



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

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

Dear shareholders,

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

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

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

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

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

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

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

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

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

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

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

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

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

Che-woo Lui

Chairman

30th March 2006

