



K. WAH INTERNATIONAL HOLDINGS LIMITED
嘉華國際集團有限公司

Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司
Stock code 股份代號 0173

A Year of Stellar Performance

騰飛 · 創新里程

ANNUAL REPORT 2007 年報



New
Age

New
Face

A Quality Property Developer

Listed since 1987

Our Mission

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and value creation. With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.

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Corporate Profile

K. Wah International Holdings Limited ("KWIH"; stock code: 0173), listed in Hong Kong in 1987*, is the property flagship of K. Wah Group. With a property portfolio encompassing premium residential developments, Grade-A office towers, hotels, service apartments and retail spaces, KWIH has a presence in Hong Kong, Shanghai, Guangzhou and Southeast Asia.



KWIH aims at establishing a position of large-scale integrated property developer and investor in the Greater China region. With a focus on an integrated approach for value creation, KWIH blends architectural design, quality, functionalities and top-notch building services in all its properties to redefine the standard of quality modern living. Furthermore, driven by a keen market sense and a versatile strategy, and backed by strong financial capability, KWIH has built up a prime land reserve in major cities of China, and thus a strong foothold for future growth.

KWIH has received several international accolades for its outstanding quality and service. Awarded Business Superbrands in the property development sector in 2006, KWIH was also the only winner in the Hong Kong Property Developer category of the High-Flyer Outstanding Enterprises consecutively in 2006 and 2007.

* Formerly K. Wah Stones (Holdings) Limited listed in 1987.

Corporate Information

CHAIRMAN

Dr. Che-woo Lui,
GBS, MBE, JP, LLD, DSSc, DBA

MANAGING DIRECTOR

Mr. Eddie Hui Ki On (Acting),
GBS, CBE, QPM, CPM

EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung
Mr. Lennon Lun Tsan Kau
(Deputy Managing Director)
Ms. Paddy Tang Lui Wai Yu, JP

NON-EXECUTIVE DIRECTORS

Sir David Akers-Jones*,
KBE, GBM, CMG, Hon. RICS, JP
Mr. Michael Leung Man Kin, CBE, JP
Dr. Philip Wong Kin Hang,
GBS, JP, LLD, DH
Dr. The Hon. Leo Lee Tung Hai*,
GBM, GBS, LLD, JP
Dr. Robin Chan Yau Hing*,
GBS, LLD, JP
Dr. Charles Cheung Wai Bun*, JP
Mr. Robert George Nield*

* Independent non-executive Directors

COMPANY SECRETARY

Mr. Ricky Chan Ming Tak, LLM

QUALIFIED ACCOUNTANT

Mr. Ken Wong Chun Keung,
FCCA, CPA, FCGA

AUDITORS

PricewaterhouseCoopers

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
DBS Bank Ltd.
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong)
Limited
The Hongkong and Shanghai Banking
Corporation Limited

SOLICITORS

Richards Butler
Philip K.H. Wong, Kennedy Y.H. Wong
& Co.
Johnson Stokes & Master

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda)
Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AMERICAN DEPOSITARY RECEIPTS DEPOSITORY

The Bank of New York
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
USA

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong
Limited

STOCK CODE

Hong Kong Stock Exchange : 173
Bloomberg : 173 HK
Reuters : 0173.HK

BOND LISTING

Luxembourg Stock Exchange

Financial Highlights

Revenue

+1,639%

HK\$4,800 m

(HK\$ million)



Profit Attributable to Shareholders

+966%

HK\$2,451 m

(HK\$ million)



Basic EPS

+951%

HK100.27 cents

(HK cents)

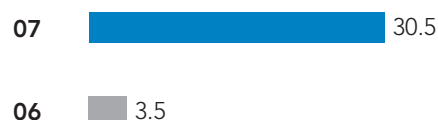


Dividend per Share

+771%

HK30.5 cents

(HK cents)



Interim dividend HK2.5 cents
 Special interim dividend HK25.0 cents
 Final dividend HK3.0 cents

STRONG FINANCIAL POSITION

As at 31 Dec	FY2007 (HK\$ million)	FY2006 (HK\$ million)	Change
Cash and Bank Balances	2,445	741	↑230%
Gearing Ratio	15%	17%	↓2% pts
NAV per Share	HK\$3.46	HK\$3.07	↑13%

KEY ATTRIBUTES TO SUCCESS

Excellent Sales

Total sales proceeds of HK\$4.4 billion recognised in FY2007 from The Great Hill, J Residence and Shanghai Westwood Phase 1

Value Appreciation from Rental Properties

Shanghai K. Wah Centre, Grade A office tower, and J SENSES, shopping and dining complex at J Residence, Hong Kong, offered promising rental income and value appreciation potential

Gain on Divestment

HK\$3.8 billion from disposal of Galaxy shares to Permira Funds, a world leading private equity firm, with profit from the disposal of approximately HK\$1,374 million

ACTIVE LAND REPLENISHMENT

Six Prime Plots Acquired in 2007

Location		Expected Gross Floor Area (sqm)	Group's Interest
Hong Kong	Tai Po Town Lot No. 186	66,500	15%
	Tai Po Town Lot No. 188	69,700	25%
	Kowloon Inland Lot No. 11073	60,500	15%
	Aberdeen Inland Lot No. 451	60,000	35%
Mainland China	Guangzhou Huadu Jianshe Bei Road	46,000	100%
	Shanghai Minhang District	171,000	100%

GEARED UP FOR LONG-TERM SUSTAINABILITY

Approximate GFA for Development in the Next Five Years

2,300,000 sqm (25,000,000 sq ft)

Approximate GFA Earmarked for Launch in the Next Three Years

930,000 sqm (10,000,000 sq ft)

Chairman's Statement



Dear Shareholders,

2007 is the year when we achieved another new high in earnings. Revenue and net profits increased by 16 folds and 10 folds to HK\$4.8 billion and HK\$2.5 billion respectively.

A FRUITFUL YEAR

I highlight strong property sales, timely divestment of non-core investment and capital value increase as key results factors, silhouetted against our operational excellence. We created and we also return value to our shareholders. The Board has recommended a final cash dividend of 3 HK cents per share. On approval of this at our Annual General Meeting on 27 May 2008, including the interim and the special interim dividends, this year's total pay-out to our shareholders will be 30.5 HK cents, an 8 time increase from 2006.

OPERATIONAL EXCELLENCE

We achieved strong operating results on our core business. Property sales soared to HK\$4.38 billion. This underscores the value of our strategic focus to drive sustainable growth by concentrating on two of our most important markets, Mainland China and Hong Kong. In Mainland China, we have completed the Shanghai Westwood (Phase I). In Hong Kong, we have completed J Residence and The Great Hill. These projects were well-received on launch and in secondary

market. Strong sales are testimony to our commitment to deliver not only good products but also customer-oriented approach to service ensuring long term value for end users. These are the compelling advantage that sets us apart from our peers. Our investment properties across Mainland China, Hong Kong, and Singapore continue to enjoy good occupancy and strong rental income.

Where opportunities arise, we re-deploy capital to our core business through divestment of assets of greater strategic value to others. The Group timed the market to divest a significant holding in Galaxy Entertainment Group Limited, which contributes to this year's operating profit and brings clarity to the Group's balance sheet. Strong liquidity helps ensure continued resilience especially during market weakness.

PROJECTS PROGRESSING ON SCHEDULE

The Group's integrated development projects in Shanghai and Guangzhou are progressing well. We expect construction of our Shanghai Westwood (Phase II) to be finished and pre-sales launched this year. Construction of our other development projects in Shanghai is all well underway. Planning and development of our two other projects in Guangzhou are going on well as scheduled. In the years to come, these projects are growth drivers for profits and cash flow.

Strong sales are testimony to our commitment to deliver not only good products but also customer-oriented approach to service ensuring long term value for end users.

Our business and financial fundamentals are strong which well position us to withstand market turbulence and grasp strategic opportunities.

ORGANIC GROWTH DRIVEN BY LAND REPLENISHMENT

We pursue an organic-growth oriented and low-risk approach in sizing up our land bank. In 2007, we have acquired four pieces of premium residential land in Hong Kong. In Shanghai and Guangzhou, the Group acquired two pieces of residential land. While these additions should suffice for us to continue to grow our business in the near term, we will continue to invest for profitable growth.

OUTLOOK

Looking ahead, certain major long-term trends are still intact. Emerging markets will continue to outperform mature economies; world growth, even in this year of relative weakness for the US economy, will be reasonable, albeit slower than in 2007; and Mainland China will continue to reshape herself as a 21st century powerhouse.

However, 2008 is likely to be a year of uncertainty. Inflationary pressure, austerity program and possible further macro economic measures may continue to put the Mainland China property market in play until liquidity, transparency and the proper pricing of risk return. Hong Kong may continue to enjoy, for a while, a low interest environment, but she is only partly decoupled from the US.

I have renewed optimism, albeit cautious. Our business and financial fundamentals are strong which well position us to withstand market

turbulence and grasp strategic opportunities. Any market de-leveraging clearly plays to our strengths, given our strong balance sheet and established market presence. Taking a long term view, we will continue to focus on the parts of the Mainland China property market that promise us the best prospects for higher and sustainable growth. Our strategy is to continue to invest in building market presence at a time when others with weaker capital positions are constrained. We are approaching this in a cautious and disciplined manner while maintaining operational excellence.

CORPORATE GOVERNANCE

Independent oversight of our company and of the execution of strategy is the responsibility of our Board. I am delighted that we benefit from the caliber of a number of our Board members who are also leaders in their own business and public arena. Dr. Philip Wong and Dr. Charles Cheung will retire as non-executive Director and independent non-executive Director and will not seek re-election at our Annual General Meeting on 27 May 2008. I should like to pay tribute to their tremendous contribution to the Group. We have been privileged to enjoy their counsel and stewardship for so many years.

OUR PEOPLE

It is people, of course, who define an organization, and any business's success is dependent on the caliber of its staff. 2007 was a demanding year

in many respects and it is a testament to the talent and professionalism of our colleagues in Mainland China and Hong Kong where we successfully met challenges and excelled in so many areas. I would like to take this opportunity to extend my personal thanks to all my staff and colleagues, without whom, the Group would not be standing where it is today.

Che-woo Lui
Chairman

2 April 2008



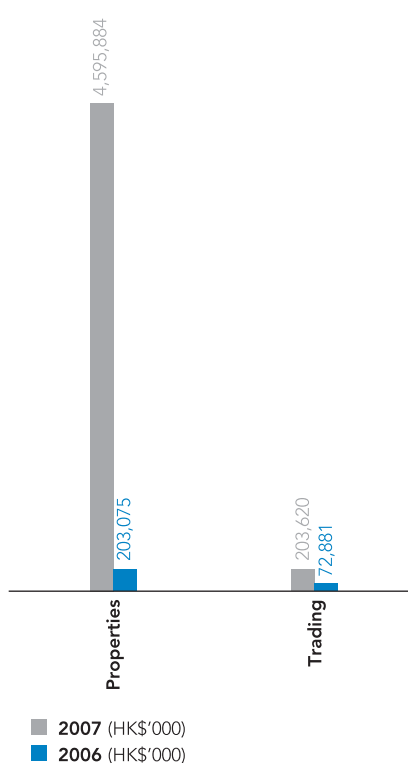
Management Discussion and Analysis

REVIEW OF OPERATIONS

Revenue and profit attributable to shareholders for the year ended 31 December 2007 were HK\$4,800 million and HK\$2,451 million respectively, compared to HK\$276 million and HK\$230 million for last year. The significant increase in revenue was mainly due to the recognition of sales of Westwood Phase I in Shanghai and The Great Hill and J Residence in Hong Kong. The increase in profit on the other hand can be attributable to two factors: the increase in profit from the sales of development properties projects and the profit of HK\$1,374 million arising from the disposal of a substantial part of our holdings in Galaxy Entertainment Group Limited ("GEG").

By Division				
	Properties	Trading	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4,595,884	203,620	—	4,799,504
Cost of goods sold	(3,432,858)	(189,868)	—	(3,622,726)
	1,163,026	13,752	—	1,176,778
Other operating income	43,007	51	147,057	190,115
Administrative expenses	(133,005)	(9,157)	(6,249)	(148,411)
Other operating expenses	(137,563)	(592)	—	(138,155)
Gain on disposal of non-current investment	—	—	1,373,782	1,373,782
Change in fair value of investment properties	351,871	—	—	351,871
Operating profit	1,287,336	4,054	1,514,590	2,805,980

Revenue by Division
for the year ended 31 December 2007



Mainland China

Most of the Group's property development projects in Shanghai and Guangzhou were under construction or development and works were progressing well. On the investment side, demand for Grade-A office in Shanghai remained strong with near 100% occupation rate for the Group's K. Wah Centre in Shanghai, bringing in good rental income and satisfactory investment return for the Group.

(A) Current Major Development Properties (total gross floor area ("GFA") of approximately 2,000,000 square metres)

(i) Shanghai Westwood, No. 701 Guangzhong Road, Da Ning International Community (100% owned)

The luxurious condominium project is divided into three phases, having a total GFA of approximately 380,000 square metres. Phase I was completed and all the residential units were sold. Construction of Phase II is now underway and completion is expected in 2009. Pre-sale of Phase II will be rolled out in 2008. We have also started the development plan for Phase III.

(ii) Shanghai — Lot A&B No.68 Jianguo Xi Road, Xuhui District (100% owned)

The project is located in Shanghai's traditionally up-scale prestigious residential area. The GFA of this project is approximately 140,000 square metres, which the Group plans to develop into an integrated development with luxury residential apartments, high-class commercial facilities and a suite-hotel styled service apartment. Construction work is underway in accordance with schedule.

(iii) Shanghai — Phase III, Yanjiazhai, Jingan District (99% owned)

Total GFA of this luxurious residential project is approximately 100,000 square metres. It is located at Urumqi Road, Jingan District close to the vibrant central business district of Nanjing West Road. Construction works have been commenced and the development is expected to be completed by 2010.

(iv) Guangzhou – Yingbin Road, Huadu District (100% owned)

This site is close to the New Baiyun International Airport with total GFA of approximately 323,000 square metres. The project is planned for the development of a composite hotel, offices and premium residential towers. Completion for the hotel and offices is expected in 2009.

(v) Guangzhou – Xinhua Zhen, Huadu District (99.99% owned)

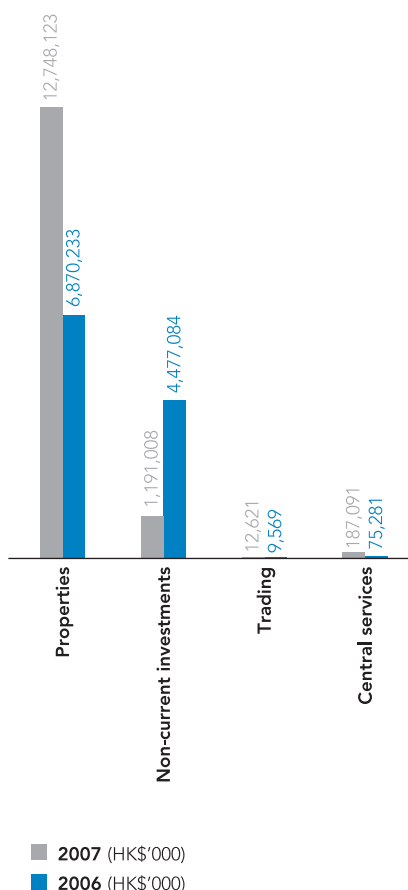
This project has a total permissible floor area of approximately 1,147,000 square meters and will be developed in phases. One of the plots in this project (GFA of approximately 200,000 square metres) has already been in the planning stage for residential-cum-hotel development. The rest of the land in this project has been planned mostly for residential development.

(vi) Guangzhou – Jianshebei Road, Huadu District (100% owned)

This newly acquired land is located in the downtown area of Huadu with total GFA of approximately 46,000 square metres and is about 20-minute drive from the New Baiyun International Airport. It has also been in the planning stage for residential development.

Employment of Gross Assets

As at 31 December 2007



On 31 December 2007, a wholly-owned subsidiary of the Group has successfully bid for a piece of land, being plot 185, at Minhang District in Shanghai for Renminbi 711,500,000. The Group has paid a deposit of Renminbi 40,000,000. The permissible buildable floor area of this land – residential and commercial – is approximately 171,290 square metres on present estimation.

(B) Investment Property

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (39.6% effective interest)

This flagship investment property with totaling approximately 72,000 square metres together with the two ancillary buildings, is located at Huaihai Zhong Road which is a thriving downtown commercial area in the inner ring area of Shanghai. The offices are fully leased with a strong stable income stream to the Group.

Hong Kong

The Great Hill and J Residence were both completed in the fourth quarter of 2007 and satisfactory profits from the sales were recognised in this year. In the office sector, the leasing market remained strong. During the year, the Group achieved satisfactory occupancy and rental rates for its investment properties.

For the future business developments, the Group invested over HK\$3 billion in a number of joint residential projects in Hong Kong with reputable property developers and these projects will be due for completion within the next three to four years.

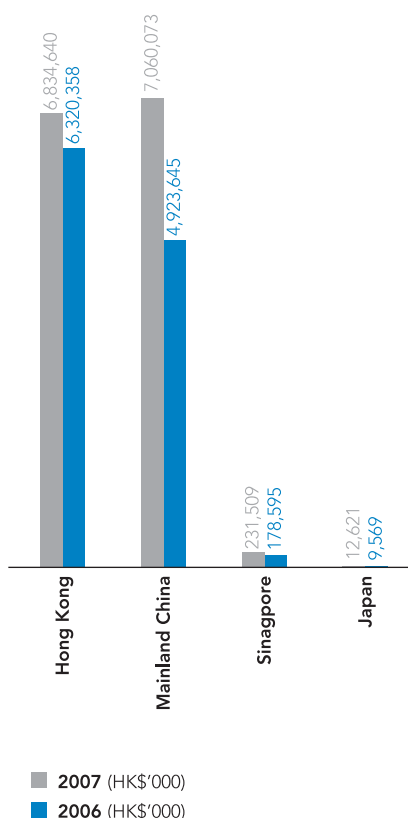
(A) Current development properties

(i) The Great Hill, Tung Lo Wan Hill Road (100% owned)

The development of the project was completed in November 2007 and contributed 114 apartments and 8 detached houses to the market. Over 55 % of the units have been sold.

Gross Assets By Geographical Spread

As at 31 December 2007



(ii) *J Residence, Johnston Road, Wan Chai (a joint development with the URA)*

This is a joint development project with the Urban Renewal Authority. The project was completed in November 2007. Virtually all the residential units were sold. The three-storey commercial area of the project – the J Senses – with total GFA of approximately 3,400 square metres has drawn good market response with over 90% of the area pre-leased.

(iii) *No.6 Shiu Fai Terrace, Stubbs Road (100% owned)*

The Group has commenced redevelopment works on the project. It is expected to be developed into a 12-storey luxury residential tower with targeted completion by 2010.

(iv) *Tai Po Town Lot No. 188, Tai Po (25% owned)*

In March 2007, the Group together with other property developers acquired this residential development land. Expected GFA is 69,700 square metres. Foundation work will soon commence and the project is expected to be completed by 2010.

(v) *Kowloon Inland Lot No. 11073, West Kowloon (15% owned)*

In May 2007, the Group together with other property developers acquired this residential development land. Expected GFA is approximately 60,500 square metres. Foundation work has been commenced and the development is expected to be completed by 2011.

(vi) *Tai Po Town Lot No. 186, Tai Po (15% owned)*

In September 2007, the Group together with other property developers acquired this residential development land. Expected GFA is approximately 66,500 square metres. Foundation work will soon commence.

(vii) *Aberdeen Inland Lot No. 451, Welfare Road, Aberdeen (35% owned)*

The Group together with other property developers acquired this residential development site in October 2007. The Project will be developed into six residential towers with expected GFA of approximately 60,000 square metres on present estimation. Planning and design work has already commenced.

(B) Other properties in Hong Kong

(i) *Skyline Commercial Centre, Wing Lok Street, Sheung Wan (100% owned)*

This 24-storey centrally located office building has approximately 3,900 square metres of office space and ground floor shops. It is almost fully occupied and is contributing steady rental income to the Group.

(ii) *Kingsfield Centre, Shell Street, North Point (100% owned)*

This 26-storey office building (approximately 1,900 square metres of office space) has been enjoying high occupancy and is contributing steady rental income to the Group.

Major Properties in Singapore

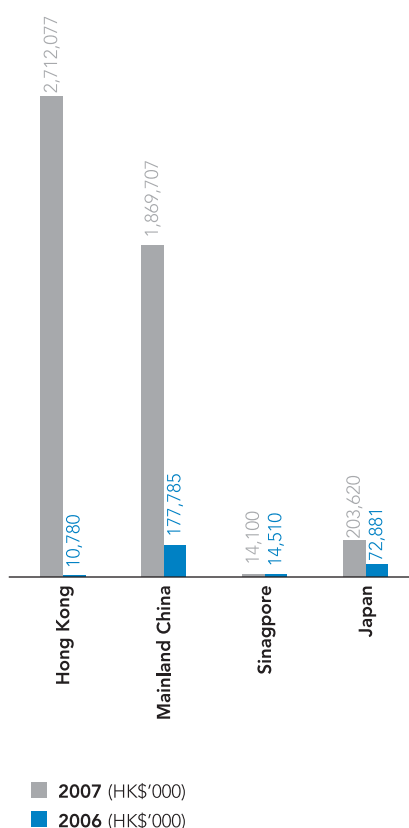
San Centre, Chin Swee Road (100% owned)

This 12-storey office building (approximately 5,800 square metres with carparks) has maintained satisfactory occupancy with stable income.

By Geographical Spread					
	Hong Kong HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	Japan HK\$'000	Total HK\$'000
Revenue	2,712,077	1,869,707	14,100	203,620	4,799,504
Cost of goods sold	(2,101,790)	(1,326,642)	(4,426)	(189,868)	(3,622,726)
	610,287	543,065	9,674	13,752	1,176,778
Other operating income	45,688	143,101	1,195	131	190,115
Administrative expenses	(98,902)	(37,742)	(2,610)	(9,157)	(148,411)
Other operating expenses	(69,504)	(68,059)	—	(592)	(138,155)
Gain on disposal of non-current investment	1,373,782	—	—	—	1,373,782
Change in fair value of investment properties	258,237	42,176	51,458	—	351,871
Operating profit	2,119,588	622,541	59,717	4,134	2,805,980

Revenue By Geographical Spread

For the year ended 31 December 2007



Investment in Galaxy Entertainment Group Limited

During the year, the Group disposed of 452,500,000 GEG shares to the Permira Funds at the price of HK\$8.42 per share, or approximately HK\$3.8 billion gross proceeds. After the disposal, the Group's shareholding in GEG was reduced from 18.7% to 4.1%. The Group recorded a profit of HK\$1.37 billion from the disposal. The value of the remaining GEG shares was around HK\$1.19 billion (HK\$7.33 per share) as at 31 December 2007.

OUTLOOK

Despite the monetary tightening and restrictions on foreign investment, the medium and long term outlook for the real estate market in Mainland China remains positive. The Group is cautiously optimistic about its business prospect in Mainland China, on the back of the supremacy of the locality of the Group's projects and the strong brand recognition by the local community which the Group has nurtured successfully in the past decade in the Mainland.

For 2008, the Hong Kong residential property market should remain good, both in terms of the volume activities and transacted value. The capital values of office space also continued to firm up. During 2007, the Group joined hands with household-name developers to acquire land in Hong Kong with a total 257,000 square metres GFA. These land additions will ensure that the sustainability of the earning prospect of the Group. In view of the continuous improvements of the economy of Hong Kong and the low interest rate environment in the near term, as well as the continuous growth in urban affluence in Mainland China, the Group is cautiously optimistic on the property market of Hong Kong and Mainland China and will continue to explore value investments in these markets.

REVIEW OF FINANCE

(1) Financial Position

The financial position of the Group remained strong. Total funds employed increased by 23% to HK\$14 billion at 31 December 2007 from HK\$11 billion at 31 December 2006.

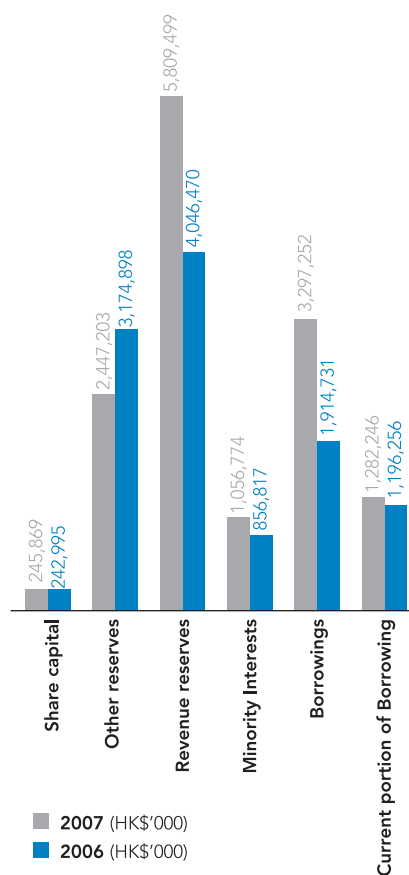
The number of the issued shares of the Company increased as a result of the exercise of share options during the year. The dilution effect, however, was offset by the profit earned for the year.

(2) Group Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was strong during the year. As of 31 December 2007, total bank borrowings amounted to HK\$4,545 million, and cash and bank balances were HK\$2,445 million to give a net debt of HK\$2,100 million, mainly attributable to the sale proceeds received during the year.

Sources of Funding

As at 31 December 2007



Of the total long-term bank borrowings, more than 80% had maturities over a period of one year and above.

The Group successfully arranged a 5 years syndicated loan of HK\$1,800 million in September 2007. In addition to the aggregate cash balances and the total undrawn banking facilities of the Group at 31 December 2007, the total amount of funds available for the expansion and operations amounted to HK\$6 billion.

The gearing ratio, defined as the ratio of total loans less cash balances to total assets, was reduced to a satisfactory level of 15% at 31 December 2007 as compared to 17% for last year.

The Group's liquidity position and gearing ratio stayed at a healthy level and the Group has sufficient funds to meet its commitments and operational requirements.

(3) Treasury Policies

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimize risk. The majority of the Group's borrowings are in Hong Kong dollar. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilized when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation. During the year, the Group has not engaged in the use of these derivative products.

(4) Charges on Group Assets

As of 31 December 2007, investment properties and land and buildings with carrying values of HK\$3,164 million (2006: HK\$3,230 million) and HK\$110 million (2006: HK\$110 million) respectively were pledged to banks to secure the Group's borrowing facilities.

(5) Contingent Liabilities

As of 31 December 2007, the Company has executed guarantees in favor of banks and financial institutions in respect of facilities granted to certain subsidiaries, a jointly controlled entity and associated companies amounting to HK\$6,045 million (2006: HK\$4,557 million), HK\$775 million (2006: nil) and HK\$1,009 million (2006: nil) respectively, of which HK\$3,232 million (2006: HK\$2,030 million), HK\$438 million (2006: nil) and HK\$642 million (2006: nil) have been utilized respectively.

The Company has also 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 million (2006: HK\$40 million) 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.

(6) Subsequent event

On 23 April 2008, the Group together with other developers secured financing of a total amount of HK\$4,655 million with respect to its joint venture property development project at Aberdeen Inland Lot No. 451.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2007, the Group, excluding associated companies and jointly controlled entities, employs 264 employees in Hong Kong and the Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$93 million for 2007.

The Group believes its success, long-term growth and development depend upon the quality, performance and commitment of its employees.

The Group's remuneration policy aims to attract, retain, motivate and promote competent individuals based on merits and development potentials. The Group believes its remuneration packages to employees are fair and competitive in relation to comparable organizations in the areas in which the Group operates its principal business.

Following approval by the Shareholders in 1989, the Group has a share option scheme for executives and employees for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market pay levels and the Group put emphasis on provision of training and development opportunities.

TRAINING AND DEVELOPMENT

Human talent is the driving force of the Group, and continuous education is a key part in enhancement of the core competence of the Group's work force. To this end, the Group supports a suite of training and development programmes for its employees at various levels.

In 2007, the Group sponsored several company-wide interactive seminars for executives to share among themselves knowledge, experience and good management practices in their respective divisions. These events provide staff with initiatives to enhance their management capabilities and up-date their technical know-how. In addition, the Group also sponsors staff to attend external job-related courses/workshops in Hong Kong and Mainland China organized by the accredited educational institutions and professional bodies. These training programs cover not only technical aspects such as finance, taxation, laws, human resources and information technology but also fundamental development on executives' leadership, business vision and strategies, as well as communication and management skills.

To support the long-term growth and development of the Group's business in Mainland China, we have re-launched the Management Trainee Programme in Shanghai. We recruit and develop high potential graduates from leading universities. Through our structured training programme headed by management staff of various functions, we prepare these promising individuals to become our managers and leaders of the future.

RULE 13.22 OF THE LISTING RULES

As of 31 December 2007, the Group had given financial assistance and guarantees to financial institution for the benefit of its affiliated companies. In compliance with the Listing Rules, the combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

	Combined balance sheet HK\$'000	Group's attributable interest HK\$'000
Non-current assets	592,343	245,845
Current assets	20,331,766	5,184,838
Current liabilities	(1,271,667)	(516,786)
	19,652,442	4,913,897
Share capital	766,774	318,207
Reserves	917,312	382,709
Amounts due to shareholders	11,921,657	3,125,921
Non-current liabilities	6,046,699	1,087,060
	19,652,442	4,913,897

Project Portfolio

The Great Hill, Hong Kong

THE Great hill 嘉御山



Type

Luxury residential project

Location

Mid-levels of southern Shatin, N.T.

Gross Floor Area

30,000 sqm

Total no. of unit

122 (114 apartments and 8 houses)





J Residence, Hong Kong



Type

Luxurious boutique-hotel-style apartments

Location

Johnston Road, Wanchai, Hong Kong

No. of unit

381





Shanghai Westwood



Type

Large-scale residential project

Location

Danling International Community,
Zhabei

Gross Floor Area

380,000 sqm

No. of Phases

3





Shanghai K. Wah Centre



Type

Grade A office

Location

Huaihai Zhong Road

Gross Floor Area

72,000 sqm

Occupancy Rate

100%





1722

清华大学
THU CENTER

清华大学
THU CENTER

Shanghai Jianguo Xi Road Project, Xuhui District



Type

French style high-end residential units, shops and serviced apartments

Location

Jianguo Xi Road, Xuhui District

Gross Floor Area

140,000 sqm



Shanghai Yanjiazhai Project, Jingan District



Type

High-end residential units and serviced apartments

Location

Urumqi Bei Road, Jingan District

Gross Floor Area

100,000 sqm



Guangzhou Huadu Mega Integrated Project



Type

Integrated development project
(Phase I : Residential, retail & hotel)

Location

Dongjing Cun, Xinhua Town

Gross Floor Area

1,147,000 sqm

No. of Phases

6



Guangzhou Huadu Airport CBD Project



Type

Integrated development project
(Phase I: Hotel & Office)

Location

Yingbin Road North, Xinhua Town

Gross Floor Area

323,000 sqm



Investor Relations

1



2



3



4



KWIH believes that timely, transparent and two-way communication is instrumental to the members of the investment community in understanding the Company's business performance and the way it operates. A series of events were organized during the year to keep financial analysts, fund managers, stock commentators and financial media abreast of the Company's key developments, financial position, business plans and strategies.

KWIH organized a wide range of investor relations activities such as non-deal road shows, briefings (Photos 1-4), one-on-one meetings, company visits, site visits (Photos 5-8) and informal gatherings with the aim to facilitate better understanding by professional investors of the fundamentals, strategies and business outlook of the Company. To promote better communication with the public at large, the Company also maintains a website on which comprehensive information about the Company, its various publications and stock performance are displayed.

Consequently, extensive media coverage and research reports were publicized on the Company's financial and operational status. These also serve as a recognition of KWIH's capability to deliver its business plans and implement its strategies effectively and efficiently.



“ Despite the proactive land banking last year, K. Wah is still in a good financial position, which enables the company to continue to shop for the right land sites. ”

JP Morgan, 3 April 2008

“ The increase in valuation is mainly because of the combined effect of its new landbank acquisitions in Hong Kong and current project selling prices beating expectation. ”

ICEA Securities, 18 January 2008

“ In our view, the company’s expertise lies in its capability to identify and deliver projects that can achieve premium pricing over other projects in similar locations. ”

Bear Stearns, 22 November 2007

“ We estimate that its total turnover, net profit for the year and earnings per share in 2007 will exhibit substantial rise. ”

Phillip Securities, 17 October 2007

Corporate Citizenship

KWIH believes that serving the community is one of its most important pursuits. In full support of its staff to engage in various community care programmes, KWIH fulfils its corporate social responsibilities through sponsorship, fundraising and volunteering.



AN AVID SUPPORTER OF EDUCATION

Dr. Che-woo Lui, Chairman of KWIH, believes that education builds a strong country. He sees that supporting education development and nurturing new generation are of utmost importance as a corporate citizen. Through Lui Che Woo Foundation, he joins hand with the Ministry of Education to support a massive renovation and construction programme for 150 primary schools at impoverished areas in Mainland China. A delegation of K. Wah attended the unveiling ceremony of Che-woo Academic Building in one of the schools in October 2007 (Photos 1 & 2). Besides, K. Wah Scholarships were presented to outstanding students of the School of Hotel and Tourism Management at The Hong Kong Polytechnic University (Photo 6). Dr. Lui also addressed the China Hotel Branding Forum in Shenzhen as a keynote speaker to share his views with industry practitioners, teachers and students regarding development of the industry (Photo 5).

FOSTERING CIVIC AWARENESS

To enhance civic awareness of the public, KWIH became the title sponsor of the tenth Vote for the Ten Most Significant News of the HKSAR Government (Photos 3 & 4). Members of the public were invited to cast their votes for the most significant events. Commemorative booklets were also published for free distribution to schools and universities to help promote public awareness in Hong Kong affairs.



CARING FOR THE ENVIRONMENT GIVING BACK TO THE SOCIETY

The Group also spares no effort in responding to the needs of the community by participating in a wide array of initiatives with its staff. These include Community Chest's "Walk for Millions" (Photos 8 & 10), visit to Shanghai Children's Home (Photo 9) and tree planting (Photo 7).

NURTURING A PEOPLE-ORIENTED CULTURE

Furthermore, the Group values staff wellness. Through a variety of recreational and sports activities such as movie appreciation (Photo 11), table tennis tournament (Photo 12) and tennis friendly match (Photo 13), communication and team spirit are promoted and a caring corporate culture is also cultivated.

Key Events and Honours

KWIH CHAIRMAN DR. CHE-WOO LUI HONOURED AS BUSINESS PERSON OF THE YEAR

Dr. Che-woo Lui, Chairman of KWIH, was honoured as the Business Person of the Year in DHL/SCMP Hong Kong Business Awards 2007. While his prominent business and social contribution to the further development of Hong Kong has earned him this accolade, his exemplary entrepreneurial spirit is highly commended by the panel of judges.



A veteran of real estate

Launching his property business in Hong Kong in 1960s and venturing into Mainland China and southeast Asia later on, Dr. Lui established the K. Wah brand as a quality property developer successfully with his acute business sense, versatile investment strategy and uncompromising commitment to quality. Indicative of a successful leadership from Dr. Lui, KWIH achieved solid results along the years and scaled new heights in 2007.

A brand architect

KWIH strives for excellence in terms of location, design and quality in all its projects which are well received by the market and are thus able to create tremendous value in a persistent manner. While returning value to shareholders, KWIH also actively replenishes its land bank with its abundant financial resources so as to sustain long-term growth and continue to create shareholder value.

A master in people management

While Dr. Lui realizes that to establish his company required having the right people around him as well as a mechanism emphasizing fair play, Dr. Lui made strategic recruitments his key concern. Evolving with the times and adapting to changing market dictates, Dr. Lui has seized upon opportunities as they arise while making sure that a seasoned management team and professional staff are with him to execute his initiatives. Under his leadership and a philosophy of excellence, the team also underwent some breakthroughs and received accolades in various business areas.

A philanthropist

While having achieved considerable success for himself, Dr. Lui has never neglected his responsibility to the community, demonstrating a long-standing tradition of philanthropy. Reflecting his concern for grooming future generations, Dr. Lui has contributed considerable sums of money to facilitate academic research and reward outstanding students in numerous universities in China and overseas. Besides, he actively supports a massive enhancement programme for education facilities in impoverished regions in the Mainland where 150 primary schools benefit.



Source: South China Morning Post

VALUE CREATION BY STRATEGIC DIVESTMENT OF GALAXY SHARES

Creating value is one of the most significant breakthroughs of KWIH this year. In November 2007, KWIH strategically sold 452,500,000 shares of Galaxy Entertainment Group to Permira Funds, one of the world's leading private equity firms. The proceeds totalling HK\$3.8 billion not only expedite the pace for acquiring new land and establish integrated property developments, but also create multiple-win situation for KWIH, its shareholders, Galaxy Entertainment Group and Permira Funds.



HONG KONG PROPERTIES DIVISION SELECTED AS HIGH-FLYERS OUTSTANDING ENTERPRISE

KWIH's Hong Kong Properties Division, was selected as High-Flyers Outstanding Enterprise in 2007 by *Hong Kong Business*; the company won the award for two consecutive years. The organizer has assessed the company according to its strength, reputation, performance and readers' appraisal. Again, the award represents the recognition of K. Wah's core value of quality pursuance and reflects its leading position in the market.



KWIH ANNUAL REPORT 2006 CLINCHES ARC INTERNATIONAL AWARD

KWIH Annual Report 2006, following the success in previous year, won the Bronze award in the Overall Annual Report: Real Estate Development/Service category of the 21st ARC Awards competition in New York. It is believed that the annual report serves as a transparent communication platform for shareholders and investors. Succinct financial data and well-arranged contents could help enhance readability and enable the readers to get familiar with the company. With a theme of Building Blocks for the Future that elucidates the dynamics of KWIH's continuing evolution with times, the sophisticated production entrenched the report's place in the winner list, out of over 1,900 entries from 27 countries and regions worldwide.



Corporate Governance Report

This is the 3rd year we report on the corporate governance of the Group.

The objective of the management structure within the Group — headed by our Board and led by the Chairman is to deliver sustainable value to our Shareholders. To this end, good governance plays a significant role.

BOARD OF DIRECTORS

The Board

Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Board sets the strategy of the Group and approves the annual operating budget prepared and presented by management for achieving the Group's strategic objectives.

Chairman and Managing Director

During the year under report, Dr. Che-woo Lui was the Chairman, and Mr. Eddie Hui Ki On was the (Acting) Managing Director of the Company. The roles of the Chairman and Managing Director of the Company are separate. The Chairman is responsible for the leadership of the Board. Managing Director heads the management and focuses on the day-to-day operations of the Group.

Board Composition

In 2007, there were 12 members comprising the Chairman, the Managing Director, 3 executive Directors, 2 non-executive Directors ("NEDs") and 5 independent non-executive Directors ("INEDs"). The biographical details of each Director who served during the year are set out on pages 37 to 38.

The executive Directors are employees who carry out executive functions in addition to their duties as directors. They are collectively responsible for promoting the success of the Company by directing strategic objectives and overseeing the management's performance to ensure the efficient disposition of the Group's resources for the achievement of the strategic objectives set by the Board.

The non-executive Directors are not employees and do not participate in the daily management of the Group's business. Our NEDs and INEDs bring external perspective, constructively challenge and help develop proposals on strategy, scrutinize management in meeting agreed goals and monitor performance reporting. Through their wealth of experience across a number of industries and business sectors, our NEDs and INEDs contribute valuable views and proposals for the Board's deliberation and decisions. One of our INEDs has accounting professional qualification.

Other than the resignation of Mr. William Lo Chi Chung from the Board (which took effect on 1 January 2007), during the year, there was no change in the composition of the Board.

Board Practices

In 2007, the Board held 4 board meetings at approximately quarterly intervals, the dates of which were scheduled at the beginning of the year.

Directors actively participated in person at each Board meeting to review the business progress against budget. Matters requiring Board consents were given by vote at the Board meeting where Board members acted collectively as a unit. Between scheduled meetings, routine/operational matters were considered and approved by the Board via the circulation of written resolutions with supporting materials, explanatory write-ups from the Company Secretary or briefings from management as appropriate.

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company Secretary has regularly updated Directors on compliance developments, and has directors and officers insurance in place against risks and exposure arising from the Group's business and activities.

Our NEDs and INEDs are either senior ex-civil servants or veteran professionals/businessmen who has brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people through their contribution at Board (85% attendance rate) and at the Audit Committee and the Remuneration Committee meetings (in both cases, 100% attendance rate) during the year.

The Board has procedures in place to ensure that conflict of interest will be resolved in accordance with the spirit and requirements of Code Provision A.1.8 in Appendix 14 of the Listing Rules.

Corporate Governance Report

In 2007, our INEDs took lead in meeting to review and recommend shareholders on the disposal of assets of the Group where conflict of interest was involved and approved other connected transactions. The Company assisted the INEDs with professional advice (at Company's expenses) and management briefings for them to arrive at their recommendations on matters involving conflict of interest. A high majority of the non-executive Directors attended the Company's 2007 annual general meeting and the special general meeting.

Supply and Access to Information

The Company Secretary circulated Board agenda (with arrangements for Directors to include their own items if thought fit) and supporting papers at least 3 days in advance, and attended Board meetings together with the Qualified Accountant to assist proceedings.

All Directors have had access to and open contact with senior management for any information they require to make informed decision on matter placed before them. Assisted by the Company Secretary, the Chairman has also ensured that Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating Directors on governance and regulatory matters. The service of independent professional advice at Company expenses is also available to the Audit Committee and Remuneration Committee. External auditors (being PwC) attended all Audit Committee meetings as well as the Board meetings approving full year and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers are available to all Board members. These minutes record the matters considered by the Board and views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and record respectively.

Directors' attendance in Board and other meetings of the Company in 2007 is as follows:

Name of Director	Number of Meetings				
	Board Meeting (4)	Audit Committee Meeting (2)	Remuneration Committee Meeting (1)	Independent	
				Board Committee Meeting (1)	Annual/ Special General Meeting (2)
Executive Directors					
Che-woo Lui (Chairman) ¹	4/4	N/A	N/A	N/A	1/2
Francis Lui Yiu Tung ²	0/4	N/A	N/A	N/A	0/2
Eddie Hui Ki On (Acting Managing Director)	4/4	N/A	1/1	N/A	2/2
Lennon Lun Tsan Kau (Deputy Managing Director)	4/4	N/A	N/A	N/A	2/2
Paddy Tang Lui Wai Yu ³	3/4	N/A	N/A	N/A	1/2
Non-executive Directors					
Michael Leung Man Kin	4/4	2/2	N/A	N/A	2/2
Philip Wong Kin Hang	3/4	N/A	N/A	N/A	0/2
Independent Non-executive Directors					
Sir David Akers-Jones	4/4	N/A	N/A	1/1	2/2
Leo Lee Tung Hai	3/4	N/A	N/A	1/1	1/2
Robin Chan Yau Hing	4/4	N/A	N/A	1/1	0/2
Charles Cheung Wai Bun	4/4	2/2	1/1	N/A	2/2
Robert George Nield	4/4	2/2	1/1	0/1	2/2
Total	41/48	6/6	3/3	3/4	15/24
Average attendance rate	85%	100%	100%	75%	63%

1. Father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.
2. Mr. Francis Lui Yiu Tung is the son of Dr. Che-woo Lui, and the younger brother of Ms. Paddy Tang Lui Wai Yu.
3. Ms. Paddy Tang Lui Wai Yu is the daughter of Dr. Che-woo Lui, and the elder sister of Mr. Francis Lui Yiu Tung.

Appointment, Re-election and Removal

All our NEDs/INEDs are appointed for a specified term of 3 years, subject to re-election by Shareholders at the annual general meeting of the Company.

Other than the Chairman and the Managing Director, every Director is subject to retirement by rotation. Every year one-third of the Directors will retire.

At the 2008 Annual General Meeting of the Company ("2008 AGM"), in accordance with the Bye-laws and corporate governance practices of the Company, Mr. Michael Leung Man Kin and Dr. Philip Wong Kin Hang (both NEDs) and Dr. Charles Cheung Wai Bun and Mr. Robert George Nield (both INEDs) will retire by rotation. Dr. Philip Wong and Dr. Charles Cheung will not offer themselves for re-election. Mr. Michael Leung and Mr. Robert Nield will offer themselves for re-election at 2008 AGM. None of Directors who offer for re-election has a service contract with the Company that is not terminable by the Company within 1 year without payment of compensation (other than statutory compensation).

Under the Chairman's leadership, the Board is regularly reviewing its succession and nomination policy to ensure that there is a balance of expertise, skill, and experience appropriate for the business and long-term development of the Group. The setting up of a nomination committee is under consideration.

Model Code for Securities Transactions by Directors

The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons ("Model Code") that complies with Appendix 10 of the Listing Rules. Each Director has confirmed he or she has complied with the Model Code throughout the year. The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by certain of its employees.

Other than the connected transaction and continuing connected transactions disclosed in the Report of the Directors, none of the Directors had, at any time during the year, a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiaries.

Confirmation of Independence

Sir David Akers-Jones, Dr. Robin Chan Yau Hing and Dr. The Hon. Leo Lee Tung Hai have served on the Board for more than 9 years; and in that respect only, do not meet the Recommended Best Practice of the Listing Rules. The Board however considers all of its INEDs independent in character and judgment as within the guidelines under Rule 3.13 of the Listing Rules. In reaching its determination, the Board has concluded that there are no relationships or circumstances that are likely to affect an INED's judgment. In accordance with Rule 3.13 of the Listing Rules, each of 5 INEDs determined by the Board as independent has provided an annual confirmation of his independence to the Company. The Company has identified INEDs as such in its announcements and circulars to Shareholders.

DELEGATION BY THE BOARD

Within the clear guidelines which it set, the Board has delegated to an executive board ("Executive Board") (comprising all the executive Directors) authority to see to the implementation of Group strategy set by the Board. The Executive Board monitors the Group's investment and trading performance, funding and finance requirements, and reviews management performance. The Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring Shareholders approval, and certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board meets regularly and operates as a general management committee under the direct authority of the Board. The Executive Board reports through the Chairman, or the Managing Director if the Chairman is away from Hong Kong, to the Board. The Executive Board sub-delegates day-to-day administration details to members charged with specific operation tasks under the leadership of the Managing Director.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The role and function of the Remuneration Committee of the Company are set out in its terms of reference which is posted on the website of the Company. The Remuneration Committee comprises 3 members identified in the table on page 33 of whom 2 are INEDs. Mr. Eddie Hui Ki On is the chairman and the Company Secretary acts as secretary of the Remuneration Committee.

In accordance with its terms of reference, the Remuneration Committee:

- on 1 August 2007, reviewed and approved the salary increment of an executive Director taking into account the revaluation of Renminbi;
- on 27 November 2007 and 24 January 2008, considered and endorsed the Executive Board's Share Option Scheme 13th Offer Proposal ("13th Offer") on share options to (among others) Directors of the Company;
- on 5 February 2008, reviewed and approved the 2007 year-end bonus to (among others) the executive Directors of the Company; and
- at its meeting on 31 March 2008, reviewed the level of Directors' fee and remuneration paid to the executive Directors (who constituted senior management of the Company) in 2007.

The Board endorsed the Remuneration Committee's proposals on Directors' remuneration and Director's fees increase and recommended them for approval by Shareholders at the 2008 AGM.

No Director participates in the determination of his own remuneration.

Details of Directors' Remuneration and Five Highest Paid Individuals of the Group for the financial year 2007 appear respectively at notes 9 and 10 to the 2007 Financial Statements.

ACCOUNTABILITY

Financial Reporting

The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the accounts of the Company in accordance with the requirements of the Listing Rules and applicable laws and the integrity of financial information so reported. Such responsibility extends to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The Directors' statements of responsibility for the financial statements should be read in conjunction with — but distinguished from the statements of reporting responsibilities of PwC on page 49.

The management of individual businesses within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

The Group has adopted the going concern basis in preparing its financial statements.

Internal controls

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls.

The Company has a clear organizational structure with well-defined responsibilities, reporting lines and authority limit and budgetary controls on managers of operating divisions. The scope of internal control and risk management covering financial, operational, and compliance areas, and control procedures is to identify and then manage risks.

The Company's internal audit function — currently staffed by 3 qualified professionals — is set up to provide the Board with reasonable assurance that the internal control systems of the Company are effective, and that the risks associated with the achievement of business objectives of the Group are being managed properly. During the year, the internal audit function drew up internal audit plan, discussed with management on areas of risk identified, and reviewed its internal audit report with the Audit Committee. Chairman of the Audit Committee has open access to the head of the internal audit function.

During financial year 2007 and up to the date of the financial statements, there was no significant control failure, as the internal audit department so reported to the Board through the Audit Committee.

Audit committee

The Audit Committee is accountable to the Board and assists the Board in ensuring an effective system for meeting its external financial reporting obligations and internal control and compliance.

The Committee consists of 2 INEDs and 1 NED, identified in the table on page 33. All the members served for the whole of 2007 and meetings attendance rate is 100%. The Company Secretary acts as secretary, who has kept full minutes of Audit Committee meetings with draft and final versions to members for their comment and records soon after the relevant meeting. Regular attendees at the Audit Committee meetings are the Qualified Accountant, head of internal audit, and senior representatives from PwC. The Company has posted the terms of reference of Audit Committee on its website.

In 2007, the Audit Committee met 2 times, in March 2007 to review the Group's 2006 final results and financial statements and in September 2007 to review the Group's 2007 interim results and financial statements. At its meeting on 31 March 2008, the Audit Committee reviewed the Group's final results for 2007 and also the report on the effectiveness of the risk assessment and internal control systems of the Group by the group's internal audit function. Each meeting received written report and papers from PwC.

The Audit Committee has been satisfied with the independence of PwC during the year and has recommended to the Board that PwC be re-appointed as auditors of the Company at the forthcoming annual general meeting. An analysis of the fees paid to PwC appears in note 8(b) to the 2007 Financial Statements.

COMMUNICATION WITH SHAREHOLDERS

In addition to sending annual reports, interim reports, circulars and notices to the Shareholders, the Company also makes these materials, which contain extensive information about the Group's activities, timely available for access by Shareholders at both the Stock Exchange's and the Company's own websites.

The Company has a member of its senior management specifically charged with investors relationship functions. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Company in an informative and timely manner. Every year, upon announcing results, the Company has press conference and briefings with the investment community, and the executive Directors also have regular dialogue with institutional investors and financial analysis. In between times, the Company organized site visits and meetings for analysts to have in depth understanding of our products. The Company received coverage on its business and stock performance from leading financial commentators and research team of local and international securities houses.

The Company encourages its Shareholders to attend annual general meetings and all its other shareholders meetings to discuss progress and matters. The Chairman and Directors are available there to answer Shareholders' questions. All substantive resolutions at annual general meeting of the Company, insofar as the Listing Rules require, will be decided on a poll, which the Company's Branch Share Registrars in Hong Kong will conduct as scrutineer for the vote-taking and which results of poll by way of announcement the Company will publish in accordance with rule 2.07C as soon as possible posted on both the Stock Exchange's and the Company's own websites. The Chairman (and chairman of any shareholders meeting) will ensure that in all circulars to Shareholders, the Company will set out in full the procedures for and shareholders' rights in demanding voting by poll, and that in all the Company's Shareholders meetings, all efforts will be made to ensure compliance with the requirements of Rules 13.39(3) and (4) of the Listing Rules.

COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

For the year under review, save for Code Provision A.4.2, the Company has complied with all the Code on Corporate Governance Practices set out in the Appendix 14 to the Listing Rules on the Stock Exchange. The Board believes that the underlying rationale for such a deviation, as mentioned in the corresponding section in its 2006 Annual Report, still holds. The Board is convinced that any risk of entrenchment in office of the Chairman and the Managing Director is well counteracted by its well-balanced Board mix and rotation policy, and the Company's interest is better served by having continuity in the leadership of its Chairman and Managing Director. The Board will continue to review and recommend such step and action as appropriate in the circumstances require.

Biographical Information of Directors

Information on Directors who served during the year is as follows:

EXECUTIVE DIRECTOR

Dr. Che-woo Lui, GBS, MBE, JP, LLD, DSSc, DBA, aged 78, the founder of the Group, has been a Director since June 1989 and is the Chairman of the Company. Dr. Lui is also the Chairman and an executive director of GEG. He has over 50 years' experience in quarrying, construction materials and property development. He was the Founding Chairman of the Institute of Quarrying in UK (Hong Kong Branch) and the Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the Founding Chairman of The Federation of Hong Kong Hotel Owners, the President of Tsim Sha Tsui East Property Developers Association, the Founding President of Hong Kong — Guangdong Economic Development Association and an Honorary President of Hong Kong — Shanghai Economic Development Association. Further, Dr. Lui was a Committee Member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui was honoured as the Business Person of the Year in DHL/SCMP Hong Kong Business Awards 2007 and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui is the father of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

Mr. Francis Lui Yiu Tung, aged 52, joined K. Wah group in 1979. He has been an executive Director since June 1989. He holds a bachelor of science degree in civil engineering and a master of science degree in structural engineering from the University of California at Berkeley, USA. He is a member of the Shanghai Committee of the Chinese People's Political Consultative Conference and also a Committee Member of the 11th Chinese People's Political Consultative Conference. Mr. Lui is a son of Dr. Che-woo Lui and the younger brother of Ms. Paddy Tang Lui Wai Yu.

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM, aged 64, joined the Group in 2003 as the Group Director, General Affairs and is presently the Managing Director (Acting) of the Company. He has been an executive Director since April 2003. Mr. Hui has been appointed the chairman of the remuneration committee of the Company in December 2005. Prior to joining the Group, he has served the Hong Kong Police Force for 38 years. He retired from the Police Force as Commissioner of Police in 2001. In 2001, Mr. Hui was awarded the Gold Bauhinia Star by the Government of the HKSAR. He is also a member of the Scout Association of Hong Kong and is currently the Assistant Chief Commissioner (International and Liaison) of the Association.

Mr. Lennon Lun Tsan Kau, aged 53, joined the Group in 1999 and has been an executive Director and the Deputy Managing Director of the Company since December 2001. Mr. Lun holds a master of science degree in Electronics and Computer Science from the University of California at Berkeley, USA and a master of business administration degree from the University of Hong Kong. Prior to joining the Group, he has held various senior executive and management positions in renowned multinational companies and has extensive operations experience in Mainland China.

Ms. Paddy Tang Lui Wai Yu, JP, aged 54, joined the K. Wah group in 1980 and has been an executive Director since June 1989. She is also an executive director of GEG. She holds a bachelor of commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Tang was a member of the Election Committee of the HKSAR. She is also a member of various public and social service organizations, including the Board of Ocean Park Corporation, the Hong Kong Arts Development Council, the Statistic Advisory Board and the Standing Committee on Company Law Reform and Tourism Strategy Group and the Chairman of the board of Opera Hong Kong Limited. Ms. Tang was appointed the Justice of Peace by the Government of the HKSAR on 1 July 2005. Ms. Tang has been again elected as a member of the Election Committee of the HKSAR in December 2006. Ms. Tang is the daughter of Dr. Che-woo Lui and the elder sister of Mr. Francis Lui Yiu Tung.

NON EXECUTIVE DIRECTORS

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP, (Independent non-executive Director) aged 81, was Adviser to the boards of the Company and K. Wah Construction Materials Limited (now GEG) from 1989 to 1997. He has been a Director since July 1997 and became an independent non-executive Director since 1998. He holds non-executive director positions in various companies and is member of many charitable organizations. He was previously a member of the Hong Kong Civil Service and held senior appointments concluding with that of Chief Secretary and acting Governor before he retired in 1987. He was awarded the highest award of the Grand Bauhinia Medal in 2002 by the Government of the HKSAR.

Mr. Michael Leung Man Kin, CBE, JP, (Non-executive Director) aged 69, served the Group in 1998 as Deputy Chairman (Administration) until 2001, and then as an Adviser until 2006. He was an executive Director in September 1998 and has become a non-executive Director since March 2001. Mr. Leung has been a member of the audit committee of the Company since March 2005. Mr. Leung holds a BA (Hons) from the University of Hong Kong and a certificate in government and development from Oxford University, UK. He has served the

Biographical Information of Directors

Hong Kong Government for 32 years in a wide range of top level positions, including Secretary for Transport, Secretary for Education and Manpower and Commissioner of the Independent Commission Against Corruption. He also served as an Official Member of the Legislative Council.

Dr. Philip Wong Kin Hang, GBS, JP, LLD, DH, (Non-executive Director) aged 75, has been a Director since June 1989. He became an independent non-executive Director since 2000 and re-designated as non-executive Director since March 2005. He was a member of the audit committee of the Company from 1999 to March 2005. Dr. Wong is a consultant of a Hong Kong firm of solicitors and is also a Notary Public and a China Appointed Attesting Officer. In addition, Dr. Wong is a director of Raymond Industrial Limited.

Dr. The Hon. Leo Lee Tung Hai, GBM, GBS, LLD, JP, (Independent non-executive Director) aged 86, has been a Director since June 1989 and has become an independent non-executive Director since 1998. Dr. Lee is the Chairman of the Tung Tai Group of Companies and an independent non-executive director or non-executive director of several publicly listed companies in Hong Kong. He is a member of a number of public services committees and heads many social service organizations, including as Vice President of the China Overseas Friendship Association, Chairman of Friends of Hong Kong Association, Adviser of the Advisory Board of the Tung Wah Group of Hospitals and Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals. Dr. Lee served as a Standing Committee Member of the eighth and ninth National Committees of the Chinese People's Political Consultative Conference; an Adviser on Hong Kong Affairs to the Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Selection Committee for the First Government of the HKSAR. He has been honoured with awards by different governments, which include Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de l'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Government of the HKSAR in 1999. Dr. Lee was awarded the highest honour of the Grand Bauhinia Medal in July 2006 by the Government of the HKSAR. In 2007, Dr. Lee has been honoured with the "Icebreaker Award" by The 48 Group Club as a recognition of his contribution to the promotion of Sino-UK trade relations. Dr. Lee has over 50 years of experience in business management.

Dr. Robin Chan Yau Hing, GBS, LLD, JP, (Independent non-executive Director) aged 75, has been a Director since June 1989 and has become an independent non-executive Director since 1998. A banker with over 40 years of experience, he is the Chairman of Asia Financial Holdings Limited, which is the holding company of Asia Insurance Company Limited. Dr. Chan is also an independent non-executive director of Chong Hing Bank Limited (formerly known as Liu Chong Hing Bank Limited). In addition, he is the Vice Chairman of All-China Federation of Returned Overseas Chinese, a Deputy to the Chinese National People's Congress and the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong.

Dr. Charles Cheung Wai Bun, JP, (Independent non-executive Director) aged 71, joined the K. Wah group in 1986. He was appointed an executive Director in June 1989 and has been a non-executive Director since 1995. He is the chairman of the audit committee and a member of the remuneration committee of the Company. Dr. Cheung holds an honorary doctor's degree, a master's degree in business administration and a bachelor of science degree. He has over 30 years experience at senior management level of companies in various industries including over 22 years experience in banking. He is Chairman of Joy Harvest International Limited, Hong Kong. He is also an independent non-executive director and chairman of the audit committee of GEG, Shanghai Electric Group Company Limited, Pioneer Global Group Limited and Prime Investments Holdings Limited, which are companies listed on the Main Board of the Stock Exchange. Dr. Cheung is also a Senior Adviser of the Metropolitan Bank & Trust Company, Philippines. He was a former director and adviser of the Tung Wah Group of Hospitals and is a Vice Chairman of Guangdong Province Golf Association. He received the Director of the Year Award (Listed Company — Non-Executive Director) in 2002. He is also a Council Member of The Hong Kong Institute of Directors.

Mr. Robert George Nield, (Independent non-executive Director) aged 56, has been an independent non-executive Director and a member of the audit committee of the Company since September 2004. Mr. Nield has been a member of the remuneration committee of the Company since December 2005. He is a Fellow of The Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales and has over 30 years of experience in professional auditing and accounting. Mr. Nield worked for PwC from 1980 (partner since 1985) to 2002. In addition to being an audit partner, he was from time to time in charge of PwC's Computer Audit, Continuing Education and Human Resources departments. He retired from PwC in June 2002. Mr. Nield is the President of the Hong Kong Branch of the Royal Asiatic Society and a Director of Opera Hong Kong Limited.

SENIOR MANAGEMENT

Assisted by head of departments (including the Qualified Accountant), the executive Directors are under the direct responsibilities for the business and operations of the Group and the executive Directors are therefore regarded as the senior management of the Company.

Five Years Summary

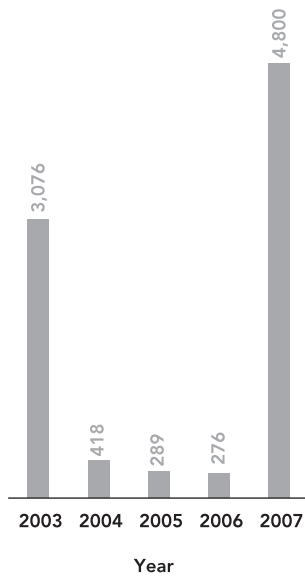
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
CONSOLIDATED PROFIT AND LOSS STATEMENT					
Revenue	3,076,143	418,257	289,307	275,956	4,799,504
Profit before tax	183,220	231,153	393,249	1,008,763	2,850,701
Taxation (charge)/credit	(45,831)	1,461	(142,869)	(307,019)	(220,621)
Profit from continuing operations	137,389	232,614	250,380	701,744	2,630,080
Profit from discontinued operations	—	29,757	3,553,418	—	—
Minority interests	(17,009)	(21,157)	(159,750)	(472,041)	(178,938)
Profit attributable to shareholders	120,380	241,214	3,644,048	229,703	2,451,142
Earnings per share (HK cents)	6.2	12.1	157.7	9.5	100.3
Dividend per share (HK cents) (note 2)	3.0	6.0	53.7	3.5	30.5
CONSOLIDATED BALANCE SHEET					
Non-current assets	1,136,196	1,090,200	2,140,863	3,491,746	3,799,234
Associated companies and jointly controlled entities	553,128	508,389	577,261	575,502	700,916
Other non-current assets	433,227	440,947	2,698,833	4,486,676	1,198,107
Net current assets	2,884,322	4,389,180	2,033,802	2,206,072	7,685,719
Employment of capital	5,006,873	6,428,716	7,450,759	10,759,996	13,383,976
Financed by:					
Share capital	197,797	201,564	237,792	242,995	245,869
Reserves	2,333,890	2,471,190	5,078,878	7,221,368	8,256,702
Shareholders' funds	2,531,687	2,672,754	5,316,670	7,464,363	8,502,571
Minority interests	1,083,869	723,354	355,968	856,817	1,056,774
Long-term liabilities	1,302,184	2,773,224	1,567,857	1,914,731	3,297,252
Non-current liabilities	89,133	259,384	210,264	524,085	527,379
Capital employed	5,006,873	6,428,716	7,450,759	10,759,996	13,383,976
Net assets value per share (HK\$)	1.28	1.34	2.30	3.07	3.46

Note:

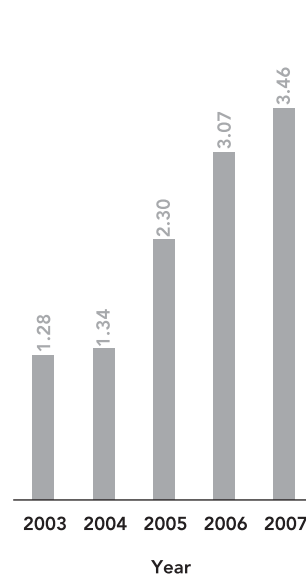
- 1 The summary of 2003 has not been restated following the adoption of the new and revised Hong Kong Financial Reporting Standards in 2005.
- 2 Dividend in 2005 included the special interim dividend in specie of one GEG share for every ten shares of the Company.

Five Years Summary

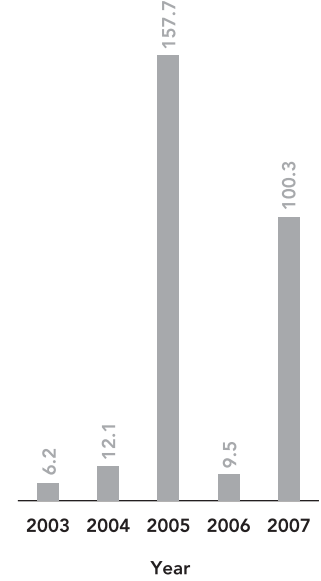
Revenue
(HK\$ Million)



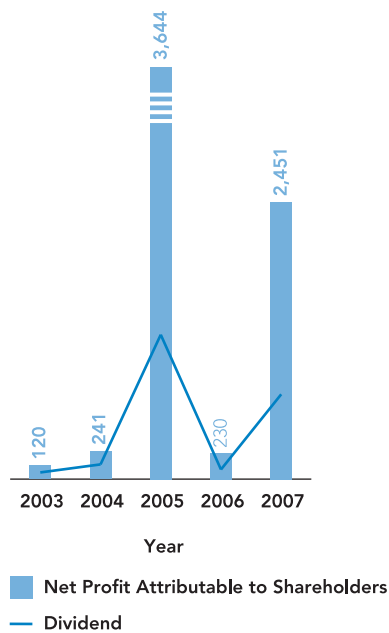
Net Assets Value Per Share
(HK\$)



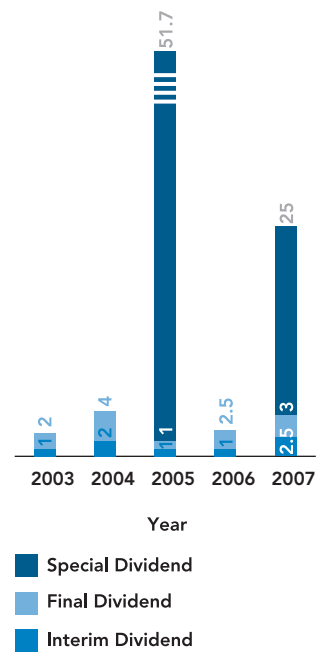
Earnings Per Share
(HK Cents)



Dividend and Net Profit Attributable to Shareholders
(HK\$ Million)



Dividend Per Share
(HK Cents)



Report of the Directors

The Directors present their report together with the 2007 Financial Statements.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Our principal subsidiaries and jointly controlled entities are primarily engaged in property development and property investment in Hong Kong, Mainland China and Singapore, and their activities are set out in note 38 to the 2007 Financial Statements.

RESULTS AND APPROPRIATIONS

The 2007 Financial Statements starting page 50 of this annual report set out the results of the Group for the year ended 31 December 2007.

An interim cash dividend of HK\$0.025 per Share and a special interim cash dividend of HK\$0.25 per Share were paid during the year. The Board recommends the payment of a final cash dividend of HK\$0.03 per Share. Together, the total dividends per Share for the year amounting to HK\$0.305 (2006: HK\$0.035). Details of dividends are set out in note 15 to the 2007 Financial Statements.

SHARE CAPITAL

Note 29 to the 2007 Financial Statements contains details on the Company's share capital, and increase in issued share capital of the Company during the year due to the allotment of scrip dividends and exercise of share options.

CONVERTIBLE BONDS

Details of the 0.5% Guaranteed Convertible Bonds due 2009 during the year appear in note 32(c) to the 2007 Financial Statements.

DEALINGS IN LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares and bonds during the year.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the 2007 Financial Statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$113,713,000 (2006: HK\$4,442,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the 2007 Financial Statements.

SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31 December 2007 for investment and development purposes are set out on pages 95 to 96 of this annual report.

DIRECTORS

The Directors who served during the year were Dr. Che-woo Lui, Mr. Francis Lui Yiu Tung, Mr. Eddie Hui Ki On, Mr. Lennon Lun Tsan Kau, Ms. Paddy Tang Lui Wai Yu, Sir David Akers-Jones, Mr. Michael Leung Man Kin, Dr. Philip Wong Kin Hang, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun and Mr. Robert George Nield.

Biographical details of the current Directors are set out on pages 37 to 38 of this annual report.

Report of the Directors

In accordance with Bye-law 109(A) of the Bye-laws and the corporate governance practices of the Company, Mr. Michael Leung Man Kin and Dr. Philip Wong Kin Hang (both Non-executive Directors) and Dr. Charles Cheung Wai Bun and Mr. Robert George Nield (both Independent Non-Executive Directors) will retire by rotation at the forthcoming annual general meeting. Dr. Wong and Dr. Cheung have elected not to offer themselves for re-election and will retire at the conclusion of the forthcoming annual general meeting. Mr. Michael Leung and Mr. Robert Nield will offer themselves for re-election.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Subject to the approval of Shareholders at the forthcoming annual general meeting, the following fees in respect of year ended 31 December 2007 will be paid to the Directors:

	Chairman HK\$	Member HK\$
The Board	120,000	100,000
Audit Committee	100,000	80,000
Remuneration Committee	50,000	40,000

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Directors' Report, no contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31 December 2007 or at any time during the year ended on that date.

DIRECTORS' INTERESTS IN SECURITIES

As of 31 December 2007, the interests and short positions of each Director in the Shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules, were as follows:

(A) Shares

Name of Directors	Number of Shares			Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests		
Che-woo Lui	7,613,534	7,256,345 ⁽¹⁾	1,326,706,115 ⁽²⁾	1,341,575,994	54.56
Francis Lui Yiu Tung	5,878,035	—	—	5,878,035	0.24
Eddie Hui Ki On	990,000	—	—	990,000	0.04
Lennon Lun Tsan Kau	2,678,046	—	—	2,678,046	0.11
Paddy Tang Lui Wai Yu	9,280,371	—	—	9,280,371	0.38
Sir David Akers-Jones	650,000	—	—	650,000	0.03
Michael Leung Man Kin	500,000	—	—	500,000	0.02
Philip Wong Kin Hang	1,101,226	—	—	1,101,226	0.04
Leo Lee Tung Hai	1,050,000	—	—	1,050,000	0.04
Robin Chan Yau Hing	1,436,563	—	—	1,436,563	0.06
Charles Cheung Wai Bun	1,107,239	—	—	1,107,239	0.05
Robert George Nield	1,000,000	—	—	1,000,000	0.04

Unless otherwise stated, all personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

Report of the Directors

Notes:

- (1) Dr. Che-woo Lui is deemed to be interested in 7,256,345 Shares through the interests of his spouse.
- (2) These 1,326,706,115 Shares represent the aggregate of (i) 35,696,109 Shares held by Best Chance Investments Ltd., (ii) 3,095,377 Shares held by Po Kay Securities & Shares Company Limited, (iii) 8,286,000 Shares held by Favor Right Investments Limited, (iv) 1,086,035,985 Shares held by Super Focus Company Limited, (v) 135,435,613 Shares held by Premium Capital Profits Limited and (vi) 58,157,031 Shares held by Mark Liaison Limited. All the aforesaid companies are ultimately beneficially owned and controlled by Dr. Che-woo Lui.

(B) Underlying Shares — Share Options

Details are set out in the SHARE OPTION SCHEME section below.

All the interests stated above represent long positions.

Dr. Che-woo Lui was deemed to be interested in the issued share capital of every other subsidiary and jointly controlled entity of the Company.

Save as disclosed above, as of 31 December 2007, none of the Directors had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2007, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying shares in the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Number of Shares (Long Position)	Approximate % of Issued Share Capital
Super Focus Company Limited	1,086,035,985 ⁽¹⁾	44.17
Penta Investment Advisers Limited	387,574,033 ⁽²⁾	15.76
Mr. John Zwaanstra	387,574,033 ⁽³⁾	15.76
Star II Limited	193,592,644 ⁽¹⁾	7.87
Penta Asia Fund, Ltd.	163,668,672 ⁽⁴⁾	6.66
Mr. Todd Zwaanstra	163,668,672 ⁽⁵⁾	6.66
Mercurius GP LLC	163,668,672 ⁽⁶⁾	6.66

Notes:

- (1) Super Focus Company Limited and Star II Limited are beneficially interest in 1,086,035,985 Shares and 193,592,644 Shares respectively and both are solely owned and controlled by Dr. Che-woo Lui.
- (2) Penta Investment Advisers Limited, a company which is 100% controlled by Mr. John Zwaanstra, was interested in 387,574,033 Shares in the capacity of investment manager.
- (3) These refer to the same interests in the 387,574,033 Shares referred to in note (2). Mr. John Zwaanstra was deemed to have interests in the Shares through his 100% interest in Penta Investment Advisers Limited. Mr. John Zwaanstra was also deemed to have interests in the Shares in which Penta Asia Fund, Ltd. and Mercurius GP LLC were interested through his control of more than one-third of the voting power of Penta Asia Fund, Ltd. and Mercurius GP LLC.
- (4) The 163,668,672 Shares were held by Penta Master Fund, Ltd., a wholly-owned subsidiary of Penta Asia Fund, Ltd., and duplicate parts of the interests of Penta Investment Advisers Limited.
- (5) Mr. Todd Zwaanstra was deemed to have interests in the 163,668,672 Shares in which Penta Master Fund, Ltd. was interested pursuant to his control of more than one-third of the voting power of Penta Asia Fund, Ltd. as trustee of Mercurius Partners Trust, being a discretionary trust.
- (6) Mercurius GP LLC was the founder of the Mercurius Partners Trust and was therefore deemed to have interests in the 163,668,672 Shares in which Mr. Todd Zwaanstra and Mercurius Partners Trust were interested.

Report of the Directors

There was duplication of interests of 387,574,033 Shares held by Penta Investment Advisers Limited, which is also interested by Mr. John Zwaanstra. Of these 387,574,033 Shares, 163,668,672 Shares are also deemed to be interested by: (a) Mr. Todd Zwaanstra through Penta Master Fund, Ltd. (wholly-owned by Penta Asia Fund, Ltd. in which Mr. Todd Zwaanstra controls more than one-third of the voting power) as trustee of the Mercurius Partners Trust (a discretionary trust), and (b) Mercurius GP LLC as founder of the Mercurius Partners Trust.

Save as disclosed above, as of 31 December 2007, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company's share option scheme adopted by the Shareholders at the annual general meeting on 30 May 2002 is summarized below:

(1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to Shareholders.

(2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

(3) Total number of Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as of 30 May 2002, being 187,563,607 Shares.

Overriding Limit — The Company may by ordinary resolutions of the Shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to Shareholders before such approval is sought. The overriding limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

Report of the Directors

As of the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 128,634,607 Shares, which represented approximately 5.23% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the Shares in issue.

Subject to separate approval by the Shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting and provided that the Company shall issue a circular to Shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the Shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which an option must be held before it can vest

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the Shares on the date of grant;
- (ii) the average closing prices of the Shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing from 30 May 2002 and will expire on 29 May 2012.

Particulars of the movement of the options held by each of the Directors, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31 December 2007, were as follows:

Holders	Date of grant	Number of options				Held at 31 December 2007	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2007	Granted during the year ^(a)	Exercised during the year	Lapsed during the year			
Che-woo Lui	21 Oct 2005	1,350,000	—	—	—	1,350,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	1,055,000	—	—	1,055,000	4.6360	27 Nov 2008–26 Nov 2017
Francis Lui Yiu Tung	21 Oct 2005	1,340,000	—	—	—	1,340,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	263,000	—	263,000	—	4.6360	27 Nov 2008–26 Nov 2017

Report of the Directors

Holders	Date of grant	Number of options				Held at 31 December 2007	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2007	Granted during the year ^(a)	Exercised during the year	Lapsed during the year			
Eddie Hui Ki On	21 Oct 2005	580,000	—	580,000 ^(b)	—	—	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	410,000	—	—	410,000	4.6360	27 Nov 2008–26 Nov 2017
Lennon Lun Tsan Kau	21 Oct 2005	670,000	—	670,000 ^(c)	—	—	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	433,000	—	—	433,000	4.6360	27 Nov 2008–26 Nov 2017
Paddy Tang Lui Wai Yu	21 Oct 2005	930,000	—	—	—	930,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	940,000	—	—	940,000	4.6360	27 Nov 2008–26 Nov 2017
Sir David Akers-Jones	28 Feb 2003	150,000	—	—	—	150,000	0.7200	1 Mar 2004–28 Feb 2013
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Michael Leung Man Kin	21 Oct 2005	400,000	—	400,000 ^(d)	—	—	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Philip Wong Kin Hang	21 Oct 2005	300,000	—	—	—	300,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Leo Lee Tung Hai	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Robin Chan Yau Hing	21 Oct 2005	500,000	—	—	—	500,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Charles Cheung Wai Bun	21 Oct 2005	600,000	—	—	—	600,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Robert George Nield	21 Oct 2005	500,000	—	500,000 ^(e)	—	—	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	500,000	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Employees (in aggregate)	20 May 1998	33,000	—	—	33,000	—	0.5586	20 May 1999–19 May 2008
	30 Dec 1999	150,000	—	—	150,000	—	0.3600	30 Dec 2000–29 Dec 2009
	28 Feb 2003	272,000	—	223,000 ^(f)	—	49,000	0.7200	1 Mar 2004–28 Feb 2013
	21 Oct 2005	*10,839,000	—	8,719,000 ^(g)	—	2,120,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	—	9,034,000	—	20,000	9,014,000	4.6360	27 Nov 2008–26 Nov 2017

* On reclassification of 530,000 share options under "Directors" to "Employee" after the option holder ceased to be a director of the Company but became an employee of an affiliate of the Company.

Note:

- The closing price of the Shares immediately before the date on which the options were granted was HK\$4.640.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$4.800.
- The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$4.950.
- The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.560.
- The weighted average closing price of the Shares immediately before the dates on which the options were exercised during the year was HK\$2.807.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$3.254.

Report of the Directors

On 27 November 2007, the Company granted 15,635,000 share options (all at subscription price of HK\$4.636 per share) to Directors and selected employees of the Company and its affiliates, of which 283,000 has since lapsed.

The options granted were subject to a one-year vesting period. No options was cancelled during the year.

The fair value of the share options granted during the year is set out in note 30 to the 2007 Financial Statement.

Except for the Company's share option scheme, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire Shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

- (1) The sale to Permira Investment Vehicles of 452,500,000 shares of GEG ("Disposal") is a major and connected transactions under the Listing Rules, full details of which already appeared in the joint circular dated 5 November 2007 by the Company and GEG. Shareholders approved the Disposal in the special general meeting of the Company held on 21 November 2007.
- (2) The Company and GEG are connected person with respect to each other. Continuing/recurring transactions between them are continuing connected transaction under the Listing Rules. In 2007, the Company had the following continuing connected transactions with GEG:
 - (i) The indirect subsidiaries of GEG continued to lease office units 1802, 1803, and 1804 on the 18th Floor of Shanghai K. Wah Centre from Jia Hui Da Real Estate Development Co. Ltd. Shanghai (an indirect 39.6% owned subsidiary of the Company) pursuant to 3 tenancy agreements entered into on 2 June 2005, details of which already appeared in the joint announcement of the Company and GEG dated 23 August 2005. These leases are for 3 years from 1 June 2005 to 31 May 2008. These continuing connected transactions were carried out during the year within the annual cap for 2007. The independent non-executive Directors have reviewed this continuing connected transactions and have confirmed that they were conducted and entered into in the ordinary and usual course of the Group's business, on normal commercial terms, in accordance with the relevant tenancy agreements governing such transactions, and on terms that are fair and reasonable and in the interest of the Company and its Shareholders as a whole.
 - (ii) The HK\$330 million revolving facilities details of which appear in the Company's circular dated 5 August 2002 have expired on 12 September 2007 and have not been renewed.
 - (iii) The guarantee by the Company dated 5 March 1997 in favour of the Government of HKSAR in respect of Contract No.GE/96/10 for 17 years quarrying rights and rehabilitation of the quarry at Tai Sheung Tok, Anderson Road, Kowloon to KWP Quarry Co. Limited (a subsidiary of GEG) was subsisting at the year-end. Details of this continuing connected transaction appeared in the announcement of the Company dated 10 November 2006. The Company' has also referred to this guarantee in its annual reports since 1997. No annual cap was involved.

PRE-EMPTIVE RIGHTS

There are no shareholder pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

DIRECTORS' COMPETING BUSINESS

Dr. Che-woo Lui is interested in several independently managed companies, which are also engaging in property investment, trading, and development. The business of these companies ("Competing Business") may compete, directly or indirectly, with the Group. Dr. Che-woo Lui, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu (collectively, the "Relevant Directors") are also the directors of certain holding companies of the Competing Business.

Report of the Directors

Notwithstanding that the Relevant Directors are also the executive Directors of the Company, the Group is able to carry on its business independently of — and at arm's length from — the Competing Business, given that the Company has a strong and independent Board with 7 out of 12 Directors being non-executive/independent non-executive Directors. These non-executive/independent non-executive Directors are professionals (audit/accounting and legal), prominent businessmen, or veteran high-ranking Hong Kong Government officials. The Company has established corporate governance procedures, which ensure investment opportunities and business performance are independently assessed and reviewed. The Relevant Directors are fully aware of their fiduciary duty to the Company, and will abstain from voting on any matter where there is, or there may be, a conflict of interest. The Directors therefore considered that the Group's interest is adequately safeguarded.

Same as disclosed above, there is no other competing business between the Directors and his/her respective associates and the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2007 Financial Statements and adjusted as appropriate, is shown on pages 39 to 40 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007:

- (1) The aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover;
- (2) The aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group total of such purchases.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors) owns more than 5% of the Company's issued share capital, has any interest in the five largest customers or suppliers (not including or a capital nature).

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

AUDITORS

The 2007 Financial Statements have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board

Che-woo Lui
Chairman

Hong Kong, 2 April 2008

Report of the Independent Auditors



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TO THE SHAREHOLDERS OF
K. WAH INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of K. Wah International Holdings Limited (the "Company") set out on pages 50 to 94, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated profit and loss statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

RESPONSIBILITY OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE AUDITORS

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the auditors, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 April 2008

Consolidated Profit and Loss Statement

For the year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
Revenue	7	4,799,504	275,956
Cost of sales		(3,622,726)	(159,761)
Gross profit		1,176,778	116,195
Other operating income		190,115	134,721
Administrative expenses		(148,411)	(126,605)
Other operating expenses	8(a)	(138,155)	(10,890)
Gain on disposal of non-current investments		1,373,782	—
Change in fair value of investment properties		351,871	957,958
Operating profit	8(b)	2,805,980	1,071,379
Finance costs	12	(110,751)	(71,891)
Share of profits of jointly controlled entities		155,478	9,275
Share of losses of associated companies		(6)	—
Profit before taxation		2,850,701	1,008,763
Taxation charge	13	(220,621)	(307,019)
Profit for the year		2,630,080	701,744
Attributable to:			
Shareholders		2,451,142	229,703
Minority interests		178,938	472,041
		2,630,080	701,744
Dividends			
Interim paid		61,368	24,187
Special interim paid		614,673	—
Proposed final		73,771	60,868
	15	749,812	85,055
		HK cents	HK cents
Earnings per share	16		
Basic		100.27	9.54
Diluted		99.12	9.47

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	52,732	54,297
Investment properties	18	3,679,112	3,367,669
Leasehold land and land use rights	19	67,390	69,780
Jointly controlled entities	21	700,920	575,502
Associated companies	22	(4)	—
Non-current investments	23	1,191,008	4,477,084
Other non-current assets	24	7,099	9,592
		5,698,257	8,553,924
Current assets			
Development properties	25	4,800,680	5,309,940
Amounts due from jointly controlled entities	21	2,454,691	—
Amounts due from associated companies	22	652,790	—
Debtors and prepayments	26	328,228	283,504
Tax recoverable		2,762	46,590
Cash and bank balances	27	2,444,742	741,060
		10,683,893	6,381,094
Total assets		16,382,150	14,935,018
EQUITY			
Share capital	29	245,869	242,995
Reserves	31	8,256,702	7,221,368
Shareholders' funds		8,502,571	7,464,363
Minority interests		1,056,774	856,817
Total equity		9,559,345	8,321,180
LIABILITIES			
Non-current liabilities			
Borrowings	32	3,297,252	1,914,731
Deferred taxation liabilities	33	527,379	524,085
		3,824,631	2,438,816
Current liabilities			
Amounts due to jointly controlled entities	21	56,286	76,507
Creditors and accruals	28	883,928	2,890,998
Current portion of borrowings	32	1,282,246	1,196,256
Tax payable		161,041	11,261
Dividend payable		614,673	—
		2,998,174	4,175,022
Total liabilities		6,822,805	6,613,838
Total equity and liabilities		16,382,150	14,935,018

Che-woo Lui

Chairman and Executive Director

Paddy Tang Lui Wai Yu

Executive Director

Company Balance Sheet

As at 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	20	259,561	259,561
Jointly controlled entities	21	438,568	438,568
		698,129	698,129
Current assets			
Amounts due from subsidiaries	20	3,937,448	2,721,104
Debtors and prepayments	26	290	420
Tax recoverable		1,435	1,435
Cash and bank balances	27	133,704	979
		4,072,877	2,723,938
Total assets		4,771,006	3,422,067
EQUITY			
Share capital	29	245,869	242,995
Reserves	31	3,282,139	2,908,430
Shareholders' funds		3,528,008	3,151,425
LIABILITIES			
Non-current liabilities			
Borrowings	32	187,000	150,000
Deferred taxation liabilities	33	1,885	1,885
		188,885	151,885
Current liabilities			
Creditors and accruals	28	2,440	2,757
Current portion of borrowings	32	437,000	116,000
Dividend payable		614,673	—
		1,054,113	118,757
Total liabilities		1,242,998	270,642
Total equity and liabilities		4,771,006	3,422,067

Che-woo Lui

Chairman and Executive Director

Paddy Tang Lui Wai Yu

Executive Director

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	34 (a)	(3,160,319)	1,237,616
Net tax paid		(61,607)	(47,230)
Interest paid		(230,566)	(181,844)
Net cash (used in)/from operating activities		(3,452,492)	1,008,542
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,526)	(4,336)
Purchase of investment properties		—	(296,852)
Acquisition of jointly controlled entities		(5)	—
Acquisition of associated companies		(2)	—
Acquisition of additional interest in a subsidiary		(9,483)	—
Proceeds from disposal of property, plant and equipment		1,190	183
Proceeds from disposal of leasehold land and land use rights		763	—
Net proceeds from disposal of non-current investments		3,713,207	—
Purchase of other investments		—	(836)
Proceeds from disposal of other investments		—	44,841
Interest received		46,099	14,713
Dividends received from jointly controlled entities		67,073	30,041
Dividends received from listed investments		—	716
Net cash from/(used in) investing activities		3,814,316	(211,530)
Cash flows from financing activities			
Issue of new shares	34 (b)	20,877	6,650
Contribution from minority interests		—	969
New long-term bank loans		1,496,094	1,117,382
Repayment of long-term bank loans		(764,592)	(693,858)
Increase/(decrease) in short-term bank loans repayable after three months from date of advance		639,438	(654,351)
Dividends paid to shareholders		(73,440)	(16,830)
Net cash from/(used in) financing activities		1,318,377	(240,038)
Net increase in cash and bank balances		1,680,201	556,974
Cash and bank balances at beginning of year		741,060	255,206
Changes in exchange rates		23,481	(71,120)
Cash and bank balances at end of year		2,444,742	741,060

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK\$'000	Reserves HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31 December 2006	242,995	7,221,368	7,464,363	856,817	8,321,180
Exchange differences	—	189,173	189,173	71,710	260,883
Issue of shares upon exercise of share options	1,109	19,768	20,877	—	20,877
Shares issued as scrip dividends	1,765	(1,765)	—	—	—
Reserve arising on scrip dividends	—	48,796	48,796	—	48,796
Fair value of share options	—	11,780	11,780	—	11,780
Investment reserves realised	—	(1,072,982)	(1,072,982)	—	(1,072,982)
Change in fair value of non-current investments	—	126,331	126,331	—	126,331
Acquisition of additional interest in a subsidiary	—	—	—	(50,691)	(50,691)
Profit for the year	—	2,451,142	2,451,142	178,938	2,630,080
2006 final dividend	—	(60,868)	(60,868)	—	(60,868)
2007 interim dividend	—	(61,368)	(61,368)	—	(61,368)
2007 special interim dividend	—	(614,673)	(614,673)	—	(614,673)
At 31 December 2007	245,869	8,256,702	8,502,571	1,056,774	9,559,345
At 31 December 2005	237,792	5,078,878	5,316,670	355,968	5,672,638
Exchange differences	—	85,306	85,306	27,839	113,145
Conversion of convertible bonds, net of tax	3,404	50,548	53,952	—	53,952
Exercise of share options	456	6,194	6,650	—	6,650
Shares issued as scrip dividends	1,343	(1,343)	—	—	—
Reserve arising on scrip dividends	—	31,387	31,387	—	31,387
Fair value of share options	—	2,384	2,384	—	2,384
Change in fair value of non-current investments	—	1,786,528	1,786,528	—	1,786,528
Capital contributions from minority interests	—	—	—	969	969
Profit for the year	—	229,703	229,703	472,041	701,744
2005 final dividend	—	(24,030)	(24,030)	—	(24,030)
2006 interim dividend	—	(24,187)	(24,187)	—	(24,187)
At 31 December 2006	242,995	7,221,368	7,464,363	856,817	8,321,180

Notes to the Financial Statements

1 GENERAL INFORMATION

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

The principal activities of the Company and its subsidiaries (together the "Group") are property development and investment in Hong Kong, Singapore and Mainland China.

The financial statements have been approved by the Board of Directors on 2 April 2008.

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 and non-current 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 financial statements are disclosed in note 5 below.

In 2007, the Group adopted the following new standards, amendments and interpretations, which are relevant to its operations:

- HKAS 1 (Amendment) Presentation of Financial Statements: Capital Disclosures
- HK(IFRIC) – Int 8 Scope of HKFRS 2
- HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives
- HK(IFRIC) – Int 10 Interim Reporting and Impairment
- HKFRS 7 Financial Instruments: Disclosures

The adoption of these new standards, amendments and interpretations does not have any significant effect on the accounting policies or result and financial position of the Group, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures relating to financial instruments and capital management in the financial statements.

The following standards, amendments and interpretations are effective for the accounting periods of the Group beginning on and after 1 January 2008 and have not been early adopted by the Group:

Effective for year ending 31 December 2008

- HK(IFRIC) – Int 11 HKFRS 2 – Group and Treasury Share Transactions

Effective for year ending 31 December 2009

- HKAS 1 (revised) Presentation of Financial Statements
- HKAS 23 (Amendment) Borrowing costs
- HKFRS 8 Operating Segments

The Group has already commenced an assessment of the impact of these standards, amendments and interpretations and considers that they will not have any 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 and associated companies attributable to the Group.

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

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

3.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a direct or indirect shareholding of more than half of the voting rights. 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. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

3.3 Minority interests

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals 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. If the cost of acquisition is less than the relevant share of the carrying value of net assets acquired, the difference is recognised directly in the consolidated profit and loss statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Investments in jointly controlled entities are accounted for under the equity method of accounting and are initially recognised at cost. The investments in jointly controlled entities of the Group include goodwill, net of any accumulated impairment, identified on acquisition. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies of the Group.

The share of post-acquisition profits or losses of jointly controlled entities attributable to the Group is recognised in the consolidated profit and loss statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

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

3.5 Associated companies

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

Investments in associated companies are accounted for under the equity method of accounting and are initially recognised at cost. The investments in associated companies of the Group include goodwill, net of any accumulated impairment, identified on acquisition. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies of the Group.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the consolidated profit and loss statement, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Goodwill

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

Goodwill on acquisition of subsidiary is included in intangible assets while goodwill on acquisition of jointly controlled entity and associated company is included in investments in jointly controlled entities and associated companies. Goodwill is tested for impairment and carried at cost less accumulated impairment. Impairment on goodwill is 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.

3.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. 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 at rates as follows:

Plant and machinery	10%
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.

3.8 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Investment properties (cont'd)

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.

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, this write-back is recognised in the profit and loss statement. This revaluation reserve shall remain and be transferred to revenue reserve upon disposal of this property.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been 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 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.

3.10 Investments

The Group classifies its investments in the categories of 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.

(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 initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Investments (cont'd)

(c) Available-for-sale 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 on that investment previously recognised in the profit and loss statement is removed from equity and recognised in the profit and loss statement. Impairment recognised in the profit and loss statement on equity investments is not reversed through the profit and loss statement.

3.11 Development properties

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

The cost of acquiring land held under operating leases 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which 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.

3.13 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.

3.14 Share capital

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.

3.15 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.

3.16 Convertible bonds

(a) *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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Convertible bonds (cont'd)

(a) *Convertible bonds with equity component (cont'd)*

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.

(b) *Convertible bonds without equity component*

All other convertible bonds which do not exhibit the characteristics mentioned in (a) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract.

At initial recognition, the embedded derivative of the convertible bonds is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible note are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in the profit and loss statement. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

When the note is converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the note is redeemed, any difference between the redemption amount and the carrying amounts of both components is recognised in the profit or loss statement.

3.17 Trade creditors

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

3.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors 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.

3.19 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Current and deferred taxation

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries, jointly controlled entities and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be payable to the tax authorities.

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 taxation asset is realised or the deferred taxation liability is settled.

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

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

3.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.22 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.

3.23 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 and 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 lessees 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 established.

3.24 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.

(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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.24 Foreign currencies (cont'd)

(b) Transactions and balances (cont'd)

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 rates of exchange ruling 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 rates of exchange ruling at the balance sheet date.

3.25 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.

3.26 Dividend distribution

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

4 FINANCIAL RISK MANAGEMENT

The major financial instruments of the Group include trade and other receivables, amounts due from jointly controlled entities and associated companies, bank deposits, non-current investments, other non-current assets, trade and other creditors, amounts due to minority shareholders and jointly controlled entities and bank loans. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and other price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Risk management is carried out by the management of the Group under the supervision of the Board of Directors. The management of the Group identifies, evaluates and manages significant financial risks in the individual operating units of the Group. The Board provides guidance for overall risk management.

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor

4.1.1. Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, Mainland China, Singapore and Japan and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB").

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group.

The Group monitors foreign exchange exposure and considers to enter into forward foreign exchange contracts to reduce exposure where necessary.

At 31 December 2007, if Hong Kong dollar had weakened or strengthened by 1% (2006: 1%) against RMB, with all other variables held constant, profit before taxation for the year would have been higher or lower by approximately HK\$6 million (2006: HK\$3 million).

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank loans which carry at prevailing market interest rates.

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 investments 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.

At 31 December 2007, if interest rates had been increased or decreased by 1% (2006: 1%) with all other variables held constant, the profit before taxation for the year would decrease or increase by approximately HK\$21 million (2006: HK\$23 million).

(iii) Price risk

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

4.1.2. 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. The Group reviews the recoverable amount of the debtors on a regular basis and an allowance for doubtful debts is made where there is an identified loss.

In addition, the Group reviews the recoverable amount of each debtor at each balance sheet date to ensure that adequate provision is made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit rankings. Management does not expect any losses from non-performance by these banks.

Notes to the Financial Statements

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.3. 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 contingent liquidity support.

The contractual maturity of the Group and the Company for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company is required to pay and include both interest and principal, is set out below.

Group

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2007					
Bank loans	1,490,427	1,653,722	1,949,000	—	5,093,149
Convertible bonds	200	36,641	—	—	36,841
Trade creditors	559,432	—	—	—	559,432
Other creditors	240,508	—	—	—	240,508
Amounts due to jointly controlled entities	56,286	—	—	—	56,286
Amounts due to minority shareholders	83,988	—	—	—	83,988
Total	2,430,841	1,690,363	1,949,000	—	6,070,204
At 31 December 2006					
Bank loans	1,344,314	646,555	1,409,352	—	3,400,221
Convertible bonds	200	200	36,641	—	37,041
Trade creditors	160,331	—	—	—	160,331
Other creditors	101,773	—	—	—	101,773
Amounts due to jointly controlled entities	76,507	—	—	—	76,507
Amounts due to minority shareholders	107,026	—	—	—	107,026
Total	1,790,151	646,755	1,445,993	—	3,882,899

Company

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2007					
Bank loans	459,008	191,825	—	—	650,833
Other creditors	2,440	—	—	—	2,440
Total	461,448	191,825	—	—	653,273
At 31 December 2006					
Bank loans	127,679	155,450	—	—	283,129
Other creditors	2,757	—	—	—	2,757
Total	130,436	155,450	—	—	285,886

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.2 Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of borrowings and equity. In order to maintain a balance of its overall capital structure, the payment of dividends, issue of new share as well as the issue of new debts or the redemption of existing debts.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net borrowings to total assets excluding cash and bank balances. Net borrowings is calculated as total borrowings, including current and non-current borrowings, less cash and bank balances.

The actual gearing ratio is calculated as follows:

	2007 HK\$'000	2006 HK\$'000
Total borrowings	4,579,498	3,110,987
Less: Cash and bank balances	2,444,742	741,060
Net borrowings	2,134,756	2,369,927
Total assets excluding cash and bank balances	13,937,408	14,193,958
Gearing ratio	15%	17%

The improvement in the gearing ratio during the financial year resulted primarily from the increase in net profit and corresponding cash inflows.

4.3 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, bank balances, creditors 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) Current and deferred taxation and land appreciation tax

Significant judgement is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such difference will impact the provision for current and deferred taxation in the financial period in which such determination is made.

The Group is subject to land appreciation tax in the Mainland China. However, the actual implementation of this tax is uncertain amongst local tax authorities. Accordingly, significant judgement is required in determining the amount of the land appreciation tax and its related tax provision. The Group recognises the land appreciation tax based on best estimates according to the understanding of the tax rules. The final taxation outcome could be different from the amounts that were initially recorded, and these differences will impact the costs of sales and provision for taxation in the financial period in which such determination is made.

Deferred taxation assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) 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.

(c) Provision for development properties

The Group assesses the carrying amounts of properties under development and completed properties for sale according to their net realisable value based on the realisability of these properties, taking into account estimated costs to completion based on past experience and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(d) 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.

(e) Convertible bonds

The fair value of convertible bonds is estimated by independent professional valuers and the 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.

Notes to the Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND ADJUSTMENTS (cont'd)

(f) Share-based payments

The fair value of options 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. 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, amounts due from jointly controlled entities and associated companies, debtors and prepayments and mainly exclude non-current investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals and amounts due to jointly controlled entities. There are no sales or trading transactions between the business segments.

(A) Business segments

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Year ended 31 December 2007				
Revenue	4,595,884	203,620	—	4,799,504
Operating profit	1,287,336	4,054	1,514,590	2,805,980
Finance costs				(110,751)
Share of profits of jointly controlled entities	155,478	—	—	155,478
Share of losses of associated companies	(6)	—	—	(6)
Profit before taxation				2,850,701
Taxation charge				(220,621)
Profit for the year				2,630,080
Capital expenditure	(3,956)	(570)	—	(4,526)
Depreciation	(3,169)	(233)	—	(3,402)
Amortisation	(9,989)	—	—	(9,989)
Gain on disposal of non-current investments	—	—	1,373,782	1,373,782
Change in fair value of investment properties	351,871	—	—	351,871
As at 31 December 2007				
Segment assets	12,029,614	12,282	3,639,338	15,681,234
Jointly controlled entities	700,920	—	—	700,920
Associated companies	(4)	—	—	(4)
Total assets				16,382,150
Total liabilities	923,939	10,926	5,887,940	6,822,805

Notes to the Financial Statements

6 SEGMENT INFORMATION (cont'd)

(A) Business segments (cont'd)

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Year ended 31 December 2006				
Revenue	203,075	72,881	—	275,956
Operating profit	998,981	893	71,505	1,071,379
Finance costs				(71,891)
Share of profits of jointly controlled entities	9,275	—	—	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

(b) Geographical segments

	Revenue HK\$'000	Operating profit/(loss) HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
Year ended 31 December 2007				
Hong Kong	2,712,077	2,119,588	1,102	8,039,272
Mainland China	1,869,707	622,541	2,835	8,069,370
Singapore	14,100	59,717	19	248,913
Japan	203,620	4,134	570	24,595
	4,799,504	2,805,980	4,526	16,382,150
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

Notes to the Financial Statements

7 REVENUE

	2007 HK\$'000	2006 HK\$'000
Sale of properties	4,383,262	6,263
Rental income	212,622	196,812
Sale of goods	203,620	72,881
	4,799,504	275,956

8 OPERATING PROFIT

(a) Other operating expenses include donations of HK\$113,713,000 (2006: HK\$4,442,000) to charitable organisations.

(b) Operating profit is stated after crediting:

	2007 HK\$'000	2006 HK\$'000
Interest income from banks	24,913	13,547
Interest income from mortgage loans	863	1,166
Interest income from other loan	20,323	—
Excess of fair value of net assets acquired over the cost of additional interest in a subsidiary	41,208	—
Net exchange gains	94,552	56,788
Dividend income from listed investments	—	716
Gain on disposal of other investments	—	4,879
and after charging:		
Cost of inventories sold	189,869	64,345
Depreciation (net of amount capitalised under properties under development of HK\$2,104,000 (2006: HK\$1,410,000))	3,402	3,165
Amortisation for leasehold land and land use rights (net of amount capitalised under properties under development of HK\$34,818,000 (2006: HK\$29,440,000))	9,989	5,877
Staff costs including Directors' remuneration (c)	114,516	99,789
Donations	113,713	4,442
Auditors' remuneration		
Audit services		
Provision for the year	1,324	1,423
Underprovision for prior years	410	519
Non-audit services	540	517
Loss on disposal of property, plant and equipment	716	89
Loss on disposal of leasehold land and land use rights	951	—
Operating lease rental for land and buildings	2,392	5,648
Outgoings in respect of investment properties		
Direct operating expense of investment properties that generate rental income	3,746	2,992
Direct operating expense of investment properties that did not generate rental income	160	332

(c) Staff costs include the fair value of share options of HK\$11,780,000 (2006: HK\$2,384,000).

Notes to the Financial Statements

9 DIRECTORS' REMUNERATION

Name	Directors' fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Share options (a) HK\$'000	2007 Total HK\$'000	2006 Total HK\$'000
Che-woo Lui	100	4,725	333	480	795	6,433	5,521
Francis Lui Yiu Tung	80	1,050	83	105	—	1,318	1,498
Eddie Hui Ki On	130	2,730	217	12	309	3,398	2,911
Lennon Lun Tsan Kau	80	2,555	165	178	326	3,304	2,587
Paddy Tang Lui Wai Yu	80	2,000	111	176	708	3,075	1,985
Sir David Akers-Jones	80	—	—	—	377	457	80
Michael Leung Man Kin	160	—	—	—	377	537	468
Philip Wong Kin Hang	80	—	—	—	377	457	128
Leo Lee Tung Hai	80	—	—	—	377	457	138
Robin Chan Yau Hing	80	—	—	—	377	457	138
Charles Cheung Wai Bun	220	—	—	—	377	597	250
Robert George Nield	200	—	—	—	377	577	219
William Lo Chi Chung (b)	80	—	—	—	—	80	1,984
Alex Wu Shu Chih (c)	—	—	—	—	—	—	2
	1,450	13,060	909	951	4,777	21,147	17,909

(a) The value of the share options granted to the Directors under the share option scheme of the Company represented the fair value of those options charged to the profit and loss statement for the year in accordance with the accounting policies of the Group.

(b) Resigned

(c) Deceased

10 FIVE HIGHEST PAY INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) Directors whose emoluments are reflected in note 9 above. The emoluments of the remaining one (2006: one) individual is as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other emoluments	2,495	1,731
Retirement benefits	12	153
Discretionary bonuses	—	161
Share options	215	80
	2,722	2,125

11 RETIREMENT BENEFIT SCHEMES

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

Notes to the Financial Statements

11 RETIREMENT BENEFIT SCHEMES (cont'd)

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 of employees other than the above payments.

The retirement benefit schemes cost charged to the profit and loss statement during the year comprises contributions made by the Group to the schemes of HK\$4,696,000 (2006: HK\$4,825,000), less forfeitures of HK\$626,000 (2006: HK\$317,000), leaving HK\$1,000 (2006: HK\$201,000) available at the balance sheet date to reduce future contributions.

12 FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest expense		
Bank loans, overdrafts and others	230,365	181,485
Finance cost of convertible bonds	1,863	2,414
Capitalised as cost of properties under development	(121,477)	(112,008)
	110,751	71,891

The capitalisation rates applied to funds borrowed generally and used for the development of properties are between 5% and 6% per annum (2006: 4% to 5% per annum).

13 TAXATION CHARGE

	2007 HK\$'000	2006 HK\$'000
Current		
Hong Kong profits tax	53,034	2,933
Overseas	197,407	1,473
Deferred (note 33)	(29,820)	302,613
	220,621	307,019

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

Land appreciation tax in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

On 16 March 2007, the National People's Congress approved the new Corporate Income Tax Law in Mainland China ("New CIT Law"), which will reduce the corporate income tax rate from 33% to 25% with effect from 1 January 2008. Since the deferred taxation assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, the change in the applicable tax rate has affected the determination of the carrying values of deferred taxation assets and liabilities of the subsidiaries and jointly controlled entities of the Group located in Mainland China.

Notes to the Financial Statements

13 TAXATION CHARGE (cont'd)

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:

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	2,850,701	1,008,763
Share of profits of jointly controlled entities	(155,478)	(9,275)
Share of losses of associated companies	6	—
	2,695,229	999,488
Tax calculated at applicable tax rate	578,571	336,301
Income not subject to taxation	(246,015)	(7,315)
Expenses not deductible for taxation purposes	17,222	2,215
Utilisation of previously unrecognised tax losses	(8,091)	(33,173)
Tax loss not recognised	13,590	8,956
Change in tax rate	(139,960)	—
Over provision in previous years	5,304	35
Taxation charge	220,621	307,019

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\$1,032,039,000 (2006: HK\$57,157,000).

15 DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Interim cash dividend of 2.5 HK cents (2006: scrip dividend with a cash option of 1 HK cent) per share	61,368	24,187
Special interim cash dividend of 25 HK cents (2006: nil) per share (a)	614,673	—
Proposed final cash dividend of 3 HK cents (2006: scrip dividend with a cash option of 2.5 HK cents) per share (b)	73,771	60,868
	749,812	85,055
The dividends have been partially settled by cash as follows:		
Interim	61,368	8,074
Final	—	12,072
	61,368	20,146

(a) On 18 December 2007, the Board of Directors declared a special interim cash dividend of HK\$0.25 (2006: nil) per share. The special interim dividend was paid on 25 January 2008.

(b) The Board of Directors recommended a final cash dividend in respect of 2007 of 3 HK cents (2006: 2.5 HK cents) per share. This dividend will be accounted for as an appropriation of revenue reserve in the year ending 31 December 2008.

Notes to the Financial Statements

16 EARNINGS PER SHARE

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

	2007 HK\$'000	2006 HK\$'000
Profit attributable to shareholders	2,451,142	229,703
Effect of dilutive potential shares		
Interest on convertible bonds, net of tax	1,536	1,992
Profit for calculation of diluted earnings per share	2,452,678	231,695

	Number of shares	
	2007	2006
Weighted average number of shares for calculating basic earnings per share	2,444,603,000	2,407,931,000
Effect of dilutive potential shares		
Convertible bonds	21,277,000	30,629,000
Share options	8,628,000	7,613,000
Weighted average number of shares for calculating diluted earnings per share	2,474,508,000	2,446,173,000

17 PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost				
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
Exchange differences	1,047	178	748	1,973
Additions	—	—	4,526	4,526
Disposals	(2,489)	—	(1,826)	(4,315)
At 31 December 2007	54,353	2,778	29,090	86,221
Accumulated depreciation				
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
Exchange differences	100	25	527	652
Charge for the year	1,158	241	4,107	5,506
Disposals	(775)	—	(1,634)	(2,409)
At 31 December 2007	12,158	500	20,831	33,489
Net book value				
At 31 December 2007	42,195	2,278	8,259	52,732
At 31 December 2006	44,120	2,366	7,811	54,297

Notes to the Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT (cont'd)

Buildings with carrying values of HK\$42,195,000 (2006: HK\$42,278,000) 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

	2007 HK\$'000	2006 HK\$'000
At beginning of year	3,367,669	2,016,387
Exchange differences	203,809	96,472
Additions	—	296,852
Transfer from development properties	65,763	—
Transfer to development properties	(310,000)	—
Change in fair value	351,871	957,958
At end of year	3,679,112	3,367,669

(a) Investment properties held under medium-term leases in Mainland China and Hong Kong amounting to HK\$3,059,964,000 (2006: HK\$2,822,590,000) and HK\$312,000,000 (2006: nil) respectively, were valued at 31 December 2007 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\$150,000,000 (2006: HK\$448,000,000) were valued at 31 December 2007 on an open market value basis by CB Richard Ellis Limited, independent professional valuers. Investment properties held under long-term leases in Singapore amounting to HK\$157,148,000 (2006: HK\$97,079,000) were valued at 31 December 2007 on an open market value basis by Chesterton International Property Consultants Pte Ltd., independent professional valuers.

(b) Investment properties with carrying values of HK\$3,163,693,000 (2006: HK\$3,229,669,000) 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

	2007 HK\$'000	2006 HK\$'000
At beginning of year	69,780	70,502
Exchange differences	60	34
Disposals	(1,714)	—
Amortisation	(736)	(756)
At end of year	67,390	69,780
Long-term lease in Hong Kong	66,461	67,143
Medium-term lease in Mainland China	929	2,637
	67,390	69,780

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\$67,390,000 (2006: HK\$68,035,000) were pledged to secure the banking facilities of the Group.

Notes to the Financial Statements

20 SUBSIDIARIES

	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	259,561	259,561

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Details of subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 38(a).

21 JOINTLY CONTROLLED ENTITIES

Group

	2007 HK\$'000	2006 HK\$'000
At beginning of year	575,502	577,261
New investments	5	—
Share of results	155,478	9,275
Share of exchange reserve	37,008	19,007
Dividends	(67,073)	(30,041)
At end of year	700,920	575,502

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

	2007 HK\$'000	2006 HK\$'000
Assets		
Non-current assets	245,845	237,966
Current assets	3,891,153	1,256,942
Liabilities		
Non-current liabilities	(466,615)	—
Current liabilities	(2,969,463)	(919,406)
Net assets	700,920	575,502
Revenue	411,707	18,721
Profit after taxation	155,478	9,275

Company

	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	438,568	438,568

Amounts due from/to jointly controlled entities are unsecured, non-interest bearing and have no fixed terms of repayment. As at 31 December 2006 and 2007, no amounts due from such entities were past due or impaired.

Details of jointly controlled entities of the Group are given in note 38(b). The jointly controlled entities do not have any material contingent liabilities as at 31 December 2007.

Notes to the Financial Statements

22 ASSOCIATED COMPANIES

Group

	2007 HK\$'000	2006 HK\$'000
At beginning of year	—	—
New investments	2	—
Share of results	(6)	—
At end of year	(4)	—

The share of the aggregate amounts of the assets, liabilities and results of the associated companies attributable to the Group is as follows:

	2007 HK\$'000	2006 HK\$'000
Assets		
Current assets	1,293,686	—
Liabilities		
Non-current liabilities	(641,550)	—
Current liabilities	(652,140)	—
Net liabilities	(4)	—
Revenue	—	—
Loss after taxation	(6)	—

Amounts due from associated companies are unsecured, non-interest bearing and have no fixed terms of repayment. As at 31 December 2007, no amounts due from such entities were past due or impaired.

Details of associated companies of the Group are given in note 38(c). The associated companies do not have any material contingent liabilities as at 31 December 2007.

23 NON-CURRENT INVESTMENTS

Group

	2007 HK\$'000	2006 HK\$'000
Listed equity securities, at fair value	1,191,008	4,477,084

The listed securities represent the Group's 4.1% (2006: 18.7%) equity interest in Galaxy Entertainment Group Limited ("GEG"), which is incorporated and listed in Hong Kong. The principal activities of GEG are gaming, sale, manufacture and distribution of construction materials.

Notes to the Financial Statements

24 OTHER NON-CURRENT ASSETS

Group

	2007 HK\$'000	2006 HK\$'000
Mortgage loans	7,099	9,592

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 of HK\$362,000 (2006: HK\$615,000) for its mortgage loans during the year and included in other operating expenses in the profit and loss statement.

25 DEVELOPMENT PROPERTIES

Group

	Completed HK\$'000	Under development HK\$'000	2007 HK\$'000	2006 HK\$'000
Leasehold land and land use rights	526,716	1,444,634	1,971,350	1,860,997
Development costs	626,401	2,202,929	2,829,330	3,448,943
	1,153,117	3,647,563	4,800,680	5,309,940

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

	Hong Kong HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	2007 HK\$'000	2006 HK\$'000
Long-term lease	350,920	1,087,794	38,085	1,476,799	1,018,740
Medium-term lease	494,551	—	—	494,551	842,257
	845,471	1,087,794	38,085	1,971,350	1,860,997

26 DEBTORS AND PREPAYMENTS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Trade debtors, net of provision	125,175	12,713	—	—
Other debtors, net of provision	31,291	70,447	—	—
Prepayments and deposits	171,762	200,344	290	420
	328,228	283,504	290	420

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

Notes to the Financial Statements

26 DEBTORS AND PREPAYMENTS (cont'd)

The debtors and prepayments are denominated in the following currencies:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong dollar	126,054	178,056	290	420
RMB	190,318	89,196	—	—
Japanese Yen	11,651	15,505	—	—
Singapore dollar	205	747	—	—
	328,228	283,504	290	420

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

	2007 HK\$'000	2006 HK\$'000
Within one month	123,689	5,923
Two to three months	1,179	2,492
Four to six months	249	2
Over six months	58	4,296
	125,175	12,713

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. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The Group has recognised an impairment of HK\$362,000 (2006: HK\$615,000) for its trade and other debtors during the year and included in other operating expenses in the profit and loss statement. As at 31 December 2007, trade and other debtors of HK\$2,094,000 (2006: HK\$3,654,000) were impaired and full provision has been made. Movements on the provision are as follows:

	2007 HK\$'000	2006 HK\$'000
At beginning of year	3,654	4,199
Provision	362	615
Written off as uncollectible	(1,922)	(1,160)
At end of year	2,094	3,654

Notes to the Financial Statements

27 CASH AND BANK BALANCES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash at bank and in hand	1,376,505	156,419	1,704	979
Short-term bank deposits	1,068,237	584,641	132,000	—
	2,444,742	741,060	133,704	979

The effective interest rate on short-term bank deposits is 3% (2006: 3%) and these deposits have an average maturity of 12 days (2006: 23 days).

The bank balances include HK\$426,079,000 (2006: HK\$534,995,000) 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	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong dollar	1,631,930	403,796	133,704	979
RMB	328,478	329,208	—	—
United States dollar	468,434	3,757	—	—
Others	15,900	4,299	—	—
	2,444,742	741,060	133,704	979

28 CREDITORS AND ACCRUALS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Trade creditors	559,432	160,331	—	—
Other creditors	38,670	18,993	1,738	1,507
Amounts due to minority shareholders	83,988	107,026	—	—
Accrued operating expenses	63,718	17,586	702	1,250
Advanced proceeds on sale of properties	66,988	2,521,869	—	—
Deposits received	71,132	65,193	—	—
	883,928	2,890,998	2,440	2,757

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

Notes to the Financial Statements

28 CREDITORS AND ACCRUALS (cont'd)

The creditors and accruals are denominated in the following currencies:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong dollar	437,139	1,417,409	2,440	2,757
RMB	430,717	1,459,103	—	—
Japanese Yen	10,926	11,377	—	—
Singapore dollar	5,146	3,109	—	—
	883,928	2,890,998	2,440	2,757

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:

	2007 HK\$'000	2006 HK\$'000
Within one month	506,973	157,736
Two to three months	2,474	2,376
Four to six months	174	77
Over six months	49,811	142
	559,432	160,331

29 SHARE CAPITAL

	2007		2006	
	Shares of HK\$0.10 each	HK\$'000	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	2,429,947,502	242,995	2,377,921,049	237,792
Share options exercised (a)	11,092,000	1,109	4,553,000	456
Conversion of convertible bonds (b)	—	—	34,042,547	3,404
Issued as scrip dividends	17,651,006	1,765	13,430,906	1,343
At end of year	2,458,690,508	245,869	2,429,947,502	242,995

- (a) During the year, share options to subscribe for 11,092,000 (2006: 4,553,000) shares were exercised, of which HK\$1,109,000 (2006: HK\$456,000) was credited to share capital and HK\$22,268,000 (2006: HK\$6,819,000) to the share premium account and HK\$2,500,000 (2006: HK\$625,000) was debited to share option reserve.
- (b) For the year ended 31 December 2006, convertible bonds with face value of HK\$64,000,000 were converted into 34,042,547 shares of the Company, of which HK\$3,404,000 was credited to share capital and the balance to the share premium account.

Notes to the Financial Statements

30 SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for 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 exercisable at a price equal to the average closing prices of the shares for the five business days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00. The vesting period is one year. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten 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:

	2007		2006	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	1.8643	18,614,000	1.7865	23,477,000
Granted	4.6360	15,635,000	—	—
Exercised	1.8822	(11,092,000)	1.4604	(4,553,000)
Lapsed	2.9709	(466,000)	1.9060	(310,000)
At end of year	3.7426	22,691,000	1.8643	18,614,000
Vested at end of year	1.8738	7,339,000	1.8643	18,614,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$3.473 (2006: HK\$2.451).

The options outstanding at 31 December 2007 have exercise prices ranging from HK\$0.72 to HK\$4.636 (2006: HK\$0.36 to HK\$1.906) with weighted average remaining contractual life of 7.96 years (2006: 4.84 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	
		2007	2006
Directors			
1 March 2004 to 28 February 2013	0.7200	150,000	150,000
22 October 2006 to 21 October 2011	1.9060	5,020,000	7,700,000
27 November 2008 to 26 November 2017	4.6360	6,338,000	—
Employees and others			
20 May 1999 to 19 May 2008	0.5586	—	33,000
30 December 2000 to 29 December 2009	0.3600	—	150,000
1 March 2004 to 28 February 2013	0.7200	49,000	272,000
22 October 2006 to 21 October 2011	1.9060	2,120,000	10,309,000
27 November 2008 to 26 November 2017	4.6360	9,014,000	—
		22,691,000	18,614,000

The fair value of options granted during the year, as determined by using the Black-Scholes valuation model, was HK\$23.6 million. The significant inputs into the model were share price of HK\$4.47 at the valuation date, exercise price at the date of granting the options, expected volatility of 46%, expected life of options of 5.5 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 2.87%. The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the past 5.5 years.

Notes to the Financial Statements

31 RESERVES

(a) Group

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Convertible bonds reserve HK\$'000	Investment reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
As 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
Exchange differences	—	—	—	—	—	—	—	189,173	—	189,173
Exercise of share options	22,268	(2,500)	—	—	—	—	—	—	—	19,768
Shares issued as scrip dividends	(1,765)	—	—	—	—	—	—	—	—	(1,765)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	48,796	48,796
Fair value of share options	—	11,780	—	—	—	—	—	—	—	11,780
Investment reserves realised	—	—	—	—	—	—	(1,072,982)	—	—	(1,072,982)
Change in fair value of non-current investments	—	—	—	—	—	—	126,331	—	—	126,331
Profit for the year	—	—	—	—	—	—	—	—	2,451,142	2,451,142
2006 final dividend	—	—	—	—	—	—	—	—	(60,868)	(60,868)
2007 interim dividend	—	—	—	—	—	—	—	—	(61,368)	(61,368)
2007 special interim dividend	—	—	—	—	—	—	—	—	(614,673)	(614,673)
At 31 December 2007	1,658,740	13,422	99,089	13	482	8,888	351,722	314,847	5,809,499	8,256,702
Retained by:										
Company and subsidiaries	1,658,740	13,422	99,089	13	482	8,888	351,722	249,321	5,556,878	7,938,555
Jointly controlled entities	—	—	—	—	—	—	—	65,526	252,627	318,153
Associated companies	—	—	—	—	—	—	—	—	(6)	(6)
	1,658,740	13,422	99,089	13	482	8,888	351,722	314,847	5,809,499	8,256,702
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 in 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

Notes to the Financial Statements

31 RESERVES (Cont'd)

(b) Company

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Convertible bonds reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
As 31 December 2006	1,638,237	4,142	213,560	13	8,888	1,043,590	2,908,430
Exercise of share options	22,268	(2,500)	—	—	—	—	19,768
Shares issued as scrip dividends	(1,765)	—	—	—	—	—	(1,765)
Reserve arising on scrip dividends	—	—	—	—	—	48,796	48,796
Fair value of share options	—	11,780	—	—	—	—	11,780
Profit for the year	—	—	—	—	—	1,032,039	1,032,039
2006 final dividend	—	—	—	—	—	(60,868)	(60,868)
2007 interim dividend	—	—	—	—	—	(61,368)	(61,368)
2007 special interim dividend	—	—	—	—	—	(614,673)	(614,673)
At 31 December 2007	1,658,740	13,422	213,560	13	8,888	1,387,516	3,282,139
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

The distributable reserves of the Company at 31 December 2007, under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$1,601,076,000 (2006: HK\$1,257,150,000).

Notes to the Financial Statements

32 BORROWINGS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Long-term bank loans (a)				
Secured	1,885,244	2,185,046	—	—
Unsecured	1,969,950	843,021	316,000	250,000
	3,855,194	3,028,067	316,000	250,000
Convertible bonds (c)	34,435	32,773	—	—
	3,889,629	3,060,840	316,000	250,000
Short-term bank loans (a)				
Unsecured	689,869	50,147	308,000	16,000
	4,579,498	3,110,987	624,000	266,000
Current portion included in current liabilities	(1,282,246)	(1,196,256)	(437,000)	(116,000)
	3,297,252	1,914,731	187,000	150,000

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Within one year	592,377	1,146,109	129,000	100,000
Between one to two years	1,506,777	558,844	187,000	150,000
Between two to five years	1,756,040	1,323,114	—	—
	3,855,194	3,028,067	316,000	250,000

(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 is approximately 5.2% (2006: 4.6%).

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

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong dollar	3,712,387	2,643,677	624,000	266,000
RMB	674,805	286,255	—	—
Others	192,306	181,055	—	—
	4,579,498	3,110,987	624,000	266,000

Notes to the Financial Statements

32 BORROWINGS (Cont'd)

(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 and HK\$1.86 per share in January 2008 due to the payment of the special interim dividends. 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, no convertible bonds (2006: HK\$64,000,000) have been converted into (2006: 34,042,547) shares of the Company and the remaining face value of convertible bonds amounted to HK\$40,000,000 (2006: HK\$40,000,000) were carried at amortised cost.

The fair value of the liability component of the convertible bonds at 31 December 2007 amounted to HK\$34 million (2006: HK\$32 million). The fair value is calculated using the cash flows discounted at a rate based on the borrowing rate of 5.6% (2006: 6.5%). 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.

33 DEFERRED TAXATION LIABILITIES

Group

	Tax losses HK\$'000	Other provisions HK\$'000	Deferred taxation assets HK\$'000	Accelerated depreciation allowance HK\$'000	Fair value gains HK\$'000	Convertible bonds HK\$'000	Others HK\$'000	Deferred taxation liabilities HK\$'000	Total HK\$'000
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 (Credited)/charged to profit and loss statement	—	—	—	—	—	(3,016)	—	(3,016)	(3,016)
	(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
Exchange differences	—	(46)	(46)	2,214	26,989	—	3,957	33,160	33,114
Charged/(credited) to profit and loss statement	20,977	1,597	22,574	7,900	(39,862)	—	(20,432)	(52,394)	(29,820)
At 31 December 2007	—	(528)	(528)	39,242	429,014	1,885	57,766	527,907	527,379

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 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 or settled after twelve months.

Deferred taxation assets of HK\$64,037,000 (2006: HK\$57,260,000) arising from unused tax losses and other temporary differences totalling of HK\$364,785,000 (2006: HK\$302,785,000) have not been recognised in the financial statements. Unused tax losses of HK\$319,487,000 (2006: HK\$275,218,000) have no expiry date and the balance will expire at various dates up to and including 2012.

Notes to the Financial Statements

33 DEFERRED TAXATION LIABILITIES (Cont'd)

Company

	2007 HK\$'000	2006 HK\$'000
Convertible Bonds		
At beginning of year	1,885	4,901
Conversion of convertible bonds	—	(3,016)
At end of year	1,885	1,885

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007 HK\$'000	2006 HK\$'000
Operating profit	2,805,980	1,071,379
Depreciation	3,402	3,165
Amortisation of leasehold land and land use rights	9,989	5,877
Gain on disposal of non-current investments	(1,373,782)	—
Gain on disposal of other investments	—	(4,879)
Change in fair value of investment properties	(351,871)	(957,958)
Interest income	(46,099)	(14,713)
Dividend income	—	(716)
Loss on disposal of property, plant and equipment	716	89
Loss on disposal of leasehold land and land use rights	951	—
Impairment of trade and other debtors	592	—
Provision for mortgage loans receivable	1,494	615
Share options expenses	11,780	2,384
Excess of fair value of net assets acquired over the cost of additional interest in a subsidiary	(41,208)	—
Operating profit before working capital changes	1,021,944	105,243
Decrease/(increase) in development properties	1,078,937	(970,483)
Increase in amounts due from jointly controlled entities	(2,454,691)	—
Increase in amounts due from associated companies	(652,790)	—
Increase in debtors and prepayments	(45,098)	(148,946)
Decrease/(increase) in mortgage loans receivable	781	(1,943)
(Decrease)/increase in creditors and accruals	(2,109,402)	2,253,745
Cash (used in)/generated from operations	(3,160,319)	1,237,616

Notes to the Financial Statements

34 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(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 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/(used in) financing activities	6,650	969	(230,827)	(223,208)
At 31 December 2006	1,881,232	856,817	3,110,987	5,849,036
Change in exchange rates	—	71,710	95,909	167,619
Transfer from share option reserve	2,500	—	—	2,500
Acquisition of additional interest in a subsidiary	—	(50,691)	—	(50,691)
Share of profits of minority interests	—	178,938	—	178,938
Effective interest of convertible bonds	—	—	1,662	1,662
Cash flows from financing activities	20,877	—	1,370,940	1,391,817
At 31 December 2007	1,904,609	1,056,774	4,579,498	7,540,881

35 COMMITMENTS

Group

(a) Contracted but not provided for

	2007 HK\$'000	2006 HK\$'000
Commitments in respect of property developments	1,308,684	903,543

(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:

	2007 HK\$'000	2006 HK\$'000
Within one year	1,147	1,317
Between one to five years	1,468	—
	2,615	1,317

Notes to the Financial Statements

35 COMMITMENTS (Cont'd)

Group (Cont'd)

(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:

	2007 HK\$'000	2006 HK\$'000
Within one year	194,753	198,741
Between one to five years	204,485	202,789
After five years	—	715
	399,238	402,245

36 GUARANTEES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries, a jointly controlled entity and associated companies amounting to HK\$6,044,917,000 (2006: HK\$4,556,608,000), HK\$775,000,000 (2006: nil) and HK\$1,008,750,000 (2006: nil), respectively, of which HK\$3,231,891,000 (2006: HK\$2,030,336,000), HK\$437,750,000 (2006: nil) and HK\$641,550,000 (2006: nil) have been utilised respectively.

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 (2006: HK\$40,000,000) 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.

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

	2007 HK\$'000	2006 HK\$'000
Fee	470	502
Salaries and other emoluments	13,060	13,536
Discretionary bonuses	909	926
Retirement benefits	951	901
Share options	2,138	621
	17,528	16,486

- (b) Rental income from an investee company amounted to HK\$2,015,020 (2006: HK\$2,015,020) based on the terms of rental agreement between the parties.

Notes to the Financial Statements

38 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Directly held by the Company					
Incorporated in the British Virgin Islands					
Sutimar Enterprises Limited	Hong Kong	100	US\$ 1	100	Investment holding
Indirectly held by the Company					
Incorporated in Hong Kong					
Bright City Development Limited	Hong Kong	2	HK\$ 1	100	Property development
Chely Well Limited	Hong Kong	1,000	1	72	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
Enjoy International Limited	Hong Kong	1	1	100	Investment holding
Full Wealth Limited	Hong Kong	2	1	100	Property development
Grand Place Limited	Hong Kong	1	1	100	Investment holding
Grand Spark Limited	Hong Kong	1	1	100	Property development and investment
Greenwell Investments Limited	Guangzhou	2	1	100	Investment holding
Golden Arrow Limited	Hong Kong	1	1	100	Investment holding
Goldstar Power Limited	Hong Kong	1	1	100	Investment holding
Hero Plaza Limited	Hong Kong	2	1	100	Property development
Infinity Profit Limited	Hong Kong	1	1	100	Investment holding
Kingrand Limited	Hong Kong	2	1	100	Property investment
K. Wah Management Services Limited	Hong Kong	100	100	100	Provision of management services
K. Wah Properties Investment Limited	Hong Kong	1,000	10	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	0.2	100	Investment holding
Lucky Way Investment Limited	Hong Kong	2	1	100	Property development
Minter Limited	Hong Kong	2	1	100	Investment holding
Netrich Limited	Hong Kong	2	1	100	Property development
New Fine Limited	Hong Kong	1	1	100	Property development
Orient Profit Limited	Hong Kong	1	1	100	Property development
Origin World Limited	Hong Kong	2	1	100	Property investment
Perfect Development Limited	Hong Kong	2	1	100	Property development
Polynice Limited	Hong Kong	2	1	100	Provision of finance
Sun City Limited	Hong Kong	2	1	100	Property management
Union Profits Limited	Hong Kong	2	1	100	Property investment and development
Victory Way Limited	Hong Kong	9,901,000	1	99.9	Investment holding
Wealthy Vision Limited	Hong Kong	1	1	100	Investment holding
Worldtop China Limited	Hong Kong	1	1	100	Investment holding
Incorporated in Japan					
Asahi Kohatsu Corporation	Japan	240	Yen 50,000	75	Trading
Incorporated in the British Virgin Islands					
All Smart Profits Limited	Hong Kong	10	US\$ 1	100	Investment holding
Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
Greatest Smart Limited	Hong Kong	10	1	100	Investment holding
Grow Ever Limited	Hong Kong	1	1	100	Investment holding
K. Wah International Finance Limited	Hong Kong	10	1	100	Provision of finance
League Trend Limited	Hong Kong	1	1	100	Investment holding
Lehorne Properties Limited	Hong Kong	10	1	100	Investment holding
Ontrack Developments Limited	Hong Kong	10	1	100	Investment holding
Proper Land Limited	Hong Kong	1	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

Notes to the Financial Statements

38 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Cont'd)

(a) Subsidiaries (cont'd)

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
廣州嘉揚房地產開發有限公司	Guangzhou	HK\$300,000,000	100	Property development
江門市嘉豐房地產開發有限公司	Jiangmen	HK\$70,000,000	100	Property development
Tianjin Jia Run Hua Property Development Co., Ltd.	Tianjin	US\$29,880,000	100	Property development
Tianjin JiaRunHe Property Development Co., Ltd.	Tianjin	US\$29,980,000	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
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
Shanghai Jia Zhao Real Estate Development Co., Ltd.	Shanghai	US\$24,000,000	100	Property development
Equity joint venture				
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Shanghai	US\$53,000,000	39.6	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

Notes to the Financial Statements

38 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Cont'd)

(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 share	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
Teamer International Limited	Hong Kong	1	1		35	Property development
Ace Glory Limited	Hong Kong	1	1		25	Property development
Incorporated in Mainland China			Registered capital			
Shanghai Baoland Co., Ltd.	Shanghai		RMB717,674,797		41.5	Property development
Incorporated in the British Virgin Islands				US\$		
Full Raise International Limited	Hong Kong	1,000	1		25	Investment holding
Homeast Limited	Hong Kong	1,000	1		35	Investment holding

(c) Associated Companies (note)

Name of company	Principal place of operation	Issued share capital			Effective percentage of equity held by the Group	Principal activities
		Number of ordinary share	Par value per share			
Incorporated in Hong Kong				HK\$		
Pacific Bond Limited	Hong Kong	1	1		15	Property development
Union King (Hong Kong) Limited	Hong Kong	1	1		15	Property development
Incorporated in the British Virgin Islands				US\$		
Garwin Investment Limited	Hong Kong	1,000	1		15	Investment holding
Nimble Limited	Hong Kong	100	1		15	Investment holding

Note: Despite of its 15% equity interest in each of these companies, significant influence is exercised in the management and thus these companies have been treated as associated companies of the Group.

Schedule of the Group's Significant Properties

	Type of Property	Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
INVESTMENT AND OTHER PROPERTIES						
Singapore						
San Centre, 171 to 187 Chin Swee Road, Singapore (Note)	Office	5,747	100	2068	Completed	Existing
Hong Kong						
K. Wah Centre, 28th, 29th and 30th Floors 191 Java Road, North Point	Office	2,926	100	2106	Completed	Existing
Skyline Commercial Centre, 71, 73, 75 & 77 Wing Lok Street, Sheung Wan	Office/ Commercial	3,894	100	2841	Completed	Existing
Mainland China						
Shanghai K. Wah Center, Lot No. 26, Street No. 6, Huaihai Zhong Road, Xuhui District, Shanghai	Office	72,000	39.6	2047	Completed	Existing
Parkview Place/Parkview Centre, 148 Dongfeng Road West, Guangzhou City (Phase 1)	Commercial	3,527	100	2033	Completed	Existing
Note: Floor area of 1,964 sq. metres of San Centre is held for sale.						
DEVELOPMENT PROPERTIES						
Hong Kong						
Kingsfield Centre, 18-20 Shell Street, North Point	Office	1,873	100	2069	Completed	Existing
The Great Hill No. 8 Tung Lo Wan Hill Road, Sha Tin	Residential	13,300	100	2054	Completed	Existing
No. 6 Shiu Fai Terrace, Hong Kong	Residential	6,340	100	2070	Foundation	2010
Tai Po Town Lot No. 188 at Pak Shek Kok, Reclamation Phase 1, Site C, Tai Po, New Territories	Residential	69,700	25	2057	Planning	2010
Kowloon Inland Lot No. 11073 at Junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road	Residential	60,500	15	2057	Foundation	2011
Tai Po Town Lot No. 186 at Pak Shek Kok Development Area, Phase I, Site B, Tai Po, New Territories	Residential	66,500	15	2057	Planning	2010 and beyond
Aberdeen Inland Lot No. 451 at Welfare Road, Aberdeen, Hong Kong	Residential	60,000	35	2057	Planning	2010 and beyond

Schedule of the Group's Significant Properties

	Type of Property	Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
Mainland China						
Songbolang Cun, Dongjing Cun, Xinhua Zhen, Huadu City, Guangdong	Mix Use	1,147,000	100	2034 to 2068	Planning	2010 and beyond
花都置業地塊 新華鎮清布村迎賓大道北	Residential/ Commercial/ Office	323,000	100	2039 to 2069	Construction	2009 and beyond
廣州市花都區楊屋路口地塊花都區建設北路	Residential	46,000	100	2047 to 2077	Planning	2010 and beyond
Lot A&B, No. 68 Jianguo Xi Road, Xuhui District, Shanghai	Mix Use	140,000	100	2065	Construction	2010 and beyond
Plot Phase III of Yanjiazhai Jingan District, Shanghai	Residential	100,000	99	2072	Construction	2010
Lot No. 701 Guangzhong Road, Zhabei District, Shanghai (Phase II and III)	Residential	240,000	100	2073	Construction	2009 and beyond

Financial Calendar

DATES	EVENTS
4 July 2008	Payment of 2007 final cash dividend
27 May 2008	2008 annual general meeting
21 May 2008 to 27 May 2008 (both days inclusive)	Closure of registers of members
2 April 2008	Announcement of results for the year ended 31 December 2007
25 January 2008	Payment of 2007 special interim cash dividend
9 November 2007	Payment of 2007 interim cash dividend
13 September 2007	Announcement of results for the six months ended 30 June 2007

財務誌要

日期	事宜
二零零八年七月四日	派發二零零七年度之末期現金股息
二零零八年五月二十七日	二零零八年股東週年大會
二零零八年五月二十一日至二零零八年五月二十七日 (首尾兩天包括在內)	暫停辦理股份過戶登記手續
二零零八年四月二日	公佈截至二零零七年十二月三十一日止年度之業績
二零零八年一月二十五日	派發二零零七年度之特別中期現金股息
二零零七年十一月九日	派發二零零七年度之中期現金股息
二零零七年九月十三日	公佈截至二零零七年六月三十日止六個月之業績

Unless otherwise stated, in this annual report: (i) the **Company** means K. Wah International Holdings Limited and the **Group** includes the Company and its subsidiaries, (ii) the **Board** means the board of directors and **Directors** are the directors of the Company, (iii) **Share** and **Shareholder** refer to, respectively, ordinary share of the Company and holder of the Share, (iv) **Listing Rules** refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, **Stock Exchange** is The Stock Exchange of Hong Kong Limited, (v) **SFO** is the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, (vi) **Bye-laws** refers to the Bye-laws of the Company, (vii) **GEG** is Galaxy Entertainment Group Limited (Hong Kong listed stock code 0027), (viii) **2007 Financial Statements** refers to the audited consolidated financial statements of the Company for the year ended 31 December 2007, and (ix) **PwC** is PricewaterhouseCoopers, auditors of the Company.

除非另有所指，否則在本年報內：(i)「**本公司**」指 K. Wah International Holdings Limited 嘉華國際集團有限公司及「**本集團**」包括本公司及其附屬公司，(ii)「**董事會**」指本公司之董事會及「**董事**」指本公司之董事，(iii)「**股份**」及「**股東**」分別指本公司之普通股股份及股份持有人，(iv)「**上市規則**」指香港聯合交易所有限公司證券上市規則，「**聯交所**」指香港聯合交易所有限公司，(v)「**證券及期貨條例**」指香港法例第571章證券及期貨條例，(vi)「**公司細則**」指本公司之公司細則，(vii)「**銀河娛樂**」指銀河娛樂集團有限公司(於香港上市股份代號0027)，(viii)「**二零零七年財務報表**」指截至二零零七年十二月三十一日止年度本公司已審核綜合賬目，及(ix)「**羅兵咸永道**」指羅兵咸永道會計師事務所，本公司之核數師。

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