

## 1. GENERAL INFORMATION

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

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

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

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

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

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

## 2. BASIS OF PREPARATION

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

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

## 2. BASIS OF PREPARATION (cont'd)

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

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

## 2. BASIS OF PREPARATION (cont'd)

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

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

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

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

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

## 2. BASIS OF PREPARATION (cont'd)

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

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

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

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

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

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

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

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

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

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

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

## 2. BASIS OF PREPARATION (cont'd)

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

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

### (i) Consolidated profit and loss statement

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

### (ii) Consolidated balance sheet

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

## 2. BASIS OF PREPARATION (cont'd)

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

## (i) Consolidated profit and loss statement

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

## 2. BASIS OF PREPARATION (cont'd)

## (ii) Consolidated balance sheet

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

## 2. BASIS OF PREPARATION (cont'd)

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

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

### *Effective for year ending 31st December 2006*

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

### *Effective for year ending 31st December 2007*

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Consolidation

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

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

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



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

#### 3.2 Subsidiaries

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

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

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

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

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

#### 3.3 Minority interests

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

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

#### 3.4 Jointly controlled entities

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

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

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

#### 3.4 Jointly controlled entities (cont'd)

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

#### 3.5 Associated companies

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

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

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

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

#### 3.6 Goodwill

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

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

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

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

#### 3.7 Property, plant and equipment

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

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

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

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

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

#### 3.8 Investment properties

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

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

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

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

#### 3.8 Investment properties (cont'd)

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

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

#### 3.9 Impairment of assets

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

#### 3.10 Investments

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

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

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

(b) *Loans and receivables*

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

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

#### 3.10 Investments (cont'd)

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

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

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

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

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

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

#### 3.11 Development properties

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

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

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

#### 3.12 Debtors and prepayments

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

#### 3.13 Inventories

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

#### 3.14 Cash and cash equivalents

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

#### 3.15 Share capital

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

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

#### 3.16 Borrowings

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

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

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

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

#### 3.17 Leases

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

#### 3.18 Provisions

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

#### 3.19 Deferred taxation

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

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

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

#### 3.20 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

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

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

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

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

#### 3.20 Employee benefits (cont'd)

(b) *Share-based compensation*

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

#### 3.21 Borrowing costs

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

#### 3.22 Revenue recognition

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

(a) *Sales of properties*

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

(b) *Rental income*

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

(c) *Interest income*

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

(d) *Dividend income*

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

#### 3.23 Foreign currencies

(a) *Functional and presentation currency*

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



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

#### 3.23 Foreign currencies (cont'd)

(b) *Transactions and balances*

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

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

(c) *Group companies*

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

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

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

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

#### 3.24 Segment reporting

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

#### 3.25 Dividend distribution

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

## 4. FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

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

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

(a) *Credit risk*

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

(b) *Liquidity risk*

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

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

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

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

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

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

(d) *Foreign exchange risk*

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

(e) *Price risk*

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

#### 4. FINANCIAL RISK MANAGEMENT (cont'd)

##### 4.2 Fair value estimation

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

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

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

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

#### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

##### (a) Estimates of fair value of investment properties

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

##### (b) Estimated impairment of assets

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

##### (c) Income taxes

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

##### (d) Convertible bonds

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

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

### (e) Share-based payments

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

## 6. SEGMENT INFORMATION

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

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

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

## 6. SEGMENT INFORMATION (cont'd)

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

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

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

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

## 7. DISCONTINUED OPERATIONS

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

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

## 8. TURNOVER AND OTHER REVENUES

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

## 9. OPERATING PROFIT

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

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

## 10. FINANCE COSTS

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

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

## 11. DIRECTORS' REMUNERATION

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

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

## 12. FIVE HIGHEST PAY INDIVIDUALS

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

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

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

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

## 13. RETIREMENT BENEFIT SCHEMES

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



### 13. RETIREMENT BENEFIT SCHEMES (cont'd)

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

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

### 14. TAXATION CHARGE/(CREDIT)

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

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

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

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

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

### 15. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

## 16. DIVIDENDS

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

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

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

## 17. EARNINGS PER SHARE

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

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

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

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

## 18. PROPERTY, PLANT AND EQUIPMENT

## Group

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

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

## 19. INVESTMENT PROPERTIES

## Group

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

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

## 20. LEASEHOLD LAND AND LAND USE RIGHTS

## Group

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

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

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

## 21. JOINTLY CONTROLLED ENTITIES

**Group**

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

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

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

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

**Company**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>438,568</b>	—

**22. SUBSIDIARIES****Company**

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

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

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

**23. ASSOCIATED COMPANIES****Group**

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

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

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

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

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

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

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

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

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

## 26. DEVELOPMENT PROPERTIES

## Group

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

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

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

## 27. INVENTORIES

## Group

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



## 28. DEBTORS AND PREPAYMENTS

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

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

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

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

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

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

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

## 29. OTHER INVESTMENTS

## Group

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

**30. CASH AND BANK BALANCES**

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

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

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

**31. CREDITORS AND ACCRUALS**

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

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

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

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

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

## 31. CREDITORS AND ACCRUALS (cont'd)

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

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

## 32. SHARE CAPITAL

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

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

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

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

### 33. SHARE OPTION SCHEME

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

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

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

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

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

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

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

## 34. RESERVES

## (a) Group

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

## 34. RESERVES (cont'd)

## (b) Company

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

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

## 35. BORROWINGS

## Group

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

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

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

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

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

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

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

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

## 35. BORROWINGS (cont'd)

## Company

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

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

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

## 36. DEFERRED TAXATION LIABILITIES

## Group

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

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

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



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

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

**37. NEGATIVE GOODWILL**

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

**38. PROVISIONS****Group**

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

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

## 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

## (b) Analysis of changes in financing

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

## 40. COMMITMENTS

## Group

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

## (b) Operating lease commitments

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

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

## 41. OPERATING LEASE RENTAL RECEIVABLE

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

## Group

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

## 42. BUSINESS COMBINATIONS

## (a) Acquisition of a jointly controlled entity

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

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

## (b) Disposal of subsidiaries

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

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

#### 43. CONTINGENT LIABILITIES

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

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

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

#### 44. RELATED PARTY TRANSACTIONS

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

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

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

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

#### 45. POST BALANCE SHEET EVENTS

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

#### 46. APPROVAL OF FINANCIAL STATEMENTS

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

#### 47. PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

##### (a) Subsidiaries

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

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

## (a) Subsidiaries (cont'd)

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

## (b) Jointly Controlled Entities

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
<b>Incorporated in Hong Kong</b>					
			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
<b>Incorporated in Mainland China</b>		<b>Registered capital</b>			
Shanghai Baoland Co., Ltd.	Shanghai		RMB717,674,797	41.5	Property development