

1 GENERAL INFORMATION

The principal activities of K. Wah International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) are property development and investment in Hong Kong, Singapore and Mainland China.

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

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

2 BASIS OF PREPARATION

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

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

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

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

Effective for year ending 31 December 2007

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

Effective for year ending 31 December 2009

- HKFRS 8 Operating Segments

The Group is assessing the impact of these new standards and interpretations but is not yet to be in a position to state whether they would have a significant impact on its results of operations and financial position.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements, which have been consistently applied to all the years presented, are set out below.

3.1 Consolidation

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

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

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

3.2 Subsidiaries

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

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

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

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

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

3.3 Minority interests

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Minority interests (Continued)

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

3.4 Jointly controlled entities

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

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

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

3.5 Goodwill

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

Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities is included in investments in jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Property, plant and equipment

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

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

Plant and machinery	9%
Other assets	10 to 25%

The residual values and useful lives of the assets are reviewed and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its recoverable amount, it is written down immediately to its estimated recoverable amount.

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

3.7 Investment properties

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

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by external valuers. Changes in fair values are recognised in the profit and loss statement. The fair value of investment property reflects, among other things, rental from current leases and assumptions about rental from future leases in the light of current market conditions.

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

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Investment properties (Continued)

Property that is being constructed or developed for future use as investment property is classified as properties under development and carried at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

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

3.8 Impairment of assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

3.9 Investments

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

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

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

(b) *Loans and receivable*

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Investments (Continued)

(c) *Available-for-sale investments*

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Development properties

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

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

3.11 Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indicators that the trade debtor is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the profit and loss statement.

3.12 Cash and cash equivalents

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Share capital

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

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

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability including fees and commissions to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method.

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

3.15 Convertible bonds with equity component

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Trade creditors

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

3.17 Leases

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

3.18 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

3.19 Deferred taxation

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

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

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

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

(b) *Share-based compensation*

The fair value of the employee services received in exchange for the grant of the options under the equity-settled, share-based compensation plan is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the estimates of the number of options that are expected to become exercisable are revised. The impact of the revision of original estimates, if any, is recognised in the profit and loss statement with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

3.21 Borrowing costs

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Revenue recognition

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

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

(a) *Sales of properties*

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

(b) *Rental income*

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

(c) *Sales of goods*

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

(d) *Interest income*

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

(e) *Dividend income*

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

3.23 Foreign currencies

(a) *Functional and presentation currency*

Transactions included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Hong Kong dollar, which is the functional and presentation currency of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Foreign currencies (Continued)

(b) *Transactions and balances*

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

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

(c) *Group companies*

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

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

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

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

3.24 Segment reporting

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

3.25 Dividend distribution

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

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

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

Financial risk management is carried out by the finance department under policies approved by the Board of Directors.

(a) Credit risk

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

(b) Liquidity risk

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

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

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

(c) Cash flow and fair value interest rate risk

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

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

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

(d) Foreign exchange risk

The Group has no significant foreign exchange risk since most of the assets and liabilities of the Group are denominated in either Hong Kong dollar or Renminbi ("RMB"). Translation exposure arising on consolidation of the net assets of entities denominated in foreign currencies is accounted for in the exchange reserve.

4 FINANCIAL RISK MANAGEMENT (Continued)

4.1 Financial risk factors (Continued)

(e) *Price risk*

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

4.2 Fair value estimation

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

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

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

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

5 CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS

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

(a) *Fair value of investment properties*

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

(b) *Impairment of assets*

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

5 CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS (Continued)

(c) *Taxation*

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

(d) *Convertible bonds*

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

(e) *Share-based payments*

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

6 SEGMENT INFORMATION

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

6 SEGMENT INFORMATION (Continued)

(A) Business segments

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

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total continuing operations HK\$'000	Discontinued operations HK\$'000
Year ended 31 December 2005					
Turnover	226,330	62,977	—	289,307	546,158
Other revenues	—	—	5,298	5,298	20,142
Operating profit	360,589	544	21,108	382,241	9,298
Finance costs				(36,689)	(5,998)
Share of profits less losses of jointly controlled entities				47,697	7,945
Associated companies				—	1,492
Profit before taxation				393,249	12,737
Taxation charge				(142,869)	(280)
Profit after taxation				250,380	12,457
Gain on deemed partial disposal				—	3,611,466
Share of losses				—	(70,505)
Profit for the year				250,380	3,553,418
Capital expenditure	(5,607)	(123)	—	(5,730)	(24,465)
Depreciation	(2,242)	(83)	—	(2,325)	(36,440)
Amortisation	(5,812)	—	—	(5,812)	(19,307)
Change in fair value of investment properties	348,679	—	—	348,679	—
Change in fair value of other investments	—	—	(1,204)	(1,204)	81
As at 31 December 2005					
Segment assets	6,387,786	29,428	2,988,765	9,405,979	
Jointly controlled entities	577,261	—	—	577,261	
Total assets				9,983,240	
Total liabilities	697,297	18,712	3,594,593	4,310,602	

6 SEGMENT INFORMATION (Continued)

(B) Geographical segments

	Continuing operations			
	Turnover	Operating profit/(loss)	Capital expenditure	Total assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2006				
Hong Kong	10,780	(34,097)	1,049	7,798,305
Mainland China	177,785	1,091,324	3,192	6,933,816
Singapore	14,510	13,234	28	181,831
Japan	72,881	918	67	21,066
	275,956	1,071,379	4,336	14,935,018

	Continuing operations			Discontinued operations			
	Turnover	Operating profit/(loss)	Capital expenditure	Turnover	Operating profit	Capital expenditure	Total assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2005							
Hong Kong	129,115	(7,162)	2,060	242,417	5,900	17,886	4,907,515
Mainland China	88,275	386,834	3,525	303,741	3,398	6,579	4,878,348
Singapore	8,940	2,017	22	—	—	—	165,292
Japan	62,977	552	123	—	—	—	32,085
	289,307	382,241	5,730	546,158	9,298	24,465	9,983,240

7 TURNOVER AND OTHER REVENUES

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

Notes to the Financial Statements (Continued)

8 OPERATING PROFIT

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

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

9 FINANCE COSTS

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

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

10 DIRECTORS' REMUNERATION

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

(*) Deceased

11 FIVE HIGHEST PAY INDIVIDUALS

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

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

12 RETIREMENT BENEFIT SCHEMES

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

12 RETIREMENT BENEFIT SCHEMES (Continued)

Employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to those plans at rates ranging from 20% to 22% of the basic salaries of the employees, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits to employees other than the above payments.

The retirement benefit schemes cost charged to the profit and loss statement during the year comprises contributions made by the Group to the schemes of HK\$4,825,000 (2005: HK\$11,420,000), less forfeitures of HK\$317,000 (2005: HK\$144,000), leaving HK\$201,000 (2005: nil) available at the balance sheet date to reduce future contributions.

13 TAXATION CHARGE

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

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward. Taxation assessable on profits generated overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates.

Share of taxation charge of jointly controlled entities for the year ended 31 December 2006 amounting to HK\$2,802,000 (2005: HK\$17,185,000) was included in the profit and loss statement as share of profits of jointly controlled entities.

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

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

14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

15 DIVIDENDS

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

- (a) The Board of Directors recommended a final scrip dividend with a cash option for 2006 in the amount of 2.5 HK cents (2005: 1 HK cent) per share. This dividend will be accounted for as an appropriation of revenue reserve in the year ending 31 December 2007.
- (b) On 14 September 2005, the Board of Directors declared a special interim dividend effected by way of distribution in specie of shares of GEG on the basis of one GEG share for every ten shares of the Company. The dividend in specie was distributed on 4 November 2005.

16 EARNINGS PER SHARE

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

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

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

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

Notes to the Financial Statements (Continued)

17 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Other assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31 December 2004	83,192	700,383	312,444	1,096,019
Exchange differences	91	—	(91)	—
Additions	98	20,073	9,861	30,032
Transfer from development properties	12,137	—	—	12,137
Disposals	—	(1,929)	(6,150)	(8,079)
Deemed disposal of a subsidiary	(40,394)	(716,027)	(291,573)	(1,047,994)
At 31 December 2005	55,124	2,500	24,491	82,115
Exchange differences	671	100	354	1,125
Additions	—	—	4,336	4,336
Disposals	—	—	(3,539)	(3,539)
At 31 December 2006	55,795	2,600	25,642	84,037
Accumulated depreciation				
At 31 December 2004	14,165	396,713	179,086	589,964
Exchange differences	39	—	(87)	(48)
Charge for the year	1,535	23,037	14,864	39,436
Disposals	—	(1,886)	(4,856)	(6,742)
Deemed disposal of a subsidiary	(5,293)	(417,864)	(171,312)	(594,469)
At 31 December 2005	10,446	—	17,695	28,141
Exchange differences	67	4	220	291
Charge for the year	1,162	230	3,183	4,575
Disposals	—	—	(3,267)	(3,267)
At 31 December 2006	11,675	234	17,831	29,740
Net book value				
At 31 December 2006	44,120	2,366	7,811	54,297
At 31 December 2005	44,678	2,500	6,796	53,974

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

18 INVESTMENT PROPERTIES

Group

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

18 INVESTMENT PROPERTIES (Continued)

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

19 LEASEHOLD LAND AND LAND USE RIGHTS

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

The interests in leasehold land and land use rights represent prepaid operating lease payments. Leasehold land and land use rights with carrying values of HK\$68,035,000 (2005: HK\$68,705,000) were pledged to secure the banking facilities of the Group.

20 JOINTLY CONTROLLED ENTITIES**Group**

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

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

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

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

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

Company

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

21 SUBSIDIARIES

	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost less provision	259,561	259,561

Details of subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 39(a).

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

22 NON-CURRENT INVESTMENTS**Group**

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

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

23 OTHER NON-CURRENT ASSETS**Group**

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

Mortgage loans are advances to purchasers of development properties of the Group and are secured by second mortgages on the related properties. The current portion of the loans is included under other debtors. The Group has recognised an impairment loss of HK\$615,000 (2005: HK\$3,039,000) for its second mortgage loans during the year and included in other operating expenses in the profit and loss statement.

24 DEVELOPMENT PROPERTIES**Group**

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

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

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

25 DEBTORS AND PREPAYMENTS

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

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

The debtors and prepayments are denominated in the following currencies:

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

25 DEBTORS AND PREPAYMENTS (Continued)

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

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

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

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

26 OTHER INVESTMENTS**Group**

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

27 CASH AND BANK BALANCES

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

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

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

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

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

28 CREDITORS AND ACCRUALS

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

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

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

The creditors and accruals are denominated in the following currencies:

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

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

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

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

29 SHARE CAPITAL

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

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

30 SHARE OPTION SCHEME

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

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

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

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

30 SHARE OPTION SCHEME (Continued)

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

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

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

During the year, no new options were granted.

The fair value of options granted in 2005, as determined by using the Black-Scholes valuation model, was HK\$4.8 million. The significant inputs into the model were share price of HK\$1.78 at the valuation date, exercise price at the date of granting the options, expected volatility of 25%, expected life of options of 2.5 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 4.075%. The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the last 260 trading days.

31 RESERVES

(a) Group

	Share premium	Share option reserve	Contributed surplus	Capital redemption reserve	Capital reserve	Convertible bonds reserve	Investment reserve	Property revaluation reserve	Exchange reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As 31 December 2005	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878
Exchange differences	—	—	—	—	—	—	—	—	85,306	—	85,306
Conversion of convertible bonds, net of tax	64,769	—	—	—	—	(14,221)	—	—	—	—	50,548
Exercise of share options	6,819	(625)	—	—	—	—	—	—	—	—	6,194
Shares issued as scrip dividends	(1,343)	—	—	—	—	—	—	—	—	—	(1,343)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	—	31,387	31,387
Fair value of share options	—	2,384	—	—	—	—	—	—	—	—	2,384
Change of fair value of non-current investments	—	—	—	—	—	—	1,786,528	—	—	—	1,786,528
Profit for the year	—	—	—	—	—	—	—	—	—	229,703	229,703
2005 final dividend	—	—	—	—	—	—	—	—	—	(24,030)	(24,030)
2006 interim dividend	—	—	—	—	—	—	—	—	—	(24,187)	(24,187)
At 31 December 2006	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	125,674	4,046,470	7,221,368
Retained by:											
Company and subsidiaries	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	97,156	3,950,913	7,097,293
Jointly controlled entities	—	—	—	—	—	—	—	—	28,518	95,557	124,075
	1,638,237	4,142	99,089	13	482	8,888	1,298,373	—	125,674	4,046,470	7,221,368
At 31 December 2004	810,646	—	99,089	13	34,188	192,037	—	10,254	5,760	1,486,904	2,638,891
Exchange differences	—	—	—	—	—	—	—	—	37,095	—	37,095
Conversion of convertible bonds, net of tax	742,341	—	—	—	—	(168,928)	—	—	—	—	573,413
Exercise of share options	15,005	—	—	—	—	—	—	—	—	—	15,005
Fair value of share options	—	2,383	—	—	—	—	—	—	—	—	2,383
Change of fair value of non-current investments	—	—	—	—	—	—	(489,184)	—	—	—	(489,184)
Realised on disposal of properties	—	—	—	—	—	—	—	(10,254)	—	10,254	—
Deemed disposal of a subsidiary	—	—	—	—	(33,706)	—	1,029	—	(2,487)	35,164	—
Profit for the year	—	—	—	—	—	—	—	—	—	3,644,048	3,644,048
2004 final dividend	—	—	—	—	—	—	—	—	—	(89,859)	(89,859)
2005 interim dividend	—	—	—	—	—	—	—	—	—	(23,771)	(23,771)
2005 special interim dividend in specie	—	—	—	—	—	—	—	—	—	(1,229,143)	(1,229,143)
At 31 December 2005	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878
Retained by:											
Company and subsidiaries	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	30,857	3,745,724	4,981,494
Jointly controlled entities	—	—	—	—	—	—	—	—	9,511	87,873	97,384
	1,567,992	2,383	99,089	13	482	23,109	(488,155)	—	40,368	3,833,597	5,078,878

31 RESERVES (Continued)**(b) Company**

	Share premium	Share option reserve	Contributed surplus	Capital redemption reserve	Convertible bonds reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As 31 December 2005	1,567,992	2,383	213,560	13	23,109	1,003,263	2,810,320
Conversion of convertible bonds, net of tax	64,769	—	—	—	(14,221)	—	50,548
Exercise of share options	6,819	(625)	—	—	—	—	6,194
Shares issued as scrip dividends	(1,343)	—	—	—	—	—	(1,343)
Reserve arising on scrip dividends	—	—	—	—	—	31,387	31,387
Fair value of share options	—	2,384	—	—	—	—	2,384
Profit for the year	—	—	—	—	—	57,157	57,157
2005 final dividend	—	—	—	—	—	(24,030)	(24,030)
2006 interim dividend	—	—	—	—	—	(24,187)	(24,187)
At 31 December 2006	1,638,237	4,142	213,560	13	8,888	1,043,590	2,908,430
At 31 December 2004	810,646	—	213,560	13	192,037	969,260	2,185,516
Conversion of convertible bonds, net of tax	742,341	—	—	—	(168,928)	—	573,413
Exercise of share options	15,005	—	—	—	—	—	15,005
Fair value of share options	—	2,383	—	—	—	—	2,383
Profit for the year	—	—	—	—	—	1,187,969	1,187,969
2004 final dividend	—	—	—	—	—	(89,858)	(89,858)
2005 interim dividend	—	—	—	—	—	(23,771)	(23,771)
2005 special interim dividend in specie	—	—	—	—	—	(1,040,337)	(1,040,337)
At 31 December 2005	1,567,992	2,383	213,560	13	23,109	1,003,263	2,810,320

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

32 BORROWINGS

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

32 BORROWINGS (Continued)

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

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

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

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

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

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

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

The fair value of the liability component of the convertible bonds at 31 December 2006 amounted to HK\$32 million (2005: HK\$78 million). The fair value is calculated using the cash flows discounted at a rate based on the borrowing rate of 6.5% (2005: 7%). Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 5.5% to the liability component.

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

33 DEFERRED TAXATION LIABILITIES**Group**

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

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

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

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

Company

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

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

(b) Analysis of changes in financing

	Share capital and share premium HK\$'000	Minority interests HK\$'000	Loans HK\$'000	Total HK\$'000
At 31 December 2004	1,012,210	723,400	3,617,766	5,353,376
Change in exchange rates	—	5,838	226	6,064
Conversion of convertible bonds	776,131	—	(783,138)	(7,007)
Share of profits of minority interests	—	159,750	—	159,750
Deemed disposal of a subsidiary	—	(1,667,056)	(388,370)	(2,055,426)
Cash flows from financing activities	17,443	1,134,036	929,253	2,080,732
At 31 December 2005	1,805,784	355,968	3,375,737	5,537,489
Change in exchange rates	—	27,839	14,426	42,265
Transfer from share option reserve	625	—	—	625
Conversion of convertible bonds	68,173	—	(48,349)	19,824
Share of profits of minority interests	—	472,041	—	472,041
Cash flows from financing activities	6,650	969	(230,827)	(223,208)
At 31 December 2006	1,881,232	856,817	3,110,987	5,849,036

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

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

(b) Operating lease commitments

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

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

(c) Operating lease rental receivables

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

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

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

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

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

36 BUSINESS COMBINATIONS (Continued)

(b) Disposal of subsidiaries

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

The above represented the deemed disposal of GEG.

(c) Disposal of associated companies

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

37 GUARANTEES

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

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

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

38 RELATED PARTY TRANSACTIONS

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

- (a) On 22 July 2002, Brighten Lion Limited, formerly a 66% owned subsidiary, granted a guaranteed unsecured revolving loan facility of HK\$330 million to Great Place Developments Limited, a wholly-owned subsidiary. The facility carries interest at the rate of 2.38% per annum over three-month HIBOR, with a maturity of three years and an option to extend the maturity for further one or two years. The maximum loan outstanding and interest paid during the year were HK\$120 million and HK\$3.37 million respectively (2005: nil).

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

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

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

39 PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital			Principal activities	Name of company	Principal place of operation	Issued share capital			Principal activities
		Number of ordinary shares	Par value per share	Effective percentage of equity held by the Group				Number of ordinary shares	Par value per share	Effective percentage of equity held by the Group	
Directly held by the Company Incorporated in the British Virgin Islands											
			US\$						HK\$		
Sutimar Enterprises Limited	Hong Kong	100	1	100	Investment holding	Netrich Limited	Hong Kong	2	1	100	Property development
						New Fine Limited	Hong Kong	1	1	100	Property development
						Orient Profit Limited	Hong Kong	1	1	100	Property development
						Origin World Limited	Hong Kong	2	1	100	Property investment
						Perfect Development Limited	Hong Kong	2	1	100	Property development
						Polynice Limited	Hong Kong	2	1	100	Provision of finance
						Union Profits Limited	Hong Kong	2	1	100	Property development
						Victory Way Limited	Hong Kong	9,901,000	1	99.9	Investment holding
						Wealthy Vision Limited	Hong Kong	1	1	100	Investment holding
Indirectly held by the Company Incorporated in Hong Kong											
			HK\$								
Bright City Development Limited	Hong Kong	2	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				Yen		
Full Wealth Limited	Hong Kong	2	1	100	Property development	Asahi Kohatsu Corporation	Japan	240	50,000	75	Trading
Grand Spark Limited	Hong Kong	1	1	100	Property development and investment						
Greenwell Investments Limited	Guangzhou	2	1	100	Investment holding and property development				US\$		
Goldstar Power Limited	Hong Kong	1	1	100	Investment holding	All Smart Profits Limited	Hong Kong	10	1	100	Investment holding
Hero Plaza Limited	Hong Kong	2	1	100	Property development	Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Kingrand Limited	Hong Kong	2	1	100	Property investment	Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
K. Wah Management Services Limited	Hong Kong	100	100	100	Provision of management services	Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
						Great Place Developments Limited	Hong Kong	10	1	100	Investment holding
K. Wah Properties Investment Limited	Hong Kong	1,000	10	100	Investment holding	K. Wah International Finance Limited	Hong Kong	10	1	100	Provision of finance
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	0.2	100	Investment holding	Leharne Properties Limited	Hong Kong	10	1	100	Investment holding
Lucky Way Investment Limited	Hong Kong	2	1	100	Property development	Ontrack Developments Limited	Hong Kong	10	1	100	Investment holding
Minter Limited	Hong Kong	2	1	100	Investment holding	Ragon Properties Limited	Hong Kong	10	1	100	Investment holding
						Repton Developments Limited	Hong Kong	10	1	100	Investment holding
						Select Vantage Profits Limited	Hong Kong	10	1	100	Investment holding
						Top Ridge Management Limited	Singapore	10	1	100	Property investment

39 PRINCIPAL SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Continued)**(a) Subsidiaries (Continued)**

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
廣州市嘉華花都置業有限公司	Guangzhou	HK\$93,600,000	100	Property development
K. Wah (China) Investment Co., Ltd.	Shanghai	US\$30,000,000	100	Investment holding
Shanghai Guoguang Real Estate Development Co., Ltd.	Shanghai	US\$31,000,000	100	Property development
Cooperative joint venture				
廣州滙城房地產開發有限公司	Guangzhou	HK\$200,000,000	99.9	Property development
Shanghai Jia Zhao Real Estate Development Co., Ltd.	Shanghai	US\$24,000,000	100	Property development
廣州市越華房地產發展有限公司	Guangzhou	HK\$187,000,000	100	Property development
廣州東鏡泰豐房地產開發有限公司	Guangzhou	US\$10,000,000	100	Property development
Equity joint venture				
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Shanghai	US\$53,000,000	36	Property development and investment
Shanghai Jia Gang Cheng Real Estate Development Co., Ltd.	Shanghai	US\$13,000,000	95	Property development
Shanghai Jiashen Real Estate Development Co., Ltd.	Shanghai	US\$38,000,000	99	Property development

(b) Jointly Controlled Entities

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Incorporated in Hong Kong					
HK\$					
Anglers' Bay Property Management Company Limited	Hong Kong	2	1	50	Property management
Golden Famous International Limited	Hong Kong	2	1	25	Property development
Prime Force Limited	Hong Kong	2	1	50	Property development
Top Falcon Limited	Hong Kong	2	1	50	Provision of finance
Incorporated in Mainland China					
Registered capital					
Shanghai Baoland Co., Ltd.	Shanghai		RMB717,674,797	41.5	Property development