results and financial position of the Group.

The following standards and interpretations to existing standards have not been early adopted by the Group:

Effective for year ending 31 December 2007

- HKFRS 7 Financial Instruments: Disclosures
- HK(IFRIC) – Int 8 Scope of HKFRS 2
- HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives
- HK(IFRIC) – Int 10 Interim Financial Reporting and Impairment

Effective for year ending 31 December 2009

- HKFRS 8 Operating Segments

The Group is assessing the impact of these new standards and interpretations but is not yet to be 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, which have been consistently applied to all the years presented, are set out below.

3.1 Consolidation

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

Results attributable to subsidiaries and jointly controlled entities 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 and jointly controlled entities 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.

3.2 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 equity 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 and 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 unless the transaction provides evidence 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Minority interests (Continued)

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated 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.

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 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 and jointly controlled entity 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 is included in investments in jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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 is recognised directly in the consolidated profit and loss statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 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 assets. 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 asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance costs are expensed in the profit and loss statement during the financial period 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 to write off their costs to their estimated residual values using the straight-line method over their estimated useful lives as follows:

Plant and machinery	9%
Other assets	10 to 25%

The residual values and useful lives of the 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.

3.7 Investment properties

Property that is held for long-term rental yields 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 by external valuers. Changes in fair values are recognised in the profit and loss statement. The fair value of investment property reflects, among other things, rental from current leases and assumptions about rental from future leases in the light of current market conditions.

Subsequent expenditure is charged to the carrying amount of the property 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 period in which they are incurred.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Investment properties (Continued)

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.

3.8 Impairment of assets

Assets that have an indefinite useful life or have not yet available for use 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, which 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 (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

3.9 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (other investments), loans and receivables, and available-for-sale investments. 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 balance sheet date.

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

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

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date and are classified as non-current assets. Loans and receivable are carried at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Investments (Continued)

(c) *Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in the balance sheet under non-current investments unless management intends to dispose of the investment within twelve months of the balance sheet date. Available-for-sale investments 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 financial period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary investments classified as available-for-sale are recognised in equity. When investments 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 the investments.

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 investments), 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 investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment 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 investments are not reversed through the profit and loss statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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 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.

3.11 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 receivable. 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 debtor 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 original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the profit and loss statement.

3.12 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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 ordinary shares, the consideration, including any directly attributable incremental costs, net of tax, is deducted from equity attributable to the shareholders and the shares are cancelled.

3.14 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 including fees and commissions to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. 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.

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.

3.15 Convertible bonds with equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition, the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible note. The remainder of the proceeds is allocated to the conversion option as equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. The equity component is recognised in equity, net of any tax effects.

When the note is converted, the relevant equity component and the carrying amount of the liability component at the time of conversion, are transferred to share capital and share premium for the shares issued. When the note is redeemed, the relevant equity component is transferred to revenue reserve.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 as part of the costs of the property when the leasehold land is under development.

3.18 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, before any tax effects, that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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 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 tax 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 and jointly controlled entities, 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

Contributions to publicly or privately administered defined contribution retirement or pension plans on a mandatory, contractual or voluntary basis are recognised as employee benefit expense in the financial period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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.

(b) *Share-based compensation*

The fair value of the employee services received in exchange for the grant of the options under the equity-settled, share-based compensation plan 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 estimates of the number of options that are expected to become exercisable are revised. The impact of the revision of original estimates, if any, is recognised in the profit and loss statement with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

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 financial period in which they are incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Revenue recognition

Revenue comprises the fair value of the consideration for the sale of properties, goods and services in the ordinary course of the activities of the Group. Revenue is shown, net of value-added tax, business tax, returns, rebates, discounts, allowances for credit and other revenue reducing factors.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities have been met. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the activities have been resolved. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(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) *Sales of goods*

Sales of goods are recognised when the goods are delivered and legal title is transferred to the purchasers.

(d) *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.

(e) *Dividend income*

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

3.23 Foreign currencies

(a) *Functional and presentation currency*

Transactions 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 financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Foreign currencies (Continued)

(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 financial assets held at fair value through profit or loss are recognised in the profit and loss statement as part of the fair value gain or loss. Translation differences on non-monetary available-for-sale investments are included in the exchange reserve in equity.

(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 interest rate risk arises from long-term borrowings. Borrowings with variable rates expose the Group to cash flow interest rate risk. Borrowings with fixed rates expose the Group to fair value in interest rate risk.

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 since most of the assets and liabilities of the Group are denominated in either Hong Kong dollar or Renminbi ("RMB"). Translation exposure arising on consolidation of the net assets of entities denominated in foreign currencies is accounted for in the exchange reserve.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(e) *Price risk*

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

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 the 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 ADJUSTMENTS

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) *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, expected rental from future leases in the light of current market conditions and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(b) *Impairment of assets*

The Group tests at each balance sheet date 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.

5 CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS (Continued)

(c) *Taxation*

The Group is subject to taxation in a number of jurisdictions. Significant judgement is required in determining the provision for taxation in each jurisdiction. 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 current and deferred taxation provisions in the financial period in which such determination is made.

(d) *Convertible bonds*

The fair value of convertible bonds is estimated by independent professional valuers/Directors 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.

(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 in Hong Kong, Mainland China and Singapore. In Japan, the Group carries on trading of plant and machinery. The Group ceased to carry on manufacture, sale and distribution of construction materials following the deemed disposal of Galaxy Entertainment Group Limited ("GEG"), which ceased to be a subsidiary in 2005. There are no other significant identifiable separate businesses. In accordance with the internal financial reporting and operating activities of the Group, 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, properties, debtors and prepayments and mainly exclude other investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals. There are no sales or trading transactions between the business segments.

6 SEGMENT INFORMATION (Continued)

(A) Business segments

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Year ended 31 December 2006				
Turnover	203,075	72,881	—	275,956
Other revenues	—	—	15,429	15,429
Operating profit	998,981	893	71,505	1,071,379
Finance costs				(71,891)
Share of profits of jointly controlled entities				9,275
Profit before taxation				1,008,763
Taxation charge				(307,019)
Profit for the year				701,744
Capital expenditure	(4,269)	(67)	—	(4,336)
Depreciation	(3,061)	(104)	—	(3,165)
Amortisation	(5,877)	—	—	(5,877)
Change in fair value of investment properties	957,958	—	—	957,958
Gain on disposal of other investments	—	—	4,879	4,879
As at 31 December 2006				
Segment assets	9,077,991	15,838	5,265,687	14,359,516
Jointly controlled entities	575,502	—	—	575,502
Total assets				14,935,018
Total liabilities	2,953,352	11,377	3,649,109	6,613,838

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total continuing operations HK\$'000	Discontinued operations HK\$'000
Year ended 31 December 2005					
Turnover	226,330	62,977	—	289,307	546,158
Other revenues	—	—	5,298	5,298	20,142
Operating profit	360,589	544	21,108	382,241	9,298
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 charge				(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	(2,242)	(83)	—	(2,325)	(36,440)
Amortisation	(5,812)	—	—	(5,812)	(19,307)
Change in fair value of investment properties	348,679	—	—	348,679	—
Change in fair value of other investments	—	—	(1,204)	(1,204)	81
As at 31 December 2005					
Segment assets	6,387,786	29,428	2,988,765	9,405,979	
Jointly controlled entities	577,261	—	—	577,261	
Total assets				9,983,240	
Total liabilities	697,297	18,712	3,594,593	4,310,602	

6 SEGMENT INFORMATION (Continued)

(B) Geographical segments

	Continuing operations			
	Turnover	Operating profit/(loss)	Capital expenditure	Total assets
Year ended 31 December 2006				
Hong Kong	10,780	(34,097)	1,049	7,798,305
Mainland China	177,785	1,091,324	3,192	6,933,816
Singapore	14,510	13,234	28	181,831
Japan	72,881	918	67	21,066
	275,956	1,071,379	4,336	14,935,018

	Continuing operations			Discontinued operations			
	Turnover	Operating profit/(loss)	Capital expenditure	Turnover	Operating profit	Capital expenditure	Total assets
Year ended 31 December 2005							
Hong Kong	129,115	(7,162)	2,060	242,417	5,900	17,886	4,907,515
Mainland China	88,275	386,834	3,525	303,741	3,398	6,579	4,878,348
Singapore	8,940	2,017	22	—	—	—	165,292
Japan	62,977	552	123	—	—	—	32,085
	289,307	382,241	5,730	546,158	9,298	24,465	9,983,240

7 TURNOVER AND OTHER REVENUES

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sale of properties	6,263	126,285
Rental income	196,812	100,045
Sale of goods	72,881	62,977
	275,956	289,307
Other revenue		
Interest income from banks	13,547	2,410
Interest income from mortgage loans	1,166	1,296
Dividend income from listed investments	716	1,592
	15,429	5,298
Total revenues	291,385	294,605

Notes to the Financial Statements (Continued)

8 OPERATING PROFIT

	2006 HK\$'000	2005 HK\$'000
Operating profit is stated after crediting:		
Dividend income from listed investments	716	1,592
Gain on disposal of other investments	4,879	—
Excess of fair value of net assets acquired over cost of acquisition of a jointly controlled entity	—	19,991
Net foreign exchange gain	56,788	31,914
and after charging:		
Cost of inventories sold	64,345	55,360
Depreciation (net of amount capitalised under properties under development of HK\$1,410,000 (2005: HK\$671,000))	3,165	2,325
Amortisation for leasehold land and land use rights (net of amount capitalised under properties under development of HK\$29,440,000 (2005: HK\$29,842,000))	5,877	5,812
Staff costs including Directors' remuneration (a)	99,789	94,984
Auditors' remuneration		
Audit services		
Provision for the year	1,423	920
Underprovision for prior years	519	69
Non-audit services	517	1,193
Change in fair value of other investments	—	1,204
Loss on disposal of property, plant and equipment	89	117
Operating lease rental for land and buildings	5,648	852
Outgoing in respect of investment properties		
Direct operating expense of investment properties that generate rental income	2,992	2,645
Direct operating expense of investment properties that did not generate rental income	332	430

(a) Staff costs include the fair value of share options of HK\$2,384,000 (2005: HK\$2,383,000).

9 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest expense		
Bank loans, overdrafts and others	181,485	95,493
Finance cost of convertible bonds	2,414	10,759
Capitalised as cost of properties under development	(112,008)	(69,563)
	71,891	36,689

The capitalisation rates applied to funds borrowed generally and used for the development of properties are between 4% and 5% per annum (2005: 2% to 4% per annum).

10 DIRECTORS' REMUNERATION

Name	Directors'	Salaries, allowances and benefits	Discretionary	Pension	Share	2006	2005
	fee	in kind	bonuses	scheme contributions	options	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Che-woo Lui	100	4,500	308	458	155	5,521	5,237
Francis Lui Yiu Tung	80	1,000	164	100	154	1,498	3,965
Eddie Hui Ki On	82	2,600	150	12	67	2,911	2,083
Lennon Lun Tsan Kau	80	2,220	78	132	77	2,587	2,436
William Lo Chi Chung	80	1,647	130	66	61	1,984	2,184
Paddy Tang Lui Wai Yu	80	1,569	96	133	107	1,985	1,956
Sir David Akers-Jones	80	—	—	—	—	80	80
Michael Leung Man Kin	147	275	—	—	46	468	726
Alex Wu Shu Chih(*)	2	—	—	—	—	2	80
Philip Wong Kin Hang	93	—	—	—	35	128	195
Leo Lee Tung Hai	80	—	—	—	58	138	138
Robin Chan Yau Hing	80	—	—	—	58	138	138
Charles Cheung Wai Bun	181	—	—	—	69	250	389
Robert George Nield	161	—	—	—	58	219	108
	1,326	13,811	926	901	945	17,909	19,715

(*) Deceased

11 FIVE HIGHEST PAY INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) Directors whose emoluments are reflected in note 10. The emoluments of the remaining one (2005: one) individual is as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other emoluments	1,731	2,170
Retirement benefits	153	193
Discretionary bonuses	161	153
Share options	80	80
	2,125	2,596

12 RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes in Hong Kong which comply with the respective requirements of 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 contributions to the ORSO Scheme may be reduced by contributions forfeited in respect of those employees who leave the scheme prior to the full vesting of the contributions of the Group on those employees.

12 RETIREMENT BENEFIT SCHEMES (Continued)

Employees in 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 those plans at rates ranging from 20% to 22% of the basic salaries of the employees, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits to 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\$4,825,000 (2005: HK\$11,420,000), less forfeitures of HK\$317,000 (2005: HK\$144,000), leaving HK\$201,000 (2005: nil) available at the balance sheet date to reduce future contributions.

13 TAXATION CHARGE

	2006	2005
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	2,933	2,867
Overseas taxation	1,473	227
Deferred taxation (note 33)	302,613	139,775
	307,019	142,869

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 charge of jointly controlled entities for the year ended 31 December 2006 amounting to HK\$2,802,000 (2005: HK\$17,185,000) was included in the profit and loss statement as share of profits of jointly controlled entities.

The taxation charge on the 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:

	2006	2005
	HK\$'000	HK\$'000
Profit before taxation	1,008,763	393,249
Share of profits of jointly controlled entities	(9,275)	(47,697)
	999,488	345,552
Tax calculated at applicable tax rate	336,301	120,184
Income not subject to taxation	(7,315)	(9,257)
Expenses not deductible for taxation purposes	2,215	18,228
Utilisation of previously unrecognised tax losses	(33,173)	(3,909)
Tax loss not recognised	8,956	17,291
Over provision in previous years	35	332
Taxation charge	307,019	142,869

14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$57,157,000 (2005:HK\$1,187,969,000).

15 DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim scrip dividend with a cash option of 1 HK cent (2005: cash dividend of 1 HK cent) per share	24,187	23,771
Proposed final scrip dividend with a cash option of 2.5 HK cents (2005: 1 HK cent) per share (a)	60,843	24,030
	85,030	47,801
Special interim dividend in specie (b)	—	1,229,143
	85,030	1,276,944
The dividends have been partially settled by cash as follows:		
Interim	8,074	23,771
Final	—	8,756
	8,074	32,527

- (a) The Board of Directors recommended a final scrip dividend with a cash option for 2006 in the amount of 2.5 HK cents (2005: 1 HK cent) per share. This dividend will be accounted for as an appropriation of revenue reserve in the year ending 31 December 2007.
- (b) On 14 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 4 November 2005.

16 EARNINGS PER SHARE

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

	Continuing operations		Discontinued operations	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit attributable to shareholders	229,703	94,638	—	3,549,410
Effect of dilutive potential ordinary shares				
Interest on convertible bonds, net of tax (a)	1,992	—	—	—
Profit for calculation of diluted earnings per share	231,695	94,638	—	3,549,410

	Number of shares	
	2006	2005
Weighted average number of shares for calculating basic earnings per share	2,407,931,000	2,311,056,000
Effect of dilutive potential ordinary shares		
Convertible bonds	30,629,000	—
Share options	7,613,000	19,123,000
Weighted average number of shares for calculating diluted earnings per share	2,446,173,000	2,330,179,000

- (a) The calculation of the diluted earnings per share for 2005 did not take into account the convertible bonds which were anti-dilutive for that year.

Notes to the Financial Statements (Continued)

17 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Plant and machinery	Other assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31 December 2004	83,192	700,383	312,444	1,096,019
Exchange differences	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 31 December 2005	55,124	2,500	24,491	82,115
Exchange differences	671	100	354	1,125
Additions	—	—	4,336	4,336
Disposals	—	—	(3,539)	(3,539)
At 31 December 2006	55,795	2,600	25,642	84,037
Accumulated depreciation				
At 31 December 2004	14,165	396,713	179,086	589,964
Exchange differences	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 31 December 2005	10,446	—	17,695	28,141
Exchange differences	67	4	220	291
Charge for the year	1,162	230	3,183	4,575
Disposals	—	—	(3,267)	(3,267)
At 31 December 2006	11,675	234	17,831	29,740
Net book value				
At 31 December 2006	44,120	2,366	7,811	54,297
At 31 December 2005	44,678	2,500	6,796	53,974

Buildings with carrying values of HK\$42,278,000 (2005: HK\$42,881,000) were pledged to secure the banking facilities of the Group. Other assets comprise cruiser, furniture and equipment, leasehold improvements and motor vehicles.

18 INVESTMENT PROPERTIES

Group	2006	2005
	HK\$'000	HK\$'000
At beginning of year	2,016,387	326,798
Exchange differences	96,472	(1,849)
Additions	296,852	—
Transfer from development properties	—	1,408,259
Deemed disposal of a subsidiary	—	(65,500)
Change in fair value	957,958	348,679
At end of year	3,367,669	2,016,387

18 INVESTMENT PROPERTIES (Continued)

- (a) Investment properties held under medium-term leases in Mainland China amounting to HK\$2,822,590,000 were valued at 31 December 2006 on an open market value basis by Savills Valuation and Professional Services Limited, independent professional valuers. Investment properties held under long-term leases in Hong Kong amounting to HK\$448,000,000 were valued at 31 December 2006 on an open market value basis by CB Richard Ellis Limited and Savills Valuation and Professional Services Limited, independent professional valuers. Investment properties held under long-term leases in Singapore amounting to HK\$97,079,000 were valued at 31 December 2006 on an open market value basis by Chesterton International Property Consultants Pte Ltd., independent professional valuers.
- (b) Investment properties with carrying values of HK\$3,229,669,000 (2005: HK\$2,016,387,000) were pledged to secure the banking facilities of the Group.
- (c) The Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

19 LEASEHOLD LAND AND LAND USE RIGHTS

Group	2006	2005
	HK\$'000	HK\$'000
At beginning of year	70,502	257,347
Exchange differences	34	—
Transfer from development properties	—	879
Deemed disposal of a subsidiary	—	(183,971)
Amortisation	(756)	(3,753)
At end of year	69,780	70,502
Long-term lease in Hong Kong	67,143	67,826
Medium-term lease in Mainland China	2,637	2,676
	69,780	70,502

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\$68,035,000 (2005: HK\$68,705,000) were pledged to secure the banking facilities of the Group.

20 JOINTLY CONTROLLED ENTITIES**Group**

	2006	2005
	HK\$'000	HK\$'000
At beginning of year	577,261	489,739
Acquisition	—	458,559
Share of results		
Profit before taxation	12,077	73,101
Taxation	(2,802)	(17,459)
Share of exchange reserve	19,007	9,511
Deemed disposal of a subsidiary	—	(256,190)
Dividends	(30,041)	(180,000)
At end of year	575,502	577,261

The share of the aggregate amounts of the assets, liabilities and results of the jointly controlled entities attributable to the Group is as follows:

	2006	2005
	HK\$'000	HK\$'000
Assets		
Non-current assets	237,966	232,955
Current assets	1,256,942	1,133,896
Liabilities		
Non-current liabilities	—	(117,610)
Current liabilities	(919,406)	(671,980)
Net assets	575,502	577,261
Income	18,721	252,787
Expenses	(6,644)	(179,686)
Profit before taxation	12,077	73,101
Representing:		
Continuing operations	12,077	64,882
Discontinued operations	—	8,219
	12,077	73,101

20 JOINTLY CONTROLLED ENTITIES (Continued)**Group (Continued)**

Details of jointly controlled entities of the Group are given in note 39(b). The jointly controlled entities do not have any material contingent liabilities as at 31 December 2006.

Company

	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	438,568	438,568

21 SUBSIDIARIES

	2006	2005
	HK\$'000	HK\$'000
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 39(a).

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

22 NON-CURRENT INVESTMENTS**Group**

	2006	2005
	HK\$'000	HK\$'000
Listed equity securities, at fair value	4,477,084	2,690,556

The listed securities represent the Group's 18.7% (2005: 18.7%) equity interest in GEG, which is incorporated and listed in Hong Kong. The principal activities of GEG are gaming, sale, manufacture and distribution of construction materials.

23 OTHER NON-CURRENT ASSETS**Group**

	2006	2005
	HK\$'000	HK\$'000
Mortgage loans	9,592	8,277

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 debtors. The Group has recognised an impairment loss of HK\$615,000 (2005: HK\$3,039,000) for its second mortgage loans during the year and included in other operating expenses in the profit and loss statement.

24 DEVELOPMENT PROPERTIES**Group**

	Under		2006	2005
	Completed	development		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold land and land use rights	54,074	1,806,923	1,860,997	1,853,980
Development costs	91,939	3,357,004	3,448,943	2,280,058
	146,013	5,163,927	5,309,940	4,134,038

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

	Mainland			2006	2005
	Hong Kong	China	Singapore		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long-term lease	12,464	970,054	36,222	1,018,740	995,165
Medium-term lease	842,257	—	—	842,257	858,815
	854,721	970,054	36,222	1,860,997	1,853,980

25 DEBTORS AND PREPAYMENTS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors, net of provision	12,713	23,756	—	—
Other debtors, net of provision	70,447	77,646	—	—
Prepayments and deposits	200,344	33,143	420	420
	283,504	134,545	420	420

Trade debtors mainly comprise receivables for sales of goods and rental. Rental from tenants is due and payable in advance. Sales terms of goods vary and are determined with reference to the prevailing marketing conditions.

The debtors and prepayments are denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	178,056	64,167	420	420
RMB	89,196	40,919	—	—
Japanese Yen	15,505	29,058	—	—
Singapore dollar	747	401	—	—
	283,504	134,545	420	420

25 DEBTORS AND PREPAYMENTS (Continued)

The carrying amounts of the debtors and prepayments approximate to their fair value based on prevailing market interest rate. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers.

In 2005, the Group has recognised an impairment loss of HK\$20,553,000 for its trade and other debtors and included in other operating expenses in the profit and loss statement.

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

	2006	2005
	HK\$'000	HK\$'000
Within one month	5,923	14,566
Two to three months	2,492	3,137
Four to six months	2	987
Over six months	4,296	5,066
	12,713	23,756

26 OTHER INVESTMENTS**Group**

	2006	2005
	HK\$'000	HK\$'000
Listed equity securities in Hong Kong, at market value	—	39,126

27 CASH AND BANK BALANCES

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	156,419	203,268	979	584
Short-term bank deposits	584,641	51,938	—	—
	741,060	255,206	979	584

The effective interest rate on short-term bank deposits was 3% (2005: 3%) and these deposits have an average maturity of 23 days (2005: 54 days).

The cash and bank balances include HK\$534,995,000 (2005: HK\$25,074,000) which have been pledged or assigned for specific purposes under certain conditions.

The cash and bank balances are denominated in the following currencies:

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	403,796	95,971	979	584
RMB	329,208	151,062	—	—
Others	8,056	8,173	—	—
	741,060	255,206	979	584

28 CREDITORS AND ACCRUALS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade creditors	160,331	210,515	—	—
Other creditors	18,993	29,944	1,507	1,763
Amounts due to jointly controlled entities	76,507	69,007	—	—
Amounts due to minority shareholders	107,026	208,341	—	—
Accrued operating expenses	17,586	24,833	1,250	1,424
Advanced proceeds on sale of properties	2,521,869	114,660	—	—
Deposits received	65,193	61,937	—	—
	2,967,505	719,237	2,757	3,187

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 creditors and accruals are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	1,493,916	153,848	2,757	3,187
RMB	1,459,103	544,094	—	—
Japanese Yen	11,377	18,712	—	—
Singapore dollar	3,109	2,583	—	—
	2,967,505	719,237	2,757	3,187

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

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

	2006 HK\$'000	2005 HK\$'000
Within one month	157,736	209,998
Two to three months	2,376	517
Four to six months	77	—
Over six months	142	—
	160,331	210,515

29 SHARE CAPITAL

	2006		2005	
	Ordinary Shares of HK\$0.10 each	HK\$'000	Ordinary Shares of HK\$0.10 each	HK\$'000
Authorised:				
At beginning and end of year	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At beginning of year	2,377,921,049	237,792	2,015,644,738	201,564
Share options exercised (a)	4,553,000	456	24,383,000	2,438
Conversion of convertible bonds (b)	34,042,547	3,404	337,893,311	33,790
Issued as scrip dividends	13,430,906	1,343	—	—
At end of year	2,429,947,502	242,995	2,377,921,049	237,792

- (a) During the year, share options to subscribe for 4,553,000 (2005: 24,383,000) shares were exercised, of which HK\$456,000 (2005: HK\$2,438,000) was credited to share capital and HK\$6,819,000 (2005: HK\$15,005,000) to the share premium account and HK\$625,000 was debited to share option reserve.
- (b) During the year, convertible bonds with face value of HK\$64,000,000 (2005: HK\$760,260,000) were converted into 34,042,547 (2005: 337,893,311) ordinary shares of the Company, of which HK\$3,404,000 (2005: HK\$33,790,000) was credited to share capital and the balance to the share premium account.

30 SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Options are granted 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:

	2006		2005	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	1.7865	23,477,000	0.7524	27,831,000
Granted	N/A	—	1.9060	20,729,000
Exercised	1.4604	(4,553,000)	0.7154	(24,383,000)
Lapsed	1.9060	(310,000)	1.5210	(700,000)
At end of year	1.8643	18,614,000	1.7865	23,477,000
Vested at end of year	1.8643	18,614,000	1.0423	3,248,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$2.451 (2005: HK\$2.1403).

30 SHARE OPTION SCHEME (Continued)

The options outstanding at 31 December 2006 have exercise prices ranging from HK\$0.36 to HK\$1.906 (2005: HK\$0.36 to HK\$1.906) with weighted average remaining contractual life of 4.84 years (2005: 6.04 years).

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

Exercise period	Exercise price per share HK\$	Number of share options	
		2006	2005
Directors			
1 March 2004 to 28 February 2013	0.7200	150,000	150,000
22 October 2006 to 21 October 2011	1.9060	7,700,000	8,200,000
Employees and others			
20 May 1999 to 19 May 2008	0.5586	33,000	33,000
30 December 2000 to 29 December 2009	0.3600	150,000	300,000
1 March 2004 to 28 February 2013	0.7200	272,000	765,000
30 December 2003 to 29 December 2013	1.3000	—	2,000,000
22 October 2006 to 21 October 2011	1.9060	10,309,000	12,029,000
		18,614,000	23,477,000

During the year, no new options were granted.

The fair value of options granted in 2005, as determined by using the Black-Scholes valuation model, was HK\$4.8 million. The significant inputs into the model were 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 was based on statistical analysis of daily share prices over the last 260 trading days.

31 RESERVES

(a) Group

	Share premium	Share option reserve	Contributed surplus	Capital redemption reserve	Capital reserve	Convertible bonds reserve	Investment reserve	Property revaluation reserve	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
As 31 December 2005	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878
Exchange differences	—	—	—	—	—	—	—	—	85,306	—	85,306
Conversion of convertible bonds, net of tax	64,769	—	—	—	—	(14,221)	—	—	—	—	50,548
Exercise of share options	6,819	(625)	—	—	—	—	—	—	—	—	6,194
Shares issued as scrip dividends	(1,343)	—	—	—	—	—	—	—	—	—	(1,343)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	—	31,387	31,387
Fair value of share options	—	2,384	—	—	—	—	—	—	—	—	2,384
Change of fair value of non-current investments	—	—	—	—	—	—	1,786,528	—	—	—	1,786,528
Profit for the year	—	—	—	—	—	—	—	—	—	229,703	229,703
2005 final dividend	—	—	—	—	—	—	—	—	—	(24,030)	(24,030)
2006 interim dividend	—	—	—	—	—	—	—	—	—	(24,187)	(24,187)
At 31 December 2006	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	125,674	4,046,470	7,221,368
Retained by:											
Company and subsidiaries	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	97,156	3,950,913	7,097,293
Jointly controlled entities	—	—	—	—	—	—	—	—	28,518	95,557	124,075
	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	125,674	4,046,470	7,221,368
At 31 December 2004	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	—	—	—	—	(168,928)	—	—	—	—	573,413
Exercise of share options	15,005	—	—	—	—	—	—	—	—	—	15,005
Fair value of share options	—	2,383	—	—	—	—	—	—	—	—	2,383
Change of fair value of non-current investments	—	—	—	—	—	—	(489,184)	—	—	—	(489,184)
Realised on disposal 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 31 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

31 RESERVES (Continued)**(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
As 31 December 2005	1,567,992	2,383	213,560	13	23,109	1,003,263	2,810,320
Conversion of convertible bonds, net of tax	64,769	—	—	—	(14,221)	—	50,548
Exercise of share options	6,819	(625)	—	—	—	—	6,194
Shares issued as scrip dividends	(1,343)	—	—	—	—	—	(1,343)
Reserve arising on scrip dividends	—	—	—	—	—	31,387	31,387
Fair value of share options	—	2,384	—	—	—	—	2,384
Profit for the year	—	—	—	—	—	57,157	57,157
2005 final dividend	—	—	—	—	—	(24,030)	(24,030)
2006 interim dividend	—	—	—	—	—	(24,187)	(24,187)
At 31 December 2006	1,638,237	4,142	213,560	13	8,888	1,043,590	2,908,430
At 31 December 2004	810,646	—	213,560	13	192,037	969,260	2,185,516
Conversion of convertible bonds, net of tax	742,341	—	—	—	(168,928)	—	573,413
Exercise of share options	15,005	—	—	—	—	—	15,005
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 31 December 2005	1,567,992	2,383	213,560	13	23,109	1,003,263	2,810,320

The distributable reserves of the Company at 31 December 2006, under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$1,257,150,000 (2005: HK\$1,216,823,000).

32 BORROWINGS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Long-term bank loans (a)				
Secured	2,185,046	2,212,055	—	—
Unsecured	843,021	279,798	250,000	225,000
	3,028,067	2,491,853	250,000	225,000
Convertible bonds (c)	32,773	81,122	—	—
Loans from minority shareholders (d)	—	98,242	—	—
	3,060,840	2,671,217	250,000	225,000
Short-term bank loans (a)				
Secured	—	10,000	—	—
Unsecured	50,147	694,520	16,000	468,000
	3,110,987	3,375,737	266,000	693,000
Current portion included in current liabilities	(1,196,256)	(1,807,880)	(116,000)	(493,000)
	1,914,731	1,567,857	150,000	200,000

32 BORROWINGS (Continued)

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	1,146,109	1,103,360	100,000	25,000
Between one to two years	558,844	384,886	150,000	200,000
Between two to five years	1,323,114	1,003,607	—	—
	3,028,067	2,491,853	250,000	225,000

(a) The carrying amounts of the long-term and short-term bank loans approximate to their fair value based on prevailing market interest rate. The effective interest rate at the balance sheet date was approximately 4.6% (2005: 4%).

(b) The borrowings are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	2,643,677	2,991,239	266,000	693,000
RMB	286,255	142,979	—	—
Others	181,055	241,519	—	—
	3,110,987	3,375,737	266,000	693,000

(c) 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 23 April 2004 up to their maturity by 8 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 (by way of distribution in specie). The bonds are redeemable at 91.49% of their principal amount on 23 March 2009 according to relevant terms and conditions of the bonds.

During the year, face value of convertible bonds amounted to HK\$64,000,000 (2005: HK\$760,260,000) have been converted into 34,042,547 (2005: 337,893,311) ordinary shares of the Company and the outstanding convertible bonds amounting to HK\$40,000,000 (2005: HK\$104,000,000) were carried at amortised cost.

The fair value of the liability component of the convertible bonds at 31 December 2006 amounted to HK\$32 million (2005: HK\$78 million). The fair value is calculated using the cash flows discounted at a rate based on the borrowing rate of 6.5% (2005: 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.

(d) The carrying amounts of the loans from minority shareholders approximate to their fair values based on prevailing market interest rates. The effective interest rate of the loans was approximately 5.76%.

33 DEFERRED TAXATION LIABILITIES**Group**

	Tax losses	Other provisions	Deferred tax assets	Accelerated depreciation allowance	Fair value gains	Convertible bonds	Deferred tax		Total
							Others	liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004	(25,579)	(3,099)	(28,678)	40,181	—	40,735	66,872	147,788	119,110
Exchange differences	—	(55)	(55)	—	—	—	1,152	1,152	1,097
Conversion of convertible bonds	—	—	—	—	—	(35,834)	—	(35,834)	(35,834)
Deemed disposal of a subsidiary	25,579	—	25,579	(39,463)	—	—	—	(39,463)	(13,884)
Charged to profit and loss statement	—	2,042	2,042	—	125,341	—	12,392	137,733	139,775
At 31 December 2005	—	(1,112)	(1,112)	718	125,341	4,901	80,416	211,376	210,264
Exchange differences	—	(44)	(44)	556	11,122	—	2,590	14,268	14,224
Conversion of convertible bonds	—	—	—	—	—	(3,016)	—	(3,016)	(3,016)
Charged to profit and loss statement	(20,977)	(923)	(21,900)	27,854	305,424	—	(8,765)	324,513	302,613
At 31 December 2006	(20,977)	(2,079)	(23,056)	29,128	441,887	1,885	74,241	547,141	524,085

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset taxation assets against taxation liabilities and when the deferred taxes relate to the same fiscal authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

Except the tax losses, all the other deferred taxation assets and liabilities are expected to be recovered/settled after twelve months.

Deferred taxation assets of HK\$57,260,000 (2005: HK\$93,985,000) arising from unused tax losses and other temporary differences totalling HK\$302,785,000 (2005: HK\$429,783,000) have not been recognised in the financial statements. Unused tax losses of HK\$275,218,000 (2005: HK\$308,664,000) have no expiry date and the balance will expire at various dates up to and including 2011.

Company

	2006 HK\$'000	2005 HK\$'000
Convertible bonds		
At beginning of year	4,901	40,735
Conversion of convertible bonds	(3,016)	(35,834)
At end of year	1,885	4,901

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK\$'000	2005 HK\$'000
Operating profit	1,071,379	382,241
Depreciation	3,165	2,325
Amortisation of leasehold land and land use rights	5,877	5,812
Profit on disposal of other investments	(4,879)	—
Change in fair value of other investments	—	1,204
Change in fair value of investment properties	(957,958)	(348,679)
Interest income	(14,713)	(3,706)
Dividend income	(716)	(1,592)
Loss on sale of property, plant and equipment	89	117
Impairment of trade and other debtors	—	20,553
Provision for mortgage loans receivable	615	3,039
Share options expenses	2,384	2,383
Excess of fair value of net assets acquired over the cost of acquisition of a jointly controlled entity	—	(19,991)
Operating profit before working capital changes	105,243	43,706
Increase in development properties	(970,483)	(781,635)
Increase in debtors and prepayments	(148,946)	(15,878)
(Increase)/decrease in mortgage loans receivable	(1,943)	6,735
Increase in creditors and accruals	2,253,745	220,620
Cash generated from/(used in) operations	1,237,616	(526,452)

(b) Analysis of changes in financing

	Share capital and share premium HK\$'000	Minority interests HK\$'000	Loans HK\$'000	Total HK\$'000
At 31 December 2004	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)
Share of profits of minority interests	—	159,750	—	159,750
Deemed disposal of a subsidiary	—	(1,667,056)	(388,370)	(2,055,426)
Cash flows from financing activities	17,443	1,134,036	929,253	2,080,732
At 31 December 2005	1,805,784	355,968	3,375,737	5,537,489
Change in exchange rates	—	27,839	14,426	42,265
Transfer from share option reserve	625	—	—	625
Conversion of convertible bonds	68,173	—	(48,349)	19,824
Share of profits of minority interests	—	472,041	—	472,041
Cash flows from financing activities	6,650	969	(230,827)	(223,208)
At 31 December 2006	1,881,232	856,817	3,110,987	5,849,036

35 COMMITMENTS**Group****(a) Contracted but not provided for**

	2006	2005
	HK\$'000	HK\$'000
Commitments in respect of property developments	903,543	1,655,263

(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:

	2006	2005
	HK\$'000	HK\$'000
Within one year	1,317	2,388

(c) Operating lease rental receivables

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

	2006	2005
	HK\$'000	HK\$'000
Within one year	198,741	170,697
Between one to five years	202,789	303,353
After five years	715	618
	402,245	474,668

36 BUSINESS COMBINATIONS**(a) Acquisition of a jointly controlled entity**

	Carrying amount of acquiree	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., established in Mainland China and principally engaged in property development and investment in Shanghai.

36 BUSINESS COMBINATIONS (Continued)

(b) Disposal of subsidiaries

	2005 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 investments	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 taxation liabilities	(13,884)
Provisions	(191,561)
Creditors and accruals	(407,237)
Current portion of borrowings	(247,400)
Taxation payable	(806)
Minority interests	(1,666,647)
Net assets	866,894
Transfer to associated companies	4,478,360
Gain on deemed partial disposal	3,611,466

The above represented the deemed disposal of GEG.

(c) Disposal of associated companies

	2005 HK\$'000
At beginning of year	18,650
Share of results	
Loss before taxation	(68,830)
Taxation	(183)
Deemed disposal of a subsidiary	(20,143)
Transfer from deemed disposal of a subsidiary (note 36(b))	4,478,360
Dividend in specie (note 15)	(1,229,143)
Transfer to non-current investments	(3,178,711)
At end of year	—

37 GUARANTEES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$4,556,608,000 (2005: HK\$3,571,683,000) of which HK\$2,030,336,000 (2005: HK\$2,078,682,000) have been utilised.

The Company has executed guarantees in favour of convertible bondholders in respect of the convertible bonds issued by a subsidiary. The outstanding amount of such convertible bonds was HK\$40,000,000 (2005: HK\$104,000,000) at the end of the year.

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.

38 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) On 22 July 2002, Brighten Lion Limited, formerly a 66% owned subsidiary, granted a guaranteed unsecured revolving loan facility of HK\$330 million 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. The maximum loan outstanding and interest paid during the year were HK\$120 million and HK\$3.37 million respectively (2005: nil).

- (b) Key management personnel comprise Executive Directors of the Company and their emoluments are set out as follows:

	2006	2005
	HK\$000	HK\$000
Fee	502	754
Salaries and other emoluments	13,536	14,421
Discretionary bonuses	926	941
Retirement benefits	901	1,125
Share options	621	620
	16,486	17,861

- (c) Rental income from an investee company amounted to HK\$2,015,020 (2005: HK\$1,172,000) based on the terms of rental agreement between the parties.

39 PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital			Principal activities	Name of company	Principal place of operation	Issued share capital			Principal activities
		Number of ordinary shares	Par value per share	Effective percentage of equity held by the Group				Number of ordinary shares	Par value per share	Effective percentage of equity held by the Group	
Directly held by the Company Incorporated in the British Virgin Islands											
			US\$						HK\$		
Sutimar Enterprises Limited	Hong Kong	100	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
						Wealthy Vision Limited	Hong Kong	1	1	100	Investment holding
Indirectly held by the Company Incorporated in Hong Kong											
			HK\$			Incorporated in Japan					
Bright City Development Limited	Hong Kong	2	1	100	Property development				Yen		
Chely Well Limited	Hong Kong	1,000	1	65	Investment holding	Asahi Kohatsu Corporation	Japan	240	50,000	75	Trading
Chinapex Company Limited	Singapore	1,000	10	100	Property investment and development	Incorporated in the British Virgin Islands					
China Win Enterprise Limited	Hong Kong	5,000,000	1	100	Investment holding				US\$		
Colour Day International Limited	Hong Kong	2	1	100	Investment holding	All Smart Profits Limited	Hong Kong	10	1	100	Investment holding
Full Wealth Limited	Hong Kong	2	1	100	Property development	Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Grand Spark Limited	Hong Kong	1	1	100	Property development and investment	Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Greenwell Investments Limited	Guangzhou	2	1	100	Investment holding and property development	Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
Goldstar Power Limited	Hong Kong	1	1	100	Investment holding	Great Place Developments Limited	Hong Kong	10	1	100	Investment holding
Hero Plaza Limited	Hong Kong	2	1	100	Property development	K. Wah International Finance Limited	Hong Kong	10	1	100	Provision of finance
Kingrand Limited	Hong Kong	2	1	100	Property investment	Leharne Properties Limited	Hong Kong	10	1	100	Investment holding
K. Wah Management Services Limited	Hong Kong	100	100	100	Provision of management services	Ontrack Developments Limited	Hong Kong	10	1	100	Investment holding
K. Wah Properties Investment Limited	Hong Kong	1,000	10	100	Investment holding	Ragon Properties Limited	Hong Kong	10	1	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	0.2	100	Investment holding	Repton Developments Limited	Hong Kong	10	1	100	Investment holding
Lucky Way Investment Limited	Hong Kong	2	1	100	Property development	Select Vantage Profits Limited	Hong Kong	10	1	100	Investment holding
Minter Limited	Hong Kong	2	1	100	Investment holding	Top Ridge Management Limited	Singapore	10	1	100	Property investment

39 PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
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				
廣州滙城房地產開發有限公司	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
廣州市越華房地產發展有限公司	Guangzhou	HK\$187,000,000	100	Property development
廣州東鏡泰豐房地產開發有限公司	Guangzhou	US\$10,000,000	100	Property development
Equity joint venture				
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Shanghai	US\$53,000,000	36	Property development and investment
Shanghai Jia Gang Cheng 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

Schedule of the Group's Significant Properties

	Type of Property	Gross Floor Area (Approx.) 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 <i>(Note)</i>	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 Center, 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.

Schedule of the Group's Significant Properties (Continued)

	Type of Property	Gross Floor Area (Approx.) 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
The Great Hill, No.8 Tung Lo Wan Hill Road, Sha Tin	Residential	24,227	100	2054	Construction	2007
No.6 Shiu Fai Terrace, Hong Kong	Residential	2,293	100	2070	Planning	2009 and beyond
Tai Po Town Lot No.188 at Pak Shek Kok, Reclamation Phase 1, Site C, Tai Po, New Territories (acquired after the year-end date)	Residential	69,657 ^(*)	25	2047	Planning and Construction to start in 2007	On or before 30/9/2012
Mainland China						
Songbolang Cun, Dongjing Cun, Xinhua Zhen, Hua Dou City, Guangdong	Mix Use	1,147,000	100	2034 to 2068	Planning	2009 and beyond
花都置業地塊 新華鎮清布村迎賓大道北	Residential/ Commercial/ Office	323,000	100	2039 to 2069	Construction	2009 and beyond
Lot A&B, No. 68 Jianguo Xi Road, Xuhui District, Shanghai	Residential	140,000	100	2065	Construction	2009 and beyond
Plot Phase III of Yanjiazhai, Jingan District, Shanghai	Residential	100,000	99	2072	Construction	2009 and beyond
Lot No. 701 Guangzhong Road, Zhabei District, Shanghai	Residential	380,000	100	2073	Construction	2007 (Phase 1)

^(*) According to Agreement and Conditions of Sale in respect of Tai Po Town Lot No.188.

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A photograph of a modern, luxurious hotel room. The room features a large bed with a tufted headboard, a vanity table with a large mirror, and a large vase of red flowers in the foreground. The room is viewed through a glass partition. The lighting is warm and the overall atmosphere is elegant and sophisticated.

香港

Hong Kong





Located in the mid-levels of Shatin, The Great Hill comprises 8 detached houses and 114 residential apartments
嘉華國際位於沙田南半山重點項目——嘉御山，提供八間獨立屋與114個特色單位

THE GREAT HILL 嘉御山

沙田南半山 獨立大宅





The Great Hill is elegantly styled to reflect KWIH's commitment in quality
嘉御山的尊貴顯赫承自嘉華國際對品質的追求



A 15-foot ceiling stands for luxury while superb design spells superiority
十五呎高樓底盡現氣派；精緻設計彰顯品味





The sky-high lobby showcases exquisite uniqueness
住宅大堂氣勢磅礴，突顯非凡地位

J SENSES, the shopping arcade of J Residence, will be a chic hotspot and a cuisine hub that redefines the meaning of quality living
嘉薈軒商場J SENSES乃時尚熱點及潮流美食集中地，
為優質生活賦予嶄新定義





J RESIDENCE
60 Johnston Road

嘉薈軒

J Residence, a boutique residential project in Wan Chai, will offer 381 units of superb designs and a sweeping view of the city and the Victoria Harbour
位於灣仔的精品豪宅項目嘉薈軒提供381個特色單位，壯闊的城市及維港海景盡收眼底





Type : Luxury residential project
Location : 6 Shiu Fai Terrace, Mid-Levels East
GFA : 68,000 sq.ft. (under application)
Total Site Area : 18,959 sq.ft.
Year of completion : 2009 and beyond

類型 : 豪宅項目
地點 : 東半山肇輝臺6號
可建樓面面積 : 68,000平方呎 (待批)
地盤面積 : 18,959平方呎
落成日期 : 2009年及之後

6 Shiu Fai Terrace

肇輝臺6號



Type :	Luxury residential project	類型 :	豪宅項目
Location :	Tai Po Town Lot No. 188	地點 :	大埔市地段第188號
GFA :	749,788 sq.ft.	可建樓面面積 :	749,788平方呎
Total Site Area :	214,225 sq.ft.	地盤面積 :	214,225平方呎
Jointly developed by :	K. Wah International Holdings Limited Nan Fung Development Limited Sino Land Company Limited USI Holdings Limited	合作伙伴 :	嘉華國際集團有限公司 南豐發展有限公司 信和置業有限公司 富聯國際集團有限公司

Pak Shek Kok Reclamation Phase 1, Site C, Tai Po

大埔白石角填海工程第一期地盤C





上海

Shanghai



Shanghai K. Wah Centre, a Grade-A office tower, is 100% leased to predominantly renowned corporations
上海嘉華中心為甲級寫字樓，出租率達100%，租戶為國際知名企業

Shanghai K. Wah Centre 上海嘉華中心





Shanghai K. Wah Centre is equipped with an advanced security management system
上海嘉華中心配備先進的保安系統

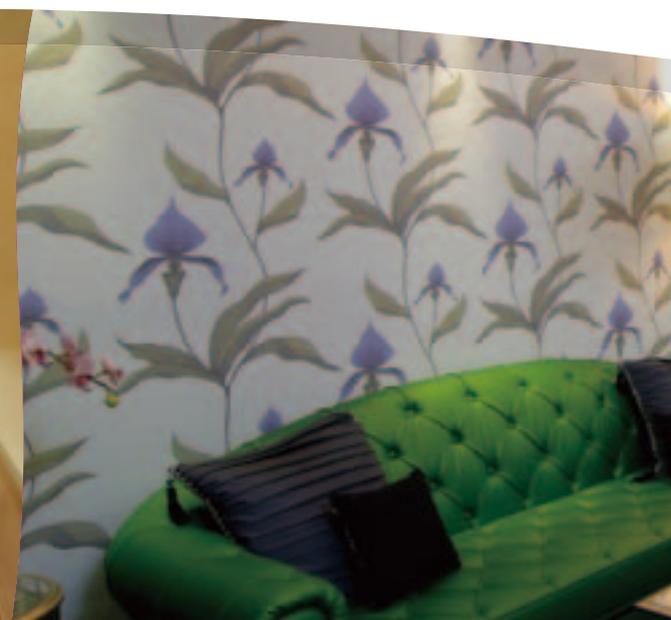
On the bustling Huaihai Zhong Road, Shanghai K. Wah Centre is a landmark of the city
上海嘉華中心位處熱鬧繁華的淮海中路，並為市中心地標





Shanghai Westwood is in the Da Ning International Community, a major transportation hub in the city
慧芝湖花園位處上海市主要交通樞紐——大寧國際社區

Modelled after the Westwood district in Los Angeles, Shanghai Westwood gives a sense of green lifestyle to the community
慧芝湖花園的規劃以洛杉磯Westwood區為藍本，四周注入綠化生活的元素





SHANGHAI
WESTWOOD
慧芝湖花園

Shanghai Westwood is a large-scale residential project tailored to meet the needs of those pursuing quality living
慧芝湖花園是專為追求優質家居生活人士而建設的大型住宅項目





Jianguo Xi Road Project 上海徐匯區建國西路項目
Xuhui District, Shanghai





上海靜安區嚴家宅項目

Yanjiazhai Project
Jingan District, Shanghai





JV Projects with
Shanghai Baosteel
與上海寶鋼合資項目

Baoland East Garden
寶地東花園

Baoland Green Garden City
寶地綠洲城



Location of KWIH properties in Shanghai
 嘉華國際上海物業分佈圖





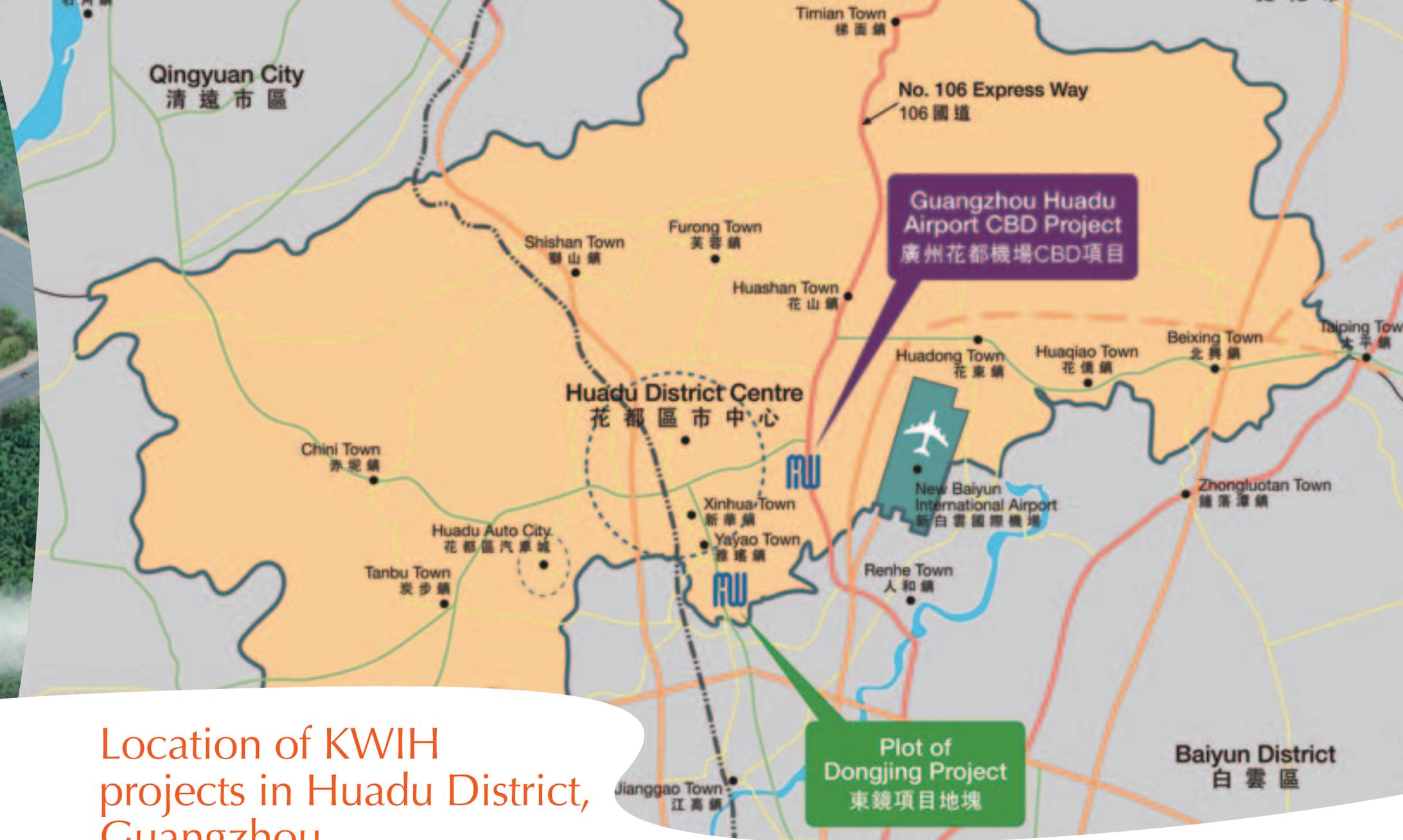
廣州

Guangzhou



Guangzhou Huadu Airport CBD Project

廣州花都機場新華鎮迎賓大道項目



Location of KWIH projects in Huadu District, Guangzhou

嘉華國際廣州花都區項目分佈圖



澳門

Macau

Cotai Mega Resort

路氹城大型娛樂渡假中心

KWIH's strategic 18.7% stake in Galaxy Entertainment Group Limited provides an investment gateway for shareholders to share the success of Macau.

嘉華國際透過持有銀河娛樂集團有限公司18.7%權益，為股東投資於澳門市場提供一個理想渠道。



StarWorld Hotel, the flagship of Galaxy Entertainment Group Limited, has international superstar Tony Leung as its spokesperson.

銀河娛樂集團有限公司旗艦項目星際酒店邀得國際巨星梁朝偉擔任代言人。

2006 大事紀要與主要獎項 Major Events and Awards

嘉華軒十天速銷95%

Mar, May & Jul

QUESTAR AWARDS

8 Jun

14 Sep

ARC AWARDS

Jul to Sep

9 Oct

6 Sep

March, May & July

KWIH residential projects in Hong Kong and Mainland China achieved record sales at HK\$4 billion

嘉華國際在香港及中國內地住宅項目創下40億港元銷售紀錄

8 June

K. Wah Group's corporate video won the Silver Award (Corporate Marketing) in the 17th Questar Awards in New York, USA

嘉華集團企業影片榮獲美國紐約第17屆國際「Questar Awards」

企業推廣銀獎

July to September

Shanghai Westwood won prestigious prizes including National Prestigious Property 2006, Gold Award in the Most Popular Shanghai Property 2006 and Shanghai Top 10 Property 2006

上海慧芝湖花園榮獲2006中國房地產名盤、2006上海最受歡迎樓

盤綜合金獎及2006上海市十大名盤等

6 September

KWIH signed a HK\$1.8 billion syndicated loan with a consortium of 14 international and local banks, signifying strong confidence of investors and bankers in the Group

嘉華國際與14家國際及本地銀行簽署18億港元銀團貸款，反映投資界及銀行界對集團的信心

14 September

KWIH Annual Report 2005 won the Bronze Award in the Overall Annual Report: Real Estate Development/Service category of the 20th ARC Awards competition in New York, USA

嘉華國際2005年報榮獲美國紐約第20屆「ARC Awards」國際年報比賽房地產發展/服務組別銅獎

9 October

Dr. Che-woo Lui, Chairman of KWIH, was conferred the Doctor of Business Administration degree honoris causa by The Hong Kong Polytechnic University in recognition of his contribution to education

嘉華國際主席呂志和博士獲香港理工大學頒授榮譽工商管理學博士學位，表彰他熱心教育



19 Oct

17 Nov



8 Jan 2007



1 Mar 2007



13 Mar 2007

19 October

StarWorld Hotel, the flagship project of KWIH's 18.7% owned Galaxy Entertainment Group Limited, officially opened in Macau with international superstar Tony Leung being the spokesperson
嘉華國際持股18.7%之銀河娛樂集團有限公司的澳門旗艦項目一星際酒店，正式開業，並邀得國際巨星梁朝偉任代言人

8 January 2007

K. Wah is the only property developer in Hong Kong to make it into the list of 50 High-Flyer Outstanding Enterprises in 2006 of *Hong Kong Business* magazine
嘉華榮獲著名商業雜誌《香港商業》選為2006年50間傑出企業之一，為唯一獲此殊榮的香港物業發展公司

17 November

The show flat of J Residence, with "wine" as its theme, won the honour award in the 14th Asia Pacific Interior Design Awards, recognizing its sophisticated layout and splendid decoration
以「沉醉」為主題的嘉薈軒示範單位，以其精巧佈局及華麗陳設，奪得第14屆亞太室內設計大獎的示範單位組別優異獎

1 March 2007

KWIH acquired Hang Hin Mansion at 6 Shiu Fai Terrace at Mid-Levels East, adding a premium site to its land bank
嘉華國際成功統一港島東半山肇輝台六號業權，令其土地儲備再增市區優質地皮

13 March 2007

KWIH together with several major developers acquired harbourfront Pak Shek Kok Reclamation Phase 1, Site C, Tai Po
嘉華國際聯同數個主要發展商投得大埔白石角填海工程第一期C地盤臨海地皮



1

企業公民責任 Corporate Social Responsibilities



3

社區服務 Community Services



2



4

KWIH is committed to serving the community, and fulfilling its social responsibilities as a corporate citizen. In 2006, the Group continued to initiate and support a broad range of community programmes, voluntary services and philanthropic activities in Hong Kong and Mainland China. These initiatives ranged from poverty and disaster relief, sponsorship on education, academic research and sports events to charitable programmes for the needy and the community at large. The Group is also an avid supporter of environmental protection critical to sustainable development of the community. The Group encourages its staff to participate in various environmental awareness activities.

嘉華國際秉承關心社會的信念及使命，積極履行良好企業公民責任。在二零零六年，集團的員工及其家庭成員在管理層積極推動及帶領下，繼續積極在香港及中國內地致力推動及參與各類義務工作及社會公益活動，包括援助不幸的一群、資助教育、學術研究和體育活動，同時大力支持惠及有需要人士及社稷的慈善活動。此外，集團堅信保育環境可達致社區的可持續發展，為了提高員工的環保意識，集團鼎力支持員工參與多項環保活動。



5



7



6



8

1. Title sponsor of "2006 K. Wah Group UIAA Climbing World Cup, Jingan, Shanghai"
冠名贊助「2006上海靜安·嘉華世界盃攀岩賽」
2. Donation of RMB1.2 million by Dr. Che-woo Lui to Shaliyuan Primary School in Shaoguan to improve teaching facilities
呂志和博士捐款120萬元人民幣予韶關市沙梨園呂志和小學，改善教學設施
- 3-4. Visit to the Shanghai Children's Home on International Children's Day
於六一兒童節探訪上海兒童福利院
5. Donation of HK\$14 million by Dr. Che-woo Lui to The School of Hotel and Tourism Management of The Hong Kong Polytechnic University in support of teaching and academic research. Dr. Lui also shared his experiences and philosophy with students and scholars
呂志和博士捐贈1,400萬港元予香港理工大學酒店及旅遊業管理學院以支持教研工作，並與師生分享其經驗與人生哲學

6. Participation in the "Love under the Blue Sky" campaign, a charity initiative organized by the Zhabei branch of the Shanghai Charity Foundation
支持由上海市慈善基金會閘北區分會主辦的「藍天下的至愛」慈善籌款活動
7. Support of the tree-planting activity for environmental protection in Huadu District, Guangzhou
支持廣州花都區植樹活動，為綠化環境盡一分力
8. Support of the annual blood donation campaign in Shanghai
響應上海市每年組織的公民義務捐血運動



員工活動 Staff Activities



The Group also walks the talk of caring for staff. Different types of activities promoting work-life balance and staff cohesion were organized in Hong Kong and Mainland China by staff-managed social and recreation clubs. These activities also helped to enhance team spirit, cross-divisional-and-regional communication, as well as mutual understanding and cooperation among staff.

集團亦積極實踐對員工的關懷及照顧，由員工管理的社交及康樂組織在香港及中國內地舉辦了一連串工餘活動，以鼓勵員工保持身心平衡及提升凝聚力，從而提高團隊精神、跨業務領域和地域的溝通，以及員工之間的互相了解和合作。

1. K. Wah Social Club naming and logo design competition was organized to encourage staff creativity
「嘉華天地」命名及會徽設計比賽，讓員工發揮創意
2. Sports and recreational activities were organized to promote work-life balance and team spirit
舉辦各項康體活動及興趣班，鼓勵員工保持身心平衡，同時提升團隊精神
3. Outing on Lantau Island
暢遊大嶼山
4. Annual dinner serves to promote staff relations
舉行週年晚宴，讓員工歡聚聯誼

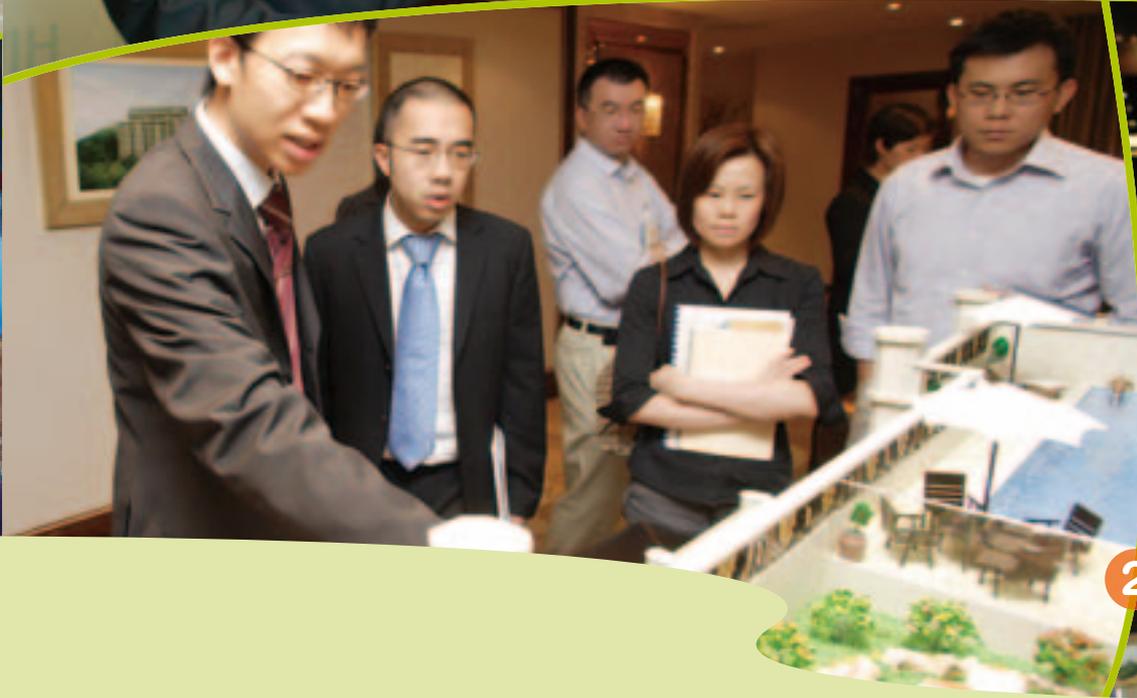


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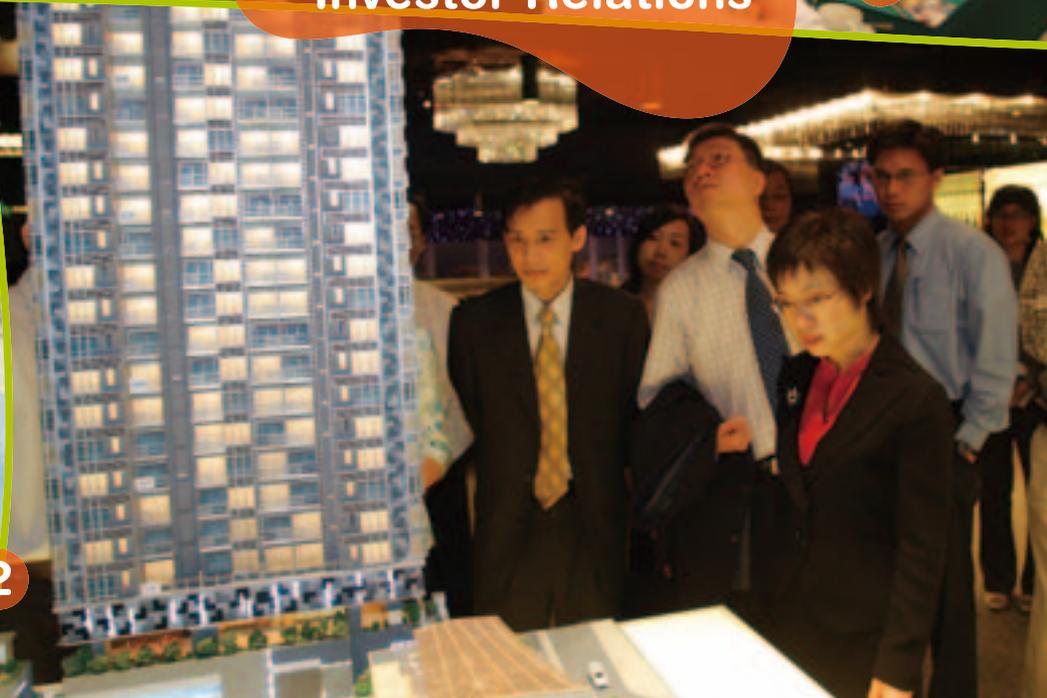


投資者關係 Investor Relations

3



2



1. Eddie Hui, Managing Director (Acting) of KWIH, presented the financial results of the Company

嘉華國際董事總經理（署理）許淇安簡介公司2006年度業績

2. Analysts were invited to visit the show flats of The Great Hill (left) and J Residence (right), both signature luxurious projects of the Company

分析員參觀公司重點豪宅項目嘉御山（左）及嘉薈軒（右）示範單位

3. Regular conferences and company visits were organized to keep investors abreast of the Company's latest development

透過不同渠道與投資界保持適時及定期的溝通，包括投資簡報、會議及參觀活動等

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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

www.kwih.com