

1. General Information

The principal activities of the Group are property development and property investment in Hong Kong, Singapore and Mainland China.

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

2. Basis of Preparation

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale investments and other investments, which are carried at fair values and in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and methods of computation 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 2005.

For the six months ended 30th June 2006, the Group has also applied, for the first time, the new standards, amendments and interpretations issued by the HKICPA that are effective for the accounting periods beginning on or after 1st January 2006. However, the adoption of these new standards does not have any significant effect on the accounting policies or results and financial position of the Group.

The 2005 comparative figures for the consolidated profit and loss statement have been reclassified to conform to the presentation under the Hong Kong Financial Reporting Standards following the deemed disposal of Galaxy Entertainment Group Limited ("GEG").

3. Financial Risk Management

All aspects of the financial risk management objectives and policies of the Group are consistent with those disclosed in the annual financial statements for the year ended 31st December 2005.

4. Critical Accounting Estimates and Judgements

Estimates and judgements used 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 resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31st December 2005.

5. Segment Information

The Group is principally engaged in property development and property investment. In Japan, the Group carries on trading of plant and machinery. The Group ceased to carry on manufacture, sale and distribution of construction materials following the deemed disposal of GEG (see note 8) in 2005. 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, properties, debtors and prepayments and mainly exclude certain investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals. There are no sales or trading transactions between the business segments.

A summary of business segments is set out as follows:

	Continuing operations			Total HK\$'000
	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	
Six months ended 30th June 2006				
Turnover	98,465	30,738	—	129,203
Operating profit	594,513	1,693	2,051	598,257
Finance costs				(48,222)
Share of profits less losses of jointly controlled entities	1,843	—	—	1,843
Profit before taxation				551,878
Taxation charge				(185,694)
Profit for the period				366,184
Capital expenditure	2,874	69	—	2,943
Depreciation	1,487	—	—	1,487
Amortisation	2,204	—	—	2,204
Fair value gain on other investments	—	—	4,988	4,988
As at 30th June 2006				
Segment assets	7,729,186	13,035	5,287,127	13,029,348
Jointly controlled entities	579,104	—	—	579,104
Total assets				13,608,452
Total liabilities	1,111,399	10,067	4,457,828	5,579,294

5. Segment Information (cont'd)

	Continuing operations			Total HK\$'000	Discontinued operations HK\$'000
	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000		
Six months ended 30th June 2005					
Turnover	150,530	23,139	—	173,669	546,158
Operating profit/(loss)	52,692	(161)	(10,885)	41,646	9,298
Finance costs				(14,669)	(5,998)
Share of profits less losses of Jointly controlled entities	20,531	—	—	20,531	7,945
Associated companies				—	1,492
Profit before taxation				47,508	12,737
Taxation charge				(4,847)	(280)
Profit after taxation				42,661	12,457
Gain on deemed partial disposal of a subsidiary				—	577,123
Profit for the period				42,661	589,580
Capital expenditure	1,653	—	—	1,653	24,465
Depreciation	947	—	—	947	36,440
Amortisation	2,142	—	—	2,142	19,307
Fair value loss/(gain) on other investments	—	—	154	154	(81)
As at 31st December 2005					
Segment assets	6,387,786	29,428	2,988,765	9,405,979	
Jointly controlled entities	577,261	—	—	577,261	
Total assets				9,983,240	
Total liabilities	697,297	18,712	3,594,593	4,310,602	

5. Segment Information (cont'd)

A summary of geographical segments is set out as follows:

	Continuing operations			
	Operating		Capital expenditure	Total assets at 30th June 2006
	Turnover	profit/(loss)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30th June 2006				
Hong Kong	5,821	(14,060)	688	7,497,820
Mainland China	84,127	604,735	2,186	5,914,693
Singapore	8,517	5,889	—	174,771
Japan	30,738	1,693	69	21,168
	129,203	598,257	2,943	13,608,452

	Continuing operations			Discontinued operations			Total assets at 31st December 2005
	Operating		Capital expenditure	Turnover	Operating profit	Capital expenditure	December 2005
	Turnover	profit/(loss)					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30th June 2005							
Hong Kong	123,441	39,958	811	242,417	5,900	17,886	4,907,515
Mainland China	22,605	1,515	842	303,741	3,398	6,579	4,878,348
Singapore	4,484	334	—	—	—	—	165,292
Japan	23,139	(161)	—	—	—	—	32,085
	173,669	41,646	1,653	546,158	9,298	24,465	9,983,240

6. Operating Profit

	2006	2005
	HK\$'000	HK\$'000
Operating profit is stated after crediting:		
Exchange gain	17,843	3,382
Fair value gain on other investments	4,988	—
Interest income	3,266	3,012
Negative goodwill arising from acquisition of a jointly controlled entity	—	4,317
and after charging:		
Cost of inventories sold	25,815	19,982
Depreciation (net of amount capitalised under properties under development of HK\$701,000 (2005: HK\$357,000))	1,487	947
Amortisation of leasehold land (net of amount capitalised under properties under development of HK\$15,008,000 (2005: HK\$15,625,000))	2,204	2,142
Fair value loss on other investments	—	154
Operating lease rental for land and buildings	2,160	—
Loss on disposal of property, plant and equipment	56	133

7. Taxation Charge

	2006	2005
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	12	4,775
Overseas taxation	168	102
Deferred taxation	185,514	(30)
	185,694	4,847

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period after setting off available tax losses brought forward. Taxation assessable on profits generated from 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 six months ended 30th June 2006 amounting to HK\$1,017,000 (2005: HK\$4,151,000) and was included in the profit and loss statement as share of profits less losses of jointly controlled entities.

8. Discontinued Operations

	2005 HK\$'000
Construction materials	
Turnover	546,158
Operating profit	9,298
Finance costs	(5,998)
Share of profits less losses of	
Jointly controlled entities	7,945
Associated companies	1,492
Profit before taxation	12,737
Taxation charge	(280)
Profit for the period	12,457
Gain on deemed partial disposal	577,123
Profit from discontinued operations	589,580
Operating cash flows	4,435
Investing cash flows	(87,566)
Financing cash flows	1,192,300
Net increase in cash and bank balances	1,109,169
Change in exchange rate	242
Cash and cash equivalents at beginning of period	170,952
Total cash flows	1,280,363

The discontinued operations represent the manufacture, sale and distribution of construction materials, which the Group ceased to carry on following the deemed disposal and distribution in specie by the Group of its equity interest in GEG in November 2005. The principal activities of GEG are gaming, sale, manufacture and distribution of construction materials.

9. Dividends

The Board has declared an interim scrip dividends (with a cash option) of HK\$0.01 per share (totalling HK\$24,187,000) for the six months ended 30th June 2006 (2005: interim cash dividends of HK\$0.01 per share and an one-off special interim dividends (by way of distribution in specie) equivalent to HK\$0.517 per share, totalling HK\$1,252,914,000). This amount will be accounted for as an appropriation of revenue reserves for the year ending 31st December 2006.

10. Earnings per Share

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

	Continuing operations		Discontinued operations	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders	108,277	46,013	—	585,572
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds, net of tax	1,274	6,907	—	—
Profit for calculation of diluted earnings per share	109,551	52,920	—	585,572

	Number of shares	
	2006	2005
Weighted average number of shares for calculating basic earnings per share	2,394,314,000	2,261,175,000
Effect of dilutive potential ordinary shares:		
Share options	4,991,000	140,370,000
Weighted average number of shares for calculating diluted earnings per share (before convertible bonds)	2,399,305,000	2,401,545,000
Effect of dilutive potential ordinary shares:		
Convertible bonds	39,096,000	19,378,000
Weighted average number of shares for calculating diluted earnings per share	2,438,401,000	2,420,923,000

The calculation of diluted earnings per share for 2005 does not take into account of the convertible bonds which were anti-dilutive except for the calculation of diluted earnings per share for discontinued operations.

11. Capital Expenditure

For the six months ended 30th June 2006, the Group incurred HK\$2.9 million (2005: HK\$26 million) on property, plant and equipment. The Group has disposed of HK\$0.6 million (2005: HK\$1 million) of property, plant and equipment.

12 Non-current Investments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Available-for-sale investments, at fair value	4,643,130	2,690,556

The available-for-sale investments represent the Group's 18.7% equity interest in GEG. GEG is incorporated in Hong Kong, whose shares are listed on the Main Board of the Stock Exchange.

13 Debtors and Prepayments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Trade debtors, net of provision	13,431	23,756
Other receivables, net of provision	58,204	105,781
Prepayments	3,600	5,008
	75,235	134,545

The Group's trade debtors mainly comprise receivables for sale of properties and rental. Sales terms vary for each property project and are determined with reference to the prevailing marketing conditions.

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 2006	31st December 2005
	HK\$'000	HK\$'000
Within one month	7,447	14,566
Two to three months	1,085	3,137
Four to six months	4,069	987
Over six months	830	5,066
	13,431	23,756

14. Creditors and Accruals

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Trade creditors	161,023	210,515
Other creditors	21,995	29,944
Accrued operating expenses	28,702	24,833
Deposits received	728,564	176,597
Amounts due to jointly controlled entities	69,007	69,007
Amounts due to minority shareholders	122,179	208,341
	1,131,470	719,237

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

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Within one month	159,825	209,998
Two to three months	1,198	517
	161,023	210,515

15. Share Capital

	2006		2005	
	Ordinary shares of HK\$0.10 each	HK\$'000	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised At 1st January and 30th June	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid At 1st January	2,377,921,049	237,792	2,015,644,738	201,564
Exercise of share options (a)	270,000	27	2,968,000	297
Conversion of convertible bonds (b)	28,723,399	2,872	315,671,092	31,567
At 30th June	2,406,914,448	240,691	2,334,283,830	233,428

15. 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 (2005: nil) and options to subscribe for 270,000 ordinary shares (2005: 2,968,000 ordinary shares) were exercised. At 30th June 2006, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price per share HK\$	Number of share options	
		30th June 2006	31st December 2005
20th May 1999 to 19th May 2008	0.5586	33,000	33,000
30th December 2000 to 29th December 2009	0.3600	300,000	300,000
1st March 2004 to 28th February 2013	0.7200	645,000	915,000
30th December 2003 to 29th December 2013	1.3000	2,000,000	2,000,000
22nd October 2006 to 21st October 2011	1.9060	20,229,000	20,229,000
		23,207,000	23,477,000

- (b) During the period, convertible bonds (note 16(a)) with face value of HK\$54 million were converted into 28.7 million ordinary shares of the Company, of which HK\$2.87 million was credited to share capital and the balance to the share premium account.

16. Borrowings

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Long term bank loans		
Secured	2,733,502	2,212,055
Unsecured	460,580	279,798
Convertible bonds (a)	3,194,082	2,491,853
Loans from minority shareholders	39,971	81,122
	—	98,242
	3,234,053	2,671,217
Short term bank loans		
Secured	10,000	10,000
Unsecured	779,486	694,520
	4,023,539	3,375,737
Current portion included in current liabilities	(1,277,535)	(1,807,880)
	2,746,004	1,567,857

16. Borrowings (cont'd)

- (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, 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 dividends (by way of distribution 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.

17. Commitments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Contracted but not provided for Commitments in respect of property developments	1,232,516	1,655,263

18. 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\$3,336 million (31st December 2005: HK\$3,572 million), of which HK\$2,323 million (31st December 2005: HK\$2,079 million) have been utilised.

The Company has executed guarantees in respect of the convertible bonds issued by a subsidiary outstanding amounting of which, as of 30th June 2006 was HK\$50 million (31st December 2005: HK\$104 million).

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

19. Subsequent Event

On 6th September 2006, the Group's wholly-owned subsidiary, K. Wah Stones (Holdings) Limited, obtained a blended 3/5 years revolving/term syndicated bank loans amounting to HK\$1.8 billion.