1 BASIS OF PREPARATION

The interim financial information has been prepared under historical cost convention as modified by the revaluation of certain properties and available-for-sale financial assets and other short-term investments and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The interim financial information has been presented in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005. The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

Following the adoption of the new HKFRS, certain comparative figures in the interim financial information have been restated or reclassified to conform with the current presentation. Major changes in the presentation are set out as follows:

	Presentation in 2004 annual financial statements	**New presentation**
(a)	Share of taxation of jointly controlled entities and associated companies included under taxation	Share of profits less losses of jointly controlled entities and associated companies presented net of taxation
(b)	Loans receivable, amounts receivable from and payable to jointly controlled entities included under jointly controlled entities	Loans receivable, amounts receivable from and payable to jointly controlled entities classified under current and non-current assets or liabilities according to their terms of repayment
(c)	Loans from minority interests included under minority interests	Loans from minority interests classified under current and non-current liabilities according to their terms of repayment

2 CHANGES IN ACCOUNTING POLICIES

2.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity and associated company 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.

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

In previous years, goodwill arising on acquisitions is 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 is reviewed annually and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired. This accounting policy has been changed to conform with HKFRS 3 "Business Combinations". As a result of this change, the Group has adopted the transitional provision to write off the negative goodwill of HK$136,000 against the opening revenue reserve as at 1st January 2005 whereas the comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.2 Investment properties

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

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

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 under HKAS 16 "Property, plant and equipment". However, if the fair value gives rise to a reversal of the previous impairment loss, this write back is 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. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement. These accounting policies have been changed to conform with HKAS 40 "Investment property".

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.2 Investment properties (Cont'd)

As a result of the above changes in accounting policies, the opening revenue reserve at 31st December 2004 has been increased by HK$22.2 million arising from the transfer of leasehold land to investment properties during 2004. As at 31st December 2004, the valuation of investment properties was less than their original costs 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 on revenue reserve and investment properties revaluation reserve is required.

2.3 Leases

The Group reclassifies prepayments of lease premiums from property, plant and equipment and development properties to leasehold land and land use rights following the adoption of HKAS 17 "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 or where there is impairment, the impairment is expensed in the profit and loss statement. The amortisation of the leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

In previous years, leasehold land and land use rights were classified under property, plant and equipment and development properties according to the intention with regard to the underlying properties. For those classified as leasehold land and buildings under property, plant and equipment, they were stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature, whereas development properties were stated at cost, including land and construction costs, less provisions for foreseeable losses. The adoption of HKAS 17 has resulted in a change in the accounting policy of which the leasehold land is stated at cost less amortisation instead of valuation.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.3 Leases (Cont'd)

As a result of the above changes in accounting policies, the net book amounts of leasehold land and land use rights have been increased by HK$2,193.0 million, property, plant and equipment have been decreased by HK$282.6 million, development properties have been decreased by HK$1,962.0 million, revenue reserve has been decreased by HK$9.6 million and property revaluation reserve has been decreased by HK$57.8 million as at 31st December 2004.

2.4 Financial instruments

Upon adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", there is a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial assets. 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.

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. 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. 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.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.4 Financial instruments (Cont'd)

Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. 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 period 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.

In previous years, securities intended to be held for indefinite long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investment would be reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss statement and was written back to profit and loss statement when the circumstances and events that led to the write-downs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. As a result of the above changes to the accounting policy, the classification of investments has been redesignated as at 1st January 2005 and there is no significant impact to the opening reserves of the Group. The comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.5 Borrowings

Upon adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", there is a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial liabilities. 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 income tax effects. The equity component is recognised in the capital reserve when the bonds are derecognised, either converted, redeemed or lapsed.

In previous years, 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 to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. As a result of the above changes to the accounting policies, the convertible bond reserve has been increased by HK$192.0 million and the revenue reserve has been decreased by HK$24.4 million at 1st January 2005. The comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.6 Provisions

Upon adoption of HKAS 16, HKAS 37 "Provisions, contingent liabilities and contingent assets" and HKFRS-Int 1 "Changes in existing decommissioning, restoration and similar liabilities", there is in a change in accounting policy of 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 assets. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as a finance cost as it incurs.

In previous years, cost of the asset related to the provision for environmental restoration was not adjusted by the changes in the provision. As a result of the above change in accounting policies, the revenue reserve and minority interests have been decreased by HK$13.3 million and HK$18.6 million, respectively, at 31st December 2004.

2.7 Revenue recognition

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

In previous years, when a development property is sold in advance of completion, sales are recognised over the course of the development and are computed as a proportion of the total estimated sales to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds. This accounting policy has been changed to conform with HK-Int 3 "Revenue — Pre-completion contracts for the sale of development properties" and 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.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.8 Share-based payments

Upon adoption of HKFRS 2 "Share-based payments", there is a change in the accounting policy for share-based payments. 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.

In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss statement. Since all the existing share options had vested on or before 1st January 2005, a prior year adjustment is not required.

3 SEGMENT INFORMATION

The Group is principally engaged in property development and investment, manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. 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.

3 **SEGMENT INFORMATION (CONT'D)**

A summary of business segments is set out as follows:

	Properties *HK$'000*	Construction materials *HK$'000*	Others *HK$'000*	Total *HK$'000*
Six months ended 30th June 2005				
Turnover	157,116	539,572	23,139	719,827
Other revenues	3,039	7,421	12,729	23,189
Operating profit/(loss)	50,950	(10,244)	587,361	628,067
Finance costs				(20,667)
Share of profits less losses of				
Jointly controlled entities	20,531	7,945	—	28,476
Associated companies	—	1,492	—	1,492
Profit before taxation				637,368
Taxation				(5,127)
Profit for the period				632,241
Capital expenditure	1,653	24,465	—	26,118
Depreciation	1,304	36,440	—	37,744
Amortisation	17,767	19,307	—	37,074
Fair value (gain)/loss on other investments	—	(81)	154	73
As at 30th June 2005				
Segment assets	5,326,865	1,867,835	23,725	7,218,425
Jointly controlled entities	704,913	256,191	—	961,104
Associated companies	—	20,142	—	20,142
Unallocated assets				1,634,465
Total assets				9,834,136
Segment liabilities	609,993	598,798	6,927	1,215,718
Unallocated liabilities				3,386,617
Total liabilities				4,602,335

3 SEGMENT INFORMATION (CONT'D)

	Properties *HK$'000*	Construction materials *HK$'000*	Others *HK$'000*	Total *HK$'000*
Six months ended 30th June 2004				
Turnover	265,279	617,478	17,928	900,685
Other revenues	5,584	5,025	804	11,413
Operating profit/(loss)	24,854	3,861	(1,946)	26,769
Finance costs				(10,235)
Share of profits less losses of				
Jointly controlled entities	142,157	4,286	—	146,443
Associated companies	—	865	—	865
Profit before taxation				163,842
Taxation				(5,630)
Profit for the period				158,212
Capital expenditure	1,950	42,114	—	44,064
Depreciation	1,217	36,344	—	37,561
Amortisation	17,595	19,117	—	36,712
Fair value loss/(gain) on other investments	—	1,419	(7,408)	(5,989)
As at 31st December 2004				
Segment assets	5,051,008	1,802,417	26,445	6,879,870
Jointly controlled entities	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	613,298	9,839	1,186,842
Unallocated liabilities				3,736,056
Total liabilities				4,922,898

3 SEGMENT INFORMATION (CONT'D)

A summary of geographical segments is set out as follows:

	Turnover *HK$'000*	Operating profit/(loss) *HK$'000*	Capital expenditure *HK$'000*	Total assets *HK$'000*
Six months ended 30th June 2005				**At 30th June 2005**
Hong Kong	**365,858**	**622,981**	**18,697**	**4,605,732**
Mainland China & Others	**353,969**	**5,086**	**7,421**	**5,228,404**
	719,827	**628,067**	**26,118**	**9,834,136**
Six months ended 30th June 2004				At 31st December 2004
Hong Kong	458,146	34,525	38,989	3,709,013
Mainland China & Others	442,539	(7,756)	5,075	4,609,993
	900,685	26,769	44,064	8,319,006

4 OPERATING PROFIT

	2005	2004
	HK$'000	*HK$'000*
Operating profit is stated after crediting:		
Profit on disposal of property, plant and equipment	**180**	21
Fair value gain on other investments	**—**	5,989
Interest income	**9,379**	10,677
Dividend income from unlisted investments	**12,721**	—
Write back of stock provision	**1,332**	—
Fair value gain on investment properties	**1,742**	—
Negative goodwill arising from acquisition of a jointly controlled entity	**4,317**	—
Amortisation of negative goodwill	**—**	316
and after charging:		
Cost of inventories sold	**507,058**	554,566
Depreciation	**37,744**	37,561
Amortisation		
Leasehold land and land use rights	**20,786**	20,073
Quarry site development	**932**	871
Overburden removal costs	**7,796**	8,208
Quarry site improvements	**7,560**	7,560
Royalty	**2,792**	1,979
Operating lease rental for land and buildings	**13,327**	14,048
Fair value loss on other investments	**73**	—
Provision for other investments	**—**	11,000
Loss on disposal of listed investments	**—**	2,893

5 TAXATION

	2005	2004
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**4,853**	4,526
Overseas taxation	**304**	1,518
Deferred taxation	**(30)**	(414)
	5,127	5,630

5 TAXATION (CONT'D)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period 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 associated companies and jointly controlled entities for the six months ended 30th June 2005 are HK$184,000 (2004: HK$443,000) and HK$4,425,000 (2004: HK$31,381,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

6 INTERIM DIVIDEND

The Board of Directors has resolved to pay an interim cash dividend of 1 HK cent per share (2004: scrip dividend with a cash option of 2 HK cents per share), totalling HK$23,491,000 (2004: HK$40,195,000) for the six months ended 30th June 2005 to shareholders whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005. This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2005.

The Board of Directors has also declared a special interim dividend for the six months ended 30th June 2005 to be effected by way of distribution in specie of the shares of K. Wah Construction Materials Limited ("KWCM") to the shareholders of the Company whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005, on the basis of one KWCM share for every ten shares of the Company then held.

The aggregate market value of the KWCM shares to be distributed under the distribution as at the date of the announcement dated 14th September 2005 is HK$1,268,519,000, which equates to a dividend of approximately HK$0.54 per share before distribution. The actual amount of dividends to be booked to the accounts of the Company will be determined based on the closing price of the KWCM shares as at the date of posting the share certificates of the distribution shares.

7 EARNINGS PER SHARE

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

	2005 **HK$'000**	2004 HK$'000
Profit for calculation of basic earnings per share	**631,585**	155,637
Effect of dilutive potential ordinary shares		
Interest on convertible bonds, net of tax	**6,907**	891
Unamortised issue costs for convertible bonds, net of tax	**—**	(12,813)
Profit for calculation of diluted earnings per share	**638,492**	143,715

	2005 ***Number of shares***	2004 *Number of shares*
Weighted average number of shares for calculating basic earnings per share	**2,261,175,000**	1,980,970,000
Effect of dilutive potential ordinary shares		
Convertible bonds	**140,370,000**	145,626,000
Share options	**19,378,000**	20,062,000
Weighted average number of shares for calculating diluted earnings per share	**2,420,923,000**	2,146,658,000

8 CAPITAL EXPENDITURE

For the six months ended 30th June 2005, the Group incurred HK$26 million (2004: HK$40 million) on property, plant and equipment and HK$0.5 million (2004: HK$4 million) on deferred expenditure. The Group has disposed of HK$1 million (2004: HK$4 million) of property, plant and equipment.

9 OTHER NON-CURRENT ASSETS

	30th June 2005 HK$'000	31st December 2004 HK$'000
Deferred expenditure		
Overburden removal costs	**92,129**	99,679
Quarry site development	**13,224**	14,073
Issue costs for convertible bonds	**—**	13,896
	105,353	127,648
Quarry site improvements	**128,490**	136,050
Deferred receivable	**6,265**	6,706
Mortgage loans	**10,998**	18,168
	251,106	288,572

10 DEBTORS AND PREPAYMENTS

	30th June 2005 HK$'000	31st December 2004 HK$'000
Trade debtors	**491,783**	471,934
Other receivables	**130,063**	130,293
Prepayments	**64,542**	63,133
Amounts due from jointly controlled entities	**191,224**	155,237
Amount due from a minority shareholder	**1,948**	—
	879,560	820,597

The Group has established credit policies which follow local industry standard. 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 review by management.

10 DEBTORS AND PREPAYMENTS (CONT'D)

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

	30th June 2005	31st December 2004
	HK$'000	*HK$'000*
Within one month	**97,523**	135,270
Two to three months	**141,721**	157,988
Four to six months	**81,028**	89,423
Over six months	**171,511**	89,253
	491,783	471,934

11 CREDITORS AND ACCRUALS

	30th June 2005	31st December 2004
	HK$'000	*HK$'000*
Trade creditors	**276,068**	300,403
Other creditors	**73,823**	79,849
Accrued operating expenses	**112,154**	88,403
Deposits received	**51,851**	28,872
Amounts due to jointly controlled entities	**243,507**	204,500
Amounts due to minority shareholders	**294,968**	303,942
	1,052,371	1,005,969

11 CREDITORS AND ACCRUALS (CONT'D)

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

	30th June 2005 *HK$'000*	31st December 2004 *HK$'000*
Within one month	**142,457**	186,800
Two to three months	**58,156**	63,237
Four to six months	**32,424**	26,502
Over six months	**43,031**	23,864
	276,068	300,403

12 SHARE CAPITAL

	2005 Ordinary Shares of HK$0.10 each	***HK$'000***	2004 Ordinary Shares of HK$0.10 each	*HK$'000*
Authorised				
At 1st January	**5,000,000,000**	**500,000**	3,888,000,000	388,800
Increase during the period	**—**	**—**	1,112,000,000	111,200
At 30th June	**5,000,000,000**	**500,000**	5,000,000,000	500,000
Issued and fully paid				
At 1st January	**2,015,644,738**	**201,564**	1,977,968,748	197,797
Exercise of share options *(note (a))*	**2,968,000**	**297**	4,581,000	458
Conversion of convertible bonds *(note (b))*	**315,671,092**	**31,567**	—	—
At 30th June	**2,334,283,830**	**233,428**	1,982,549,748	198,255

12 SHARE CAPITAL (CONT'D)

(a) The Company operates a share option scheme under which options to subscribe for shares in the Company are granted to selected executives. During the period, no new options were granted (2004: nil) and options to subscribe for 2,968,000 shares (2004: 4,581,000 shares) were exercised. At 30th June 2005, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price per share *HK$*	Number of share options 30th June 2005	31st December 2004
20th May 1999 to 19th May 2008	0.5586	**3,613,000**	3,728,000
30th December 2000 to 29th December 2009	0.3600	**5,040,000**	5,490,000
1st March 2004 to 28th February 2013	0.7200	**11,210,000**	12,613,000
30th December 2003 to 29th December 2013	1.3000	**5,000,000**	6,000,000
		24,863,000	27,831,000

(b) During the period, convertible bonds (note 13(a)) with face value of HK$710.3 million were converted into 315.7 million ordinary shares of the Company, of which HK$31.6 million was credited to share capital and the balance to the share premium account.

13 BORROWINGS

	30th June 2005 HK$'000	31st December 2004 HK$'000
Long term bank loans		
Secured	**2,050,598**	1,874,622
Unsecured	**450,850**	744,736
	2,501,448	2,619,358
Convertible bonds *(note (a))*	**117,223**	864,260
Loans from minority shareholders	**98,015**	98,015
	2,716,686	3,581,633
Short term bank loans		
Secured	**157,400**	—
Unsecured	**383,802**	36,133
	3,257,888	3,617,766
Current portion included in current liabilities	**(1,612,772)**	(844,542)
	1,645,116	2,773,224

(a) 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, at an initial conversion price of HK$2.25 per share, subject to adjustment, on or after 23rd April 2004 up to 8th March 2009. 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-convertible bond. The residual value on issue, representing the value of the conversion option component, is recognised separately as convertible bond reserve under equity. As at 30 June 2005, the convertible bonds remaining not yet converted were carried at amortised cost.

14 COMMITMENTS

	30th June 2005 HK$'000	31st December 2004 HK$'000
Contracted but not provided for		
Commitments in respect of property developments	**1,055,389**	969,302
Commitments in respect of capital expenditure	**45,471**	75,198

In addition to the above, the Group has entered into an agreement dated 14th March 2005 for the acquisition of Galaxy Casino, S.A. (note 16).

15 BUSINESS COMBINATIONS

In April 2005, the Group acquired a jointly controlled entity for property development and investment in Shanghai of which the Group holds a 41.5% interest. The net assets acquired and negative goodwill arising are as follows:

	HK$'000
Cash consideration	438,567
Fair value of net assets acquired	442,884
Negative goodwill	(4,317)

In May 2005, the Group acquired 51% equity interest in a subsidiary carrying on construction materials business. Details of net assets acquired and goodwill arising are as follows:

	HK$'000
Cash consideration	17,000
Fair value of net assets acquired	383
Goodwill	16,617

15 BUSINESS COMBINATIONS (CONT'D)

The goodwill is attributable to the future profit prospects of the acquired business. The assets and liabilities arising from the acquisition of the subsidiary are as follows:

	Fair value *HK$'000*	Acquiree's carrying amount *HK$'000*
Plant and equipment	166	166
Other receivables	314	314
Prepayments and deposits	133	133
Cash and bank balances	310	310
Other payables	(172)	(172)
Net assets	751	751
Minority interests	(368)	
Net assets acquired	383	

16 POST BALANCE SHEET EVENT

On 22nd July 2005, the Group completed the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. at an aggregate consideration of HK$18,405 million. The consideration was satisfied by the issue of 1,840,519,798 new shares of a subsidiary, K Wah Construction Materials Limited ("KWCM"), unsecured fixed rate notes and cash. Following the completion of the acquisition, the Group's interest in KWCM was diluted from 59.1% to 25.9% and therefore constituted a deemed disposal by the Group of its interest in KWCM. As a result, KWCM ceased to be a subsidiary and became an associated company of the Group. Details of the acquisition are set out in the circular of the Company dated 30th June 2005.