THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares or other securities.

If you are in doubt as to any aspect of this Circular or as to the actions to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in K. Wah Construction Materials Limited or K. Wah International Holdings Limited (as the case may be), you should at once hand this Circular and the relevant accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

K. WAH INTERNATIONAL HOLDINGS LIMITED
嘉華國際集團有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 173)

K. WAH CONSTRUCTION MATERIALS LIMITED
嘉華建材有限公司
(incorporated in Hong Kong with limited liability)
(Stock Code: 27)

POSSIBLE ACQUISITION OF 88.1% OF THE VOTING SHARES CARRYING 97.9% OF THE ECONOMIC INTEREST IN GALAXY CASINO, S.A.

CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION FOR K. WAH CONSTRUCTION MATERIALS LIMITED

AND

CONNECTED TRANSACTION, DEEMED VERY SUBSTANTIAL DISPOSAL AND VERY SUBSTANTIAL ACQUISITION FOR K. WAH INTERNATIONAL HOLDINGS LIMITED

Financial adviser to K. Wah Construction Materials Limited

UBS Investment Bank

Independent financial adviser to the independent board committee and independent shareholders of K. Wah Construction Materials Limited

COMMERZBANK

Commerzbank AG Hong Kong Branch

Independent financial adviser to the independent board committee and independent shareholders of K. Wah International Holdings Limited

ANGLO CHINESE CORPORATE FINANCE, LIMITED

A letter from the KWCM Independent Board Committee is set out on pages 91 to 92 of this Circular and a letter from Commerzbank AG, the independent financial adviser to the KWCM Independent Board Committee and the KWCM Independent Shareholders, is set out on pages 93 to 140 of this Circular.

A notice convening the KWCM EGM to be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 19 July 2005 at 2:00 p.m. is set out on pages 570 to 571 of this Circular. Whether or not KWCM Shareholders are able to attend the KWCM EGM, KWCM Shareholders are requested to complete and return the enclosed ***BLUE*** form of proxy in accordance with the instructions printed thereon to the registered office of KWCM at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the KWCM EGM. Completion and return of the ***BLUE*** form of proxy will not preclude KWCM Shareholders from attending and voting in person at the KWCM EGM or any adjournment thereof should KWCM Shareholders so wish.

A letter from the KWIH Independent Board Committee is set out on pages 141 and 142 of this Circular and a letter from Anglo Chinese Corporate Finance, Limited, the independent financial adviser to the KWIH Independent Board Committee and the KWIH Independent Shareholders, is set out on pages 143 to 161 of this Circular.

A notice convening the KWIH SGM to be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 19 July 2005 at 3:00 p.m. is set out on pages 572 and 573 of this Circular. Whether or not KWIH Shareholders are able to attend the KWIH SGM, KWIH Shareholders are requested to complete and return the enclosed ***WHITE*** form of proxy in accordance with the instructions printed thereon to the principal place of business in Hong Kong of KWIH at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the KWIH SGM. Completion and return of the ***WHITE*** form of proxy will not preclude KWIH Shareholders from attending and voting in person at the KWIH SGM or any adjournment thereof should KWIH Shareholders so wish.

* *For identification only*

30 June 2005

2005

Latest time for return of **BLUE** form of proxy in respect of the KWCM EGM	2:00 p.m. on 17 July
Latest time for return of **WHITE** form of proxy in respect of the KWIH SGM	3:00 p.m. on 17 July
KWCM EGM	2:00 p.m. on 19 July
KWIH SGM	3:00 p.m. on 19 July
Date of completion of the Acquisition	22 July

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In this Circular, unless the context otherwise requires, the following terms have the meanings set opposite them below.

"Acquisition"	the acquisition by KWCM of the Galaxy Equity Interest pursuant to the Acquisition Agreement;
"Acquisition Agreement"	the Acquisition Agreement dated 14 March 2005 among the Family Companies, Hugo Legend, the Minority Vendors, Canton Treasure and KWCM, in relation to, inter alia, the Acquisition, as amended by the Supplemental Agreements;
"American Appraisal"	American Appraisal China Limited, the independent valuer of the Galaxy Group;
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a corporation deemed licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO;
"associates"	the meaning ascribed to it in the Listing Rules;
"Brightwealth"	Brightwealth Investments Limited, a company incorporated in the British Virgin Islands on 23 November 2004 and a subsidiary of Guoco Group Limited, the latter of which is listed on the Stock Exchange;
"Brightwealth Options"	the put and call options between Brightwealth, Kentlake and Top Notch referred to in the section headed "Brightwealth Options" in the "Letter from the KWCM Directors" in this Circular;
"Brightwealth Option Deeds"	two deeds each dated 3 February 2005 between Brightwealth and each of the Option Holders in respect of the Brightwealth Options;
"business day"	a day (other than a Saturday) on which banks are open for business in Hong Kong;
"CAGR"	compound annual growth rate;
"Call Option"	the option granted by Brightwealth under the relevant Brightwealth Option Deeds to the Option Holders to require Brightwealth to sell its Galaxy Shares;
"Canton Treasure"	Canton Treasure Group Ltd., a company incorporated in the British Virgin Islands on 13 October 2004 and wholly-owned by KWCM;
"City Lion"	City Lion Profits Corp., a company incorporated in the British Virgin Islands on 13 October 2004 and wholly-owned by the Principal Trust;

"Commerzbank"	Commerzbank AG, acting through its Hong Kong branch, an authorized financial institution registered with the Hong Kong Monetary Authority licensed to carry out types 1, 4, 6 regulated activities (as set out in Schedule 5 of the SFO);
"Completion"	completion of the sale and purchase of the Galaxy Equity Interest pursuant to the Acquisition Agreement;
"Concession"	Concession Contract for the Operation of Games of Chance or Other Games in Casino in the Special Administrative Region of Macau dated 26 June 2002 between the Special Administrative Region of Macau and Galaxy, as amended and supplemented by a supplemental agreement between the same parties dated 19 December 2002;
"Consideration KWCM Shares"	1,840,519,798 new KWCM Shares to be issued by KWCM as part of the consideration for the Acquisition;
"Dr. Ho"	Dr. Stanley Ho;
"Dr. Lui"	Dr. Lui Che Woo, a director of KWIH, KWCM and Galaxy;
"EBITDA"	earnings before interest, tax, depreciation and amortisation, a measure of financial performance;
"Employee Options"	options to subscribe for an aggregate of 18,952,000 KWCM Shares granted pursuant to the employee share option schemes of KWCM adopted on 10 September 1996 and 30 May 2002 respectively and outstanding at the Latest Practicable Date, with exercise prices per KWCM Share ranging from HK$0.514 to HK$0.5333;
"Enlarged KWCM Group"	the KWCM Group immediately after Completion, including the Galaxy Group;
"Executive"	the executive director of the Corporate Finance Division of the SFC;
"Family Companies"	City Lion, Netfinity and Recurrent Profits;
"Francis Lui"	Mr. Francis Lui Yiu Tung, a director of KWCM, KWIH and Galaxy and a member of the Lui Family;
"FRNs"	unsecured fixed rate notes up to the aggregate principal amount of HK$3,681,039,603 that will mature 13 months after issue and which may be issued by KWCM to the Vendors at Completion;
"Future Leader"	Future Leader Management Limited, a company incorporated in the British Virgin Islands on 18 August 2003 and ultimately beneficially owned by Pedro Ho;

"Galaxy"	Galaxy Casino, S.A., a company incorporated on 30 November 2001 in and organised under the laws of Macau whose registered office is at Avenida da Praia Grande nº 409, Edificio China Law, 25º andar, em Macau;
"Galaxy A Shares"	voting shares of MOP1,000 each in the capital of Galaxy having the rights described in the section headed "Capital Structure of Galaxy" in the part of this Circular headed "Description of the Galaxy Group";
"Galaxy B Shares"	voting shares of MOP1,000 each in the capital of Galaxy having the rights described in the section headed "Capital Structure of Galaxy" in the part of this Circular headed "Description of the Galaxy Group";
"Galaxy Casino at Cotai City Club"	Galaxy's planned city club casino at the Cotai reclamation area in Macau;
"Galaxy Casino at Rio Hotel"	Galaxy's planned city club casino at Quarteirão 9, Lots C & D at Zona de Aterros do Porto Exterior, Macau;
"Galaxy Casino at Waldo Hotel"	Galaxy's casino at Zona de Aterros do Porto Exterior, Lot 6J, Av. da Amizade, Macau;
"Galaxy Cotai Mega Resort"	Galaxy's planned flagship hotel and casino resort in the Cotai reclamation area in Macau;
"Galaxy Equity Interest"	838,719 Galaxy B Shares representing 97.9% of the economic interest in Galaxy;
"Galaxy Group"	Galaxy and its subsidiaries;
"Galaxy Shares"	Galaxy A Shares and Galaxy B Shares;
"Galaxy StarWorld"	Galaxy's planned hotel and casino resort at Lot 3 (A2/I) of Zona de Aterros do Porto Exterior, Macau;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKFRS"	Hong Kong Financial Reporting Standards including the revisions effective 1 January 2005, accounting standards issued by Hong Kong Institute of Certified Public Accountants;
"Hong Kong"	the Hong Kong Special Administrative Region of The People's Republic of China;
"Hugo Legend"	Hugo Legend Asia Corporation Limited, a company incorporated in the British Virgin Islands on 15 July 2003 and wholly-owned, ultimately, by Mr. Suen Suk Hing, an Independent Third Party in respect of KWIH and KWCM;

"Independent Third Party"	— in respect of KWIH, a person who and whose ultimate beneficial owner, to the best knowledge, information and belief of the KWIH Directors having made all reasonable enquiries, is a third party independent of and not connected with KWIH, the Family Companies, or any connected persons of KWIH and not being a party acting in concert with KWCM, Dr. Lui or their respective associates with respect to KWIH for the purposes of the Takeovers Code; — in respect of KWCM, a person who and whose ultimate beneficial owner, to the best knowledge, information and belief of the KWCM Directors having made all reasonable enquiries, is a third party independent of and not connected with KWCM, the Family Companies, or any connected persons of KWCM and not being a party acting in concert with KWIH, Dr. Lui or their respective associates with respect to KWCM for the purposes of the Takeovers Code; and in each case as "connected" is interpreted for the purposes of the Listing Rules;
"Kentlake"	Kentlake International Investments Limited, a company incorporated in the British Virgin Islands on 2 May 2003 and controlled by Francis Lui and in which Pedro Ho has a 35% interest;
"KWCM"	K. Wah Construction Materials Limited, a company incorporated in Hong Kong with limited liability on 19 May 1987, the shares of which are listed on the main board of the Stock Exchange;
"KWCM Board"	the board of KWCM Directors;
"KWCM Directors"	the directors of KWCM;
"KWCM EGM"	the extraordinary general meeting of KWCM convened for the purpose of approving, among other matters, the Acquisition, notice of which is set out on pages 570 to 571 of this Circular;
"KWCM Group"	KWCM and its subsidiaries at the Latest Practicable Date;
"KWCM Independent Board Committee"	an independent committee of the KWCM Board established to advise KWCM Independent Shareholders on the Acquisition;
"KWCM Independent Shareholders"	holders of KWCM Shares other than KWIH, the Trusts, the Family Companies, the Lui Family, Dr. Lui, Francis Lui, Lawrence Lui, the Minority Vendors and their respective ultimate beneficial owners and associates and any KWCM Shareholder and its associate which has a material interest in the Acquisition;

"KWCM Shares"	shares of HK$0.10 each in the capital of KWCM;
"KWCM Shareholder(s)"	holder(s) of KWCM Shares;
"KWIH"	K. Wah International Holdings Limited, an exempted company incorporated in Bermuda with limited liability on 2 May 1989, the shares of which are listed on the main board of the Stock Exchange;
"KWIH Board"	the board of KWIH Directors;
"KWIH Bonds"	the HK$864,260,000 (initial principal amount) 0.50% guaranteed convertible bonds due 2009 convertible into fully-paid KWIH Shares and issued by K. Wah International Finance Limited (a wholly-owned subsidiary of KWIH) on 23 March 2004;
"KWIH Directors"	the directors of KWIH;
"KWIH Group"	KWIH and its subsidiaries at the Latest Practicable Date;
"KWIH Independent Board Committee"	an independent committee of the KWIH Board established to advise KWIH Independent Shareholders on the Acquisition;
"KWIH Independent Shareholders"	holders of the KWIH Shares other than the Trusts, the Family Companies, the Lui Family, Dr. Lui, Francis Lui, Lawrence Lui, the Minority Vendors, and their respective ultimate beneficial owners and associates and any KWIH Shareholder and its associate which has a material interest in the Acquisition;
"KWIH SGM"	the special general meeting of KWIH convened for the purpose of approving the Acquisition, the issue by KWCM of the Consideration KWCM Shares and the deemed disposal of KWCM pursuant thereto, notice of which is set out on pages 572 and 573 of this Circular;
"KWIH Shares"	shares of HK$0.10 each in the capital of KWIH;
"KWIH Shareholders"	holder(s) of the KWIH Shares;
"Last Dealing Date"	4 March 2005, being the last trading day for the KWCM Shares and the KWIH Shares prior to the suspension of dealings in the KWCM Shares and the KWIH Shares on 7 March 2005;
"Latest Practicable Date"	24 June 2005, being the latest practicable date prior to the printing of this Circular for ascertaining certain information in this Circular;
"Lawrence Lui"	Mr. Lawrence Lui Yiu Nam, a director of Galaxy and a member of the Lui Family;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;

"Lui Family"	all the sons and daughters of Dr. Lui, namely Francis Lui, Lawrence Lui, Ms. Paddy Tang Lui Wai Yu, Ms. Eileen Cheng Lui Wai Ling and Mr. Alexander Lui Yiu Wah, and their respective associates and companies controlled by them;
"Macau"	the Macau Special Administrative Region of The People's Republic of China;
"Macau DICJ"	Direcção de Inspecção e Coordenação de Jogos de Macau, or the Gaming Inspection and Coordination Bureau of the Government of Macau;
"Mainland China"	The People's Republic of China, excluding Hong Kong, Macau and Taiwan;
"Minority Vendors"	Brightwealth and Future Leader, which together hold 21.9% of the issued voting shares in Galaxy (representing 24.3% of the economic interest in Galaxy), and each of which was at the date of the Acquisition Agreement, and remains as at the date of this Circular, an Independent Third Party in respect of KWIH and KWCM;
"MOP"	Macau Patacas;
"Netfinity"	Netfinity Assets Corporation, a company incorporated in the British Virgin Islands on 8 September 2004, and wholly-owned by Lawrence Lui;
"Option Holders"	Kentlake and Top Notch;
"Pedro Ho"	Mr. Pedro Ho alias Ho On Chun, a director of Galaxy;
"Principal Trust"	a discretionary Lui Family trust established under the laws of Jersey, in respect of which HSBC International Trustee Limited is the sole trustee;
"promoters" or "VIP promoters"	individuals or corporations who engage in the activity of promotion of games of fortune and other games in casinos;
"Purchase Price"	HK$18,405,198,023;
"Put Option"	the option granted to Brightwealth under the relevant Brightwealth Option Deeds to require the Option Holders to buy Galaxy Shares;
"Recurrent Profits"	Recurrent Profits Limited, a company incorporated in the British Virgin Islands on 15 March 2002 and wholly-owned by Francis Lui;
"Remaining KWIH Group"	the KWIH Group immediately after Completion, excluding KWCM and its subsidiaries;

"Repurchase Code"	the Hong Kong Code on Share Repurchases;
"RMB"	Renminbi, the lawful currency of Mainland China;
"Secondary Trust"	a second discretionary Lui Family trust established under the laws of Jersey, in respect of which HSBC International Trustee Limited is the sole trustee;
"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
"SJM"	Sociedade de Jogos de Macau, S.A.;
"sq.ft."	square foot(feet);
"sq.m."	square metre(s);
"STDM"	Sociedade de Turismo e Diversoes de Macao, a company controlled by Dr. Ho;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Sub-Concession"	the Sub-concession Contract for Operation of Games of Chance or Other Games in Casino in the Macau Special Administrative Region between Galaxy and Venetian Macau S.A. dated 19 December 2002;
"Supplemental Agreements"	(1) an agreement dated 1 April 2005 and (2) an agreement dated 31 May 2005 both supplemental to the Acquisition Agreement;
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers;
"Top Notch"	Top Notch Opportunities Limited, a company incorporated in the British Virgin Islands on 15 March 2002 and controlled by Francis Lui;
"Trusts"	the Principal Trust and the Secondary Trust;
"UBS Investment Bank"	a business group of UBS AG, a corporation licensed to carry out regulated activities type 1, 4, 6 and 9 under the SFO;
"U.S." or "U.S.A."	the United States of America;
"US$"	United States dollars, the lawful currency of the U.S.;
"Vendors"	the Family Companies and the Minority Vendors;

"Venetian Agreement"	an agreement between Pedro Ho, Advantage Global Limited, Wealth Grand Limited, Best Done Developments Limited, Bestwin Profits Limited, Galaxy Resorts Limited, Venetian Macau Management Limited, Galaxy and Venetian Venture Development, LLC dated 26 December 2002;
"VIP gaming"	table gaming reserved for certain games and players, and operated in a special gaming room or area;
"Wealth Access"	Wealth Access Holdings Limited, a company incorporated in the British Virgin Islands on 28 March 2003 and owned by Mr. Yeung Chi Hang and Mr. Cheng Kwee, both Independent Third Parties in respect of KWIH and KWCM. It is a Galaxy shareholder but not a Minority Vendor;
"Wise Gain"	Wise Gain Profits Limited, a company incorporated in the British Virgin Islands on 18 August 2003, ultimately and beneficially owned as to 90% by Wealth Access and as to 10% by Galaxy; and
"%"	per cent.

Unless otherwise specified herein, sums in this Circular expressed in MOP have been translated into HK$ at the rate MOP1.03 = HK$1.00;

Unless otherwise specified herein, sums in this Circular expressed in US$ have been translated into HK$ at the rate US$1.00 = HK$7.80;

No representation is made that any amounts in MOP and/or US$ could have been or could be converted at the above rates or at any other rates or at all.

Some numbers in this Circular have been rounded. As a result, totals may not add up to exactly 100%.

Certain English translations of Chinese or Portuguese names or words in this Circular are included for information purposes only, and should not be relied upon as the official translations of such Chinese or Portuguese names or words.

This Circular contains forward-looking statements. The words "believe", "intend", "is confident", "expect", "anticipate", "project", "estimate", "predict" and similar expressions identify forward-looking statements. These forward-looking statements are not historical facts. Rather, the forward-looking statements are based on the current beliefs, assumptions, expectations, estimates and projections of the Directors and management of KWIH, KWCM and/or Galaxy about the business and the industry and markets in which KWIH, KWCM and/or Galaxy operate. These forward-looking statements include, without limitation, statements relating to revenues and earnings. Directors of KWIH, KWCM and Galaxy believe that the expectations, estimates and projections reflected in these forward-looking statements are reasonable.

These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the control of KWIH, KWCM and/or Galaxy and are difficult to predict. Consequently, actual results could differ materially from the information contained in the forward-looking statements.

Special attention is drawn to the risk factors set out in the "Risk Factors" in Appendix I to this Circular but generally undue reliance should not be placed on these forward-looking statements, which reflect the views of Directors and management of KWIH, KWCM and/or Galaxy as at the date of this Circular only. Subject to any requirements of the Listing Rules and the SFO, KWIH, KWCM and Galaxy undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication of this Circular.

THE MACAU GAMING INDUSTRY

History of Macau's gaming market

Gaming has been lawful in Macau since 1937. In 1962, the then government of Macau awarded an exclusive casino gaming concession to STDM, whose operations are now conducted through its successor, SJM.

In December 1999, control of Macau reverted to Mainland China. The new Macau government has recognised gaming as a tool to promote tourist traffic to Macau and anchor an expanded tourism industry. The Macau government concluded that liberalisation would create the impetus to bring its facilities up to international physical and operating standards, but more importantly, the motivation that would promote investment in the development of an entirely new series of gaming, resort, entertainment and exhibition operations.

In December 2001, the Macau government decided to bring an end to STDM's monopoly of the gaming industry and to liberalise laws and regulations applicable to gaming activities. According to the Macau DICJ, in 2002, gaming concessions were granted to three concessionaires after tendering. The three operators are (i) SJM, whose concession is valid until March 2020, (ii) Wynn Resorts (Macao), S.A., whose concession is valid until June 2022, and (iii) Galaxy, whose concession is valid until June 2022. Galaxy granted the Sub-Concession in December 2002 to Venetian Macau, S.A.

In 2004, Macau was the world's second largest gaming market, behind the Las Vegas Strip. In 2004, Macau recorded MOP40.2 billion (approximately HK$39 billion) in total gaming revenue (from games of fortune), an increase of 44% from 2003, as illustrated below:

	2001	2002		2003		2004	
Location	**Gaming revenue[4]** *(bn)*	**Gaming revenue[4]** *(bn)*	**Growth rate** *(%)*	**Gaming revenue[4]** *(bn)*	**Growth rate** *(%)*	**Gaming revenue[4]** *(bn)*	**Growth rate** *(%)*
Las Vegas Strip[1]	US$4.70 (approx. HK$36.7)	US$4.65 (approx. HK$36.3)	(1.1)	US$4.76 (approx. HK$37.2)	2.4	US$5.33 (approx. HK$41.6)	12.1
Atlantic City[2]	US$4.30 (approx. HK$33.6)	US$4.38 (approx. HK$34.2)	1.9	US$4.49 (approx. HK$35.0)	2.5	US$4.81 (approx. HK$37.6)	7.1
Macau[3]	MOP18.11 (approx. HK$17.6)	MOP21.55 (approx. HK$20.9)	19.0	MOP27.85 (approx. HK$27.1)	29.3	MOP40.19 (approx. HK$39.0)	44.3

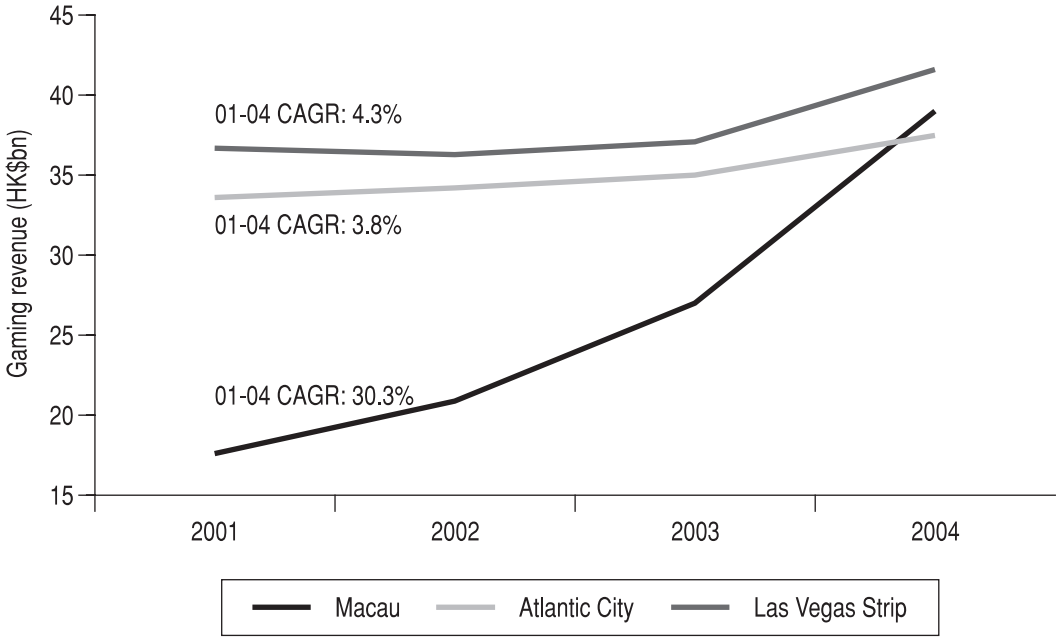
(1) Source: Nevada Gaming Control Board, gaming revenue reports

(2) Source: New Jersey Casino Control Commissions' gaming revenue reports

(3) Source: Macau DICJ official website

(4) Refers to casino wins from table games and slot machines after the payout of winnings.

Gaming revenue (HK$ bn) for 2001 — 2004 for Macau, Atlantic City and Las Vegas Strip



Source: Nevada Gaming Control Board, New Jersey Casino Control Commission, Macau DICJ

According to the Macau Statistics and Census Service, total gaming revenue (from games of fortune) for the first four months of 2005 was MOP14.1 billion (approximately HK$13.7 billion). This compares with US$1,909 million (approximately HK$14.9 billion) and US$1,572 million (approximately HK$12.3 billion) for the same period in Las Vegas Strip and Atlantic City, according to the Nevada Gaming Control Board and New Jersey Casino Control Commission respectively.

One common measure of business performance in casinos is the "daily win per table", which gauges how much a casino makes from each table, be it through baccarat, blackjack, roulette or other games.

In the Las Vegas Strip and Atlantic City, USA the average daily win per table in 2004 were both around US$2,400 (approximately HK$18,720) according to the Nevada Gaming Control Board and New Jersey Casino Control Commission. In Macau, the daily average was more than MOP143,000 (approximately HK$138,800) in 2004 according to the Macau DICJ.

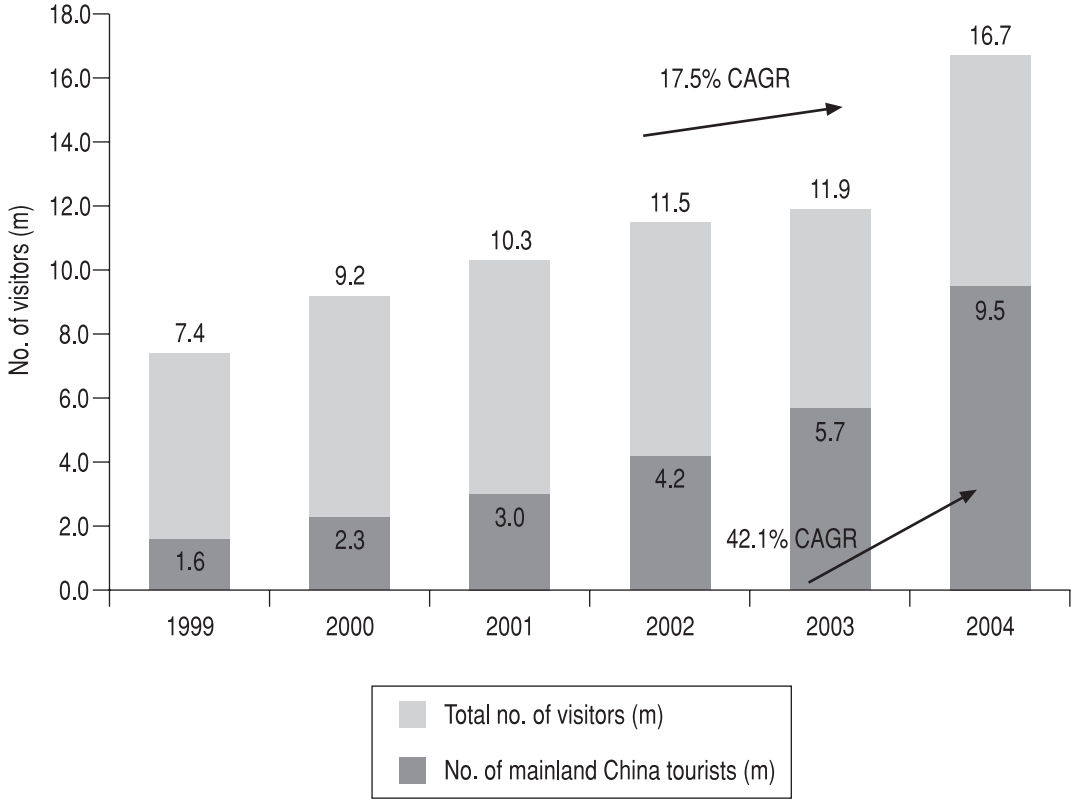
Market demand

Macau is located amidst one of the world's largest pools of potential gaming patrons. Located less than an hour away from Hong Kong via a hydrofoil ferry system, Macau is widely regarded as one of the largest and fastest-growing gaming markets in the world. Macau also has the advantage of sharing a border with Mainland China's Guangdong province, which has approximately 80 million residents (according to the China Statistics Yearbook 2004) and is one of the most populous and prosperous regions of Mainland China. Approximately 16.7 million visitors arrived in Macau during 2004, according to the Macau Statistics and Census Service.

Since the reversion of Macau from Portugal to Mainland China, gaming revenue (from games of fortune) in Macau as published by Macau DICJ has grown from MOP13,037 million (approximately HK$12,658 million) in 1999 to MOP40,187 million (approximately HK$39,017 million) in 2004, reflecting a CAGR of 25.3%.

According to the Macau Statistics and Census Service, the number of visitors to Macau have also increased significantly from approximately 7.4 million in 1999 to 16.7 million in 2004, demonstrating a CAGR of 17.5%. During the same time period visitors from China increased from approximately 1.6 million in 1999 to 9.5 million in 2004, reflecting a 42.1% CAGR. Until recently, Mainland Chinese were only permitted to visit Macau as part of a tour group. Now that these travel restrictions have been removed for certain urban centres and economically developed regions, individual leisure travel to Macau is expected to increase and with it demand for casinos, as gaming is a popular leisure activity, and gaming visitors from China can visit Macau with greater frequency. For the period 2000–2004, gaming revenue (from games of fortune) growth in Macau approximately tracked the growth in total visitors to Macau.

Number of visitors to Macau (1999 — 2004)



Source: Macau Statistics and Census Service

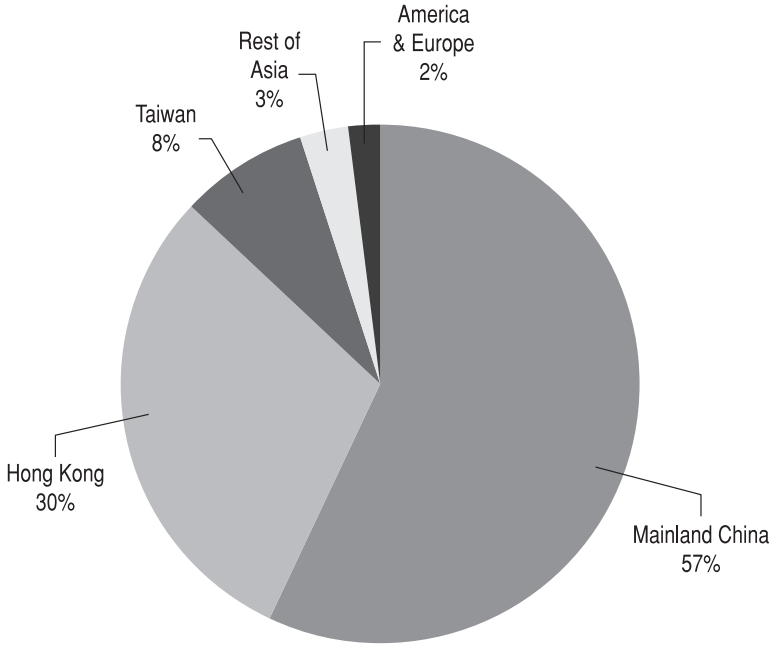
Tourists travelling to Macau generally come from nearby Asian countries and regions, such as Mainland China, Hong Kong, Taiwan, South Korea and Japan. According to the Macau Statistics and Census Service, of the 16.7 million visitors that arrived in Macau in 2004, more than 57% came from Mainland China and over 30% from Hong Kong.

Visitor Distribution

Place of Residence	2000	2001	2002	2003	2004
Hong Kong	4,954,619	5,196,136	5,101,437	4,623,162	5,051,059
Mainland China	2,274,713	3,005,722	4,240,446	5,742,036	9,529,739
Taiwan	1,311,035	1,451,826	1,532,929	1,022,830	1,286,949
Japan	144,888	140,937	142,588	85,613	122,184
South Korea	45,365	48,274	50,447	38,281	65,631
East Asia — others	1,992	1,891	2,705	2,667	3,555
East Asia Subtotal	8,732,612	9,844,786	11,070,552	11,514,589	16,059,117
Others	429,600	434,187	460,289	373,287	613,439
Total:	9,162,212	10,278,973	11,530,841	11,887,876	16,672,556
Growth Rate	23.1%	12.2%	12.2%	3.1%	40.3%

In 2003 visitor arrivals were affected by the outbreak of severe acute respiratory syndrome.

Visitors to Macau by place of residence (2004)



Source: Macau Statistics and Census Service

According to the Macau Statistics and Census Service, visitors to Macau in the first five months of 2005 totalled approximately 7.5 million, which is an increase of 16.4% over the corresponding period in 2004. Visitors from Mainland China remain the major source of visitors,

constituting 55.9% of visitors to Macau in this period. In particular, the number of visitors from South East Asia recorded a significant growth of 91.2% during this period, demonstrating the increasing attractiveness of Macau as a regional tourist destination.

A major factor contributing to the significant tourist growth from Mainland China is the relaxation of travel restrictions. The introduction of the "Individual Visit Scheme" in 2003 allows residents from designated provinces and cities in Mainland China to visit Hong Kong and Macau on simplified travel formalities. The scheme has been expanding since 2003 and currently applies to residents in the Guangdong province and 13 other cities in Mainland China. In 2004, the number of Mainland China visitors travelling to Macau under the "Individual Visit Scheme" totalled 3,518,752, which represented approximately 37% of total Mainland China visitors to Macau. In May 2005, the comparable percentage was approximately 51%, as announced by the Macau Statistic and Census Service.

Another important factor in driving tourist growth is the emergence of an affluent middle class in Mainland China. According to the China Statistics Yearbook 2004, Mainland China's gross domestic product (at current prices) was approximately HK$11 trillion in 2003, compared to HK$3 trillion in 1993.

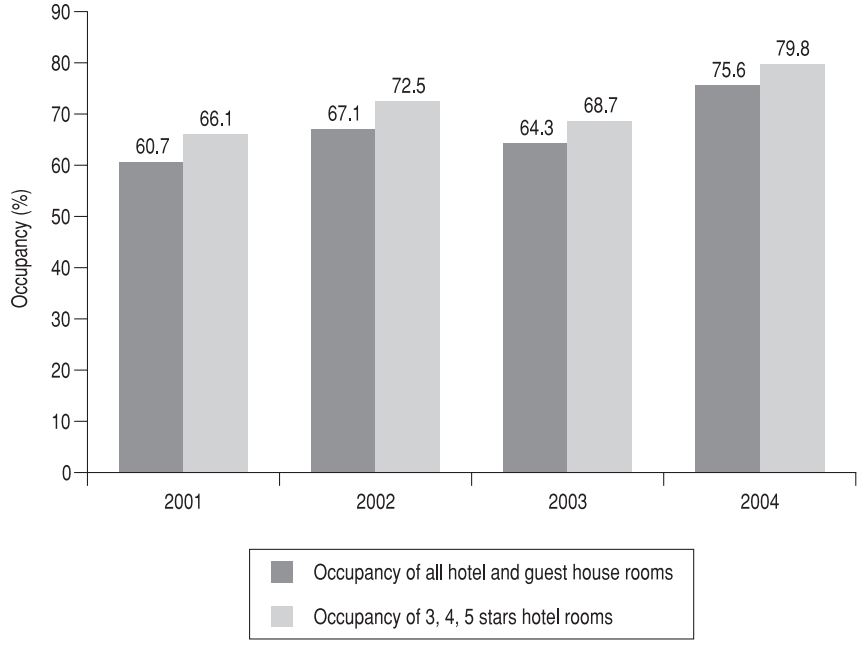
KWCM believes that as new facilities are introduced and standards of service further raised, Macau will become an even more desirable tourist destination.

Over the next few years the region is expected to have additional visitors as Macau will host the 2005 East Asia Games, "Disneyland", a theme park in Hong Kong, is expected to open in late 2005 and Beijing will host the 2008 Olympics.

Macau has her own international airport which connects air traffic to many major cities in Asia, such as Manila, Singapore, Taipei, Bangkok, Beijing and Shanghai. The Macau International Airport can accommodate large commercial airliners and has regularly scheduled air services to approximately 17 cities, including at least eight in Mainland China, with links to numerous other major Asian destinations. Furthermore, new infrastructure projects will bring in significant traffic flow from China, Hong Kong and other parts of the South China region. The Hong Kong-Zhuhai-Macau bridge, once completed, will connect cities across the Pearl River Delta with Hong Kong and Macau, whereas the new second Macau-HK Ferry terminal will double the existing capacity.

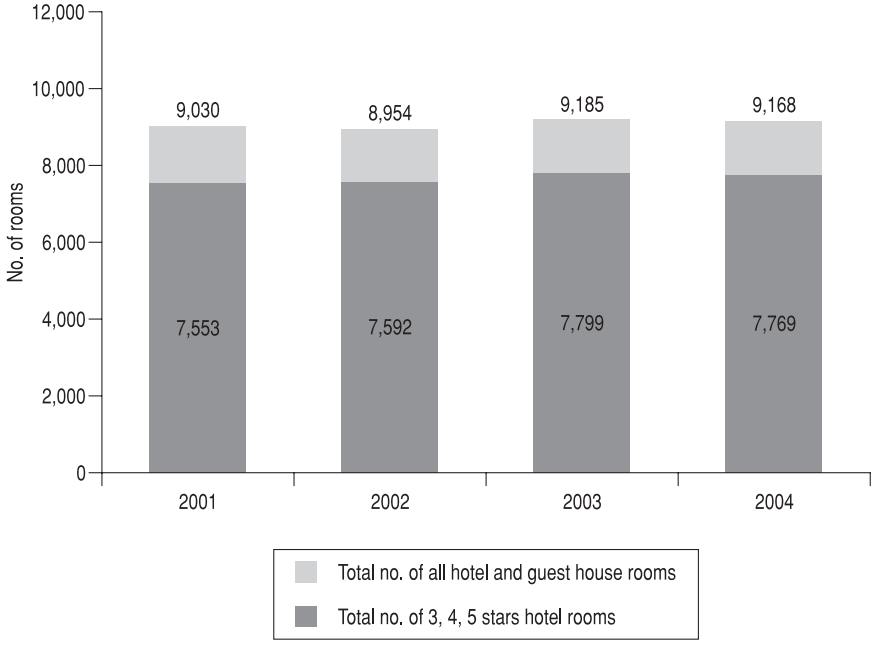
According to Macau Statistics and Census Service Monthly Bulletin of Statistics, the average visitor length of stay was only 1.1 days in 2004. For those who stayed overnight, the average stay in 2004 was only 1.5 days. This compares with an average visitor stay of 4.6 days in Las Vegas during 2004, based on information published by the Las Vegas Convention and Visitors Authority. Galaxy expects this length of stay to increase with increased visitation, the expansion of gaming and the addition of higher quality hotel resort accommodation in Macau. According to the Macau Statistics and Census Service, in 2004, there were 39 hotels and 31 guest houses in operation in Macau, of which nine were classified as "5-star". These hotels and guest houses maintained approximately 9,168 available rooms and experienced an approximately 75.6% average occupancy rate. As of the end of April 2005, there were approximately 10,636 rooms available in hotels and guest houses.

Hotel occupancy



Source: Macau Statistics and Census Service

Hotel room numbers

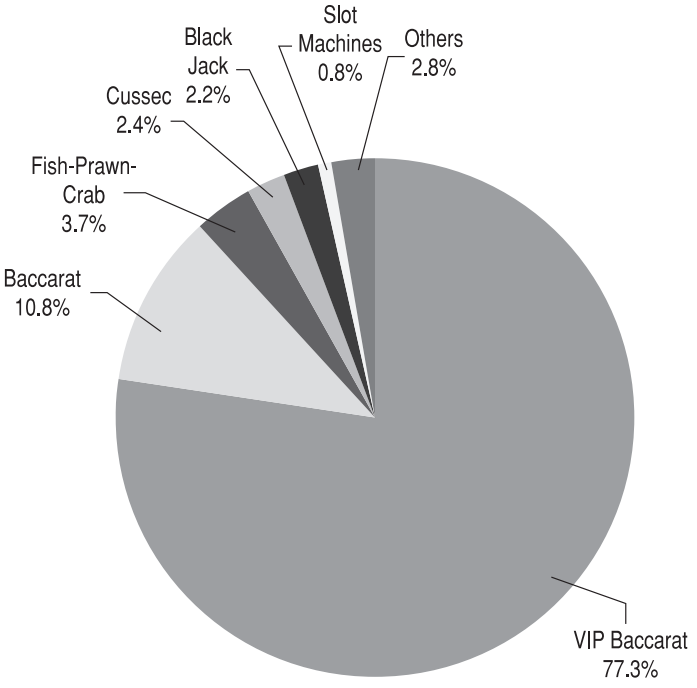


Source: Macau Statistics and Census Service

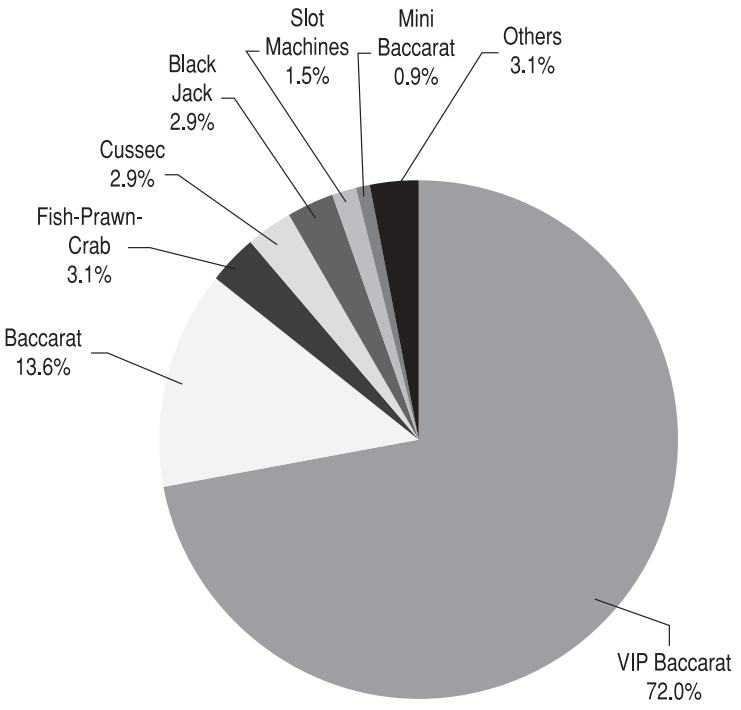
Gaming volume

Table games are the dominant form of gaming in Asia. Baccarat is by far the most popular game, followed by other traditional Western and Asian games. VIP gaming tables dominate the market in Macau, but there is potential for significant growth in mass market gaming tables and slot machines. Slot machines are offered in Macau, but they are few in number because the structure of the gaming market in Macau has historically favoured table gaming. However, with the increase in the mass market gaming in Macau, this is changing and slot machines of international standards are becoming an important feature of the market. Galaxy believes the limited emphasis on slot machines in the past also reflects the market's perception that slot machines offered in Macau were an inferior slot product. Galaxy nevertheless expects the slot machine business to grow in Macau and Galaxy intends to introduce more modern and popular products to appeal to the Asian marketplace.

Breakdown of gaming revenue in 2003 by game type



Breakdown of gaming revenue in 2004 by game type



Source: Macau DICJ

Macau gaming revenue (from games of fortune) breakdown 2001 — 2004

	2001	2002		2003		2004	
Location	**Gaming revenue** *(bn)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*
VIP Baccarat	MOP12.76 (Approx HK$12.4)	MOP15.86 (Approx HK$15.4)	24.4%	MOP21.53 (Approx HK$20.9)	35.7%	MOP28.92 (Approx HK$28.1)	34.3%
Mass market table	MOP5.13 (Approx HK$5.0)	MOP5.46 (Approx HK$5.3)	6.3%	MOP6.09 (Approx HK$5.9)	11.5%	MOP10.65 (Approx HK$10.3)	74.9%
Slot machines	MOP0.22 (Approx HK$0.2)	MOP0.23 (Approx HK$0.2)	2.3%	MOP0.23 (Approx HK$0.2)	2.2%	MOP0.62 (Approx HK$0.6)	170.4%
Total	MOP18.11 (Approx HK$17.6)	MOP21.55 (Approx HK$20.9)		MOP27.85 (Approx HK$27.0)		MOP40.19 (Approx HK$39.0)	

Source: Macau DICJ

Competition

At the end of March 2005, in addition to 4 slot clubs operated by SJM, there were 17 casinos in Macau. SJM currently operates 15 of the facilities. Galaxy Casino at Waldo Hotel, the first of Galaxy's city club casinos, commenced operations in July 2004. Another operator, Venetian Macau S.A., currently operates the Sands Macau, which commenced operation in May 2004.

In addition to Galaxy, casino operators in Macau include:

- SJM, which currently operates 15 facilities throughout Macau. Historically, the predecessor of SJM, STDM was the only gaming operator in Macau, with over 40 years of operating experience in Macau. Besides Galaxy Casino at Waldo Hotel, SJM's casinos are the only gaming operations in Macau that presently make extensive use of VIP promoters to attract VIP play. SJM is obliged to invest at least approximately MOP4,737 million (approximately HK$4,599 million) as described in its investment plan submitted in tender for one of the three concession license. SJM's projects include the Grand Lisboa, the development of Fisherman's Wharf entertainment complex and Ponte 16 Resort. According to press reports, SJM also plans to open a number of casinos in some new hotels or property development. MGM Mirage has recently announced a sub-concession from SJM and that it has entered into a joint venture agreement with Dr. Ho's daughter, Pansy Ho Chiu-king, to develop, build and operate a major hotel-casino resort in Macau. The new facility, MGM Grand Macau, will feature a resort as well as a casino and other non-gaming amenities. The facility has begun construction and is expected to open in the second half of 2007. For the year ended 31 December 2004, SJM reported gaming revenue of MOP35,206 million (approximately HK$34,181 million).

- Wynn Resorts (Macao) S.A., a subsidiary of Wynn Resorts, Ltd., which is expected to open a facility in the third quarter of 2006. Wynn Resorts (Macao) S.A. is obliged to invest at least MOP4,000 million (approximately HK$3,884 million) by 26 June 2009 under its concession agreement with the government of Macau. Wynn Resorts (Macao) S.A. has begun construction of a facility that would be comprised of approximately 600 hotel rooms, a casino and other non-gaming amenities with a total estimated cost of US$1,049 million (approximately HK$8,182 million) according to its public filings.

- Venetian Macau S.A., a subsidiary of Las Vegas Sands Corp which has received the Sub-Concession from Galaxy. Under the Sub-Concession agreement, Venetian Macau S.A. is obliged to develop and open the Macau Venetian Casino Resort (in Cotai) by June 2006, as well as a convention centre by December 2006 and one "city club", and to invest, or cause to be invested, at least MOP4,400 million (approximately HK$4,272 million) in development projects in Macau including those mentioned above, by June 2009. According to its recent press release, the first phase of the Venetian Macau facility in Cotai is scheduled to open in early 2007. For the year ended 31 December 2004, Venetian Macau S.A. reported gaming revenue of MOP3,112 million (approximately HK$3,021 million). In the three months ended March 2005, according to Las Vegas Sands Corp public filings, it had an average of 336 gaming tables and 764 slot machines.

The Macau Government has permitted two sub-concessions, one by Galaxy to Venetian Macau S.A. and one by SJM to MGM Grand Paradise Limited. It is provided under Law 16/2001 that the maximum number of gaming concessions shall be three. It is further provided in the gaming concessions granted to SJM, Wynn Resorts (Macao), S.A. and Galaxy that the concessionaires shall not grant any subconcessions without the approval of the Macau Government. The Macau Government has made clear in public pronouncements that only one sub-concession will be permitted per concession.

REGULATORY FRAMEWORK

Overview

The ownership and operation of casino gaming facilities in Macau is unlawful unless the owner/operator has an appropriate concession or sub-concession. Concessions and sub-concessions are subject to the general laws of Macau and to specific gaming laws, in particular, Law No. 16/2001, and various regulations govern the different aspects of gaming.

The **concession system** is composed of a legal framework — to which Galaxy and its casino gaming operations are subject, which comprises:

— The provisions of **Law no. 16/2001 of 2001**, as amended, that sets out the legal system for the operation of games of chance in casino, governing the operation of games of fortune or chance or other games in casino, complemented and supplemented by:

  — **Administrative Regulation no. 26/2001 of 2001**, that provides for the tender procedures, the concession agreements for the operation of games of chance in casinos and the suitability and financial capacity requirements of the operators, as amended (namely by Administrative Regulation 34/2001 and Administrative Regulation 4/2002), rectified (by Rectification published in the Macau Official Gazette, of 2 November 2001, Series I, Extraordinary Number, and Rectification published in the Official Gazette no. 13, of 1 April 2002, Series I, Supplement) and complemented (by Dispatch of the Chief Executive no. 215/2001, which sets out the fixed part of the annual premium to be paid by the concessionaires as consideration of the granting of a concession for operating games of chance in casinos, Dispatch of the Chief Executive no. 216/2001, which creates the Commission of the first tender for the granting of concessions for the operation of games of chance in casinos, Dispatch of the Chief Executive no. 217/2001, which declares the opening of the first tender for adjudication of three concessions for the operation of games of chance in casinos in Macau and sets out some of its rules, Dispatch of the Secretary for Economy and Finance of Macau published in the Official Gazette of 21 November 2001, no. 47, Series II, which delegates to the Commission of the first tender the competence to authorize local or internationally renowned firms not listed in the Program for the first tender to prepare risk evaluation reports, and Dispatch of the Chief Executive no. 250/2001, which sets out the framework applicable to the association of tenderers and the respective admissible terms).

— **The Concession Contract** for the Operation of Games of Chance and Other Games in Casino in Macau between the Macau Government and Galaxy of 26 June 2002, entered into pursuant to the Dispatch of the Chief Executive no. 26/2002, which provisionally adjudicates three concession for operating games of chance in casinos, and the Dispatch of the Chief Executive no. 143/2002, which accepts the tender proposal of Galaxy and definitively adjudicates to Galaxy one of the said three concessions, as amended (by contract entered into by the same parties on 19 December 2002) and complemented (by the Dispatch of the Chief Executive no. 158/2004, which determines that the contribution of 1.6% of the gaming gross income must be delivered to the Macau Foundation, and Dispatch of the Chief Executive no. 207/2004, which determines that the contribution of 2.4% of the gaming gross income must be delivered to the Macau Finance Department).

— **The rules of the games** of fortune or chance, referred to in Article 55 of Law No.16/2001, in the Ruling External Dispatch of the Secretary for Economy and Finance no. 55/2004, which approves the new official rules of "Bacará", and in the Ruling External Dispatch of the Secretary for Economy and Finance no. 65/2004, which approves the new official rules of "Soccer Poker".

— **Administrative Regulation no. 6/2002**, governing the requirements and procedures to access and exercise the casino gaming promotion activity, as complemented (namely by Administrative regulation no. 10/2002 that exempts 40% of the taxes due by gaming promoters, from 1 April 2002 to 31 March 2005).

— **Law 5/2004 of 2004**, which sets out the legal system for gaming credit concession.

— **Dispatch of the Chief Executive no. 30/2004**, which grants to Galaxy an exemption from profit corporate tax ("imposto complementar") on profits from the operation of games of chance, until 31 December 2008.

— **Law 8/96/M of 1996**, that addresses illicit gaming.

— **Decree-Law no. 24/98/M**, which sets out a compulsory obligation of communication regarding operations suspected of constituting the crimes of article 10 of Law 6/97/M.

— **Law 6/97/M** — law on organised crime — that in its Article 10 criminalizes money laundering.

Furthermore, Galaxy and its casino gaming operation are and will also be subject to other future regulations supplementing Law no.16/2001 of 2001 that may come into effect, as well as to instructions that may from time to time be issued by the Macau Government, namely through the Macau DICJ.

The laws, regulations and supervisory procedures of the Macau DICJ are based upon declarations of public policy that are concerned with among other things:

- preventing unsavoury or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- establishing and maintaining responsible accounting practices and procedures;
- maintaining effective controls over the financial practices of the operators, including through the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record-keeping and requiring the filing of periodic reports with the Macau DICJ;
- preventing cheating and fraudulent practices; and
- providing a source of state and local revenues through taxation and concession-related fees.

Role of the Macau DICJ

Amongst other things, the Macau DICJ provides support and assistance to the Chief Executive of Macau on the definition and execution of economic policies for the operation of casino games of fortune or other ways of gaming.

The responsibilities of the Macau DICJ include:

(1) To collaborate in the definition, co-ordination and execution of economic policies for the operation of casino games;

(2) To examine, supervise and monitor the activities of the concessionaires, especially compliance with their legal, statutory and contractual obligations;

(3) To examine, supervise and monitor the suitability and financial capability of the concessionaires or other parties stipulated by the law;

(4) To collaborate with the Macau government in the authorisation and classification of locations and places for the operation of casino games;

(5) To authorise and certify the equipment used by the concessionaires in the operations of the concessions;

(6) To issue licences for casino gaming promoters;

(7) To examine, supervise and monitor the activities of the promoters, especially compliance with their legal, statutory and contractual obligations;

(8) To examine, supervise and monitor the suitability of the promoters, their collaborators and key employees;

(9) To investigate and provide for the punishment, in compliance with the applicable substantive and procedure law, of administrative violation or infringement;

(10) To ensure the relationship of the concessionaires with the government and the public is in compliance with the applicable regulations and in the best interest of Macau.

The Macau DICJ is the primary regulatory entity that supervises the casino gaming operations and the compliance of the concessionaire with its legal and contractual obligations. For that purpose, under the concession system, a concessionaire is required to submit to the Macau DICJ significant documentation and periodic reports regarding its business and operation, apply to the Macau government, through the Macau DICJ, for approvals or authorizations whenever required contractually or by law, e.g. regarding changes in its shareholding structure, changes in control, certain relevant contractual relationships, location and classification of casinos and gaming areas, gaming equipment, electronic surveillance equipment, and submit itself and provide for the submission of its qualifying shareholders, directors and key employees to ordinary or extraordinary financial capacity and suitability findings conducted by the Macau DICJ, also on the basis of significant information provided by the target entities, as well as to the instructions of the Macau DICJ. The Macau DICJ also continuously monitors the casino daily operations and the respective winnings, through numerous daily controls, in order to supervise, monitor and assess the amounts payable to the Government, as special gaming tax and levies. In addition, the Macau DICJ monitors the gaming promoters' daily activities in the casinos and conducts the process of licensing them in order to issue (or reject) the respective license and, for that purpose, conducts suitability verification processes regarding the promoters, its directors, key employees and qualifying shareholders.

Money laundering

When a criminal activity generates substantial proceeds, the criminal needs to control and use the funds without attracting attention to their source. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention. Money laundering is the processing of proceeds of crime to disguise their illegal origin.

Macau's anti-money laundering legal framework

Macau has in place an anti-money laundering legal framework, designed to prevent and fight the processes of disguising or concealing properties or proceeds of illicit origin or derived from illicit activities. It comprises the domestic laws in force referred to below and the guidelines/instructions given to different economic operators pursuant to it. In addition, Macau is subject to the international treaties/conventions, and participates in the international organizations, also referred to below.

The Macau government and its legislative body (the Legislative Assembly) are in the process of drafting and issuing new legislation in order to enhance the legal framework.

International Law

Introduction

Macau, as a Special Administrative Region of Mainland China, enjoys a high degree of autonomy, except in foreign and defence affairs, which are responsibilities of the Central People's Government of the People's Republic of China (the "CPG"). It should be noted that although the PRC authorises Macau to conduct by itself some external affairs regarding certain appropriate fields, this does not apply to international treaties/conventions reserved to sovereign states (as is the case with international conventions on money laundering). In these cases, within internal legal constitutional procedures (Article 138 of the Basic Law relating to Macau), the CPG seeks the views of Macau on the application to Macau of international treaties.

The implementation of international treaties in Macau is carried out within its own legal system. Under this system — a civil law one — international and domestic laws are viewed as parts of the same general legal order operating simultaneously in regard to the same subject-matter. If PRC binds itself internationally to an international treaty in relation to Macau, once that treaty is published in Macau's Official Gazette, it becomes directly and automatically applicable and takes precedence over the ordinary law. There is no need to incorporate international law into domestic law in order to effect its application; nevertheless, if its implementation so requires, appropriate measures (legislative or others) are adopted.

The 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the 1988 Vienna Convention)

Although Macau cannot be a party by itself to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the "1988 Vienna Convention") since this is a formal treaty reserved to sovereign states, the 1988 Vienna Convention is applicable to Macau. It was in force in Macau before reunification, and remains in force since Mainland China formally assumed responsibility for the international rights and obligations arising from the application of this convention to Macau.

On 7 July 1999, Portugal had extended the 1988 Vienna Convention to Macau. By letter of notification dated 15 December 1999, Mainland China notified the depositary that it would assume the responsibility of Party to this Convention in what respects in the continuation of its application to Macau. Mainland China also declared that the reservation made by Mainland China to its paragraphs 2 and 3 of Article 32 of the Convention would also apply to Macau. Furthermore, in accordance with paragraph 8 of Article 7 of the Convention, Mainland China designated Macau's Procuratorate as the competent Authority in the Region.

Macau's anti-money laundering domestic legal framework is broadly in line with international law, mainly with the provisions of the 1988 Vienna Convention. However, Macau is in the process of revising its anti-money laundering domestic law in order to better cope with international standards as referred below.

The United Nations Convention against Transnational Organized Crime

The Convention against Transnational Organized Crime, adopted by the General Assembly of the United Nations on 15 November 2000 (the "Palermo Convention"), is also applicable to Macau. It entered into force on 23 October 2003.

Macau's anti-money laundering domestic legal framework is also broadly in line with the provisions of the Palermo Convention. However, Macau is in the process of revising the anti-money laundering domestic law in order to better cope with international standards as referred below.

Other international obligations of Macau: Asia-Pacific Group on Money Laundering ("APG"); other international organizations

In response to mounting concern over money laundering, the Financial Action Task Force on money laundering ("FATF") was established by the G-7 Summit in Paris in 1989 to develop a co-ordinated international response. One of the first tasks of the FATF was to develop 40 Recommendations, which set out the measures national governments should take to implement effective anti-money laundering programmes. Neither the PRC nor Macau is a member of the FATF.

Nevertheless, Macau joined the Asia-Pacific Group on Money Laundering ("APG"), a FATF-style regional body, i.e. an autonomous regional anti-money laundering body, as a full member in May 2001.

The purpose of the APG is to ensure the adoption, implementation and enforcement of internationally accepted anti-money laundering and counter-terrorist financing standards based namely on the said FATF Recommendations. The effort includes assisting countries and territories of the region in enacting laws to deal with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition; providing guidance in setting up systems for reporting and investigating suspicious transactions and helping in the establishment of financial intelligence units.

Since it joined the APG, Macau has committed to the Terms of Reference of the APG and already worked out short-term and long-term plans for the implementation of anti-money laundering measures in accordance with the FATF 40 Recommendations, especially taking into account the Recommendations given in the Mutual Evaluation Report of the APG in May 2001 (review taken by APG of Macau's anti-money laundering regime).

The process of review of the anti-money laundering domestic law is taking into consideration, among other things, the recommendations referred above.

The Macau government acknowledges the strategic importance on strengthening international cooperation, as a logical corollary of recognition of the international dimension of the money laundering phenomenon. Hosting the Sixth Annual Meeting of the APG, in 2003, was a testimony to Macau's continued support for the international initiative against money laundering.

The APG meeting in Macau brought together delegates from the legal, financial and law enforcement sectors from across the Asia/Pacific region. It was attended by more than 240 participants representing 26 member jurisdictions, 9 observer jurisdictions and 10 international and regional organizations. The purpose of the meeting was to discuss and plan for the continued

development and implementation of anti-money laundering initiatives to combat the threat of money laundering and terrorist financing in the region. One major achievement of this meeting included the approval by the 26 APG members of a strategic plan that looks ahead from 2003 to 2006 and outlines the APG's mission and goals to effectively combat money laundering.

In addition to APG, it should be noted that, in the financial area, Macau is also a member of the Offshore Group of Banking Supervisors, the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the Asian Association of Insurance Commissioners, and the International Association of Insurance Fraud Agencies.

Domestic Law

Several Macau laws set out provisions addressing directly or indirectly money laundering.

The **Macau Financial System Act**, approved by Decree Law no. 32/93/M of 5 July 2003, as amended and supplemented, lays out several provisions designed to prevent the use of the banking system for money laundering, such as compulsory identification of all customers of credit institutions (article 106), personal identification of founding shareholders of credit institutions (article 22), suitability of qualifying shareholders and managers (articles 40, 41, 47 and 48), external and independent audits that include reviews of compliance with anti money laundering statutes (article 53), consolidated supervision of the activity of the credit institutions (article 9), the possibility of exchange of information between the Monetary Authority of Macau and other supervision authorities (article no. 79), and the possibility of exemption from the banking secrecy duty by judicial warrant related to criminal proceedings (article 80).

Furthermore, under **Decree Law no. 5/91/M** 1991 on drugs control, any property or proceeds, including money and other valuables deposited with banks, derived from sentenced crimes related to drugs is subject to forfeiture (article 22). For this purpose, provision of information required by the competent judiciary authority on assets, deposits or any other values belonging to individuals suspected of illicit drug trafficking cannot be refused by public or private entities (article 34).

Moreover, under the **Macau Penal Code**, all properties or proceeds derived of criminal activities shall be confiscated (article 103).

On the gaming industry, the reform of Macau's gaming legal framework improved the regulation and transparency of all entities involved in the gaming industry, as well as the 'fit and proper' testing of all gaming operators and gaming promoters, their shareholders, directors and key employees.

The most relevant local legal framework directly covering money laundering is comprised of provisions contained in **Law 6/97/M**, of 30 July 1997, and of **Decree Law 24/98/M**, of 1 June 1998, as well as the guidelines/instructions given by the Macau government pursuant to it, as more fully described below.

Law 6/97/M, of 30 July

Law 6/97/M, of 30 July 1997 — law on organized crime — criminalizes money laundering in its Article 10.

Under its Article 10, a person who, knowing that the property or proceeds derive from a criminal offence:

a) Converts, transfers, assists or, by any other means, facilitates any operation of conversion or transfer of the said property or proceeds, in full or in part, directly or indirectly, for the purpose of concealing or disguising its illicit origin or of assisting any person who is involved in a criminal offence to evade the legal consequences of his actions, shall be punished by imprisonment of 5 to 12 years, and a fine;

b) Conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights related to the said property or proceeds, shall be punished by imprisonment of 2 to 10 years, and a fine;

c) Acquires or receives or at any time, uses, holds or maintains the said property or proceeds shall be punished by imprisonment of 1 to 5 years, and a fine;

provided in any case that the applicable criminal penalty does not exceed the penalty applicable to the offences from which the said property or proceeds derive.

Other provisions of this Law and of the Macau Penal Code may lead to higher or lower criminal penalties or accessory penalties.

The definition of the crime of money laundering is in terms very similar to the 1988 Vienna Convention, and the scope of criminalisation is beyond drug-related offences.

An "all crimes" approach was adopted — as in the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (the "1990 Council of Europe Strasbourg Convention") and also along the lines of FATF Recommendation — since the money laundering crime covers the laundering of property or proceeds derived from any kind of criminal offences. Therefore, it has the merit of not being tied to any particular predicate offence and encompasses property or proceeds of predicate offences committed outside Macau. Additionally, it embraces laundering of one's own proceeds.

Liability of legal persons and the confiscation by the judiciary authority of assets or rights related to a criminal offence are also provided for.

Decree Law 24/98/M, of 1 June 1998

Decree Law 24/98/M, of 1 June 1998 — which establishes a preventive measure in the fight against money laundering activities — lays down, in its Articles 2 and 3, the obligation of various economic operators — such as banks, financial institutions, gaming operators, antique and art and jewellery merchants — to report operations suspected of involving conversion, transfer or disguise of illicit property or proceeds to the Judiciary Police and the competent supervisory authorities. This reporting requirement also applies to all entities supervised by the Macau DICJ (and therefore to gaming operators).

According to its Article 8, failure to comply with the obligation to report is punishable with a fine from MOP10,000.00 to MOP500,000.00 for individuals, or a fine from MOP100,000.00 to MOP5,000,000.00 for corporate bodies.

Similarly, supervisory authorities are required to report immediately to the Judiciary Police any cases of money laundering which have come to their knowledge in the course of their supervisory duties (Article 6). They are also empowered to investigate cases of non-compliance with the reporting requirements and commence appropriate infringement proceedings against entities under their supervision (Article 5).

Under its Article 4, the relevant supervisory authorities, including the Macau DICJ in so for as concerns gaming operators, are responsible for providing for a system of the risk controls, related to means of payment, the amounts, repetition or other characteristics of the transactions in question. The Macau Monetary Authority has already issued some guidelines and instructions to financial and related institutions. Although the Macau DICJ is currently drafting instructions and guidelines to the casino gaming operators, no formal instructions or guidelines had been received yet by Galaxy at the Latest Practicable Date.

The Macau DICJ has increased its number of inspectors to cope with the rapid development of the casinos. Besides increasing the manpower, the Macau DICJ also supervises external and internal controls over the gaming operators' administration and accounting procedures in order to ensure that operators maintain adequate, accurate and reliable records for effective internal financial control and the proper calculation and reporting of gaming revenue.

Macau has no formal established financial intelligence unit. According to Macau's anti-money laundering legislation, the Judiciary Police receives suspicious transactions reports and conducts investigations on the subject.

Legislative developments

Although an extensive range of undertakings that are potentially vulnerable to money laundering are covered by Decree-Law 24/98/M, the Macau government decided to enhance its legal framework on money laundering.

A new law and an administrative regulation on anti-money laundering are being drafted and passed for consultation, in order to provide Macau with legal instruments of international standards and better accommodate the recommendations of the FATF and the recommendations given by the APG/OGBS Joint Mutual Evaluation Report. It is expected that the new legislation will extend the range of reporting entities to non-financial sectors (such as accountants, auditors, notaries and lawyers), besides establishing a financial intelligence unit. Tipping-off, feedback to reporting entities, identification, reporting and prosecution measures as well as criminalisation of non-declaration or false declaration of reports are also expected to be covered by the new legislation.

It is expected that such legislation will be designed to better prevent money laundering also in the gaming industry as part of the restructuring of that sector, and that the above mentioned formal Macau DICJ's guidelines and instructions designed for the same purpose will be issued to casino operators following the implementation of new anti-money laundering legislation. A draft of such Macau DICJ guideline has been circulated for consultation. The Galaxy management and the KWCM

Directors believe the existing anti-money laundering policy of Galaxy has addressed all areas covered under the current draft DICJ guidelines on anti-money laundering policy. The directors of Galaxy are of the opinion that the current internal control measures of Galaxy are in compliance with the requirements of the applicable anti-money laundering laws and regulations. The directors of KWCM and Galaxy have confirmed with Sa Carneiro & Pinheiro Torres (Macau lawyers) that Galaxy's internal anti money laundering policy is in line with the requirements of the applicable anti-money laundering laws and regulations. Information on Galaxy's anti-money laundering procedures is set out in the section headed "Anti-money laundering policy" in the part of this Circular headed "Description of the Galaxy Group".

K. WAH CONSTRUCTION MATERIALS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

Executive Directors:
Dr. Lui Che Woo, *MBE, JP, LLD, DSSc (Chairman)*
Francis Lui Yiu Tung *(Deputy Chairman)*
Chan Kai Nang *(Managing Director)*
Joseph Chee Ying Keung *(Deputy Managing Director)*
William Lo Chi Chung
Paddy Tang Lui Wai Yu

Non-Executive Directors:
Dr. Charles Cheung Wai Bun, *JP**
Moses Cheng Mo Chi, *GBS, OBE, JP*
James Ross Ancell*
Dr. William Yip Shue Lam, *LLD**

* *Independent Non-executive Directors*

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

30 June 2005

To the KWCM Shareholders and, for information only,
the KWIH Shareholders and the holders of the KWIH Bonds,

Dear Sir or Madam,

INTRODUCTION

As announced on 18 April 2005, Canton Treasure, a wholly-owned subsidiary of KWCM, agreed on 14 March 2005 to acquire the Galaxy Equity Interest at the Purchase Price. The Purchase Price is to be satisfied by the issue of the Consideration KWCM Shares and FRNs or, at the sole discretion of KWCM, FRNs and/or in cash. Canton Treasure has no material business, assets or liabilities save for those under the Acquisition Agreement.

As far as KWCM is concerned, the purpose of this Circular is to provide the KWCM Shareholders with further information on the Acquisition and notice to all shareholders of the KWCM EGM (with certain shareholders abstaining from voting) at which resolutions will be proposed for the purpose of, amongst other things, approving the Acquisition. This Circular also contains the advice of Commerzbank which has been retained as independent financial adviser to advise the KWCM Independent Board Committee and the KWCM Independent Shareholders in relation to the Acquisition and the recommendations of the KWCM Independent Board Committee which has been formed to advise the KWCM Independent Shareholders.

There are 951,900 Galaxy Shares in issue. Of these, 95,190 (10%) are Galaxy A Shares, which carry full voting rights but only a negligible economic interest in Galaxy. The remaining 856,710 (90%) of the Galaxy Shares are Galaxy B Shares, which carry full voting rights and effectively 100% of the economic interest in Galaxy. The Acquisition is only of Galaxy B Shares.

By a letter dated 4 February 2005, Pedro Ho has agreed with the Vendors, upon the reorganisation, merger or liquidation of Galaxy after 4 February 2005, to distribute any amount received from such reorganisation, merger or liquidation in excess of the capital amount of his Galaxy A Shares, to all the shareholders of Galaxy pro-rata to their shareholdings in Galaxy at the time of such reorganisation, merger or liquidation, (as the case may be). KWCM and Canton Treasure are not parties to this agreement. It is thus unclear whether KWCM or Canton Treasure will be entitled to enforce this agreement. Other than as set out above, there is no arrangement under which future dividends are waived or agreed to be waived.

ACQUISITION AGREEMENT

Set out below is a summary of the principal terms of the Acquisition Agreement:

Date of the Acquisition Agreement: 14 March 2005

The parties to the Acquisition Agreement are:

1. (1) the Family Companies consisting of City Lion (100% owned by the Principal Trust), Netfinity (100% owned by Lawrence Lui) and Recurrent Profits (100% owned by Francis Lui), (2) the Minority Vendors consisting of Brightwealth (100% owned by Guoco Group Limited, a company listed on the Stock Exchange) and Future Leader (100% owned by Pedro Ho), (the Minority Vendors being Independent Third Parties save as disclosed in the section headed "Brightwealth Options" in this part of this Circular), and (3) Hugo Legend (100% owned by Pedro Ho as at the date of the Acquisition Agreement but since 12 April 2005 is 100% owned by Honour Link Group Limited, the beneficial owner of which is Mr. Suen Suk Hing, an Independent Third Party) as vendors;

2. Canton Treasure, a wholly-owned subsidiary of KWCM, as purchaser; and

3. KWCM, as guarantor of the obligations of the purchaser.

Pursuant to the terms of the Acquisition Agreement, Canton Treasure agreed to acquire the Galaxy Equity Interest, being 97.9% of the economic interest of Galaxy, from the Vendors and Hugo Legend at the Purchase Price.

The Purchase Price is HK$18,405,198,023, which will be satisfied (i) as to about 80% by the allotment and issue of 1,840,519,798 Consideration KWCM Shares to the Vendors credited as fully paid at HK$8.00 per KWCM Share and (ii) as to about 20%, by the issue to the Vendors of HK$3,681,039,603 principal amount of FRNs or, at the sole discretion of KWCM, by FRNs and/or cash.

At the agreed issue price of HK$8.00 per share, the value of the Consideration KWCM Shares is HK$14,724,158,384. The market value of the Consideration KWCM Shares (based on the closing price per KWCM Share of HK$8.50 on the Last Dealing Date) is HK$15,644,418,283. Their market value based on the closing price per KWCM Share of HK$5.75 on the Latest Practicable Date was HK$10,582,988,839.

The Consideration KWCM Shares represent about 141.9% of the share capital in issue of KWCM at the date of the Acquisition Agreement and would have represented about 58.7% of the enlarged issued share capital of KWCM if Completion took place on that date. Since then further KWCM Shares have been issued pursuant to the placing and subscription of KWCM Shares announced on 21 April 2005 and on exercise of Employee Options. Assuming that there is no change in its issued share capital from the Latest Practicable Date to Completion save for the issue of the Consideration KWCM Shares at Completion, the Consideration KWCM Shares represent about 127.5% of the existing issued share capital of KWCM and about 56.0% of the enlarged issued share capital of KWCM immediately after Completion.

The Purchase Price and the issue price per Consideration KWCM Share were arrived at after arms' length negotiations among the parties, by reference to amongst other things:

- an analysis of comparable companies, Galaxy's growth prospects and a report prepared by American Appraisal, valuing 100% of Galaxy at HK$23,544,000,000 at 31 December 2004. A report by American Appraisal is set out in Appendix II. KWCM will acquire 97.9% of the economic interest in Galaxy for HK$18,405,198,023, which represents 80% of the pro-rated valuation provided by the independent valuer for 100% of Galaxy;

- the historical performance of the Galaxy Casino at Waldo Hotel, Galaxy's first city club casino, since its opening on 4 July 2004 up to 31 January 2005; and

- the average closing price per KWCM Share of HK$7.95 for the period of five consecutive trading days from 28 February 2005 up to and including the Last Dealing Date.

The issue price of HK$8.00 per Consideration KWCM Share represents a discount of about 5.9% to the closing price per KWCM Share of HK$8.50 quoted on the Stock Exchange on the Last Dealing Date and a premium of about 0.6% to the 5 consecutive trading days' average closing price per KWCM Share of HK$7.95 as quoted on the Stock Exchange for the period from 28 February 2005 to the Last Dealing Date.

The issue price of HK$8.00 per Consideration KWCM Share represents a premium of about 39.1% to the closing price per KWCM Share of HK$5.75 quoted on the Stock Exchange on the Latest Practicable Date and a premium of about 38.6% to the 5 consecutive trading days' average closing price per KWCM Share of HK$5.77 as quoted on the Stock Exchange for the period from 20 June 2005 to the Latest Practicable Date.

Application has been made to the Listing Committee of the Stock Exchange for listing of and permission to deal in the Consideration KWCM Shares.

NON-DISPOSAL UNDERTAKINGS

Under the terms of the Acquisition Agreement, City Lion (which is wholly-owned by the Principal Trust) has undertaken not to dispose of the Consideration KWCM Shares to be received by it for a period of six months following Completion. Separately from the Acquisition Agreement, Dr. Lui, City Lion and the Trusts have undertaken to the Stock Exchange that they shall not and shall procure the relevant registered holder(s) shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Consideration KWCM Shares held by them at Completion directly or through vehicles wholly-owned by them or otherwise where they can exercise control or substantial influence for a period of six months following Completion. At Completion, arrangements will be put in place for HK$50,000,000 (in cash and FRNs depending on the proportion of cash and FRNs paid to the Family Companies) of the Purchase Price and 750,000,000 of the Consideration KWCM Shares to be placed in an account by the Family Companies with an independent third party from which they cannot be withdrawn without the consent of KWCM. This arrangement will remain in place until 15 months after 14 March 2005, the date of the Acquisition Agreement, and is intended to ensure that funds are available for any warranty claims (which are subject to a maximum aggregate of HK$3.8 billion).

CONDITIONS PRECEDENT

Completion of the Acquisition Agreement is conditional upon the fulfilment (or waiver, in certain cases as stated below) of the following conditions precedent:

(i) the result of a due diligence review being found satisfactory to KWCM within 21 days after 18 April 2005;

(ii) the Acquisition Agreement and the transactions contemplated thereunder, including the issue and allotment of the Consideration KWCM Shares, all having been approved by resolution of the shareholders (or such of them as are not required to abstain from voting by the Stock Exchange or the SFC) of KWCM in general meeting taken on a poll;

(iii) the Acquisition Agreement and the transactions contemplated thereunder including the issue and allotment of the Consideration KWCM Shares all having been approved by resolution of the shareholders (or such of them as are not required to abstain from voting by the Stock Exchange or the SFC) of KWIH in general meeting taken on a poll;

(iv) the Executive having ruled that the transactions contemplated thereunder and the issuance and allotment by KWCM of the Consideration KWCM Shares to the Vendors do not trigger any obligation on the part of any of the Vendors (and any of the parties considered to be acting in concert with any of the Vendors within the meaning of the Takeovers Code) to make a general offer for all the shares of KWCM or if such an obligation will arise, the same having been waived or (if applicable) an appropriate waiver having been granted;

(v) listing of and permission to deal in the Consideration KWCM Shares having been granted by the Stock Exchange and not having been revoked and the Stock Exchange not having indicated that it will revoke or suspend the listing of KWCM Shares on the Stock Exchange by reason of Completion;

(vi) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for the entering into and implementation of the Acquisition Agreement including but not limited to the consent to the change of ownership of Galaxy of the Secretário para a Economia e Financas (or, in English, the Secretary for Economy and Finance) of the Macau government dated 17 January 2005 as amended and supplemented by two letters dated 31 January 2005 and dated 16 May 2005 in response to letters from Galaxy dated 12 January 2005, 28 January 2005 and 10 May 2005 on application of Galaxy having been obtained and not having been revoked;

(vii) the holders of the KWIH Bonds having duly passed an appropriate resolution waiving, or otherwise relaxing, compliance with Condition 11(xi) of the KWIH Bonds, to the satisfaction of KWCM. Condition 11(xi) of the KWIH Bonds required KWIH to hold, directly or indirectly, an interest of at least 30% of the issued share capital of KWCM (save for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation involving KWIH the terms of which shall have been previously approved by the trustee to the KWIH Bonds or by an extraordinary resolution of the holders of the KWIH Bonds);

(viii) the Vendors delivering to KWCM an opinion addressed to KWCM by a firm of lawyers qualified to advise on Macau law, in a pre-agreed form; and

(ix) KWCM being satisfied that neither the entry into nor the performance of the Acquisition Agreement will result in the material breach or termination of the Concession or any other material right of Galaxy or any material agreement to which Galaxy is a party or by which it is bound.

The conditions precedent referred to in (i), (iv), (vi), (vii) and (viii) have already been satisfied. Save for the condition precedent referred to in (ix) above, none of the other outstanding conditions precedent is capable of being waived unilaterally by Canton Treasure.

If any of the conditions precedent has not been fulfilled by 31 July 2005 (or such later date as may be agreed in writing) then KWCM may, subject to the right of KWCM to waive condition precedent (ix), thereafter at its option (but without prejudice to any other right or remedy it may have), by notice to the other parties thereto elect to terminate the Acquisition Agreement, in which event the Acquisition Agreement will be of no further effect, the rights and obligations of the parties under the Acquisition Agreement will lapse, and the parties thereto will be released from such obligations without any liability. If the condition precedent referred to in (ix) above is not satisfied it will not be waived unless KWCM is satisfied that waiver is in the interests of KWCM taking into account the circumstances at the relevant time. If any of the conditions precedent is waived or has not been fulfilled by 31 July 2005 then an appropriate announcement will be made at the time.

Completion is to take place on the earlier of 31 August 2005 or the third business day next following the day on which the last unfulfilled condition precedent is satisfied or waived. The Macau Government has originally agreed to extend the date for transfer of the Galaxy Equity Interest from 18 March 2005 to 31 May 2005 and has now further extended it to 30 September 2005.

SUPPLEMENTAL AGREEMENTS

On 29 March 2005, Hugo Legend entered into an agreement to sell its entire equity interest in Galaxy to Future Leader. The sole beneficial owner of Hugo Legend at the time was Pedro Ho. On 30 March 2005, Pedro Ho entered into an agreement to sell his entire interest in Hugo Legend to Honour Link Group Limited and this sale was completed on 12 April 2005. The sole beneficial owner of Honour Link Group Limited is Mr. Suen Suk Hing who is an Independent Third Party.

As a result, Hugo Legend, originally a party to the Acquisition Agreement, and the other parties to the Acquisition Agreement signed a conditional Supplemental Agreement on 1 April 2005 pursuant to which it was noted that Hugo Legend had agreed to sell to Future Leader all Galaxy B Shares it previously held as at the date the Acquisition Agreement was first signed. At the date of the first Supplemental Agreement, Pedro Ho owned 100% of Hugo Legend and 100% of Future Leader.

The first Supplemental Agreement became effective on 18 May 2005 and Hugo Legend was then released from its obligations under the Acquisition Agreement. Future Leader will sell all of its Galaxy B Shares (including those transferred to it by Hugo Legend) to Canton Treasure on the terms of the Acquisition Agreement.

On 31 May 2005 the parties to the Acquisition Agreement other than Hugo Legend signed the second Supplemental Agreement pursuant to which they agreed to extend the deadline for satisfaction of the conditions to 31 July 2005.

The table below shows the percentage of the Galaxy Equity Interest to be sold by each Vendor and the consideration receivable by it under the Acquisition Agreement:

Name of Vendor	Number of Galaxy B Shares	% of economic interest in Galaxy	% of voting power in Galaxy	% of Galaxy Equity Interest sold	Consideration KWCM Shares	Agreed value of the Consideration KWCM Shares *(HK$)*	Cash or FRNs *(HK$)*	Total Consideration *(HK$)*
City Lion	528,813	61.73	55.55	63.05	1,160,449,206	9,283,593,648	2,320,898,413	11,604,492,061
Netfinity	58,718	6.85	6.17	7.00	161,066,521	1,288,532,168	0	1,288,532,168
Recurrent Profits	42,836	5.00	4.50	5.11	111,138,039	889,104,312	50,906,654	940,010,966
Brightwealth	148,382	17.32	15.59	17.69	325,615,622	2,604,924,976	651,231,245	3,256,156,221
Future Leader (*)	59,970	7.00	6.30	7.15	82,250,410	658,003,280	658,003,291	1,316,006,571
Total	838,719	97.90	88.11	100.00	1,840,519,798	14,724,158,384	3,681,039,603	18,405,197,987

* Inclusive of the 17,134 Galaxy B Shares acquired from Hugo Legend

The terms of the FRNs are summarised in Appendix XV.

SHAREHOLDERS OF GALAXY

At the date of the Acquisition Agreement, the Galaxy B Shares were held by the Family Companies as to 73.58%, Hugo Legend 2.0%, Minority Vendors 22.32% and Wealth Access 2.1%. As mentioned above, Hugo Legend subsequently sold its entire holding of Galaxy B Shares to Future Leader and they form part of the Galaxy Equity Interest to be acquired by KWCM.

Immediately after Completion, the Galaxy B Shares will be held by KWCM (through Canton Treasure) and Wealth Access as to 97.9% and 2.1% respectively.

Wealth Access is beneficially owned by Mr. Yeung Chi Hang and Mr. Cheng Kwee. Wealth Access, Mr. Yeung Chi Hang and Mr. Cheng Kwee are each Independent Third Parties of KWIH, KWCM (and, so far as KWCM and KWIH know having made all reasonable enquiries, save for their indirect shareholdings in Galaxy, independent of Galaxy and of connected persons of Galaxy) and their connected persons. Neither Wealth Access nor Mr. Yeung Chi Hang or Mr. Cheng Kwee is or will become a connected person of KWCM or KWIH upon Completion. None of these persons will join the board of KWCM/KWIH or Galaxy, and the holding of Wealth Access in Galaxy is below 10% of the issued voting shares. Information on the Family Companies and the Minority Vendors is set out in the section headed "Information on the Vendors" in the part of this Circular headed "Description of the Galaxy Group".

REASONS FOR THE ACQUISITION

Galaxy holds one of only three gaming concessions awarded by the Macau government to operate casinos in Macau. While two sub-concessions have been granted, the Macau government will not grant additional gaming concessions until 2009 pursuant to the concession contracts with Galaxy, SJM and Wynn Resorts (Macau) S.A.. The limited number of concessions and sub-concessions forms a barrier for entry into the Macau gaming market. It is also the stated intention of the Macau government to develop Macau into a world-class gaming centre. With Galaxy already operating one city club casino and the development of its Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel projects all underway, Galaxy is well positioned to take advantage of the Macau gaming market. Galaxy, through Galaxy Casino at Waldo Hotel, has already established a significant market share of around 14% of net gaming wins, which is the net of gaming wins and losses arising from gaming activities, in Macau gaming market calculated based on (i) the amount of HK$2,994,559,000 (or approximately US$384 million) net gaming win of Galaxy for the period of July 2004 to December 2004 over (ii) the total net gaming win of Macau for the same 6 months period of (approximately) US$2,711 million as published in March 2005 in the Macau Government monthly bulletin of statistics. Supported by a team of seasoned gaming professionals who have extensive experience in managing casinos and leisure/entertainment complexes in Australia and across Asia, the KWCM Board believes that through successful integration of gaming facilities into non-gaming leisure with entertainment amenities at its properties, Galaxy can emerge as a significant industry player in the Macau gaming market.

Galaxy aims to be a leading provider of integrated leisure entertainment services in Macau, providing both gaming and non-gaming facilities to tourists to Macau. KWCM's existing principal business is the manufacture, sale and distribution of construction materials in Hong Kong and Mainland China. The acquisition of control of Galaxy provides KWCM a significant presence in Macau's growing tourism, hospitality and gaming industry and presents unique opportunities for growth. In addition, as the gaming industry is largely transacted on a cash basis, cashflows tend to be stronger. The Acquisition therefore is expected to improve KWCM's growth prospects, profitability and cashflows and to provide a valuable diversification.

PLACING AND TOP-UP ISSUE

On 21 April 2005, Sutimar Enterprises Limited, a wholly-owned subsidiary of KWIH, placed through UBS AG, 146,000,000 KWCM Shares to independent investors at HK$8.00 per KWCM Share. On completion of the placing, Sutimar Enterprises Limited subscribed for 146,000,000 new KWCM Shares at a price of HK$8.00 per KWCM Share. As a result, KWCM received net proceeds (after deducting fees and expenses) of approximately HK$1,137 million. The proceeds are intended to be used towards partial satisfaction of the Purchase Price at Completion, thereby reducing the principal amount of FRNs to be issued to the Vendors accordingly.

CONTINUING CONNECTED TRANSACTIONS

Francis Lui has given to Hang Seng Bank Limited a guarantee in respect of a certain debt of Galaxy and, in return, Galaxy has given a counter-indemnity dated 13 October 2003 in favour of Francis Lui against any and all claims Hang Seng Bank Limited may make against him under the guarantee. Apart from a guarantee fee of 2.5% of the amount guaranteed which Francis Lui received from Galaxy at the time when the counter-indemnity was put in place, neither Galaxy nor Francis Lui is entitled to receive or has received any payment or other benefit in respect of these arrangements. After the Acquisition they will be exempt continuing connected transactions. Hang Seng Bank Limited has in principle agreed to release and replace Francis Lui's guarantee with a guarantee by KWCM upon Completion. The corporate guarantee will be on the same terms as the personal guarantee previously given by Francis Lui and will be for all moneys/liabilities (without limit) of Galaxy to Hang Seng Bank Limited under Galaxy's current loan agreement. No counter-indemnity, surety or guarantee fee will be given or paid to KWCM by Galaxy. Such corporate guarantee will stay for as long as there is money due and owing by Galaxy to Hang Seng Bank Limited under the loan agreement.

NO GENERAL OFFER IMPLICATION

The Trusts together are the single largest and the controlling shareholder of KWIH. KWCM is a subsidiary of KWIH. Through the direct shareholding of City Lion in KWCM and the indirect shareholding through KWIH immediately after Completion, the Trusts will continue to have de facto and Takeovers Code control of KWCM. The Executive has confirmed that the proposed Acquisition and issue of the Consideration KWCM Shares will not result in any general offer obligation under the Takeovers Code.

Neither the Family Companies nor parties acting in concert with any of them had in the six months ended on the Last Dealing Date purchased or sold any KWCM Shares. None of the Family Companies, the Lui Family, the KWCM Directors and parties acting in concert with any of them held any KWCM Shares or had any other interest in the KWCM Shares on the Latest Practicable Date, other than as disclosed herein.

DIRECTORS AND MANAGEMENT OF KWCM

It is not intended there will be any change in the executive or non-executive directors or the management of KWCM as a result of Completion but KWCM may consider inviting certain directors or senior managers of Galaxy to join the KWCM Board.

BRIGHTWEALTH OPTIONS

Guoco Group Limited, a company listed on the Stock Exchange and its controlling shareholder (each being an Independent Third Party) through Brightwealth, made a financing investment on 3 February 2005 comprising the acquisition of certain Galaxy B Shares and the entering into of the Brightwealth Option Deeds.

Under the Brightwealth Option Deeds, Brightwealth undertook to provide all such cooperation as is reasonably required in order to implement a listing of Galaxy.

Brightwealth is one of the Minority Vendors and holds 17.32% of the economic interest in Galaxy constituting 15.59% of the voting power. It entered into the Brightwealth Option Deeds recording put and call option arrangements with the Option Holders respectively over its entire interest in the Galaxy Equity Interest independently of the discussions that ultimately led to the Acquisition Agreement.

Pursuant to the Brightwealth Option Deeds, the Option Holders have a Call Option and Brightwealth has a Put Option over Galaxy Shares. Upon Completion, the Consideration KWCM Shares (and the FRNs if any) received by Brightwealth will replace the Galaxy Shares as the subject of the Call Option and the Put Option pursuant to the Brightwealth Option Deeds.

Under the Brightwealth Option Deeds, the Call Option will be triggered automatically on Completion and upon repayment of about 95% of the FRNs (or the receipt of equivalent amount of cash in lieu of FRNs) and, when that happens, the beneficial interest in the Consideration KWCM Shares received by Brightwealth will effectively be passed to the Option Holders. The Brightwealth Options cannot be exercised before Completion. The Consideration KWCM Shares subject to the Call Option represent 17.69% of all Consideration KWCM Shares and 9.91% of the KWCM Shares expected to be in issue immediately after Completion.

Francis Lui holds a controlling interest in Kentlake (55%) and Top Notch (76.09%). Accordingly, Francis Lui is deemed under the SFO to have a new discloseable interest in 325,615,622 KWCM Shares representing an additional 9.91% interest in the enlarged issued share capital of KWCM (assuming no further KWCM Shares are issued before Completion, other than the Consideration KWCM Shares). Pedro Ho is a minority shareholder in each of Kentlake and Top Notch holding 35% of Kentlake and 13.91% of Top Notch. The balance of Kentlake is held by Mr. Cheng Wing On, Michael, and the balance of Top Notch is held by Mr. Kung Chiu Nam, Edmond. Mr. Cheng Wing On, Michael and Mr. Kung Chiu Nam, Edmond are Independent Third Parties.

CHANGES TO THE SHAREHOLDING IN KWCM AS A RESULT OF THE ACQUISITION

KWCM will cease to be a subsidiary of KWIH on Completion as a result of the issue of the Consideration KWCM Shares. The beneficial interest in KWCM of Dr. Lui, Lui Family members, KWIH, their respective associates and parties acting in concert with them, the directors of KWCM and KWIH and their respective associates, Pedro Ho through Future Leader, Brightwealth and the shareholdings of the public shareholders in KWCM (a) as at the Latest Practicable Date but immediately before Completion; (b) immediately after Completion but before exercise of any of the Brightwealth Options and Employee Options; (c) immediately after Completion and full exercise of the Employee Options but before exercise of any of the Brightwealth Options; (d) immediately after Completion and full exercise of the Brightwealth Options but before exercise of any of the Employee Options; and (e) immediately after Completion and full exercise of the Brightwealth Options and Employee Options are as follows:

	As at the Latest Practicable Date but immediately before Completion		**Immediately after Completion but before exercise of any of the Brightwealth Options** *(Note 2)* **and Employee Options** *(Note 5)*		**Immediately after Completion and full exercise of the Employee Options** *(Note 5)* **but before exercise of any of the Brightwealth Options** *(Note 4)*		**Immediately after Completion and full exercise of the Brightwealth Options** *(Note 4)* **but before exercise of any of the Employee Options** *(Note 5)*		**Immediately after Completion and full exercise of the Brightwealth Options** *(Note 4)* **and Employee Options** *(Note 5)*	
	No. of KWCM Shares	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*
KWIH	852,775,351	59.06	852,775,351	25.96	852,775,351	25.82	852,775,351	25.96	852,775,351	25.82
The Trusts (including City Lion), Dr. Lui and his spouse	90,380,819	6.26	1,250,830,025	38.08	1,256,130,025	38.03	1,250,830,025	38.08	1,256,130,025	38.03
Lui Family members (other than Dr. Lui and his spouse)	2,164,135	0.15	274,368,695	8.35	282,228,695	8.54	599,984,317	18.27	607,844,317	18.40
Directors of KWCM (other than Lui Family members) *(Note 3)*	1,537,810	0.11	1,537,810	0.05	3,247,810	0.10	1,537,810	0.05	3,247,810	0.10
Directors of KWIH only (other than Lui Family members) *(Note 3)*	65,306	0.00	65,306	0.00	1,735,306	0.05	65,306	0.00	1,735,306	0.05
Pedro Ho through Future Leader	—	—	82,250,410	2.50	82,250,410	2.49	82,250,410	2.50	82,250,410	2.49
Brightwealth *(Note 4)*	—	—	325,615,622	9.91	325,615,622	9.86	—	—	—	—
Public shareholders	496,942,142	34.42	496,942,142	15.13	499,354,142	15.12	496,942,142	15.13	499,354,142	15.12
Total	1,443,865,563	100.0	3,284,385,361	100.0	3,303,337,361	100.0	3,284,385,361	100.0	3,303,337,361	100.0

Notes:

1. The above percentages are calculated on the assumption that other than on the exercise of the Brightwealth Options and the Employee Options there is no change in the issued share capital of KWCM from the Latest Practicable Date to Completion.

2. Details of the Brightwealth Options are set out below in the paragraph headed "Brightwealth Options". Brightwealth, a wholly-owned subsidiary of Guoco Group Limited, is one of the Minority Vendors in the Acquisition and a passive investor in Galaxy. Neither Guoco Group Limited nor its controlling shareholders now hold, and none of them will hold, any management function in either Galaxy or KWCM. Brightwealth will be a public shareholder in respect of its shareholding in KWCM immediately after Completion.

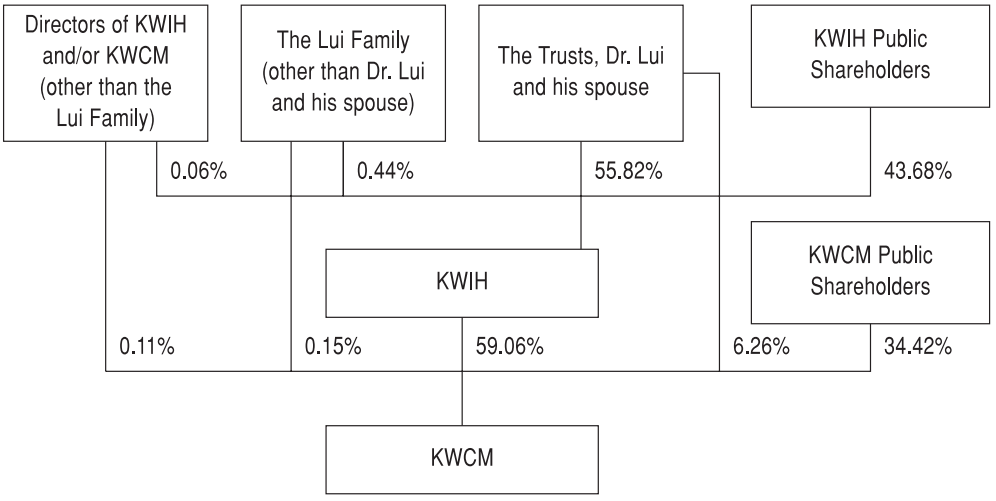
3. Mr. William Lo Chi Chung and Dr. Charles Cheung Wai Bun are both directors of KWCM and of KWIH and own KWCM Shares. Their interests are classified only in "Directors of KWCM (other than Lui Family members)".

4. The KWCM Shares subject to the Brightwealth Options will on issue be controlled by Brightwealth which is an Independent Third Party in respect of KWIH and KWCM and amount to less than 10% of the then outstanding KWCM Shares and, as such, will be part of the public float of KWCM. If and when the Brightwealth Options are exercised in full, the 325,615,622 KWCM Shares that will after Completion be the subject of the Brightwealth Options will be owned by Kentlake and Top Notch. 231,615,731 KWCM Shares will then be owned by Top Notch, and Francis Lui will have a notifiable interest in them under the SFO. 93,999,891 KWCM Shares will then be owned by Kentlake, and both Francis Lui and Pedro Ho will have notifiable interests in them under the SFO. The KWCM Shares which will be owned by Kentlake and Top Notch will no longer count toward the public float of KWCM. These shares are classified only in "Lui Family members (other than Dr. Lui and his spouse)". If the Brightwealth Options are exercised at a time when there are insufficient shares in public hands it will constitute a breach of Rule 13.32 of the Listing Rules and trading in the KWCM Shares may have to be suspended accordingly until KWCM takes appropriate steps to restore its public float.

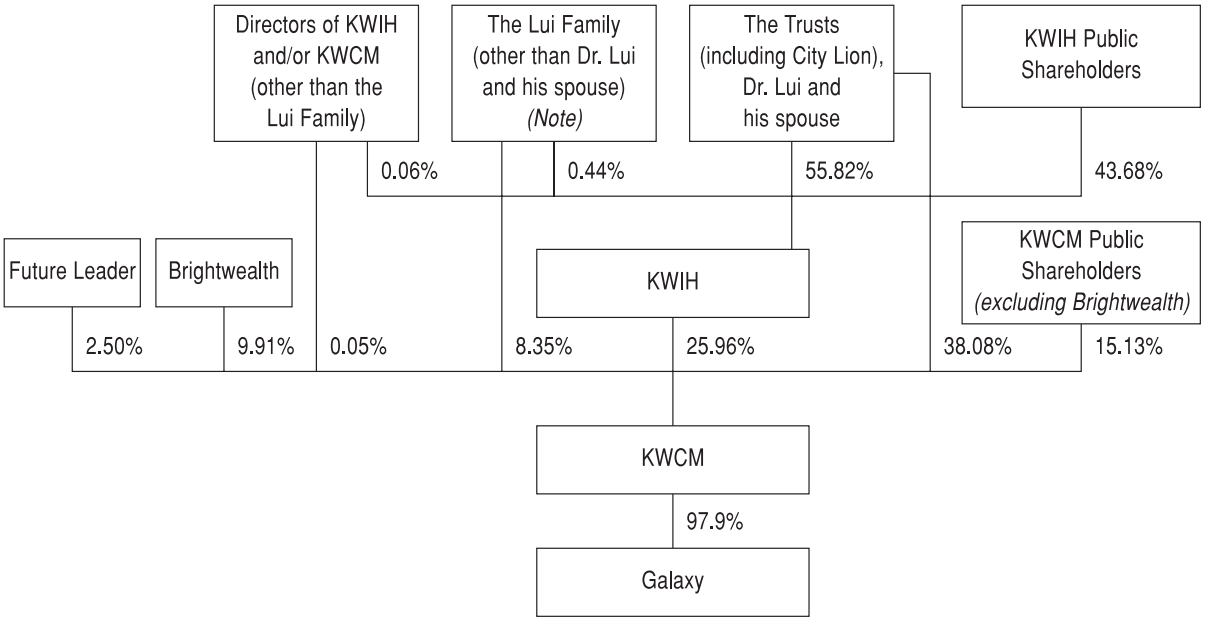
5. At the Latest Practicable Date, members of the Lui Family were interested in options, granted under the Employee Options, over an aggregate of 13,160,000 KWCM Shares and other KWCM Directors and KWIH Directors are interested in options, granted under the Employee Options, over an aggregate of 3,380,000 KWCM Shares. Further details are in Appendix XII.

The following diagrams illustrate the corporate and shareholding structure (economic interests only, taking no account of 100%-owned intermediate holding companies) of KWIH and KWCM before Completion and of KWIH, KWCM and Galaxy immediately after Completion, but before exercise of any of the Brightwealth Options and Employee Options:

Before Completion



After Completion



Note: Includes Recurrent Profits and Netfinity which are 100% owned, respectively, by Francis Lui and Lawrence Lui.

FUTURE PLANS AND PROSPECTS

Construction Materials Division

The KWCM Group responded to the difficult market situation in Hong Kong by improving its operational efficiency while exploring the possibilities of adding new driving force to its business through different means. With the continuously improving economy in Hong Kong and the growing development in the Pan Pearl River Delta area, the KWCM Group will continue to seek business opportunities in these areas.

The KWCM Group's expansion strategy in Mainland China began to deliver results in 2004. Projects which commenced operation in 2004 included KWCM's ready-mixed concrete operation in Daya Bay, Huidong for supply of concrete to the China National Offshore Oil Corporation and Shell Petrochemical Complex at Huizhou, pile factory in Shenzhen, and ready-mixed concrete plants in each of Maanshan and Beijing. The joint venture with Shougang Group for manufacture and sale of slag in Beijing, in which the KWCM Group has a 40% interest also commenced operation in 2004. All these projects made profit contributions to the KWCM Group in 2004. In 2005, joint ventures for manufacture and sale of slag, with Guangdong Shaoguan Iron & Steel Group in Shaoguan in which the KWCM Group has 35% interest, with Maanshan Iron & Steel Group in Maanshan in which the KWCM Group has 30% interest, and with Kunming Iron & Steel Group in Kunming in which the KWCM Group has 30% interest, all commenced operations as planned. New projects in Mainland China are expected to become the major driver to profit growth. In this connection, the management of KWCM will use their best efforts to keep profit on target, through fulfilling planned production volumes and market demands.

The KWCM Group intends to continue to integrate into upstream products such as slag and cement which are major raw materials of all ready-mixed concrete and precast concrete products and which the KWCM Directors believe are characterised by high technology content and high entry barrier so as to strengthen its earning base.

KWCM has no intention of disposing of its existing business after Completion. With new projects having commenced in 2004 and 2005 and its planned integration into upstream products, KWCM aims to become a major player in the construction materials industry in Greater China, including Mainland China, Hong Kong and Macau. The KWCM Board expects that the sizeable demand for construction materials from the development of Galaxy's future projects in Macau will be beneficial to KWCM's existing construction materials business. KWCM aims to subsequently leverage its position as a leading construction materials supplier in Hong Kong and certain parts of Eastern China as well as its experience and track record in Macau to develop other opportunities in Mainland China and Hong Kong.

Galaxy/Gaming Division

The KWCM Board expects that Galaxy management will implement their plan and strategy outlined in the part of this Circular headed "Description of the Galaxy Group". On this, Galaxy can subsequently leverage KWCM's business contacts and network in the Mainland China to develop its business in both the Macau VIP and mass markets.

KWCM expects and will procure Galaxy to complete its various projects in Macau to take advantage of the Macau gaming market and to become a key gaming and resort player in Macau, as explained in the section "Reasons for the Acquisition" above.

Whilst it is possible that directors or senior managers of the Galaxy Group will be invited to join the KWCM Board after Completion no decision has yet been made in that regard.

FINANCIAL EFFECTS OF THE ACQUISITION

The audited consolidated total assets and total liabilities (including minority interests) of the KWCM Group as at 31 December 2004 were approximately HK$2,278,534,000 and HK$833,001,000 respectively.

As set out in Appendix VI to this Circular, upon Completion, the unaudited pro forma consolidated total assets and total liabilities (including minority interests) of the Enlarged KWCM Group assuming that the Acquisition had been completed as at 31 December 2004 will be approximately HK$22,395,576,000 and HK$6,244,383,000 respectively.

Net Assets Value

The audited consolidated net assets of the KWCM Group as at 31 December 2004 were approximately HK$1,445,533,000 equivalent to approximately HK$1.11 per KWCM Share on the basis of 1,296,475,563 KWCM Shares in issue at that date.

As set out in Appendix VI to this Circular, upon Completion, the unaudited pro forma consolidated net assets of the Enlarged KWCM Group assuming that the Acquisition had been completed as at 31 December 2004 will be approximately HK$16,151,193,000, equivalent to approximately HK$5.15 per KWCM Share on the basis of 3,136,995,361 KWCM Shares by adding 1,840,519,798 Consideration KWCM Shares to 1,296,475,563 KWCM Shares in issue as at 31 December 2004.

Net Tangible Assets

The audited consolidated net tangible assets of the KWCM Group as at 31 December 2004 were approximately HK$1,445,533,000 equivalent to approximately HK$1.11 per KWCM Share on the basis of 1,296,475,563 KWCM Shares in issue at that date.

As set out in Appendix VI to this Circular, assuming that the Acquisition had been completed as at 31 December 2004, the Enlarged KWCM Group will have an unaudited pro forma **net tangible liabilities of approximately HK$635,599,000, equivalent to approximately HK$0.2 per KWCM Share** on the basis of 3,136,995,361 KWCM Shares by adding 1,840,519,798 Consideration KWCM Shares to 1,296,475,563 KWCM Shares in issue as at 31 December 2004.

Intangible Assets

The difference between the above mentioned unaudited pro forma consolidated net assets of approximately HK$16,151,193,000 and unaudited pro forma net tangible liabilities of approximately HK$635,599,000 is intangible assets of approximately HK$16,786,792,000. The total intangible

assets of the Enlarged KWCM Group included the intangible assets of the Galaxy Group, being computer software with net book value of HK$1,859,000 based on the accountants' report set out in Appendix V to this Circular, and the intangible assets arising from the Acquisition, representing the right to operate casinos in Macau amounting to HK$16,784,933,000 (basis of assessment is as set out in Note 3(b) to the unaudited pro forma financial information of Appendix VI to this Circular).

The Macau Government granted the concession right to operate casinos in Macau to Galaxy at nil consideration in June 2002 for a period of twenty years. The value of the right to operate casinos in Macau is not recorded in the financial statements of Galaxy since no acquisition costs have been capitalised for such right under both the existing Statement of Standard Accounting Practice ("SSAP") No. 29 and the revised Hong Kong Accounting Standard ("HKAS") 38 "Intangible Assets". Upon acquisition of Galaxy by KWCM, all identifiable assets and liabilities have to be recognised by KWCM at their fair values at the date of acquisition in accordance with both the existing SSAP 30 and the new HKFRS 3 "Business Combinations". The right to operate casinos in Macau is therefore recognised at the Acquisition since it is probable that associated future economic benefits of the right to operate casinos will flow to, or resources embodying economic benefits will flow from, the acquirer and a reliable measure is available of their or fair value. Accordingly, the right to operate casinos in Macau is recorded in the Enlarged KWCM Group.

The fair value of the right to operate casinos in Macau in the unaudited pro forma financial information has been assessed with reference to the purchase consideration of Galaxy amounting to HK$18,800 million and the fair value of the remaining identifiable assets and liabilities of the Galaxy Group amounting to approximately HK$2,015 million. All the identifiable intangible assets, including the right to operate the casinos in Macau and the computer software, of the Galaxy Group will be reassessed the fair values at the Completion date of the Acquisition in accordance with the HKAS 38. Any change in the fair value of the KWCM Consideration Shares will not affect the fair value of the right to operate casinos in Macau.

Net Current Assets

The audited consolidated net current assets of the KWCM Group as at 31 December 2004 were approximately HK$464,495,000. As set out in Appendix VI to this Circular, upon Completion, the unaudited pro forma consolidated net current assets of the Enlarged KWCM Group assuming that the Acquisition had been completed as at 31 December 2004 will be HK$615,530,000.

Current Ratio

The current ratio is defined as current assets to current liabilities. Galaxy Group had net current liabilities of HK$365 million as at 31 December 2004 with a current ratio of 0.7 times. The current ratio of the KWCM Group as at 31 December 2004 was 2.31 times. As set out in Appendix VI to this Circular, upon Completion, the current ratio of the Enlarged KWCM Group assuming that the Acquisition had been completed as at 31 December 2004 will be 1.39 times, that is, the current assets will be sufficient to cover the current liabilities.

Gearing Ratio

The gearing ratio, defined as the ratio of total loans outstanding less cash and bank balances to total assets of KWCM Group, was maintained at a 7% as at 31 December 2004. As set out in Appendix VI to this Circular, assuming that the Acquisition had been completed as at 31 December 2004, the gearing ratio of the Enlarged KWCM Group will be approximately 12.5%.

The estimated cost incurred for the Acquisition is approximately HK$18,500,000 comprising professional fees for legal advisers, auditors, financial advisers, independent financial advisers, valuers and miscellaneous expenses including those relating to announcements, printing of circular and issuing of Consideration KWCM Shares.

On Completion of the Acquisition, Galaxy will become a subsidiary of KWCM, which will, under the new HKFRS 3, recognise all the identifiable assets and liabilities of Galaxy at their fair values in its consolidated financial statements. The difference between the cost of Acquisition and the net attributable fair value of the identifiable assets, liabilities and contingent liabilities so recognised will be accounted for as goodwill, or negative goodwill, as the case may be. Any goodwill arising from the Acquisition will be recognised as an asset in the consolidated balance sheet and carried at cost, subject to annual impairment review. Such impairment will have to be recognised as an expense in the profit and loss statement. Any negative goodwill arising from the Acquisition will be credited to KWCM's profit and loss statement as "other revenues" in the year it arises. According to the unaudited pro forma financial information on the Enlarged KWCM Group set out in Appendix VI, there is no goodwill arising from the Acquisition based on the agreed issue price of HK$8 per KWCM Share.

As required by existing accounting standard and the new HKFRS 3, the fair value of the Consideration KWCM Shares for accounting purposes will be determined at the Completion date. As a result, the magnitude of the goodwill, or negative goodwill (as the case may be) will, subject to the share price of the KWCM Shares at the Completion date. If consequently goodwill arises from the Acquisition, it may be wholly written off to the profit and loss statement, and this may turn retained earnings into accumulated losses. Under Hong Kong law KWCM is permitted to declare dividends only out of distributable profits and cannot make any distribution by way of dividend for so long as it has accumulated losses. Accordingly, depending on the size of any goodwill after the Acquisition, KWCM may be unable to distribute any profit by way of dividend, unless and until it has either effected a capital reduction with court sanction to offset the accumulated losses or earned in subsequent years profit sufficient to offset them.

Profit Attributable to Shareholders

For the year ended 31 December 2004, the audited consolidated profit attributable to shareholders in KWCM was approximately HK$33,423,000 and the earnings per KWCM Share was approximately 2.6 Hong Kong cents, based on the weighted average number of 1,276,189,000 KWCM Shares in issue during 2004.

As set out in Appendix VI to this Circular, upon Completion, the unaudited pro forma consolidated net loss attributable to shareholders of the Enlarged KWCM Group assuming that the Acquisition had been completed on 1 January 2004 will be approximately

HK$955,409,000 and loss per KWCM Share will be approximately HK$0.31 per KWCM Share on the basis of 3,116,708,798 KWCM Shares by adding 1,840,519,798 Consideration KWCM Shares to the weighted average number of 1,276,189,000 KWCM Shares in issue during 2004.

Although the KWCM Group and the Galaxy Group were both profit making in 2004, the unaudited pro forma consolidated net loss attributable to shareholders of the Enlarged KWCM Group, assuming the Acquisition had been completed on 1 January 2004, as set out in Appendix VI to this Circular was mainly attributable to the adjustment for (a) the full year effect of the amortisation after minority interest of, using the straight line method, approximately HK$888,241,000 (being 97.9% of HK$907,294,000) of the acquired intangible assets, representing the right to operate the casino in Macau amounting to HK$16,784,933,000, over the estimated useful live of the remaining concession period of 18.5 years and (b) the interest payable of HK$171,723,000 for the first twelve months under the FRNs of HK$2,544 million to the terms set out in Appendix XV of this Circular based on the assumption that the proceeds (after deducting fees and expenses) of approximately HK$1,137 million from the placing of 146,000,000 KWCM Shares on 21 April 2005 will be used towards partial satisfaction of the Purchase Price at Completion. These adjustments are set out in Note 5 to the unaudited pro forma financial information of Appendix VI to this Circular. This accounting treatment will be the same under the new HKFRS.

The impact on the various accounting ratios, includes a decrease in unaudited pro forma net tangible assets per share from net tangible assets per share of HK$1.11 to unaudited pro forma net tangible liabilities per share of HK$0.2, a decrease in current ratio, from current ratio of 2.31 times to 1.39 times, an increase in gearing ratio from gearing ratio of 7% to 12.5% and a decrease in earnings per share from earnings per share of 2.6 Hong Kong cents to loss per share of HK$0.31 on pro forma basis as at 31 December 2004. The KWCM Directors has outlined in the section of this letter headed "Reasons for the Acquisition" its perception of benefits of the Acquisition. Amongst other considerations stated therein, the KWCM Directors is of the view that the Acquisition is expected to improve KWCM's growth prospects, profitability and cashflows and to provide a valuable diversification. Hence it will be also in the best interest of KWCM Shareholders.

Management discussion and analysis of KWCM Group and Galaxy Group for the three years ended 31 December 2004 are set out in "Financial information about KWCM" of Appendix III and "Financial information about Galaxy" of Appendix V in this Circular respectively. The unaudited pro forma financial information of the Enlarged KWCM Group prepared by the Directors of KWCM, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information in respect of the KWCM Group is set out under the heading "Unaudited pro forma financial information on the Enlarged KWCM Group" in Appendix VI in this Circular.

RELEVANT REQUIREMENTS OF THE LISTING RULES

The profits attributable to the Galaxy Equity Interest exceed 100% of the profits of KWCM. The nominal value of the Consideration KWCM Shares exceeds 100% of KWCM's issued share capital at the date of the Acquisition Agreement. The Purchase Price exceeds 100% of the market capitalisation of KWCM, calculated based on the average closing price of the KWCM Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the Acquisition Agreement.

Each of the Family Companies is a connected person of KWCM. Consequently, pursuant to the Listing Rules, the Acquisition constitutes a very substantial acquisition and a connected transaction for KWCM and is subject to the approval of the KWCM Independent Shareholders.

It is the intention of the Family Companies to maintain the listing of KWCM on the Stock Exchange after Completion.

INDEPENDENT BOARD COMMITTEE

The KWCM Independent Board Committee, comprising of Mr. James Ross Ancell and Dr. William Yip Shue Lam, has been constituted to make recommendations to the KWCM Independent Shareholders in relation to the Acquisition.

Although Dr. Charles Cheung Wai Bun is an independent non-executive director of KWCM, he is also an independent non-executive director of KWIH. Accordingly, it is considered inappropriate to include him as a member of the KWCM Independent Board Committee.

INDEPENDENT FINANCIAL ADVISER

Commerzbank has been appointed as the independent financial adviser to advise the KWCM Independent Board Committee and the KWCM Independent Shareholders regarding the Acquisition (including the issue of the Consideration KWCM Shares).

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of KWCM was HK$388,800,000 divided into 3,888,000,000 KWCM Shares, 1,443,865,563 of which have been issued and fully paid or credited as fully paid. Upon Completion and the issue of the 1,840,519,798 Consideration KWCM Shares, 603,614,639 KWCM Shares will remain unissued. In order to accommodate future expansion and growth of the Enlarged KWCM Group, and, if considered desirable, to allow for share issues to fund redemption of the FRNs, the KWCM Directors propose to increase the authorised share capital of the Company from HK$388,800,000 divided into 3,888,000,000 KWCM Shares to HK$688,800,000 divided into 6,888,000,000 KWCM Shares by the creation of an additional 3,000,000,000 KWCM Shares. Apart from the issue of the KWCM Consideration Shares and new KWCM Shares upon exercise of Employee Options, KWCM does not have any current plan to issue any part of the unissued share capital but this may become desirable to fund redemption of the FRNs or other corporate purposes. The increase in the authorised share capital of KWCM is conditional upon the passing of the ordinary resolution by the KWCM Independent Shareholders at the KWCM EGM which will be proposed to approve the Acquisition, the issue of the Consideration KWCM Shares and the increase in authorised share capital.

KWCM EGM

A notice convening the KWCM EGM to be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong at 2:00 p.m. on Tuesday, 19 July 2005 is set out on pages 570 to 571 of this Circular. Amongst other things a

resolution will be proposed at that meeting to approve the Acquisition, the issue of Consideration KWCM Shares by KWCM and increase the authorised share capital of KWCM. It will be voted on by way of poll.

Whether or not holders of KWCM Shares are able to attend the KWCM EGM, they are requested to complete and return the **BLUE** form of proxy accompanying this Circular in accordance with the instructions printed thereon to the registered office of KWCM in Hong Kong at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the **BLUE** form of proxy will not preclude holders of KWCM Shares from attending and voting in person at the meeting or any adjournment thereof should they so wish.

KWIH, the Trusts, the Family Companies, the Lui Family, Dr. Lui, Francis Lui, Lawrence Lui, the Minority Vendors and their respective ultimate beneficial owners and associates together control or are entitled to exercise control over 65.5% of the voting rights in KWCM and will abstain from voting at the KWCM EGM on the resolution to approve the Acquisition. Save for the aforesaid, to the best of the KWCM Directors' knowledge, information and belief having made all reasonable enquiries, no other KWCM Shareholders or its associate has a material interest in the Acquisition and is required under the Listing Rules to abstain from voting at the KWCM EGM.

In the announcement of 18 April 2005, the KWCM Board said that it proposes that the name of KWCM be changed to Galaxy Entertainment Group Limited 銀河娛樂集團有限公司 subject to approval by the KWCM Shareholders by way of a special resolution at the KWCM EGM. It has now been decided to defer that proposal to a later date, which has yet to be fixed and no resolution for the change of name of KWCM will be proposed at the KWCM EGM.

PROCEDURE FOR DEMANDING A POLL

The procedure by which KWCM Shareholders may demand a poll pursuant to the constitutional documents of KWCM is set out in Article 75 of its Articles of Association which reads as follows:

"75. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the meeting; or

(ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution."

RECOMMENDATION

The executive directors of KWCM consider that the Acquisition is on normal commercial terms and that such terms are fair and reasonable and in the interests of KWCM and its shareholders as a whole. The KWCM Independent Board Committee concurs.

Your attention is drawn to the recommendation of the KWCM Independent Board Committee (set out on pages 91 to 92 of this Circular) and advice of Commerzbank (set out on pages 93 to 140 of this Circular) regarding the Acquisition (including the issue of the Consideration KWCM Shares).

The KWCM Directors consider that the Acquisition is in the interests of KWCM and its shareholders as a whole. Accordingly, the KWCM Directors recommend the holders of KWCM Shares to vote in favour of the resolution to be proposed at the KWCM EGM.

FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this Circular and in the appendices to it.

Yours faithfully
Dr. Lui Che Woo
Chairman

K. WAH INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code: 173)

Executive Directors:
Dr. Lui Che Woo, *MBE, JP, LLD, DSSc (Chairman)*
Mr. Francis Lui Yiu Tung *(Managing Director)*
Mr. Lennon Lun Tsan Kau *(Deputy Managing Director)*
Mr. Eddie Hui Ki On, *GBS, CBE, QPM, CPM*
Mr. William Lo Chi Chung
Ms. Paddy Tang Lui Wai Yu

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. Leo Lee Tung Hai, *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*

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

30 June 2005

To the KWIH Shareholders and, for information only, holders of the KWIH Bonds,

Dear Sir or Madam,

INTRODUCTION

On 18 April 2005, jointly with the directors of its subsidiary, KWCM, the KWIH Directors announced that Canton Treasure, a wholly-owned subsidiary of KWCM, had agreed conditionally to acquire the Galaxy Equity Interest. Details of the proposal and of Galaxy are set out in the parts of this Circular headed "Letter from the KWCM Directors" and "Description of the Galaxy Group" and you are strongly advised to read them and the rest of this Circular carefully.

The Acquisition constitutes a deemed very substantial disposal, a very substantial acquisition and a connected transaction for KWIH. On the basis of the above, Completion is subject to, among other matters, approval of the KWIH Independent Shareholders at the KWIH SGM. As far as KWIH is concerned, the purpose of this Circular is to provide the KWIH Shareholders and the holders of the KWIH Bonds with further information on the Acquisition and notice to all shareholders of the KWIH SGM (with certain shareholders abstaining from voting) at which a resolution will be proposed

for the purpose of approving the Acquisition, the issue by KWCM of the Consideration KWCM Shares and the deemed disposal of KWCM pursuant thereto. This Circular also contains the advice of Anglo Chinese which has been retained as independent financial adviser to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders in relation to the Acquisition and the recommendations of the KWIH Independent Board Committee which has been formed to advise the KWIH Independent Shareholders.

Your attention is drawn to the section headed "Reasons for the Acquisition" set out in the "Letter from the KWCM Directors" and the information on the Remaining KWIH Group as set out in Appendices IV, VII and VIII of this Circular.

FUTURE PLANS AND PROSPECTS

The KWIH Group's principal business is property investment and development in Hong Kong and Mainland China. On Completion, the Remaining KWIH Group will continue to engage primarily in property investment and development in Hong Kong and Mainland China. Development projects on hand in Hong Kong include the residential development on Tung Lo Wan Hill Road, Sha Tin which is expected to be completed by 2007 and the residential/commercial development on Johnston Road, Wan Chai which is expected to be completed by 2008. Construction works for the Shanghai projects, namely phase one of the residential units of the Shanghai Westwood on Guangzhong Road, Da Ning International Community and both the residential developments on Jianguo Xi Road, Xuhui District and Urumqi Bei Road, Jiangan District will be completed in 2006 and by 2007 respectively. In addition, the 35.75% owned investment property Shanghai K. Wah Centre which comprises Grade A offices was completed in the first quarter of 2005 with tenants moving in subsequently.

At present, through KWCM, the KWIH Group manufactures, sells and distributes construction materials in Hong Kong and Mainland China. Completion of the Acquisition will result in an immediate and material dilution of KWIH's interest in KWCM. KWCM will cease to be controlled by KWIH and its financial statements will no longer be consolidated with those of KWIH. Following Completion, it is uncertain whether over the next few years, KWIH will receive dividend payments from KWCM. Indeed, it is unlikely that it will receive any dividends from KWCM in the foreseeable future. Please refer to the paragraph headed "KWCM may be unlikely to pay dividends in the foreseeable future" in Appendix I of this Circular. Further, given the scale of the investment projects planned by Galaxy, it can be expected that further equity may be issued by KWCM which might dilute KWIH's interest in KWCM.

Nevertheless, the executive directors of KWIH believe that the Acquisition (and deemed very substantial disposal) will be of benefit to KWIH. After Completion, the consolidated profit margins of the KWIH Group are expected to improve because the comparatively low margins of the KWCM Group will no longer be accounted for in the consolidated financial statements of the KWIH Group. (Based on the audited consolidated financial statements of KWIH for the year ended 31 December 2004, the operating profit of its property business was HK$41,249,000 against turnover of HK$369,809,000, producing an operating profit ratio of about 11%. The operating profit of the construction materials business was HK$16,613,000 against turnover of HK$1,299,143,000, producing an operating profit ratio of about 1.3%.) In addition, KWIH will remain a significant

investor in KWCM and the executive directors of KWIH are optimistic about the future prospects of KWCM as the largest shareholder of Galaxy and of the market value of KWCM Shares, particularly after Galaxy's proposed new facilities are in operation.

RELEVANT REQUIREMENTS OF THE LISTING RULES

The Purchase Price exceeds 100% of the market capitalisation of KWIH, which is calculated on the basis of the average closing price of the KWIH Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the Acquisition Agreement.

Upon Completion, KWCM will cease to be a subsidiary of KWIH. The issue of the Consideration KWCM Shares will give rise to a deemed disposal of its interest in KWCM by KWIH. The consolidated revenue attributable to KWCM for the financial year ended 31 December 2004 exceeded 75% of the consolidated revenue of KWIH for the financial year ended 31 December 2004. The value of the Consideration KWCM Shares exceeds 75% of the market capitalisation of KWIH.

The Family Companies are connected persons of KWIH.

Consequently, for the purpose of the Listing Rules, the Acquisition and issue of the Consideration KWCM Shares at Completion will constitute a very substantial acquisition, a deemed very substantial disposal and a connected transaction for KWIH and is subject to the approval of the KWIH Independent Shareholders.

FINANCIAL EFFECT OF THE ACQUISITION

On issue of the Consideration KWCM Shares, KWCM will cease to be a subsidiary of KWIH.

Immediately upon Completion and assuming that there will be no change in the issued share capital of KWCM from the Latest Practicable Date up to Completion (save for the issue of the Consideration KWCM Shares), KWIH's interest in KWCM will be diluted from approximately 59.06% to approximately 25.96%. This will constitute a deemed disposal by KWIH of its interest in KWCM under the Listing Rules.

Immediately following Completion, KWIH's profit on the deemed disposal of its equity interest in KWCM is estimated to amount to approximately HK$3,483,570,000, representing the increase in KWIH's share of the consolidated net assets of KWCM from HK$906,324,000 to HK$4,389,894,000 before and after the Acquisition and this information is set out in section II — Unaudited Pro Forma Consolidated Profit and Loss Statement in Appendix VII — Unaudited Pro Forma Financial Information on the Remaining KWIH Group.

The profit on the deemed disposal of HK$3,483,570,000 was calculated on the basis of the net asset value of KWCM as at 31 December 2004 in the sum of HK$1,445,533,000, a total of 1,296,475,563 KWCM Shares in issue at 31 December 2004, the net amount of HK$14,705,660,000 (being the value of 1,840,519,798 Consideration KWCM Shares of HK$14,724,158,000 at HK$8 each after deduction of legal and professional fees of HK$18,498,000 in connection with the Acquisition) and with a revised net asset value in the books of KWCM of HK$16,151,193,000.

Based on the revised percentage shareholding of KWIH in KWCM of about 27.18% on the total number of 852,775,351 KWCM Shares held by KWIH at 31 December 2004, the revised KWIH share of KWCM's consolidated net assets taking into account of 1,840,519,798 Consideration KWCM Shares will be HK$4,389,894,000. Compared with the cost of investment of KWCM Shares at 31 December 2004 of HK$906,324,000, there is a deemed profit of HK$3,483,570,000.

As the profit will be a "paper" gain only, there are no sale proceeds to be applied by KWIH.

The segment for construction materials will no longer be presented in the segment information in KWIH's consolidated financial statements immediately after the date of Completion as, upon Completion, KWCM will cease to be a subsidiary of KWIH and will become an associated company. Hence, KWIH will account for its shareholding in KWCM by the equity accounting method so that KWIH will recognise the appropriate share of KWCM's profit under "associated company" in its consolidated profit and loss statement and account for the investment in KWCM under "associated company" in its consolidated balance sheet.

Based on KWCM's audited consolidated financial statements for the year ended 31 December 2004, profit contribution from KWCM to KWIH after minority interests was approximately HK$22,095,000 or about 9.4% of the profit attributable to the KWIH Shareholders. The profit attributable to KWIH is calculated based on the weighted average shareholding interest of KWIH in KWCM (about 66.39%) for the year ended 31 December 2004 and the audited profit of HK$33,423,000 of KWCM attributable to shareholders for the year ended 31 December 2004. Immediately after Completion, KWIH's shareholding in KWCM will be reduced from approximately 59.06% to approximately 25.96% (assuming that there will be no change in KWCM's issued share capital from the Latest Practicable Date to Completion save for the issue of the Consideration KWCM Shares at Completion). KWCM will be recognised by KWIH on an equity accounting basis as described above.

The audited consolidated total assets and total liabilities (including minority interests) of the Remaining KWIH Group as at 31 December 2004 were approximately HK$8,030,072,000 and HK$5,298,837,000 respectively.

As set out in Appendix VII to this Circular, upon Completion, the unaudited pro forma consolidated total assets and total liabilities (including minority interests) of the Remaining KWIH Group assuming that the Acquisition and the deemed disposal of KWCM (the "Disposal") had been completed as at 31 December 2004 will be approximately HK$10,183,861,000 and HK$3,969,056,000 respectively.

Net Assets Value and Net Tangible Assets Value

The audited consolidated net assets and net tangible assets of the KWIH Group as at 31 December 2004 were approximately HK$2,731,235,000 equivalent to approximately HK$1.36 per KWIH Share on the basis of 2,015,644,738 KWIH Shares in issue at that date.

As set out in Appendix VII to this Circular, upon Completion, the unaudited pro forma consolidated net assets and net tangible assets of the Remaining KWIH Group assuming that the Acquisition and the Disposal had been completed as at 31 December 2004 will be approximately HK$6,214,805,000, equivalent to approximately HK$3.08 per KWIH Share on the basis of 2,015,644,738 KWIH shares in issue as at 31 December 2004.

The increase in consolidated net assets and net tangible assets from HK$2,731,235,000 to HK$6,214,805,000 is due to the profit on deemed disposal of the KWCM Shares as described above.

Net Current Assets Value

The audited consolidated net current assets of the KWIH Group as at 31 December 2004 were approximately HK$4,755,869,000. As set out in Appendix VII to this Circular, upon Completion, the unaudited pro forma consolidated net current assets of the Remaining KWIH Group assuming that the Acquisition and the Disposal had been completed as at 31 December 2004 will be HK4,291,374,000.

Current Ratio

The current ratio is defined as current assets to current liabilities. The current ratio of the KWIH Group as at 31 December 2004 was 4.4 times. As set out in Appendix VII to this Circular, upon Completion, the current ratio of the Remaining KWIH Group assuming that the Acquisition and the Disposal had been completed as at 31 December 2004 will be 5.12 times, that is, the current assets would be sufficient to cover the current liabilities.

Gearing Ratio

The gearing ratio, defined as the ratio of total loans outstanding less cash and bank balances to total assets net of cash and bank balance of KWIH Group, was maintained at a 38% as at 31 December 2004. As set out in Appendix VII to this Circular, assuming that the Acquisition and the Disposal had been completed as at 31 December 2004, the gearing ratio of the Remaining KWIH Group will be approximately 27%.

The total loans outstanding before and after the pro forma adjustments as at 31 December 2004 for the KWIH Group were HK$3,519,751,000 and HK$3,198,171,000 respectively, these being the respective aggregate sum of the current portion of long-term liabilities, short-term borrowings and long term liabilities. Cash before and after the pro forma adjustments was HK$781,306,000 and HK$610,354,000 respectively.

The total assets before and after the pro forma adjustments as at 31 December 2004 were HK$7,248,766,000 and HK$9,573,507,000 respectively. The total assets are calculated based on the total sum of the non-current assets and current assets net of cash and bank balance.

The estimated cost incurred for the Acquisition and the Disposal is approximately HK$18,500,000 comprising professional fees for legal advisers, auditors, financial advisers, independent financial advisers, valuers and miscellaneous expenses including those relating to announcements, printing of circular and issue of Consideration KWCM shares.

Profit Attributable to Shareholders

For the year ended 31 December 2004, the audited consolidated profit attributable to shareholders of KWIH was approximately HK$234,323,000 and the earnings per KWIH Share was approximately HK$0.117, based on 1,996,230,000 KWIH weighted average number of shares in issue during 2004.

As set out in Appendix VII to this Circular, upon Completion, the unaudited pro forma consolidated net profit for the year ended 31st December, 2004 attributable to shareholders of the Remaining KWIH Group assuming that the Acquisition and Disposal had been completed on 1 January 2004 will be approximately HK$3,433,161,000 and earnings per KWIH Share will be approximately HK$1.72 per KWIH Share on the basis of 1,996,230,000 KWIH weighted average number of shares in issue during 2004.

The increase of earnings from HK$0.117 to HK$1.72 per KWIH Share is mainly due to the profit on deemed disposal of KWCM Shares as described above.

Details of the unaudited pro forma financial information about the Remaining KWIH Group after Completion are set out in Appendix VII to this Circular.

REMAINING INTEREST

Assuming there are no further issues of KWCM Shares (other than the Consideration KWCM Shares) from the Latest Practicable Date to Completion, immediately after Completion, KWIH will hold indirectly approximately 25.96% of the issued shares of KWCM. Presently, KWIH has no intention of disposing of the KWCM Shares held by it either now or immediately after Completion.

KWIH SGM

A notice convening the KWIH SGM to be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong at 3:00 p.m. on Tuesday, 19 July 2005 is set out on pages 572 and 573 of this Circular. An ordinary resolution will be proposed at that meeting to approve the Acquisition, the issue of the Consideration KWCM Shares by KWCM and the Disposal and voting on that resolution will be by way of poll.

Whether or not holders of the KWIH Shares are able to attend the KWIH SGM, they are requested to complete and return the **WHITE** form of proxy accompanying this Circular in accordance with the instructions printed thereon to the principal place of business of KWIH in Hong Kong at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the KWIH SGM or any adjournment thereof. Completion and return of the **WHITE** form of proxy will not preclude holders of the KWIH Shares from attending and voting in person at the KWIH SGM or any adjournment thereof should they so wish.

As at the Latest Practicable Date, the Trusts, the Family Companies, the Lui Family, Dr. Lui, Francis Lui, Lawrence Lui, the Minority Vendors and their respective ultimate beneficial owners and their respective associates together controlled or were entitled to exercise control over 56.26% of

the voting rights in respect of the KWIH Shares in KWIH and will abstain from voting at the KWIH SGM on the resolution to approve the Acquisition, the issue of the Consideration KWCM Shares by KWCM and the Disposal.

Save for the aforesaid, to the best of the KWIH Directors' knowledge, information and belief having made all reasonable enquiries, no other KWIH Shareholder or his associate has a material interest in the Acquisition and is required under the Listing Rules to abstain from voting at the KWIH SGM.

PROCEDURE FOR DEMANDING A POLL

The procedure by which the KWIH Shareholders may demand a poll pursuant to the constitutional documents of KWIH is set out in Bye-law 78 of its Bye-laws which reads as follows:

"78. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(i) by the Chairman of the meeting; or

(ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution."

INDEPENDENT BOARD COMMITTEE

The KWIH Independent Board Committee comprising of Sir David Akers-Jones, Dr. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing and Mr. Robert George Nield has been constituted to make recommendations to the KWIH Independent Shareholders in relation to the Acquisition.

Although Dr. Charles Cheung Wai Bun is an independent non-executive director of KWIH, he is also an independent non-executive director of KWCM. Accordingly, it is considered inappropriate to include him as a member of the KWIH Independent Board Committee.

INDEPENDENT FINANCIAL ADVISER

Anglo Chinese has been appointed as the independent financial adviser to advise the KWIH Independent Board Committee and the KWIH Independent Shareholders regarding the Acquisition (including the issue of the Consideration KWCM Shares).

RECOMMENDATION

The executive directors of KWIH consider that the Acquisition is on normal commercial terms and that such terms are fair and reasonable and in the interests of KWIH and the KWIH Shareholders as a whole. The KWIH Independent Board Committee concurs.

Your attention is drawn to the recommendation of the KWIH Independent Board Committee (set out on pages 141 and 142 of this Circular) and advice of Anglo Chinese (set out on pages 143 to 161 of this Circular) regarding the Acquisition (including the issue of the Consideration KWCM Shares).

Accordingly, the KWIH Directors recommend the KWIH Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the KWIH SGM.

KWIH BONDS

It was a term of the KWIH Bonds that an event of default would occur if KWIH owned, directly or indirectly, less than 30% of the issued share capital of KWCM. Subsequent to the announcement of the Acquisition on 18 April 2005, the holders of the KWIH Bonds have assented to a deletion of the relevant term by a resolution passed on 31 May 2005.

FURTHER INFORMATION

Your attention is drawn to the information set out elsewhere in this Circular and in the appendices to it including but not limited to the part headed "Letter from the KWCM Directors" which is incorporated in this Letter by reference and deemed to be part of this Letter.

Yours faithfully
Dr. Lui Che Woo
Chairman

HISTORY AND DEVELOPMENT OF GALAXY

Galaxy was incorporated as a limited liability company in Macau on 30 November 2001 for the purpose of submitting a tender in response to the Macau government's liberalization of casino gaming concessions. On incorporation Galaxy had an authorised, issued and paid up share capital of MOP1,000,000 divided into 1,000 ordinary shares with a par value of MOP1,000 each, subscribed by Advantage Global Limited, Golden Island Limited and Pedro Ho, for 650 (65%), 250 (25%) and 100 (10%) ordinary shares respectively.

In December 2001, in response to the Macau government's invitation for companies to submit tenders, Galaxy submitted a tender, in addition to 20 other tenderers.

On 7 February 2002, Golden Island Limited transferred 1 share of MOP1,000 (being 0.1% of the then issued shares of Galaxy) in Galaxy to Venetian Venture Development, LLC for a consideration equivalent to its par value.

In February 2002, the Macau government, after evaluations, announced that Galaxy was one of the 3 tenderers who were selected by the tender board (subject to, amongst other things, successful negotiation of the gaming concession contract) to be one of the 3 concessionaires who would be granted a gaming concession to operate casinos in Macau.

On 14 March 2002, Advantage Global Limited transferred at par value 100 shares of MOP1,000 in Galaxy to Wealth Grand Limited, 50 shares to Golden Island Limited, 20 shares to Pedro Ho, 50 shares to Best Done Developments Limited and 50 shares to Bestwin Profits Limited.

Subsequently, also on 14 March 2002, the share capital of Galaxy was increased to an authorised, issued, subscribed and paid up capital of MOP200,000,000, divided into 200,000 ordinary shares with a par value of MOP1,000 each. At the same time the shareholdings in Galaxy were restructured. After this restructure the shareholders of Galaxy were Advantage Global Limited (76,000 shares), Golden Island Limited (59,999 shares), Venetian Venture Development LLC (1 share), Pedro Ho (24,000 shares), Wealth Grand Limited (20,000 shares), Best Done Developments Limited (10,000 shares) and Bestwin Profits Limited (10,000 shares) holding respectively 38%, 29.9995%, 0.0005%, 12%, 10%, 5% and 5% of the issued capital of Galaxy. Advantage Global Limited, Golden Island Limited and Wealth Grand Limited are companies beneficially owned by the Lui Family. Best Done Developments Limited, Bestwin Profits Limited and Venetian Venture Development LLC are companies beneficially owned by Independent Third Parties.

On 25 June 2002, Venetian Venture Development LLC transferred its 1 share of MOP1,000 in Galaxy to Golden Island Limited at the consideration equivalent to its par value.

Subsequently, also on 25 June 2002, Galaxy Resorts Limited was incorporated with an issued, authorized, subscribed and paid up share capital of MOP1,000,000. Its share capital was paid through the transfer to Galaxy Resorts Limited from its shareholders of 120,000 shares in Galaxy. The shareholders of Galaxy Resorts Limited at the time of its incorporation (and the acquisition of shares in Galaxy) were Best Done Developments Limited (7.14%), Bestwin Profits Limited (7.14%), Advantage Global Limited (54.29%), Wealth Grand Limited (14.29%) and Pedro Ho (17.14%).

Subsequently, also on 25 June 2002, the shareholding of Galaxy was restructured so that the existing authorised, issued and paid up share capital was reclassified into 60,000 class A ordinary shares, 120,000 class B ordinary shares and 20,000 class C ordinary shares, each with a par value of MOP1,000. Upon the restructuring Golden Island Limited held 60,000 class A ordinary shares representing a 30% voting interest in Galaxy, Galaxy Resorts Limited held 120,000 class B ordinary shares representing a 60% voting interest in Galaxy and Pedro Ho held 20,000 class C ordinary shares representing a 10% voting interest in Galaxy.

Subsequently but still on 25 June 2002, Venetian Macau Holdings Limited, an independent third party, acquired the 60,000 class A ordinary shares (representing a 30% voting interest in Galaxy) from Golden Island Limited for a consideration of MOP1.00.

Negotiations with the Macau government took place and the Concession was successfully negotiated and signed with the Macau government on 26 June 2002.

Accordingly, at the time that the Concession was granted, Venetian Macau Holdings Limited and Galaxy Resorts Limited were both shareholders in Galaxy holding the interests referred to above. It was subsequently agreed that it was in their respective interests to pursue business separately. Accordingly, Venetian Macau Holdings Limited sold its 60,000 class A shares in Galaxy to Galaxy Resorts Limited. The Lui Family then had a 61.72% indirect voting interest in Galaxy through its shareholding in Galaxy Resorts Limited (specifically Advantage Global Limited and Wealth Grand Limited held an aggregate interest of 68.58% of Galaxy Resorts Limited and Galaxy Resorts Limited held 90% of Galaxy). The relevant parties negotiated with the Macau government for its consent to such shareholding changes and also for Galaxy to grant a sub-concession to Venetian Macau Management Limited, (which had subsequently changed its name to Venetian Macau S.A.). The relevant approvals from the Macau government were obtained and, after a related amendment to the Concession was signed, Galaxy granted the Sub-Concession to Venetian Macau Management Limited on 19 December 2002.

After looking for suitable sites in the Macau peninsula to build a hotel/casino resort in September 2003, Galaxy successfully acquired a leasehold plot that forms part of the site where the Galaxy StarWorld project is presently being built. The Galaxy StarWorld site is strategically located in the downtown gaming hub of Macau.

In accordance with the requirements of the Concession and its business plan, Galaxy is developing certain city club casinos to service the VIP gaming market in Macau. The first such city club casino is Galaxy Casino at Waldo Hotel, which opened for business on 4 July 2004. Galaxy is also developing the Galaxy Casino at Cotai City Club and the Galaxy Casino at Rio Hotel, both of which will cater for the VIP gaming market.

Galaxy has also formulated development plans for and begun ground work on its Cotai site, on which the Galaxy Cotai Mega Resort will be developed.

The shareholding of the Lui Family in Galaxy Resorts Limited did not change between the time of the granting of the Sub-Concession in December 2002 and the internal reorganisation which took place in February 2005. As part of such reorganisation the articles of association of Galaxy were amended, with the transformation of the existing 60,000 class A ordinary shares into 60,000 Galaxy B Shares, and 20,000 class C ordinary shares into 20,000 Galaxy A Shares, maintaining the

existing 120,000 class B ordinary shares as Galaxy B Shares, so that Galaxy's share capital became represented only by the Galaxy A Shares and the Galaxy B Shares, and with increase of the share capital of Galaxy from MOP200,000,000 to MOP951,900,000 through the issue of 75,190 Galaxy A Shares and 676,710 Galaxy B Shares, each with a par value of MOP1,000.

Immediately after this reorganisation in February 2005, the Family Companies subscribed for an aggregate of 497,923 Galaxy B Shares (being approximately 52.30% of the issued shares of Galaxy) and acquired an aggregate of 132,444 Galaxy B Shares (being approximately 13.91% of the issued shares of Galaxy) from Galaxy Resorts Limited. Future Leader and Hugo Legend subscribed for an aggregate of 47,370 Galaxy B Shares (being approximately 4.98% of the issued shares of Galaxy) and acquired an aggregate of 12,600 Galaxy B Shares (being approximately 1.32% of the issued shares of Galaxy) from Galaxy Resorts Limited. Brightwealth subscribed for 117,206 Galaxy B Shares (being approximately 12.31% of the issued shares of Galaxy) and acquired 31,176 Galaxy B Shares (being approximately 3.28% of the issued shares of Galaxy) from Galaxy Resorts Limited. Wealth Access subscribed for 14,211 Galaxy B Shares (being approximately 1.49% of the issued shares of Galaxy) and acquired 3,780 Galaxy B Shares (being approximately 0.4% of the issued shares of Galaxy) from Galaxy Resorts Limited. Pedro Ho subscribed for 75,190 Galaxy A Shares (being approximately 7.9% of the issued shares of Galaxy). All such subscriptions and acquisitions were made at par value. Further details of the share structure and the current shareholders of Galaxy are discussed in the sections headed "Capital Structure of Galaxy", "Principal Shareholders of Galaxy" and "Information on the Vendors" of this part of the Circular.

BUSINESS

Galaxy holds one of only three gaming concessions granted by the Macau government to operate casinos in Macau, and, while a limited number of sub-concessions have been granted, the Macau government is precluded from granting additional gaming concessions until 2009. Sub-concessions can only be granted with approval in advance from the Macau Government, and then, only on condition that the sub-concessionaire is willing to comply with the terms under which the Macau Government is prepared to give its consent to the grant of the sub-concession.

In its first six months of operations, Galaxy Casino at Waldo Hotel, a city club casino with nine gaming rooms dedicated to VIP play, has successfully established a significant and growing presence in Macau's VIP gaming market. Galaxy and SJM are currently the only two gaming companies in Macau operating casinos that primarily cater to the VIP gaming market, which, according to the Macau government, accounted for approximately 72 percent of net table win in Macau casinos in 2004.

Overview

Since the commencement of operations at Galaxy Casino at Waldo Hotel on 4 July 2004, Galaxy Casino at Waldo Hotel has generated substantially all of Galaxy's HK$127 million of total revenues and HK$73 million of profit for the year ended 31 December 2004.

Galaxy Casino at Waldo Hotel had 1,005,000 counts of visits from its commencement of operations to 31 December 2004, and for this period average net win per VIP table per day was HK$411,000 and average net win per mass-market table per day was HK$36,000.

As part of Galaxy's growth strategy and to satisfy its investment obligations under the Concession, Galaxy is developing Galaxy StarWorld, a premium resort hotel and casino complex located in the heart of Macau's central business and tourism district scheduled to open in mid 2006, Galaxy Cotai Mega Resort, a resort hotel and casino project in the Cotai resort area of Macau the first phase of which is scheduled to open in 2008, and Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel, both scheduled to open in the first quarter of 2006. Galaxy intends these projects to consolidate and expand Galaxy's presence in Macau's VIP gaming market and to establish Galaxy as a major player in Macau's emerging mass-market gaming market.

Competitive Strengths

Galaxy believes that the efforts of the Macau government to develop Macau into a major international gaming centre, coupled with the barriers to competition in the Macau market, will provide unique growth opportunities. Galaxy intends to develop gaming venues that appeal primarily to Asian players. Galaxy expects continued economic growth in Asia and resulting increase in the disposable income of individuals in Asia will ensure Macau's continued status as one of the most popular gaming destinations in Asia, especially for VIP players. Easy access from major population centres such as Hong Kong and Taiwan, Mainland China and other south east Asia areas, makes Macau a convenient travel destination.

Galaxy has established strong relationships with a number of the gaming promoters in Macau. These promoters provide Galaxy with a steady supply of VIP players. Galaxy has the cultural and local expertise it believes is necessary to attract and cater for VIP players throughout Asia.

Galaxy had cash and bank balances totalling HK$1.06 billion (including a restricted bank deposit of HK$254 million), EBITDA of HK$77.8 million and a ratio of EBITDA to interest expense of approximately 10 times as of and for the year ended 31 December 2004. KWCM believes that Galaxy's solid financial condition and performance since the commencement of operations at Galaxy Casino at Waldo Hotel on 4 July 2004 will help Galaxy obtain the additional financing required to construct and develop its planned projects.

Strategy

Galaxy's strategy includes the following measures:

- Leverage on the experience of Galaxy Casino at Waldo Hotel to increase the number of Galaxy city club casinos to expand the VIP gaming market through partners and promoters with tailored gaming infrastructures and hotels and city club casino facilities.

- Establish a leading position in the VIP gaming business by offering premier VIP service with custom designed properties and attention to detail to satisfy client preferences with the primary consideration being total customer satisfaction. This strategy is to be further strengthened by communications with agents such as gaming promoters, collaborators and tourist agencies to ensure the right resourceful intermediaries are in place to serve target VIP patrons.

- Establish leading position in the mass-market gaming business by giving patrons appealing gaming resort facilities in Galaxy StarWorld and Galaxy Cotai Mega Resort with one-stop facilities that satisfy mass-market gaming patrons who will be able to play games, dine, shop, be entertained and stay, under one roof.

- Develop and promote the "Galaxy" brand as signifying world-class operating standards offering high-quality custom-oriented entertainment and hospitality products and services, via various marketing and promotion channels to stimulate demand for Galaxy destinations.

- Develop a dedicated international cross-cultural efficient management team who are customer-oriented, and comprehend Asian clientele attributes and preferences, to encourage repeated patronage.

Existing Casino

Galaxy Casino at Waldo Hotel is designed to appeal to the VIP gaming market, and a substantial majority of net gaming win at Galaxy Casino at Waldo Hotel is derived from VIP play. VIP gaming is conducted in private or semi-private rooms and typically involves high stakes wagers. Galaxy Casino at Waldo Hotel's customer base and marketing efforts are concentrated on VIP players in Mainland China, Hong Kong and elsewhere in Asia, for whom the game of choice is baccarat.

Galaxy Casino at Waldo Hotel opened for business on 4 July 2004. It is located in a specially refurbished commercial space within the Waldo Hotel rented by Galaxy. Mr. Yeung Chi Hang and Mr. Cheng Kwee, through Wealth Access, ultimately and beneficially own Waldo Hotel. Galaxy Casino at Waldo Hotel is within a short distance from Macau's main ferry terminal and helipad, and is located on one of Macau's main thoroughfares. Galaxy Casino at Waldo Hotel offers approximately 3,500 square metres of gaming space on five floors, which include 63 table games (baccarat, blackjack, Caribbean Stud, sic bo and roulette) and 74 slot machines. Its tables comprise 20 gaming tables on its main gaming floor and 43 baccarat tables in nine semi-private gaming rooms dedicated to VIP play.

Galaxy Casino at Waldo Hotel rents its gaming floors from the Waldo Hotel under a two-year lease commencing from 1 January 2004, with an option for Galaxy to extend for another 3 years from 1 January 2006. The monthly rental is HK$2,500,000. The head lessor is Waldo Realty Company Limited and the sub-lessor is Waldo Hotels Limited. Both companies are ultimately beneficially owned by Mr. Yeung Chi Hang and Mr. Cheng Kwee, each of whom is an Independent Third Party.

Galaxy Casino at Waldo Hotel's VIP rooms are equipped only with baccarat tables, and at present 53 of the 63 table games at Galaxy Casino at Waldo Hotel are baccarat tables.

On 1 July 2004, Galaxy entered into an agreement which is for a term equal to the life of the Concession with Hugo Legend (the ultimate beneficial owner of which is Mr. Suen Suk Hing, an Independent Third Party who acquired it from Pedro Ho, a director of Galaxy, on 12 April 2005) and Wealth Access (the ultimate beneficial owners of which are Mr. Yeung Chi Hang and Mr. Cheng Kwee, each of whom is an Independent Third Party). Galaxy is responsible for the management and

operation of the casino and Hugo Legend and Wealth Access as service providers are responsible for the provision of a steady flow of customers to the Galaxy Casino at Waldo Hotel and for procuring/introducing VIP players to Galaxy Casino at Waldo Hotel.

Pursuant to the service agreement dated 1 July 2004, Hugo Legend and Wealth Access agreed with Galaxy that Hugo Legend and Wealth Access will jointly and severally bear the payments by Galaxy of the promoters' commissions, and allowances plus certain other operating and administrative expenses (such as payroll, rental, electricity, etc) and initial start up costs (such as pre-operating expenses, training, equipment, furniture, etc) of the casino. Hugo Legend and Wealth Access also jointly and severally guaranteed a minimum return to Galaxy regardless of the operating result of the gaming activities of the casino, and agreed to jointly and severally indemnify Galaxy against substantially all risks arising under the lease with Waldo Hotels Limited as aforesaid.

The majority of the revenue of the casino for the financial year ended 31 December 2004 was derived from VIP play (see the section headed "Overview" for the description of the VIP tables in Galaxy Casino at Waldo Hotel).

The major portion of the revenue after the special gaming tax and levies paid to the Macau government is paid to the VIP promoters, as commissions and allowances, based on contracts between Galaxy and the promoters with these promoters which were negotiated on an arms-length basis with rates in line with the current Macau market practice. The amount paid to the three promoters at Galaxy Casino at Waldo Hotel, namely, Cheng Kwee, Chan Koon Wah and Lee William for the year ended 31 December 2004 was HK$1,173,608,000. Such commissions and allowances paid to the promoters were the largest expenses of Galaxy for the operations of VIP gaming tables.

The net effect of these arrangements is that Galaxy takes approximately less than one half of the pre-tax net gaming win before operating expenses such as special gaming tax and levies, commission and allowances paid to promoters, administrative and others but is responsible for the special gaming tax and levies to be paid to the Macau government (Galaxy derived HK$123,777,000 from these arrangements out of a net gaming wins of HK$2,994,559,000 in the year ended 31 December 2004) and the balance of net gaming wins less all operating expenses and Galaxy's income belongs to the service providers. The basing of Galaxy's, the service providers' and promoters' entitlement on either net gaming wins or profits is in line with market practice.

For the year ending 31 December 2004, the amount of net gaming win of Galaxy Casino at Waldo Hotel is HK$2,994,559,000. The gross amount of fee paid to Hugo Legend and Wealth Access, pursuant to the abovementioned agreement dated 1 July 2004, amounted to HK$1,700,307,000. After payment of gaming tax and levies of HK$1,170,618,000 and commission and allowance to VIP promoters of HK$1,173,608,000, deduction of depreciation and amortisation expenses of HK$3,513,000, payment of administrative and other operating expenses of HK$155,685,000, the contributions from gaming operations amounted to HK$491,278,000 and the net entitlement of the service providers was HK$367,501,000. Galaxy derived HK$123,777,000 from these arrangements in the year ended 31 December 2004.

Hugo Legend and Wealth Access have agreed that there will be no changes in the shareholdings or directorships in Wealth Access and Hugo Legend except with the consent of Galaxy.

The arrangement with Hugo Legend and Wealth Access, which was negotiated on an arms-length basis taking into account the service and the financial obligations of Hugo Legend and Wealth Access including their obligations aforesaid to bear expenses and initial costs and to provide guarantee and indemnity, the facilities and location of Waldo Hotel, the prevailing market conditions of Macau, the minimal investment to be made by Galaxy, and also the potential profit and market share perceived by Galaxy, is in line with market practice. Please refer to Appendix 1 "Risk Factors".

Government Supervision

The activities and operation of Galaxy and the casinos of Galaxy are closely monitored by the Macau DICJ. Macau DICJ has an office inside Galaxy Casino at Waldo Hotel where Macau DICJ officials are stationed 24 hours daily and which is equipped with CCTVs on the whole of the casino. Judicial police also has an office inside the Galaxy Casino at Waldo Hotel which is also staffed by police 24 hours daily. Galaxy management is in close dialogue with Macau DICJ regarding Galaxy's compliance with the Concessions and all the applicable laws of Macau.

Customers

The Macau gaming industry is heavily reliant on tourists to patronise its casinos. Presently a significant majority of those tourists come from Mainland China and other nearby Asian countries. For more information on the tourist growth and breakdown, please refer to the section headed "Market demand" set out in part of this Circular headed "The Macau Gaming Industry". Galaxy has taken into account the expected demand arising from these tourists in formulating its development plan and business model.

Two main types of customers patronise Galaxy's casinos, namely mass-market customers and VIP patrons. Galaxy attracts a wide spectrum of customers and, even within its VIP patrons, Galaxy does not have any identifiable regular customer base or rely on any particular group as a source of its customers.

Mass-market customers

Galaxy StarWorld and Galaxy Cotai Mega Resort are being developed to cater for mass-market customers who are essentially walk-in customers. In Galaxy StarWorld and Galaxy Cotai Mega Resort, mass-market customers will be catered for in mass-market gaming halls. The gaming facilities will be complemented by entertainment facilities, leisure outlets and other amenities to provide all the client's needs under one-roof.

Galaxy plans to offer competitively priced travel packages, from time to time, through travel agents and promotion partners to give potential customers an incentive to choose Galaxy over the other casinos in Macau. Loyalty programs will also be implemented to encourage repeat customers.

VIP patrons

Galaxy recognises that the VIP segment presently accounts for the majority of the Macau gaming market. Galaxy will service this important market segment with VIP rooms within its own properties including Galaxy StarWorld and Galaxy Cotai Mega Resorts and with the operation of its city club casinos in rented premises.

Substantially all Galaxy Casino at Waldo Hotel's VIP players are recruited by VIP promoters. (refer to the section headed "Promoters" in this part of the Circular for further information).

Marketing

VIP market

One feature of Galaxy's city club casinos is their specialisation in VIP gaming. VIP play is typically conducted in private or semi-private rooms and involves considerably higher stake wagers than those on the main gaming floor.

Galaxy's VIP players are solicited by promoters who make arrangements for the players to come to Macau, play in the casino, and enjoy various facilities and around-the-clock services both inside and outside the casino while they are in Macau. Galaxy pays commissions to its promoters on the basis of the amount of business brought by the promoters. The KWCM Directors believe that other Macau casinos focusing on VIP players are also practising similar arrangements with promoters.

Mass market

Galaxy believes that one of the factors critical to success in the mass gaming market is the offering of the right amenities and services to general customers. In order to meet the expectations and satisfy the demand of this customer segment, a carefully-designed and priced mix of gaming facilities as well as appropriate hotel/resort accommodation and leisure facilities are important. Galaxy is aiming to appeal to this sector of the market by offering customer-oriented entertainment amenities and distinctive food/beverage and dinning services at Galaxy StarWorld and Galaxy Cotai Mega Resort. Other marketing strategies include introducing and periodically renewing popular games as well as offering competitively priced travel packages and seasonal/festive promotions.

Galaxy does not consider itself to be reliant on any particular group or class of customers.

With the development of Galaxy StarWorld and Galaxy Cotai Mega Resort, Galaxy intends to commence large scale marketing activities designed to attract mass-market customers to its resort hotel and casino properties. Galaxy expects these activities to include the following:

- Branding. Develop and promote the "Galaxy" brand as a unique customer-oriented entertainment hospitality gaming brand in Macau by way of multi-channel exposures to targeted market segments across the region.

- Loyalty program. Establish Asian-appeal loyalty programs to attract and retain mass market customers to maximise patronage and occupancy.

- Promotion. Promotion of Galaxy's hotel resort facilities, particularly Galaxy StarWorld and Galaxy Cotai Mega Resort, across the target market countries and territories as a must visit Macau resort destination for its unique customer oriented one stop facilities, either for day-trip visits or extended overnight visits.

- Networking of Agents. Build up network of gaming promoters, agents, collaborators and tourist agencies to ensure the right man-to-man marketing channels are fully utilised to sell the Galaxy facilities to target customers.

- Market Research. Build up client data base and strengthen research into clients needs. A data base will be built up of clients including their attributes and preferences so that Galaxy products, services and promotions could be custom made to enhance customer satisfaction and increase patronage to Galaxy properties. Special attention would be given to the evolving Asian client profile.

Future Projects

In accordance with its investment obligations under the Concession and its business strategy, Galaxy plans to develop Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Rio Hotel and Galaxy Casino at Cotai City Club. Galaxy StarWorld and Galaxy Cotai Mega Resort will be designed to establish Galaxy's mass-market gaming business, while Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel will be designed to consolidate and expand Galaxy's presence in Macau's VIP gaming market. These new facilities will be designed to offer casinos, hotel rooms, entertainment venues, shopping, spas, dining options and other amenities. Galaxy expects that they will provide its promoters with VIP gaming facilities, hotel rooms and other amenities tailored to the demands of the market to expand its recruitment of VIP players, as well as mass-market players.

Galaxy StarWorld

Galaxy has commenced the development of its StarWorld project at Lote 3(A2/I) of NAPE, Macau. Galaxy is constructing, and will own and operate under its own brand, the Galaxy StarWorld, which is planned to be an approximately 95,000 square metre gross floor area, 33-storey hotel and casino resort in Macau's central business and tourism district. Scheduled to open in mid 2006, Galaxy StarWorld is designed to house approximately 560 modules comprising standard hotel rooms and suites (including a presidential suite) on 16 floors plus food and beverage outlets, entertainment outlets and shops. Along the theme of 'one-stop at Galaxy', hotel and casino guests will be able to enjoy dining, leisure, or entertainment facilities all within the same complex.

The casino is configured to include an approximately 26,000 square metres gaming facility with 200 table games and 300 slot machines. The casino is designed to consist of two levels of gaming halls and five floors housing 15 VIP gaming rooms. The two main gaming halls are designed to cater to mass-market players with 140 table games supplemented by slot machines. The 15 dedicated VIP rooms are designed to house 60 baccarat tables.

Galaxy StarWorld is designed so that hotel and casino guests need not leave the complex for dining, leisure or entertainment. Galaxy plans to offer various restaurants in Galaxy StarWorld and with "around-the-clock" outlets and other facilities including a karaoke club, a health club and a swimming pool.

Galaxy through its wholly-owned subsidiary Investimentos Hoteleiros Majesty (Internacional) Limitada has acquired a land lease concession from the Macau government to develop a 2,916 square metre land site that will be used for a portion of the Galaxy StarWorld site. The land concession, which expires in 2017 but is renewable for a term up to 2049 in accordance with Macau law and Macau Government requirement, grants Galaxy's subsidiary exclusive use of the land. The land concession requires Galaxy's subsidiary to pay rent annually for the term of the land concession at the annual rate of MOP87,480 (approximately HK$84,932) during the construction period and MOP631,790 (approximately HK$613,388) thereafter. The rent amount may be revised every five years by the Macau government but no revision is expected to be materially adverse to Galaxy.

Galaxy and its subsidiary are in the process of seeking to modify the land concession for Galaxy StarWorld to include additional land of approximately 3,948 square metres in the site for Galaxy to use in its construction of Galaxy StarWorld and to transfer the lease from Investimento Hoteleiros Majesty (Internacional) Lda., a wholly-owned subsidiary, to Galaxy. Galaxy believes the Macau Government will have no major issues in permitting such modification of the land concession. If it is successful it is likely to be required to pay a premium but the amount is as yet unknown.

The Macau government approved the Galaxy StarWorld building plan in February 2005, and groundbreaking occurred in September 2004. Construction of Galaxy StarWorld is currently on schedule and within budget. For the purpose of managing the design, procurement and construction of Galaxy StarWorld, the project is divided into several design and construction components. The following table sets out the time for completion of each design and construction component, and the estimated progress percentage for each component, as at April 2005:

Design and Construction Stages	**Estimated Progress** *(%)*	**Expected Completion Date**
Site formation and piling	100	completed
Basement structure	100	completed
Superstructure construction	10	mid 2006

In connection with the construction of Galaxy StarWorld, Galaxy requires licensing and regulatory approvals from the Macau government relating to site reclamation, work permits in connection with the site plan, piling works, box culvert diversion, basement construction and noise permit all of which have been obtained. Galaxy expects to apply for licensing and regulatory approvals for hotel, food and beverages and entertainment in July 2005.

Galaxy StarWorld's project budget is HK$1.83 billion, including the cost of leasing the site (approximately HK$0.32 billion), costs of design and construction (approximately HK$1.46 billion) and pre-opening expenses (approximately HK$0.05 billion).

At 31 December 2004, Galaxy had funded approximately HK$0.3 billion of project costs. At 31 December 2004, Galaxy estimated that an additional HK$1.5 billion would be needed to complete Galaxy StarWorld. The project is within budget and on schedule

Galaxy Cotai Mega Resort

Galaxy will build, own and operate Galaxy Cotai Mega Resort, which will become Galaxy's flagship resort casino in Macau. The Galaxy Cotai Mega Resort will cater primarily for mass player markets. In Cotai, an area of over 442,000 square metres of land has been earmarked by the Macau government for the Galaxy Cotai Mega Resort project and Galaxy is in preliminary discussions with the Macau Government in finalising the master layout plan, negotiating the land concession for the Galaxy Cotai Mega Resort development and ascertaining the permitted gross floor area of each category of usage for the calculation of the land premium payable on the land concession. Galaxy has submitted to the Macau government a development plan for a gross floor area of approximately 1,000,000 square metres in Cotai. The site for Galaxy Cotai Mega Resort is close to both the main road link between Mainland China and Macau and a major new bridge linking the Cotai resort area to the rest of Macau.

The KWCM Board expects Galaxy Cotai Mega Resort to be completed in four phases. Based on the completion of all four phases, Galaxy Cotai Mega Resort will be designed to eventually offer approximately 6,300 hotel rooms and suites in several hotels with four themed casinos providing an additional 41,000 square metres of gaming facilities. This is subject to change in light of market conditions and change in project design, project/town planning considerations and construction programmes. Galaxy StarWorld is expected to satisfy Galaxy's obligation to develop a hotel resort casino project under the Concession. Accordingly, subject to the investment of the sum of MOP4.4 billion (approximately HK$4.3 billion) by June 2009 and the terms of the land concession for Galaxy Cotai Mega Resort, there is no requirement in the Concession for Galaxy to develop the Galaxy Cotai Mega Resort area by phases or how long Galaxy can take to complete development of any particular phase.

Phase I, which is designed to include two deluxe hotels and one themed casino, is scheduled to open in 2008. The deluxe hotels are expected to contain approximately 2,000 rooms. The themed casino, which is planned to have approximately 28,800 square metres of gaming facilities, will be the Phase 1 main casino in Galaxy Cotai Mega Resort. The facilities include approximately 300 mass-market table games, approximately 48 VIP table games in 12 dedicated VIP rooms and approximately 1,000 slot machines. The remaining phases of Galaxy Cotai Mega Resort will be completed at future dates yet to be determined and which will depend upon market conditions and demand. Nevertheless, the plan is to complete all site formation work and as much foundation work as possible at an early stage.

Galaxy Cotai Mega Resort will be designed to attract players and their families for multi-day stays. Galaxy expects the resort to include a water park (encompassing a series of attractions such as swimming pools, slides and other water features), a health club and spa, karaoke lounges, retail outlets, a children's amusement arcade, a business lounge, a theatre and a variety of dining options, including restaurants, bars and cafes. Galaxy also expects Galaxy Cotai Mega Resort to feature a multi purpose convention facility.

Galaxy has begun site formation work on the Galaxy Cotai Mega Resort site and expects that such site formation work will be completed by end of 2005.

The cost to Galaxy of construction of Phase I of Galaxy Cotai Mega Resort is expected to be approximately HK$4.08 billion, including the cost of leasing the land concession (approximately HK$0.8 billion), costs of design furnishing and construction (approximately HK$3.17 billion) and pre-opening expenses (approximately HK$0.11 billion). Galaxy expects to finance Phase I of Galaxy Cotai Mega Resort through cash from operations and borrowings. The remaining phases will be completed at future dates depending upon market conditions and demand.

The City Club Casinos Chain

Galaxy Casino at Waldo Hotel, Galaxy's first city club casino in Macau, is aimed at the VIP gaming market. Galaxy will be adding two more city club casinos, which will be marketed in schemes tailored to the specific needs of the VIP gaming markets. City club casinos are located, under lease, in purpose-built and fitted out premises. Galaxy locates its city club casinos at hotel blocks such that its gaming customers are well served by food and beverage, accommodation and other hotel amenities and services.

The First City Club Casino — Galaxy Casino at Waldo Hotel

Details of this existing casino are set out earlier in this part of this Circular, in the section headed "Existing Casino".

The Second City Club Casino — Galaxy Casino at Cotai City Club

The Galaxy Casino at Cotai City Club is situated within close vicinity to Galaxy Cotai Mega Resort, and will offer additional gaming facilities to complement the Galaxy Cotai Mega Resort. The Galaxy Casino at Cotai City Club is planned to have approximately 14,000 square metres of gaming space, 146 table games, including 46 table games located in 12 dedicated VIP rooms, and 200 slot machines. It is expected to open in the first quarter of 2006. Companhia Great China Limitada is the owner of the lease concession for the land where the hotel building at which Galaxy Casino at Cotai City Club will be situated, and this hotel building will be constructed by Companhia Great China Limitada. Galaxy will take a lease from Companhia Great China Limitada for its Galaxy Casino at Cotai City Club and KWCM will at the relevant time comply with any applicable Listing Rules. Monthly rental for Galaxy Casino at Cotai City Club is to be negotiated on an arm's length basis but will not be less than HK$6,000,000 per month for the first 3 years of the lease term. Galaxy has an indirect interest of 10% in Companhia Great China Limitada. The rest of the equity interest in Companhia Great China Limitada is owned by Mr. Cheng Kwee and Mr. Yeung Chi Hang, each of whom is an Independent Third Party.

On 24 September 2004 Galaxy signed an agreement for a term equal to the life of the Concession with Hugo Legend and Wise Gain as service provider. Galaxy will be responsible for the management and operation of the casino, Wise Gain will be responsible for bringing in customers for the casino and Hugo Legend will be responsible for public relations and general advisory work.

Wise Gain will also arrange for the casino's initial costs, and the cash-flow needed for the casino. Wise Gain is also responsible for providing the funds necessary to cover any cash deficit if there is a net operating loss (including all operating expenses and the minimum service fee payable to Hugo Legend for its service).

In return, Galaxy has agreed with Wise Gain and Hugo Legend that Galaxy will, after payment of the service fee which is subject to a minimum amount to Hugo Legend, share approximately half of the net profit of the casino, after all expenses, including gaming tax and levies payable to the Macau government, commissions and allowances payable to promoters, and other expenses of the casino. The bases of Galaxy's, the service providers' and the promoter's entitlement on net profit or net gaming win are in line with market practice.

The sharing of net profit arrangements are subject to change in the event of a material change in Macau market practice for VIP promoters or substantial adverse developments in the business environment.

The arrangements with Wise Gain and Hugo Legend, which were negotiated on an arms-length basis taking into account the service to be provided by Wise Gain and Hugo Legend, the performance of Galaxy Casino at Waldo Hotel, the facilities provided by Companhia Great China Limitada and its location, the prevailing market conditions of Macau, the obligations for Wise Gain to arrange the aforesaid initial costs and cashflow, and the funds required to cover any cash deficit in case of a net operating loss, the sharing of net profit arrangements by Galaxy and the service providers, the cost of investment and the potential for market share and additional profit perceived by Galaxy, is in line with market practice. Please refer to Appendix 1 "Risk Factors".

Galaxy has a minority interest of 10% in Wise Gain and the balance is owned by Mr. Yeung Chi Hang and Mr. Cheng Kwee, each of whom is also an Independent Third Party.

The Third City Club Casino — Galaxy Casino at Rio Hotel

Currently, the hotel building at which the proposed casino premises will be situated is being renovated. Subject to the necessary government approval having been obtained, Galaxy will take a lease after the renovation is completed and KWCM will at the relevant time comply with any applicable Listing Rules. On completion of such renovations the building will be converted into a 4-star hotel.

On 8 September 2004 Galaxy signed an agreement with Rio Entertainment Limited (利澳娛樂有限公司) and Seng Fok Holdings Ltd. This agreement lasts for the life of the Concession. Under it, Rio Entertainment Limited, as service providers, has undertaken to provide a steady flow of customers to the Galaxy Casino at Rio Hotel. Under the same agreement, Galaxy will pay VIP promoters commissions and other allowances per Macau market practice and Rio Entertainment Limited will arrange the VIP promoter at Galaxy Casino at Rio Hotel, bearing all other promotion costs and providing consulting services. In addition, the agreement provides for Seng Fok Holdings Limited and Rio Entertainment Limited to be responsible for Galaxy Casino at Rio Hotel's initial costs and for Rio Entertainment Limited to be responsible for the rental, utilities and other maintenance charges of the Galaxy Casino at Rio Hotel. Rio Entertainment Limited will also, under the agreement, be obliged to purchase from Galaxy a certain minimum amount of gaming chips. In return, Rio Entertainment is entitled to share in approximately less than one half of the net gaming wins of the casino.

The agreement with Rio Entertainment Limited and Seng Fok Holdings Limited, which was negotiated on an arms length basis taking into account the facilities of the Rio Hotel, the service to be provided by Rio Entertainment, the prevailing market conditions of Macau, the obligations of Rio

Entertainment to be responsible for the aforesaid initial costs, rental, charges and promotional costs and to purchase the said minimum amount of gaming chips, the sharing of net gaming wins by Galaxy and Rio Entertainment, the cost of investment for the opening of a casino, and the potential for market share and additional profit perceived by Galaxy, is in line with market practice. Please refer to Appendix 1 "Risk Factors".

Seng Fok Holdings Limited must procure the property owner to build a 4-star hotel, with 446 rooms and a podium capable for use as a casino. Total cost of investment was estimated to be around HK$700 million. The casino will house 60 gaming tables in the main gaming room, 20 gaming tables in 5 VIP rooms and 150 slot machines. Once the government grants the licence/ permits to Galaxy for the operation of the casino, the party will negotiate the tenancy agreement with the property owner.

Seng Fok Holdings Ltd. and Rio Entertainment Limited must also provide 70,000 square feet of gaming area plus car parking space and a signage space for Galaxy to display its sign on the building facade and design and install, fit and furnish the casino.

Renovation is expected to be completed by the end of 2005, and the casino is expected to commence business in the first quarter of 2006. The registered owner of the Rio Hotel building is Seng Fok Holdings Ltd and Seng Fok Holdings Limited will in such capacity have the right to grant leases over the hotel, including the lease to Galaxy referred to above. Mr. Lui Keung Kwong and Mr. Siu Tak Hung are the beneficial owners of Seng Fok Holdings Ltd and each is an Independent Third Party. Rio Entertainment Limited is ultimately beneficially owned by Mr. Lui Keung Kwong and Mr. Siu Tak Hung each of whom is an Independent Third Party.

Estimated Capital Expenditure for Future Projects

Galaxy's capital expenditure budget (excluding finance costs) for Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Waldo Hotel, Galaxy Casino at Cotai City Club, Galaxy Casino at Rio Hotel and Galaxy's corporate office are as set out below:

Galaxy's estimated annual capital expenditures are summarised in the following table:

	Incurred upto 31/12/2004 *(HK$'Million)*	**2005–2006** *(HK$'Million)*	**2007–2009** *(HK$'Million)*	**Total** *(HK$'Million)*
Galaxy StarWorld	317	1,483	31	1,831
Galaxy Cotai Mega Resort (Phase I)	13	1,344	2,728	4,085
Others (Galaxy Casino at Waldo Hotel, Galaxy Casino at Cotai City Club, Galaxy Casino at Rio Hotel and Corporate Office)	49	157	NIL	206

At 31 December 2004, capital expenditure excluding finance costs on Galaxy StarWorld amounted to HK$317 million. The construction and development costs of the remaining phases of Galaxy Cotai Mega Resort are not included in the above figures as these remaining phases are not yet finalised and may be changed to adapt to changing market conditions and demand.

The financing of the remaining cost of Galaxy StarWorld and the development costs of Galaxy Cotai Mega Resort and Galaxy Casino at Cotai City Club is expected to be raised through a combination of debt financing, equity financing and internal cashflows. Development of these projects is subject to development and construction risks and there is no assurance that the projects will be completed on schedule or within budget or that Galaxy can raise sufficient additional financing to complete the projects.

Promoter Agreements

Galaxy has agreed to pay certain promoters commission (and/or other subsidies) in return for them introducing and bringing players to its casinos. These provisional agreements commenced on 30 June 2004 and expired on 31 December 2004 but have been extended by agreement. Galaxy expects to enter into formal promoter agreements in accordance with Administrative Rule No. 6/2002 of Macau.

The promoters are Mr. Cheng Kwee, Mr. Chan Koon Wah and Mr. Lee William, each of whom is an Independent Third Party. Under these arrangement, Galaxy and the Promoter share in agreed percentages wins/losses from players brought to the casino by the Promoters. Pursuant to the Gaming Credit Law, promoters are permitted to engage in the provision of Gaming Credit upon execution of an agreement with a gaming concessionaire/sub-concessionaire. Galaxy entered into an agreement with the three promoters of Galaxy Casino at Waldo Hotel, namely Mr. Cheng Kwee, Mr. Chan Koon Wah and Mr. Lee William on 30 June 2004 permitting the promoters to grant gaming credits in their own capacity to players in designated areas of the casino in compliance with Galaxy's guidelines issued from time to time and with all applicable law and regulations.

Promoters

Substantially all Galaxy Casino at Waldo Hotel's VIP players are recruited by VIP promoters. Most VIP players in Macau rely on these promoters and their collaborators to make travel and other arrangements for them to play at a particular casino, accompany them to the casino and provide around-the-clock services both inside and outside the casino. The KWCM Directors believe that VIP promoters and their collaborators primarily compete for VIP players with offers of credit and complimentary amenities and personal services and that each promoter relies on a number of collaborators, who in most cases enjoy personal client relationships with the VIP players. These collaborators generally do not work on an exclusive basis with the promoters or Galaxy. Galaxy's promoters have provided Galaxy Casino at Waldo Hotel with a steady supply of VIP players since commencement of operations. Galaxy expects that Galaxy Casino at Waldo Hotel's VIP business and the VIP business at Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel will depend primarily on promoters to attract VIP players. Other Macau casinos focusing on VIP players are also practicing similar arrangements with promoters.

The promoters may (at their own risk) provide credit to the players. Galaxy does not currently extend credit to players, although it may do so in the future.

Licensing of Promoters

Promoters in Macau are regulated. Galaxy and its promoters are subject to Administrative Rule no. 6/2002, which governs the conditions for the access and the activity of promoters of games of fortune in casinos. Promoters must be licensed by the Macau government and registered with a casino gaming concessionaire under Administrative Rule 6/2002 which came into force on 1 July 2004. Promoters are permitted under Administrative Rule 6/2002 to register with more than one concessionaire unless otherwise provided by contract. The promoters of the Galaxy Casino at Waldo Hotel are prohibited by contract from engaging in promoters business with other concessionaire or sub-concessionaire. Although the Macau DICJ has initiated its first process of licensing of promoters, under the transition arrangements introduced by the Administrative Rule, promoters operating in Macau when such Rule came into force were permitted to continue business until the conclusion of the first licensing process under Administrative Rule 6/2002. Galaxy presently has three promoters working at its VIP rooms. The promoters are Mr. Cheng Kwee, Mr. Chan Koon Wah and Mr. Lee William, each of whom is an Independent Third Party. Applications have been submitted to the Macau government for licensing and registration of its three promoters as well as for other potential promoters. As part of the licensing process, Galaxy must endorse the promoters who provide services to its casinos. Before a promoter is endorsed, Galaxy will require submission of, and will assess, the academic qualifications, personal background, past experience, employment history, and assets of such promoter and will further interview such promoters, and in the case of corporate promoters, the directors and controlling shareholders of such promoters. At the Latest Practicable Date, Galaxy had endorsed 16 promoters to the Macau government for licensing, and all were pending final government review. The licensing and registration process for those applications, including Galaxy's three current promoters, has not yet been completed by the Macau DICJ. Galaxy will require all the promoters who work at its casinos to be duly licensed and registered in compliance with Macau laws and the terms of the Concession. Galaxy will replace those promoters who fail to win a licence, through new recruitment.

Pursuant to Administrative Rule no. 6/2002, only commercial partnerships or individuals operating as a sole proprietor can carry out the activity of games promotion. In order to obtain a licence for games promotion, the applicant must submit to the suitability verification process conducted by the Macau DICJ which includes verification of the suitability of the promoters' key employees and, whenever the promoter is a commercial partnership (which may be a company limited by shares or by quotas), the suitability verification of the promoter's directors, and shareholders holding 5% or more of the capital stock. A promoter licence is valid for one year (or until 31 December in the year the licence is granted) and can be renewed each year upon submission of an application with the Macau DICJ. The renewal application must include a signed declaration by a director or legal representative of Galaxy that it is the intention of Galaxy to operate with the promoters. Promoters are subject to ordinary compulsory ongoing suitability verification every three years for individual promoters and every six years for promoters that are commercial partnerships and extraordinary suitability verification whenever the Macau DICJ deems convenient.

Promoters may use collaborators to carry out their activities. Promoters must submit annually to the Macau DICJ, through Galaxy, a list containing the identification of the chosen collaborators for the following year, together with copies of their identification documents and "no criminal record" certificates or equivalent document. The promoter may, at any time, alter the list of its collaborators but such lists are subject to the approval of the Macau DICJ. The contracts signed between the promoters and their collaborators must be in writing, and the promoter must submit a copy to the Macau DICJ.

Promoters working with Galaxy may only operate if they are registered with Galaxy, and promoters must operate under the terms of a contract signed with Galaxy. The contract must contain clauses relating to the amount and method of payment of the commission or other agreed-upon remuneration, the terms in which promoters may exercise their activity in the casinos (namely if there is to be an allocation of gaming premises), any guarantees and their terms and submission to the laws of Macau. Galaxy must immediately suspend the activity of a promoter if such promoter cannot, for any reason, fulfil, totally or partially, the obligations to which it is committed.

Galaxy must prepare and submit annually to the Macau DICJ a list of promoters with whom it intends to operate in the following year. Macau DICJ determines annually the maximum number and identification of the promoters authorised to operate with Galaxy. Galaxy must prepare and maintain an updated list of the names of the promoters registered with Galaxy, their directors, key employees and collaborators and furthermore, Galaxy is obliged to:

- submit to the Macau DICJ, prior to the 10th of every month, a detailed list relating to the previous month of the amounts of the commissions or other remunerations paid to each promoter by Galaxy, as well as the amounts of taxes withheld;
- submit, every three months, to the Macau DICJ the updated list of the names of the promoters registered with Galaxy, their directors, key employees and agents;
- inform the Macau DICJ of any fact that may affect the solvency of the promoters;
- maintain bookkeeping relating to the promoters;
- supervise the activity of the promoters, in particular compliance with legal and contractual obligations;
- inform the proper authorities of any fact that may indicate the practice of criminal activities, in particular money laundering, on the part of the promoters;
- promote a healthy relationship between the promoters registered with Galaxy;
- timely pay the commission or other remunerations agreed upon with the promoters; and
- timely comply with their fiscal obligations.

Galaxy is jointly responsible with the promoters for the activity developed in Galaxy's casinos by the promoters, their collaborators, directors and agents, and the compliance with applicable laws and regulations.

Intellectual Property

Galaxy has trademark rights over its logos, listed in Appendix XIII. These trademarks are brand names under which Galaxy markets its properties and services. Such brand names are considered to be of material importance to Galaxy's business since they have the effect of developing brand identification. Galaxy believes that the name recognition, reputation and image that it has developed attract customers and create loyalty to its facilities. These trademark registrations can be of perpetual duration so long as they are periodically renewed. Galaxy intends to maintain its trademark registrations.

MANAGEMENT

A board of directors is responsible for Galaxy's direction and management. The Articles require that there be seven directors. Directors are appointed by shareholders at a general meeting. Any director so appointed retains office for a 3 year term (save if he is dismissed in a general meeting within the term) but may be re-elected. Holders of the Galaxy A Shares collectively are entitled to one nominee of the board of Galaxy.

Board of Directors

Galaxy's Board of Directors is comprised of the following individuals:

Dr. Lui, *MBE, JP, LLD, DSSc,* aged 75 of 29/F., K.Wah Centre, 191 Java Road, North Point, Hong Kong, is also a director and the Chairman of KWCM. Dr. Lui is an executive director and the Chairman of KWIH. He is the father of Francis Lui and Lawrence Lui and the father-in-law of Cheng Yee Sing Philip. He has over 46 years' experience in quarrying, construction materials and property development. He became a director of Galaxy in June 2002 and was the Founding Chairman of the Institute of Quarrying in the UK (Hong Kong Branch) and Chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the 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. 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.

Francis Lui, aged 49 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, became a director of Galaxy in December 2002 and is also an executive director and the Deputy Chairman of KWCM. He is the son of Dr. Lui, the brother of Lawrence Lui and the brother-in-law of Cheng Yee Sing Philip. He is an executive director and the Managing Director of KWIH. 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 Town Planning Board of Hong Kong and a Member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

Lawrence Lui, aged 45 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, has been a director of Galaxy since 2001. He is the son of Dr. Lui, the brother of Francis Lui and the brother-in-law of Cheng Yee Sing Philip. He is the President of Cresleigh Management Limited which specialises in hotel and residential development and management. He holds a Master of Science and a Bachelor of Science Degree in Engineering from MIT and UC Berkeley.

Pedro Ho, aged 54 of Av. Da Praia Grande, No. 409, Edificio China Law, 25 Andar, Macau, has been the Macau resident Managing Director of Galaxy since 2001. Having finished his university education in Hong Kong where he studied Philosophy, Psychology and Sociology, he then worked for 14 years with a Macau Government department and subsequently for approximately 12 years with a law firm in Macau in Public Relations and as Chief of Personnel. He also has other business interests in Macau including property investments and has a well-established relationship with the business community.

Cheng Yee Sing Philip, aged 53 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, who obtained a Master of Business Administration Degree from Harvard University and a Master of Science Degree from Cornell University both in the USA. He joined Galaxy on 24 April 2003. He was the Director of Unitex Ltd. a textile company prior to becoming a Director of Galaxy. Mr. Cheng is a son-in-law of Dr. Lui and the brother-in-law of Francis Lui and Lawrence Lui.

Anthony Thomas Christopher Carter, aged 59 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, has been a director of Galaxy since April 2003 and is the Chief Executive Officer of Galaxy. He holds a degree of Law from the University of Leeds in England. Prior to joining Galaxy as Chief Executive Officer on 1 January 2005 he was the Executive Vice President with Stanford Hotels Corporation based in San Francisco, California. He was a senior partner with Johnson Stokes & Master in Hong Kong for many years. He has extensive experience in strategic planning and senior management as well as in corporate development and financial management.

Senior Management

Galaxy has recruited experienced gaming project development and hospitality professionals to operate Galaxy Casino at Waldo Hotel and help Galaxy implement its expansion plans. They include:

To Chi Kay Roland, aged 49 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Director of Strategic Planning since January 2005. He obtained a Bachelor of Arts Degree in Business Administration from the University of Western Ontario, Canada. He has over 25 years banking and finance career including a wide range of senior positions in investment banking. He has extensive financial advisory experience which includes project finance, mergers and acquisitions and credit re-structuring.

Kenneth Richard Gotfried, aged 59 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Senior Vice President, Gaming Operations since November 2004. He holds a Fellowship of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. He has over 34 years experience in the casino and hospitality industries in Hong Kong, South East Asia and

Australia. Before joining Galaxy, he had been the Chief Operating Officer of a major resort casino in Australia for more than 6 years. He was also President of the Australian Casino Association between 1997 and 1999.

Kwa Yew Seng, aged 53 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Chief Financial Officer of Galaxy since May 2005. He holds a Master of Business Administration Degree and a Bachelor Degree in Economics. Mr. Kwa is also a member of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors. He has over 30 years experience in the field of Finance and Accounting, 18 of which were in the casino industry.

Ciaran Pearse Carruthers, aged 36 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Casino General Manager of Galaxy since August 2003. He has 18 years experience in the gaming and resort industry in various countries including Northern Marianas, Solomon Islands and Singapore.

Bernard Francis Millman, aged 51 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Corporate Galaxy Resort and Casino Financial Controller since October 2004. Bernard holds a Bachelor Business (Hospitality Management) Degree from Royal Melbourne Institute of Technology. He has had 28 years experience in the financial management of and has held various senior management positions, including general manager and financial controller, in international hotels and casinos in Australia. He has represented the hotel & gaming industry in Australia in a review of tax legislation.

Gary Woollard, aged 51 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Casino Manager of the Galaxy Casino at Waldo Hotel since February 2004. Gary has 20 years' experience in the gaming industry in Australia and various other countries before joining Galaxy.

Heinz Ullrich Roelz, aged 59 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, Senior Vice President of Hotel Operations since January 2005. He graduated from hotel-management schools in Germany and in the USA. He has 42 years experience in hotel development and management, in Germany, Switzerland, Indonesia, China, Bermuda, the USA, Hong Kong and was formerly Executive Vice President, Stanford Hotels International.

Joao Maria da Silva Manhao, aged 58 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the head of the Security and Loss Prevention of Galaxy since May 2004. He had more than 30 years experience in the Macau Judiciary Police and was a Deputy Director of the Macau Judiciary Police before joining Galaxy.

Au Chung On John, aged 45 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Principal of Human Resources and Administration since January 2005. He holds a Bachelor of Social Science Degree and is the alternate member of the Advisory Committee on Training Curriculum, Macao Tourism Casino Career Centre. He is also a member of the Advisory Committee on Graduate Employment, the Baptist University of Hong Kong. He has 20 years of experience in administration and human resources management.

Chong Koo Siong Lawrence, aged 57 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the General Manager of Leasing since January 2005. He has a Bachelor of Social Science Degree and has worked in Singapore, Canada, the USA and Hong Kong. He has over 33 years experience in management covering retail, entertainment and hospitality businesses. His expertise is in planning, marketing leasing and managing property-related projects

Chan Ka Leung, aged 48 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Senior Vice President of Project Development since May 2005. He possesses a Master of Business Administration and a Bachelor of Science Degree in Civil Engineering. He has 26 years experience in the engineering field with extensive experience in project management.

Lam Wai Ming, aged 49 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Senior Vice President of Project Development since January 2005. He holds an associateship of the Building Technology & Management, the Royal Institute of Chartered Surveyors and the Hong Kong Institution of Surveyors. He is also a member of the Chartered Institute of Building, and the Hong Kong Institution of Engineers. He has 24 years of experience in construction and engineering industry with a wide range of experience in quantity surveying, construction and project management.

Wong Ying Fai, aged 51 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the General Manager of Project Development since November 2004. He obtained a Master of Business Administration Degree from the Chinese University of Hong Kong, a Bachelor of Arts Degree and a Bachelor of Architecture Degree from the University of Hong Kong. He is also a fellow of the Hong Kong Institute of Architects. He has over 26 years experience in the field of architecture and engineering.

Chiu So Wan Betty, aged 49 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Principal of Finance since January 2005. She holds a Master of Business Administration Degree specialising in Finance & Accounting and a Bachelor of Arts Degree in Economics. She has 23 years experience in Finance & Accounting.

Tong Kui Nam, aged 46 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Principal of Business Development since January 2005. He obtained a Bachelor of Social Science Degree from the University of Hong Kong. He has 20 years experience in the legal and company secretarial field.

Winston Calptor Chuck, aged 50 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, an assistant to director since November 2004. He obtained a Bachelor of Arts Degree from the University of Western Ontario and qualified as a solicitor in Hong Kong. He has 23 years experience in the legal field.

Kiang Pui Man Maria, aged 39 of 19/F., Dynasty Plaza, 411–417, Alameda Dr. Carlos de Assumpcao, Macau, the Principal of Legal & Company Secretarial since January 2005. She holds a Master of Laws Degree from University of Sydney and a Bachelor of Law Degree from the University of Hong Kong. She is also a Solicitor of the Supreme Court of Hong Kong and the Supreme Court of New South Wales. She has 13 years of experience in the legal field.

Internal Auditor

Galaxy has in compliance with Macau law appointed Ms. Chan Yuk Ying of CSC & Associates, Auditors, who is a registered auditor in Macau and a member of the Hong Kong Association of Chartered Certified Accountants, an internal auditor with statutory terms of reference regarding its authority and duties. The internal auditor's principal duties are the review and supervision of Galaxy's financial reporting process and internal control systems.

Employees, Employee Benefits and Labour Relations

As at the Latest Practicable Date, Galaxy had approximately 1,300 full time employees, of whom approximately 1,250 were employed at Galaxy Casino at Waldo Hotel, including approximately 500 dealers. Galaxy Casino at Waldo Hotel operates on three eight hour shifts. Most of Galaxy Casino at Waldo Hotel's workforce has been recruited from Macau. Galaxy also employs experienced casino workers, pit supervisors and pit managers recruited from outside Macau.

Galaxy anticipates that it will employ about 1,935 additional employees in connection with the opening of Galaxy Casino at Cotai City Club, about 1,031 additional employees in connection with the opening of Galaxy Casino at Rio Hotel, about 2,470 additional employees in connection with the opening of Galaxy StarWorld and about 2,710 additional employees in connection with the opening of Galaxy Cotai Mega Resort. Galaxy will be required to undertake a major recruiting and training program prior to opening these facilities. Galaxy believes that it will be able to attract and retain a sufficient number of qualified employees to operate its properties by continuing to provide competitive employee compensation, benefits and training.

Galaxy believes that it offers its employees a competitive salary, including (for junior employees) a guaranteed level of tip income. Galaxy also offers its employees a benefits package, including a medical scheme, paid annual leave, sick leave, wedding leave, compassionate leave, maternity leave and examination leave and a provident fund. Galaxy provides personal accident insurance for its senior employees.

Staff Training

Galaxy provides its employees with supervisory skills focusing on complaint handling and putonghua and English language courses. Galaxy provides certain employees financial assistance for external training. Galaxy also provides its dealers and other casino staff with intensive training before they are allowed to work on the gaming floor and continued training afterwards.

Capital structure of Galaxy

Under Macau law, the managing director of a company holding a concession to operate games of fortune and other casino games must be a Macau permanent resident and hold at least 10% of the share capital of such company. Galaxy therefore has in issue two classes of shares — Galaxy A Shares and Galaxy B Shares. The Galaxy A Shares make up 10% of the total issued shares in Galaxy. The Galaxy B Shares make up the remaining 90% of the issued shares in Galaxy.

By the articles of association of Galaxy, while both are voting shares, the Galaxy A Shares carry negligible economic interest whereas Galaxy B Shares have effectively full economic interest. The Galaxy A shareholder is only entitled to a 0.00000000000000001% share while the Galaxy B shareholders together are entitled to the remaining 99.999999999999999999% share of Galaxy's annual distributable profit. On a dissolution or liquidation of Galaxy, the Galaxy A shareholder will only be entitled to a return of the amount of capital invested without any right to distribution of the liquidation assets of Galaxy while the Galaxy B shareholders will be entitled to both a return of capital invested as well as distribution of liquidation assets. None of the Galaxy A Shares is the subject of the Acquisition. The Acquisition is only of Galaxy B Shares.

In accordance with Macau law, all the Galaxy A Shares are held directly by Pedro Ho, who is a Macau permanent resident.

Pedro Ho has agreed on 4 February 2005 with the Vendors that he will not sell or transfer any of his Galaxy A Shares without first offering them, on a pro-rata basis to the other shareholders of Galaxy at that time, at a price of MOP1, in accordance with the law for the time being. If Galaxy ever goes into re-organisation, merger or liquidation then Pedro Ho will distribute any amount which he receives from such reorganisation, merger or liquidation in excess of the capital amount of his Galaxy A Shares, to all the shareholders of Galaxy pro-rata to their shareholdings in Galaxy at the time of such reorganisation, merger and liquidation. KWCM is not a party to such an agreement. It is uncertain that KWCM will be entitled to enforce this agreement.

Pedro Ho is independent of KWIH, KWCM, the Family Companies and their respective connected persons, save for his interests in Kentlake, Top Notch and Galaxy referred to in this Circular. Pedro Ho is the resident managing director of Galaxy and owns 100% of Future Leader. Future Leader is one of the Minority Vendors. Pedro Ho has disposed of his entire interest in Hugo Legend to Honour Link Group Limited. The sole beneficial owner of Honour Link Group Limited is Mr. Suen Suk Hing who is an Independent Third Party in respect of KWIH and KWCM.

Taxation

On the 9th day of each month, Galaxy must pay the Macau government the previous month's gaming taxes (at the rate of 35% of gross revenues), and pay 1.6% of gross revenues for promoting education and charity and 2.4% for urban construction and tourism promotion.

Pursuant to a Dispatch of the Chief Executive of Macau no. 249/2004 of 30 September 2004, Galaxy is exempted from paying tax on the complementary profit tax on its gaming revenue until 31 December 2008. This exemption does not apply to the normal 35% gaming tax which Galaxy is liable to pay.

Anti-money laundering policy

The principal objective of the money launderer bringing questionable funds into a casino is to exchange the cash for chips at the tables, give the appearance of gambling, and then cash out the chips in exchange for a cheque from the casino operator. He will then seek to claim the casino cheque as "winnings", should he come under future investigation. Galaxy has an anti money laundering policy designed to prevent this happening.

Galaxy's gaming management and finance executives including Mr. Kwa Yew Seng, Mr. Kenneth Richard Gotfried, Mr. Ciaran Pearse Carruthers and Mr. Bernie F. Millman have extensive experience in formulating anti money laundering policies for Australian gaming venues, including *Crown, Burswood, Darwin* and *Jupiter*, prior to assisting the Galaxy management in formulating Galaxy's anti money laundering policies. They have previously worked closely with Australian regulatory authorities to ensure money laundering has not been a major concern in Australian casinos. Their training, both internally at these operations and in conjunction with Government authorities and experience have provided them with experience in detecting suspicious cash transactions and formulating policies for Galaxy to combat potential money laundering activities.

In summary, Galaxy's policy requires:

- Compliance with all government of Macau reporting and procedural obligations
- Recording the amount of verified winnings where cheques are given in exchange for chips
- Requesting full player identification from VIP promoters
- Senior management attending anti-money laundering training courses and then conducting in-house training to next line of management
- Record and filming all exchanges by patrons of large notes to small notes
- Cage staff, who are responsible for all financial transactions of the casino and chips purchase/cashing, notifying surveillance staff of transactions of HK$50,000 or above
- Line staff and table supervisors alerting management of players who but place several even money minimum limit bets, being bets that pays the player back the same amount that the player wagered plus the original wager, over several tables
- On mass gaming floors, pit managers overseeing chip purchases of HK$10,000 or above and notifying surveillance of any transaction of HK$50,000 or above
- Recording all VIP transactions of HK$100,000 or above
- Senior management recording and filing all suspicious casino transactions

Galaxy's anti-money laundering policy is in compliance all applicable laws and regulations including all current laws and regulations set out in the section "Macau's anti-money laundering legal frame-work" of this Circular. Galaxy's anti-money laundering policy is in compliance with the following key requirements of the applicable anti money laundering laws and regulations:

- Where cheques are given in exchange for chips, the winning amount must first be verified with table gaming senior management. If table gaming management are unable to verify the amount of the winnings, no 'winners' cheques will be issued.

- Anti-money laundering requirements for financial institutions in Macau specify that financial institutions must have all financial statements audited by a firm of independent auditors. Although it is not a financial institution, the Galaxy Casino at Waldo Hotel has been independently audited since opening.

- The Macau Financial System Act specifically requires Macau credit institutions to verify the identity of their customers and record the identity of all customers who make significant transactions. While Galaxy does not fall under the purview of this Act, its cage procedures do require full player identification from promoters and that transactions above HK$50,000 are both recorded within the cage and notified to the surveillance department which would film the patrons in question and the specific transaction.

- Personal information about VIP promoters and their representatives is also kept on file and all such persons are required to be approved by the Macau DICJ.

- The involvement of operationally independent departments, namely Table Gaming, Cage and Surveillance, in the monitoring, notification and recording of certain transactions that may be deemed a part of an attempt to launder money ensures that no single persons or groups of people within Galaxy are knowingly or unknowingly able to assist in the conversion of illicit funds.

- Any observance of a suspicious transaction is required to be recorded by the department making the observation, most typically the cage, who in turn are required to forward such reports to the appropriate authorities and to keep such records on file.

- All cash transactions between the VIP rooms and the cage are recorded by cage staff, and records are maintained for a period specified by the Macau DICJ/surveillance department.

- The surveillance department constantly monitors and reviews, in co-ordination with the floor management and cage, plays though all areas of the casino, transactions above HK$50,000 and any other suspicious transactions and players.

Based on past experience of Galaxy's gaming management team Galaxy believes its anti money laundering policies are generally in line with that of international operators in the region in its compliance with local laws and regulations and applicable international treaties and in the constant review of the policy as such applicable law and regulations are modified. However, specific policies will differ from country to country and casino to casino due to different customer profiles and details of applicable laws and regulations. There have been no reports of alleged claims and alleged successful money laundering in its casino.

KWCM confirms that Galaxy operates its casino in compliance with all applicable law and has obtained all necessary licence and approval. KWCM will in its capacity as the controlling shareholder of Galaxy seek to ensure that Galaxy operates casinos only in compliance with all applicable laws and does not breach the Gambling Ordinance of Hong Kong or any other relevant laws and in compliance with the requirements of the guidelines issued by the Stock Exchange in relation to "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers" dated 11 March 2003.

Principal Shareholders of Galaxy

Galaxy is today principally owned by the Family Companies and the Minority Vendors. The Family Companies acquired their respective interests in Galaxy at an aggregate cost of MOP630,367,000 (approximately HK$612,006,796) under and pursuant to a shareholders internal reorganisation, which took place in Macau on 3 February 2005. At the same time, other Vendors acquired or increased their stakes in Galaxy. For further details, please refer to the section headed "History and Development of Galaxy".

The Family Companies acquired their interest in Galaxy in the reorganisation of Galaxy in February 2005 principally through subscription of new shares issued on increase of capital by Galaxy, and as to a small part, through purchase of existing shares in Galaxy from Galaxy Resort Limited Prior thereto, Galaxy Resort Limited was the major controlling shareholder of Galaxy (holding 90% of the 200,000,000 Galaxy Shares then in issue). The Lui family ultimately beneficially owns through Advantage Global Limited and Wealth Grand Limited, 68.58% of Galaxy Resort Limited.

Pedro Ho, the owner of Future Leader and the resident managing director of Galaxy, owns all the Galaxy A Shares. He is a native resident of Macau and a businessman. Pedro Ho has extensive relationship in business and the Macau gaming market and with the Macau government. The Galaxy A Shares carry negligible economic rights and can be transferred only with the consent of the Macau government.

On 29 March 2005, Hugo Legend agreed to sell its entire 1.8% voting interest in Galaxy to Future Leader. Such sale was completed on 18 May 2005.

Information on the Vendors

Save as disclosed in the section headed "Brightwealth Options" in the "Letter from the KWCM Directors" in this Circular, the Minority Vendors and their respective ultimate beneficial owners are Independent Third Parties of KWCM and KWIH, and their respective connected persons. All the Minority Vendors are investment holding companies and none has disclosed any interests in either KWIH or KWCM under the Listing Rules and/or the SFO (other than the interests which arise under the Acquisition Agreement and the Brightwealth Options).

Guoco Group Limited is the ultimate beneficial owner of Brightwealth. Pedro Ho is the ultimate beneficial owner of Future Leader. None of them, nor any of their associates, has disclosed any interest in either KWIH or KWCM under the Listing Rules and/or Part XV of the SFO (other than the interests which arise under the Acquisition Agreement and the Brightwealth Options).

KWIH is the controlling shareholder of KWCM and thus a connected person of KWCM. The Trusts are the controlling shareholder of KWIH and thus connected persons of each of KWIH and KWCM. Each of Dr. Lui, Francis Lui and Ms. Paddy Lui Wai Yu is a director of KWIH and KWCM. City Lion is an asset of the Principal Trust and the other Family Companies belong to Francis Lui and Lawrence Lui. As members of the Lui Family are indirect discretionary objects of the Trusts, each of the Family Companies is a connected person of both KWIH and KWCM.

THE CONCESSION

A public tender was conducted in December 2001 to grant three concessions to operate "games of fortune or chance or other games in casinos" in Macau. One of three concessions to operate casino games of chance was granted to Galaxy. Galaxy Casino at Waldo Hotel is operated, and all of Galaxy's future gaming operations in Macau will be operated, under the Concession. The Concession is exclusively governed by Macau law and Galaxy is subject to the exclusive jurisdiction of the courts of Macau in case of any dispute or conflict relating to the Concession.

Under the Concession, Galaxy was obliged to develop and open (i) two resort, hotel and casino projects in Macau by June 2006, (ii) a convention centre by December 2006 and (iii) two city club casinos in Macau. Galaxy was initially required to make a total investment of at least MOP8.8 billion (approximately HK$8.54 billion) in development projects in Macau by June 2012. Under the Sub-Concession between Galaxy and Venetian Macau, S.A. entered into in December 2002, Venetian Macau, S.A. is now responsible for MOP4.4 billion (approximately HK$4.27 billion) of Galaxy's original MOP8.8 billion (approximately HK$8.54 billion) investment obligation under the Concession. The investment obligation of Galaxy is thereby reduced to MOP4.4 billion (approximately HK$4.27 billion). Venetian Macau S.A. is further responsible for the obligations to construct and develop (i) one of the two required resort, hotel and casino projects, (ii) the convention centre and (iii) one of the two required "city club" casinos. There are no cross defaults between Galaxy and Venetian Macau, S.A.

The Concession expires on 26 June 2022. Unless the Concession is extended, on that date all of Galaxy's casino operations and related equipment in Macau (but not its hotel, retail or other non-gaming facilities) will automatically be transferred to the Macau government without compensation to Galaxy and Galaxy will cease to be entitled to operate any casino or gaming operations permitted under the Concession. Beginning on 26 June 2017, the Macau government may redeem the Concession by giving Galaxy at least one year's prior notice. According to Clause 5 of Article 78 of the Concession, if the Macau government redeems the Concession then Galaxy will be entitled to fair and reasonable compensation. Such compensation will correspond to the benefit that it has ceased to obtain in consequence of such redemption at its resort-hotel-casino undertaking as described in the investment plan annexed to the Concession. The amount of compensation will correspond to the income from such undertaking of Galaxy in the final year prior to the redemption, before deduction of interest, depreciation and amortisation, multiplied by the number of years remaining until expiry of the Concession.

The Macau Government may also unilaterally rescind the Concession at any time in the public interest, but such rescission would confer on Galaxy the right to compensation, the amount of which would be calculated taking into consideration the remaining period until expiry of the concession and the investments made by Galaxy. The Macau government also has the right unilaterally to terminate, without compensation to Galaxy, the Concession at any time upon the occurrence of specified events of default. See Appendix I "Risk Factors — Risks relating to Macau."

The Concession provides that the Macau government shall notify Galaxy to fully perform its obligations and correct or offset the results arising from its acts within a specified time limit, except for an irreparable violation. Galaxy must also rely on consultations and negotiations with the Macau government to give it an opportunity to remedy any such default. Accordingly, Galaxy is dependent

on its continuing communications and good faith negotiations with the Macau government to ensure that it is performing its obligations under the Concession in a manner that would avoid a default thereunder.

Galaxy's Concession was awarded on the basis that Galaxy:

(a) had put up a guarantee of MOP700 million required under Article 84(1), (2) and (5) of Administrative Regulation No. 26/2001;

(b) had demonstrated that it has paid up capital of not less than MOP200,000,000 (HK$194,174,757) in cash with local credit institutions or subsidiaries/affiliates of credit institutions approved to operate in Macau;

(c) had undergone suitability assessment and was reported as having suitable qualifications; and

(d) had undergone financial assessment and was reported as having suitable financial capability.

Under the Concession, Galaxy is required to have its head office in Macau. Galaxy can only engage in provision of games of fortune and other games in casino and with the Macau government's permission, other related business. It can only operate in venues approved by the Macau government.

Galaxy is required among other things to:

(a) ensure the proper management and operation of games of fortune or chance or other games in casino;

(b) employ in the management and operation of games of fortune or chance or other games in casino persons suitable to exercise such posts and assume the respective liabilities;

(c) undertake and operate of games of fortune or chance or other casino games in a fair and honest manner and free of criminal influence;

(d) uphold and safeguard Macau's interests in levying tax on the operations of casinos and other gaming areas;

(e) submit to the Macau DICJ in December of each year, a list setting out the number and location of gaming tables and electrical or mechanical gaming machines, including slot machines, that Galaxy intends to operate in the following year. The number of gaming tables and electrical or mechanical gaming machines, including slot machines that Galaxy operates may be changed provided prior notice is given to the Macau DICJ;

(f) open its casinos for business every day;

(g) install electronic surveillance and control equipment approved by the Macau DICJ.

(h) maintain registered capital of not less than MOP200,000,000 (HK$194,174,757) and not do any of the following without approval by the Macau government:

(i) increase in capital by public subscription;

(ii) issue of preferential shares or bonds;

(iii) create or issue classes of shares or transfer them;

(iv) transfer of shares representing its share capital;

(v) listing of Galaxy's shares or its subsidiaries' shares on any stock exchange;

(i) seek the Macau government's approval for any transfers of shares where such transfer involves, indirectly, 5% or more of directly representing its share capital or the share capital of Galaxy;

(j) seek the Macau government's approval for amendment of its articles of association;

(k) remain "idoneous" (suitable) during the concession period;

(l) ensure its shareholders with 5% or more of its capital are idoneous;

(m) maintain its financial capability to engage in the concession services punctually and completely fulfil any obligation in connection with its business and any necessary investment and obligation;

(n) inform the Macau government of any grant of loan or similar contract worth over MOP30 million (approximately HK$29.13 million) with any third party;

(o) maintain a legal reserve of (10% of the year's profits until its retained profits correspond in aggregate to 25% of the registered share capital);

(p) inform the Macau government of any loan, mortgage and debt, guarantee or any debt in order to obtain funds for its business operation if the value is equal to or more than MOP8 million (approximately HK$7.77 million);

(q) implement the investment plan (the "Investment Plan"). Under this Investment Plan, Galaxy is required to construct two resort, hotel and casino projects in Macau by June 2006, a convention centre by December 2006 and two "city club" casinos in Macau.

The investment amount under the Investment Plan is MOP8.8 billion (approximately HK$8.54 billion), to be invested by June 2009, of which Venetian Macau, S.A. is now responsible for MOP4.4 billion (approximately HK$4.27 billion);

(r) maintain insurance contracts for various types of coverage, including

(i) work accident and occupational disease;

(ii) civil liability for Galaxy's vehicles;

(iii) civil liability for the watercrafts, aeroplanes or other aircrafts either in the possession of or leased by Galaxy;

(iv) civil liability for installing advertising materials;

(v) general civil liability regarding the operation of games of fortune or chance or other games in casino in Macau and the development of other activities included in the concession but not insured by any other insurance contract;

(vi) damage to the building, furniture, equipment and other property used for activities comprised in the Concession; and

(vii) execution of any construction regarding any project of or in buildings related to activities comprised in the Concession (all-risk insurance, including civil liability insurance);

(s) contribute, on a monthly basis, a levy consisting of 1.6% of its gross income from its gaming business to a public foundation designated by the Macau government with the objectives of promoting, developing and studying culture, society, economy, education, science, academic and charity activities and 2.4% of its gross income from gaming business to the Macau Government for developing urban construction, promoting tourism and providing social security in Macau;

(t) pay a special tax on gaming at a rate of 35% of the gross gaming revenue payable on a monthly basis no later than the tenth day of the month following the month the revenues are earned;

(u) withhold taxes on commission and other remunerations for gaming promoters and employees payable to the Macau Finance Department Treasury Office on a monthly basis no later than the tenth of the month following the respective month;

(v) maintain a "first demand" bank guarantee issued by a bank approved by the Macau government in favour of the Macau government to guarantee Galaxy's obligations under the Concession in the amount of MOP700 million (approximately HK$679.61 million) until 31 March 2007 (which amount was subsequently reduced with Macau Government consent to MOP500 million (approximately HK$485.44 million)) and in the amount of MOP300 million (approximately HK$291.26 million) from 1 April 2007 until the 180 days after the termination of the Concession; and

(w) supervise the activities of gaming promoters.

In addition, Galaxy is subject to extensive regulation by the Macau Government and the Macau DICJ under the Concession. Many actions taken by Galaxy will require notice to and approval from the Macau government including:

- *Transfer of Shares.* The Concession requires approval of the Macau government for transfers of shares, or of any rights over such shares, by any of the direct shareholders in Galaxy, or by indirect shareholders in Galaxy, holding indirectly 5% or more of the

share capital in Galaxy. This approval requirement will not apply, however, if the subject matter of transfer is securities listed and tradable on a stock market. In addition, the Concession requires approval of the Macau government before the creation of any encumbrance or the grant of voting rights or other shareholder's rights to persons other than the original owners on shares in any of the direct or indirect shareholders in Galaxy, provided that such shares or rights are indirectly equivalent to an amount that is equal or higher than 5% of the share capital in Galaxy. This approval requirement will not apply, however, to securities listed and tradable on a stock exchange.

- *Suitability Requirements for Directors and Principal Employees Working in Casinos and Significant Shareholders.* The Macau DICJ may investigate any individual or company who has a material relationship to, or material involvement with, Galaxy to determine whether its suitability and/or financial capacity is affected by this individual or company. Galaxy's shareholders holding 5% or more of its share capital, directors and some of its principal employees working in casinos must apply for and undergo a finding of suitability process and on-going suitability assessment and, for that purpose, may be investigated by the Macau DICJ at any time. This authority may deny an application or a finding of suitability for any cause they deem reasonable. Any person who fails or refuses to apply for a finding of suitability after being ordered to do so by the Macau DICJ may be found unsuitable. Changes in investigated positions should be reported to the Macau DICJ, and in addition to their authority to deny an application for a finding of suitability, the Macau DICJ have jurisdiction to disapprove such a change. If the Macau DICJ were to find one of Galaxy's shareholders, directors or principal employees working in casinos unsuitable, Galaxy would have to sever the relationship with that person. In addition, the Macau DICJ may require Galaxy to terminate the employment of any person who refuses to file appropriate applications or is found unsuitable.

  Any shareholder of Galaxy found unsuitable must transfer the respective shares within the period of time prescribed by the Macau DICJ and if the shareholder fails to do so, Galaxy is obliged to acquire the shares.

  The Macau DICJ also have the authority to approve all persons owning or controlling the stock of any corporation holding a gaming concession.

- *Creation of Liens and Encumbrances.* Prior approval of the Macau DICJ is required for the creation of liens and encumbrances over Galaxy's assets related to gaming business and restrictions on stock in connection with any financing.

- *Changes of Control.* The Macau DICJ's prior approval is required for changes in control of Galaxy through a merger, consolidation, stock or asset acquisition, management or consulting agreement or any act or conduct by any person whereby he or she obtains control. Entities seeking to acquire control of Galaxy must satisfy the Macau DICJ concerning a variety of stringent standards prior to assuming control. The Macau DICJ may also require controlling shareholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated as part of the approval process of the transaction.

- *Recapitalisation Plans.* The Concession requires the Macau DICJ's prior approval of any recapitalisation plan proposed by Galaxy's board of directors. The Chief Executive of Macau could also require Galaxy to increase its share capital if he deemed it necessary.

- *Issue of Bonds.* The Concession requires the Macau government's prior approval before the issue of bonds by Galaxy.

- *Loans.* Loans to third parties exceeding MOP30 million (approximately HK$29.13 million) and loans to directors, shareholder or key employees require the prior approval of the Macau government.

Payments Under the Concession

Under the Concession, Galaxy is obliged to pay a "premium" to the Macau government in return for operating casino games of chance. The premium has a fixed portion, that is paid annually, and a variable portion, that is paid monthly, as follows:

- The fixed portion of the premium is MOP30 million (approximately HK$29.13 million) and will only become payable after 26 June 2005 (in the proportion that relates to the year 2005).

- The variable portion (based on the number and type of gaming tables employed and gaming machines operated by Galaxy) is equal to: (i) MOP300,000 (approximately HK$291,262) per year for each gaming table reserved for certain games and gamblers (VIP tables or "special use game tables"); (ii) MOP150,000 (approximately HK$145,631) per year for each general use gaming table not so reserved ("general use gaming tables") and (iii) MOP1,000 (approximately HK$971) per year for each electrical or mechanical gaming machine, including slot machines. The variable portion of the premium was payable and was paid on the commencement of operation of Galaxy Casino at Waldo Hotel. From that time until the opening of the resort, hotel and casino project referred in the Investment Plan, the amount of the variable portion of the premium cannot be less than the amount Galaxy would owe if Galaxy operated 20 special use gaming tables and 20 general use gaming tables per year (i.e. MOP9 million (approximately HK$8.74 million). Upon opening of a casino in Galaxy StarWorld, the minimum variable portion of the premium cannot be less than the amount Galaxy would owe if Galaxy operated 100 special use gaming tables and 100 general use gaming tables per year (i.e. MOP45 million or approximately HK$43.69 million). The variable portion of the premium is subject to renegotiation after 26 June 2005.

The Sub-Concession and the Supplemental Concession

In connection with the Sub-Concession, the Macau government and Galaxy entered into a Supplemental Concession on 19 December 2002. Among other things, the Investment Plan was modified to include two additional city club casinos to be built by Galaxy. The total investment amount of MOP8.8 billion (approximately HK$8.54 billion) is to be invested within 7 years.

Pursuant to the Supplemental Concession, certain amendments were made. Galaxy was originally required under the Concession to invest MOP8.8 billion (approximately HK$8.54 billion) in development projects in Macau by June 2012 and to develop and open two resort, hotel and casino

projects and a convention centre in Macau. One of the resort, hotel and casino project should be completed and ready to use by the public by June 2006. Another, "The Venetian" themed resort should be completed and ready to be used by the public on June 2006. The convention centre should be opened in December 2006. Pursuant to the Supplemental Concession, Galaxy must develop two city club casinos in Macau and the total investment amount of MOP8.8 billion (approximately HK$8.54 billion) is to be invested within 7 years (instead of the original 10 years).

Originally Venetian Macau, S.A. and Galaxy were business partners in relation to the Concession and Venetian Macau, S.A. was an investor in Galaxy. It was subsequently agreed that it was in their respective interests to pursue business separately. Galaxy and Venetian Macau, S.A., with approval from Macau government, entered into the Sub-Concession to enable them separately to develop their own gaming businesses.

Pursuant to the Sub-Concession granted by Galaxy to Venetian Macau, S.A., an Independent Third Party, with the prior approval of the Macau government, Venetian Macau, S.A. is now responsible for MOP4.4 billion (approximately HK$4.27 billion) of Galaxy's original MOP8.8 billion (approximately HK$8.54 billion) investment obligation under the Concession. The investment obligation of Galaxy is thereby reduced to MOP4.4 billion (approximately HK$4.27 billion). Venetian Macau, S.A. is further responsible for the obligations to construct and develop (i) one of the two required resort, hotel and casino projects ("The Venetian" themed one), (ii) the required convention centre and (iii) one of the two required city club casinos. Consequently, Galaxy is only required to construct and develop the other resort, hotel, casino project and one city club casino. There are no cross defaults between Galaxy and Venetian Macau, S.A.

In addition, although it is stated in the Concession, as amended, that the financial liability of Galaxy in respect of investment commitments is MOP8.8 billion (approximately HK$8.54 billion), half of this liability or MOP4.4 billion (approximately HK$4.27 billion) was transferred to Venetian Macau, S.A. under the Sub-Concession.

Venetian Macau, S.A.'s obligations to the Macau government and Macau DICJ are substantially similar to those under the Concession. The obligations of Galaxy under the Concession and of Venetian Macau, S.A. under the Sub-Concession are several and not joint.

Venetian Macau, S.A. operates the "Sands Macau" Casino. According to materials filed with the Securities and Exchange Commission of the United States of America, the ultimate beneficial owner of Venetian Macau, S.A. is Las Vegas Sands Corp, the common stock of which is listed on the New York Stock Exchange Inc. Las Vegas Sands Corp. is an Independent Third Party.

It is a term of the Acquisition Agreement that Canton Treasure will execute a Deed of Adherence in relation to the Venetian Agreement at Completion. A summary of the principal terms of the Venetian Agreement that will or may affect the business and operations of Galaxy or KWCM's rights in relation to Galaxy is set below. These definitions from the Venetian Agreement are used below:

> "Affiliate" — *"of or in relation to a Person...any other person directly or indirectly controlling, controlled by or under common control with the subject person..."*

"Galaxy Properties" — *"any hotels, casinos and other facilities, and any other properties in Macau owned, leased or operated by Galaxy or any of its subsidiaries or any part thereof."*

"Gaming Person" — *"Person which, either alone or together with its Affiliates, or which has an Affiliate which, is licensed to conduct casino gaming business:"*

"US Casino Marketing Person" — *subject to certain exemptions, "any person which, either alone or together with its Affiliates is engaged in the business of marketing casinos with a significant part of that business being in the US."*

"US Gaming Person" — *"any Person which, either alone or together with its Affiliates, or which has an Affiliate which, is licensed to conduct casino gaming and is subject to the regulation of any casino gaming regulator in the U.S."*.

- the Galaxy Properties will be developed by Galaxy and the casinos therein shall be managed and operated by Galaxy and must not be operated under brand names or any other intellectual property rights of any Gaming Person other than Galaxy.

- Canton Treasure will not after Completion be permitted to transfer any Galaxy shares to a US Gaming Person without prior written consent of Venetian Macau Limited (formerly known as Venetian Macau Management Limited) and Galaxy must not without prior written consent of Venetian Macau Limited issue any shares to any US Gaming Person.

- Galaxy and its subsidiaries must not appoint any US Gaming Person as officer, employee, manager, consultant, partner, joint venturer or agent. This does not prevent Galaxy employing to provide services an individual who is not the owner or operator of a casino, or engaging as consultant (but not manager or operator) for specific technical services a person that is not a US Gaming Person, or the owner, operator or an Affiliate of a US Gaming Person and is not a US casino marketing person.

- Galaxy must not, and Canton Treasure must procure that it shall not amend, waive or modify Clause 106.2 of the Concession (in which the Macau government undertakes not to grant any licence for games of fortune or chance or other casino games, by 1 April 2009, so that the number of licences at any time will not exceed three and agrees that if after that date it grants further gaming concessions, the terms of which are, taken overall, more favourable than those in Galaxy's Concession it will extend such terms to Galaxy) without Venetian consent and must enforce it if Venetian requests.

Venetian Macau Limited agrees in the Venetian Agreement to comply with its investment obligations under the Sub-Concession.

The Venetian Agreement is governed by Macau law. It terminates on 26 December 2014 unless previously terminated.

K. WAH CONSTRUCTION MATERIALS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 27)

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

30 June 2005

To the KWCM Independent Shareholders,

Dear Sir or Madam,

POSSIBLE ACQUISITION OF 88.1% OF THE VOTING SHARES CARRYING 97.9% OF THE ECONOMIC INTEREST IN GALAXY CASINO, S.A.

CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION FOR K. WAH CONSTRUCTION MATERIALS LIMITED

We refer to the Circular dated 30 June 2005 issued jointly by KWCM and KWIH, of which this letter forms part.

Unless otherwise stated, terms defined in the Circular bear the same meaning when used herein.

We have been appointed as the members of the KWCM Independent Board Committee to consider the Acquisition and to advise the KWCM Independent Shareholders as to the fairness and reasonableness of the terms of the Acquisition and to recommend whether or not the KWCM Independent Shareholders should vote for the ordinary resolution to be proposed at the KWCM EGM to consider, and if thought fit, approve the terms of the Acquisition.

Commerzbank has been appointed as the independent financial adviser to advise the KWCM Independent Board Committee and the KWCM Independent Shareholders in relation to the terms of the Acquisition.

We wish to draw your attention to the Letter from the KWCM Directors (which is set out on pages 29 to 48 of this Circular) and the letter of advice from Commerzbank (which is set out on pages 93 to 140 of this Circular).

Having taken into account the advice from Commerzbank, we consider that the terms of the Acquisition are fair and reasonable insofar as the KWCM Independent Shareholders are concerned and the Acquisition is in the interests of KWCM and the KWCM Shareholders as a whole. Accordingly, we recommend the KWCM Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the KWCM EGM to approve the terms of the Acquisition.

Yours faithfully
The KWCM Independent Board Committee

Mr. James Ross Ancell
Independent non-executive Director

Dr. William Yip Shue Lam
Independent non-executive Director

The following is the text of a letter received from Commerzbank, the independent financial adviser to the KWCM Independent Board Committee and the KWCM Independent Shareholders in connection with the Acquisition.

德 國 商 業 銀 行

COMMERZBANK

(Public Limited Company Incorporated in the Federal Republic of Germany)

HONG KONG BRANCH

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HONG KONG

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30 June 2005

To the KWCM Independent Board Committee and the KWCM Independent Shareholders

Dear Sirs,

POSSIBLE ACQUISITION OF 88.1% OF THE VOTING SHARES CARRYING 97.9% OF THE ECONOMIC INTEREST IN GALAXY CASINO S.A.

CONNECTED TRANSACTION, VERY SUBSTANTIAL ACQUISITION FOR K. WAH CONSTRUCTION MATERIALS LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the KWCM Independent Board Committee and the KWCM Independent Shareholders in respect of the Acquisition, the definition of which, amongst other things, is set out in the circular dated 30 June 2005 (the "**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context requires otherwise.

On 18 April 2005, KWCM announced that Canton Treasure, a wholly-owned subsidiary of KWCM, had agreed conditionally on 14 March 2005 to acquire an economic interest of 73.6% in Galaxy from Family Companies and a further economic interest of 24.3% from the Minority Vendors for an aggregate Purchase Price of HK$18,405,198,023. The Purchase Price is to be satisfied as to HK$14,724,158,420 by the issue to the Vendors of 1,840,519,798 new KWCM Shares at HK$8.00 per KWCM Share and as to HK$3,681,039,603 by the issue to the Vendors of FRNs or, at the sole discretion of KWCM, FRNs and/or cash to the aggregate value of HK$3,681,039,603.

Under the Listing Rules, the Acquisition will constitute a connected transaction and very substantial acquisition for KWCM and a connected transaction, very substantial acquisition and deemed very substantial disposal for KWIH. The Acquisition is conditional upon, amongst other things, the approvals of the KWCM Independent Shareholders and of the KWIH Independent Shareholders.

In formulating our recommendation, we have relied on the information and facts supplied to us by KWCM and Galaxy. We have also discussed with the management of KWCM and Galaxy their plans and prospects for the development of the Galaxy Group's gaming and non-gaming businesses. We have reviewed, among other things,

(i) the valuation report prepared by American Appraisal to Galaxy dated 8 March 2005 and, the valuation letter by American Appraisal as set out in Appendix II to the Circular, and interviewed American Appraisal as to its scope of work, the valuation methods and assumptions as set out in their report;

(ii) the financial information about KWCM as set out in Appendix III to the Circular;

(iii) the accountants' report on the Galaxy Group as set out in Appendix V to the Circular;

(iv) the unaudited pro forma financial information on the Enlarged KWCM Group;

(v) the management accounts of the Galaxy Group and the financial projections prepared by the management of Galaxy upon which the valuation report is based;

(vi) the letter dated 30 June 2005 addressed to KWCM from PricewaterhouseCoopers ("**PwC**") as set out in Appendix II to the Circular and interviewed PwC as to their scope of work, methodology adopted and basis in arriving at their opinion; and

(vii) the letter dated 30 June 2005 addressed to KWCM from UBS Investment Bank (the "**UBS Letter**") as set out in Appendix II to the Circular, setting out, inter alia the opinion of UBS Investment Bank that the financial projections on the Galaxy Group made by the management of Galaxy, for which the KWCM Directors are responsible, have been made after due and careful enquiry; and

(viii) research on other markets and businesses relevant to those in which the Galaxy Group operates.

We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations of the management of KWCM and Galaxy that having made all due enquiries and careful consideration, and to the best of their knowledge and belief, there is no other fact not contained in the Circular, the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information and statements and representations made or referred to in the Circular, which have been provided to us by KWCM or the relevant third party experts named in this Circular, and for which they are wholly responsible, were true, complete and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the fairness and reasonableness of the terms of the Acquisition, and to provide us with a reasonable basis for our recommendation. We consider that we have reviewed the fairness, reasonableness and completeness of all assumptions or projections relevant to the Acquisition. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances which would render the information supplied by, or relied upon by the

relevant third party experts named in this Circular, and the representations made to us untrue, inaccurate, misleading or omitting a material fact. We have not, however, carried out any independent verification of the information provided by KWCM and Galaxy, nor have we conducted any independent in-depth investigation into the business and affairs of the KWCM Group and the Galaxy Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Acquisition and giving our independent financial advice to the KWCM Independent Board Committee and the KWCM Independent Shareholders, we have taken into account the following principal factors:

1. The Acquisition

Canton Treasure, a wholly-owned subsidiary of KWCM, agreed on 14 March 2005 to acquire a 97.9% economic interest in Galaxy, carrying 88.1% of the voting power in Galaxy, that is currently held by Family Companies and the Minority Vendors. The Purchase Price is HK$18,405,198,023, which will be satisfied (i) as to about 80% by the allotment and issue of 1,840,519,798 Consideration KWCM Shares to the Vendors, credited as fully paid at HK$8.00 per KWCM Share and (ii) as to about 20% by the issue to the Vendors of HK$3,681,039,603 principal amount of FRNs or, at the sole discretion of KWCM, by FRNs and/or cash. Canton Treasure has no material business, assets or liabilities save for those under the Acquisition Agreement.

The Completion of the Acquisition is conditional upon the fulfilment (or waiver, in certain cases as stated below) of the following conditions precedent:

(i) the result of a due diligence review being found satisfactory to KWCM within 21 days after 18 April 2005;

(ii) the Acquisition Agreement and the transactions contemplated thereunder, including the issue and allotment of the Consideration KWCM Shares, all having been approved by resolution of the shareholders (or such of them as are not required to abstain from voting by the Stock Exchange or the SFC) of KWCM in general meeting taken on a poll;

(iii) the Acquisition Agreement and the transactions contemplated thereunder including the issue and allotment of the Consideration KWCM Shares all having been approved by resolution of the shareholders (or such of them as are not required to abstain from voting by the Stock Exchange or the SFC) of KWIH in general meeting taken on a poll;

(iv) the Executive having ruled that the transactions contemplated thereunder and the issuance and allotment by KWCM of the Consideration KWCM Shares to the Vendors do not trigger any obligation on the part of any of the Vendors (and any of the parties considered to be acting in concert with any of the Vendors within the meaning of the Takeovers Code) to make a general offer for all the shares of KWCM or if such an obligation will arise, the same having been waived or (if applicable) an appropriate waiver having been granted;

(v) listing of and permission to deal in the Consideration KWCM Shares having been granted by the Stock Exchange and not having been revoked and the Stock Exchange not having indicated that it will revoke or suspend the listing of KWCM Shares on the Stock Exchange by reason of Completion;

(vi) all consents or approvals of any relevant governmental authorities or other relevant regulatory bodies in Hong Kong and Macau which are necessary for the entering into and implementation of the Acquisition Agreement including but not limited to the consent to the change of ownership of Galaxy of the Secretario para a Economia e Financas (or, in English the Secretary for Economy and Finance) of the Macau government dated 17 January, 2005 as amended and supplemented by two letters dated 31st January 2005 and dated 16 May 2005 in response to letters from Galaxy dated 12 January 2005, 28 January 2005 and 10 May 2005 on application of Galaxy having been obtained and not having been revoked;

(vii) the holders of the KWIH Bonds having duly passed an appropriate resolution waiving, or otherwise relaxing, compliance with condition 11(xi) of the KWIH Bonds, to the satisfaction of KWCM. Condition 11(xi) of the KWIH Bonds requires KWIH to hold, directly or indirectly, an interest of at least 30% of the issued share capital of KWCM (save for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation involving KWIH the terms of which shall have been previously approved by the trustee to the KWIH Bonds or by an extraordinary resolution of the holders of the KWIH Bonds);

(viii) the Vendors delivering to KWCM an opinion addressed to KWCM by a firm of lawyers qualified to advise on Macau law, in a pre-agreed form; and

(ix) KWCM being satisfied that neither the entry into nor the performance of the Acquisition Agreement will result in the material breach or termination of the Concession or any other material right of Galaxy or any material agreement to which Galaxy is a party or by which it is bound.

The conditions precedent referred to in (i), (iv), (vi), (vii) and (viii) have already been satisfied. Save for the condition precedent referred to in (ix) above, none of the other outstanding conditions precedent is capable of being waived unilaterally by Canton Treasure.

If any of the conditions precedent has not been fulfilled by 31 July 2005 (or such later date as may be agreed in writing) then KWCM may, subject to the right of KWCM to waive condition precedent (ix), thereafter at its option (but without prejudice to any other right or remedy it may have), by notice to the other parties thereto elect to terminate the Acquisition Agreement, in which event the Acquisition Agreement will be of no further effect, the rights and obligations of the parties under the Acquisition Agreement will lapse, and the parties thereto will be released from such obligations without any liability. If the condition precedent referred to in (ix) above is not satisfied, it will not be waived unless KWCM is satisfied that waiver is in the interests of KWCM taking into account the circumstances at the relevant time. If any of the conditions precedent is waived or has not been fulfilled by 31 July 2005, then an appropriate announcement will be made at the time.

Completion is to take place on the third business day next following the day on which the last unfulfilled condition precedent is satisfied or waived. The Macau Government had originally agreed to extend the date for transfer of the Galaxy Equity Interest to 31 May 2005 but was now further extended it to 30 September 2005.

The table below shows the percentage of the Galaxy Equity Interest to be sold by each Vendor and the consideration receivable by it under the Acquisition Agreement:

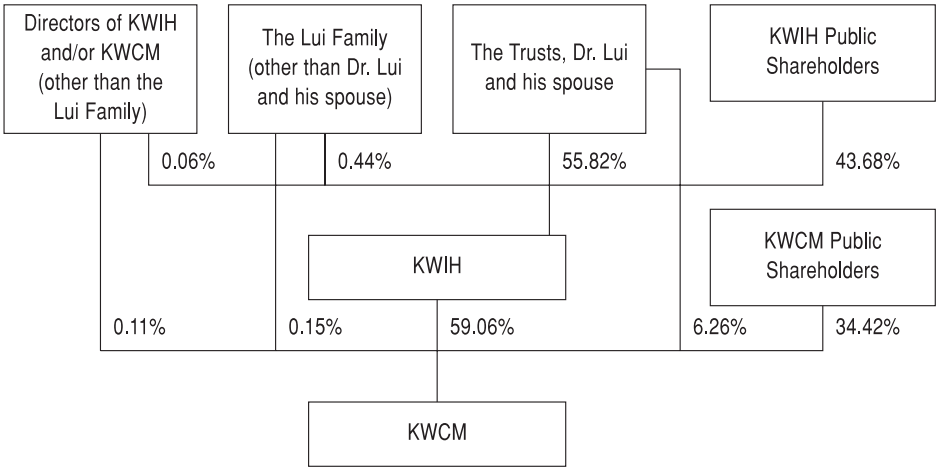
Name of Vendor	Number of Galaxy B Shares	% of economic interest in Galaxy	% of voting power in Galaxy	% of Galaxy Equity Interest sold	Consideration KWCM Shares	Agreed value of the Consideration KWCM Shares *(HK$)*	Cash or FRNs *(HK$)*	Total Consideration *(HK$)*
City Lion	528,813	61.73	55.55	63.05	1,160,449,206	9,283,593,648	2,320,898,413	11,604,492,061
Netfinity	58,718	6.85	6.17	7.00	161,066,521	1,288,532,168	0	1,288,532,168
Recurrent Profits	42,836	5.00	4.50	5.11	111,138,039	889,104,312	50,906,654	940,010,966
Brightwealth	148,382	17.32	15.59	17.69	325,615,622	2,604,924,976	651,231,245	3,256,156,221
Future Leader* *Note*	59,970	7.00	6.30	7.15	82,250,410	658,003,280	658,003,291	1,316,006,571
Total	838,719	97.90	88.11	100.00	1,840,519,798	14,724,158,384	3,681,039,603	18,405,197,987

* Inclusive of the 17,134 Galaxy B Shares acquired from Hugo Legend

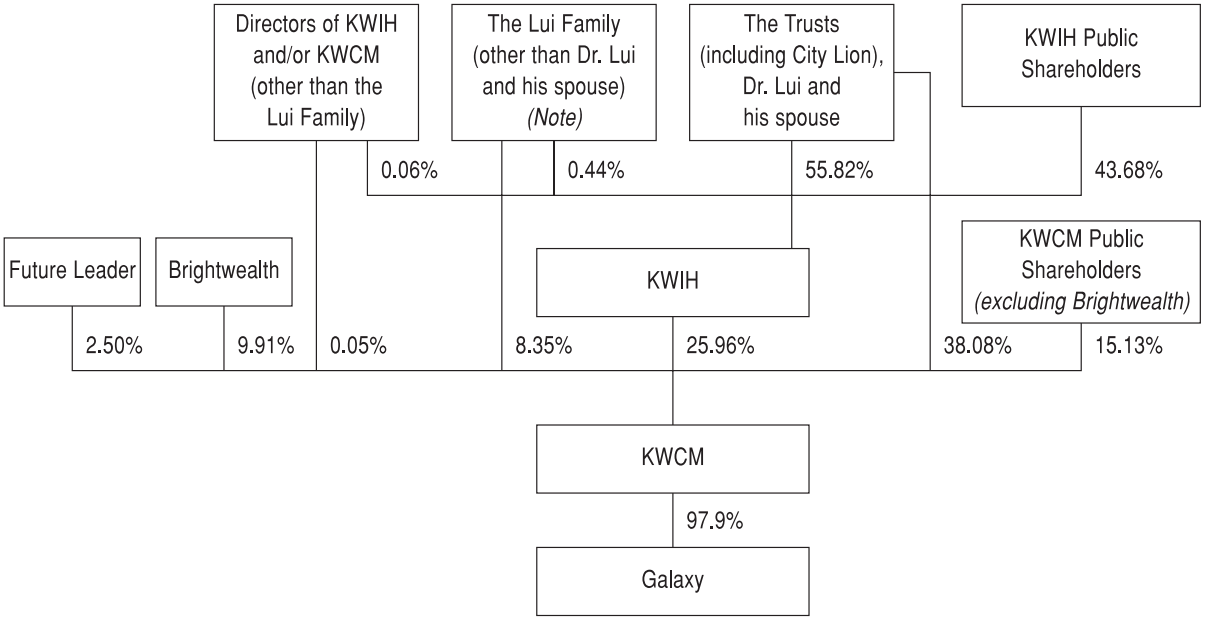
Note: Future Leader entered into an agreement with Hugo Legend to acquire Hugo Legend's entire equity interest in Galaxy on 29 March 2005. Hugo Legend entered into a conditional Supplemental Agreement with the other parties to the Acquisition Agreement on 1 April 2005, pursuant to which Hugo Legend had agreed to sell to Future Leader all Galaxy B Shares it previously held as at the date the Acquisition Agreement was first signed and the transfer has become effective on 18 May 2005. Please refer to the Letter from the KWCM Directors under "Supplemental Agreements" for details of the Supplemental Agreement.

The following diagrams illustrate the corporate and shareholding structure (economic interests only, taking no account of 100% owned intermediate holding companies) of KWIH and KWCM before Completion and of KWIH, KWCM and Galaxy immediately after Completion but before exercise of any of the Brightwealth Options and Employee Options:

Before Completion



After Completion



Note: Includes Recurrent Profits and Netfinity which are 100% owned, respectively, by Francis Lui and Lawrence Lui.

2. Background of the Acquisition

2.1 *Business and historical financial performance of the Galaxy Group*

2.1.1 *Business of the Galaxy Group*

Galaxy was incorporated in Macau with limited liability on 30 November 2001. It holds one of only three gaming concessions awarded by the Macau government to operate casinos in Macau and currently operates its first city club casino, the Galaxy Casino at Waldo Hotel, which is a casino in Macau with an emphasis on the Macau VIP gaming market.

Apart from gaming facilities, the Galaxy Group intends to integrate non-gaming amenities and services such as food and beverage, leisure, entertainment and shopping outlets into its hotel and resort properties, thus making them attractive destinations for tourists of all kinds — gaming and non-gaming — to Macau.

2.1.2 *Capital structure of Galaxy*

Galaxy has in issue two classes of shares — Galaxy A Shares and Galaxy B Shares. The Galaxy A Shares make up 10% of the total issued shares in Galaxy while Galaxy B Shares make up the remaining 90% of the issued shares in Galaxy. The Galaxy A Shares are held by Pedro Ho, a Macau permanent resident. According to Macau law,

the managing director of a company operating games of fortune and other casino games must be a Macau permanent resident holding at least 10% of the voting shares of such company.

The Galaxy A Shares carry a negligible economic interest whereas the Galaxy B Shares carry effectively the full economic interest in Galaxy. On a dissolution or liquidation of Galaxy, the Galaxy A Shareholder will only be entitled to a return of the amount of capital invested without any right to participate in distribution of the liquidation assets of Galaxy, while Galaxy B Shareholders will be entitled to both a return of capital invested as well as to share a distribution of liquidation assets. The Acquisition only concerns Galaxy B Shares.

2.1.3 *Financial information*

Set out below is a summary of the audited consolidated profit and loss statement for the three years ended 31 December 2004 of the Galaxy Group extracted from the audited accounts prepared in accordance with HKFRS as set out in Appendix V to the Circular.

Consolidated profit and loss statement

	30 November 2001 to 31 December 2002	**Year ended 31 December 2003**	**Year ended 31 December 2004**
	HK$'000	*HK$'000*	*HK$'000*
Revenues from gaming operations *(Note)*	—	—	123,777
Other revenues	1,835	1,153	3,643
Administrative expenses	(84,031)	(84,016)	(49,381)
Other operating expenses	—	—	(1,202)
Operating profit/(loss)	(82,196)	(82,863)	76,837
Finance costs	(304)	(4,063)	(4,179)
Profit/(loss) before income tax	(82,500)	(86,926)	72,658
Income tax expense	—	—	—
Profit/(loss) for the year	(82,500)	(86,926)	72,658

Note: Revenues from gaming operations

	30th November 2001 to 31st December 2002	Year ended 31st December 2003	Year ended 31st December 2004
	HK$'000	*HK$'000*	*HK$'000*
Net gaming wins	—	—	2,994,559
Interest income	—	—	143
	—	—	2,994,702
Operating expenses			
Special gaming tax and funds to the Government	—	—	(1,170,618)
Commission and allowances to VIP promoters	—	—	(1,173,608)
Depreciation and amortisation	—	—	(3,513)
Administrative and others	—	—	(155,685)
	—	—	(2,503,424)
Contribution from gaming operations	—	—	491,278
Net entitlements of the Service Providers	—	—	(367,501)
Revenues from gaming operations	—	—	123,777

Galaxy Casino at Waldo Hotel commenced operations on July 4, 2004, and accordingly, the Galaxy Group has only limited historical results of operations. The Galaxy Group was in a pre-operation stage from the award of the Concession on 26 June 2002, until commencement of operations at Galaxy Casino at Waldo Hotel. Galaxy Casino at Waldo Hotel has generated substantially all of the Galaxy Group's revenue. As set out above, the net gaming win for the year ended 31 December 2004 amounted to approximately HK$2,995 million; which produced net revenue from gaming operations of approximately HK$124 million after deducting the special gaming tax and levies, commission and allowances paid to VIP promoters and net entitlements to Service Providers and other expenses, with a gross profit margin of approximately 4.1%. The KWCM Directors advised that the current gross profit margin could be explained by the fact that the Galaxy Group is in its start-up phase of development, and hence higher commission are paid to Service Providers in order to build up the brand name of Galaxy within a short period of time and with minimal capital outlays (Galaxy Casino at Waldo Hotel is located at Waldo Hotel leased by Galaxy). We have discussed with the KWCM Directors and noted that commission and allowances paid to VIP promoters are in line with market practice. We note that the current gross profit margin of approximately 4.1% is not as high as the industry norm in double digit margins (i.e. SJM had a net profit margin of 11.5% for the year 2004) as a result of the payment to the Service Providers. We have discussed with the KWCM Directors and noted that given (i) Galaxy was not required to incur material capital expenditure or time to build the premises for the Galaxy Casino at Waldo Hotel; (ii) Galaxy is responsible for the management and operation of the casino and the Service Providers are responsible for bringing in customers for the casino; (iii) the Service Providers guarantee a minimum return to Galaxy regardless of

the operating results of the gaming activities of the casino, and agree to indemnify Galaxy against substantially all risk arising under the lease with Waldo Hotel; and (iv) Galaxy was a newcomer to the Macau gaming industry in 2004, Galaxy agreed to a relatively higher operating cost structure at Galaxy Casino at Waldo Hotel in order to capture a significant market share within a relatively short period of time. Based on the above, we consider the higher operating cost structure in 2004 was justified, as demonstrated by the high return on equity of the Galaxy Group of approximately 74.6% for the year ended 31 December 2004, based on the net profit of HK$73 million for the year ended 31 December 2004 and shareholders' funds of HK$97 million as at 31 December 2004. As noted from the revenue of the Galaxy Group for the year ended 31 December 2004 and the brand name that the Galaxy Group has built since its operation in July 2004, the KWCM Directors are of the view that this strategy has proven to be successful. We further understand from the KWCM Directors that this cost structure will not be applicable to the other city club casinos of Galaxy in the future. As such the KWCM Directors anticipate that the gross profit margin is expected to increase over the years following the opening of Galaxy StarWorld and Galaxy Cotai Mega Resort in 2006 and 2008 respectively, which are properties to be built, operated and owned by the KWCM Group to create a critical mass of gaming operations.

Galaxy Casino at Waldo Hotel had approximately 1,005,000 visitors from its commencement of operations to 31 December 2004. Based on the management information provided by Galaxy, the majority of the gaming revenue in 2004, being approximately 95%, was contributed by VIP tables and the remainder (approximately 5%) by non-VIP tables. The slot machines currently contributed a negligible amount of revenue, less than 0.5%. The average daily net win per VIP table, average daily net win per non-VIP table, and average daily net win per slot machine are calculated and set out below. Based on the net win for the 6 months of operation from inception to 31 December 2004, the average daily net win per VIP table of approximately HK$411,000 is more than 10 times of the average daily net win per non-VIP table of approximately HK$36,000. The average daily net win per table (VIP and non-VIP tables) was approximately HK$263,000.

Number of visitors in 2004	1,005,000
Average daily win per table:	
VIP table *(HK$'000)*	411
Non-VIP table *(HK$'000)*	36
Average daily net win per slot machine *(HK$'000)*	0.7
Number of table games (at end of 31 December 2004):	
VIP table	40
Non-VIP table	23
Number of slot machines (at end of 31 December 2004)	83

Set out below is the audited consolidated balance sheet of the Galaxy Group for the three years ended 31 December 2004 extracted from the audited accounts of the Galaxy Group as set out in Appendix V to the Circular.

	As at 31 December		
	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	69	286,717	376,750
Intangible assets	—	136	1,859
Other investments	—	—	26,000
Restricted bank deposits	251,822	252,975	253,572
	251,891	539,828	658,181
Current assets			
Inventories	—	—	2,556
Amounts due from related parties	2,109	917	42,424
Debtors and prepayments	1,750	751	5,390
Cash and bank balances	15	19,675	808,490
	3,874	21,343	858,860
Current liabilities			
Amounts due to related parties	—	12,010	82,010
Creditors and accruals	—	8,298	825,088
Short-term borrowings	—	315,087	317,000
Current portion of obligations under finance leases	—	—	218
	—	335,395	1,224,316
Net current assets/(liabilities)	3,874	(314,052)	(365,456)
	255,765	225,776	292,725
Financed by:			
Share capital	194,175	194,175	194,175
Accumulated loss	(82,500)	(169,426)	(96,768)
Shareholders' funds	111,675	24,749	97,407
Non-current liabilities			
Loan from immediate holding company	144,090	201,027	195,009
Obligations under finance leases	—	—	309
	144,090	201,027	195,318
	255,765	225,776	292,725

The Galaxy Group had a total assets and share capital of approximately HK$1,517 million and approximately HK$194 million respectively as at 31 December 2004. As set out in the financial information about Galaxy in Appendix V to the Circular, on 3 February 2005, Galaxy underwent a reorganisation of its share capital, where the share capital increased from HK$194 million to HK$924 million following issue of new KWCM Shares.

Current liabilities of HK$1,224 million as at 31 December 2004 included short term borrowings of HK$317 million. The short term borrowings consist of a mortgage loan amounting to HK$242 million, secured by a first charge over a piece of leasehold land in Macau, and two revolving term loans totalling HK$75 million. We understand from the KWCM Directors that the mortgage loan has a maturity date of 30 June 2005 and the creditor bank has principally approved the extension of the mortgage loan for one year and the finalisation of the loan agreement is in process.

The Galaxy Group had a current ratio (current assets to current liabilities) of 0.70 times as at 31 December 2004. As discussed with the management of KWCM, the current ratio improved to around 1 time based on the management accounts of the Galaxy Group as at 28 February 2005 following the reorganisation exercise underwent in February 2005, as detailed in the financial information about Galaxy as set out in Appendix V to the Circular.

2.1.4 *The Galaxy Group's business plan and estimated capital expenditure*

As set out in the Letter from the KWCM Directors, Galaxy has commenced the development of its StarWorld project and its Cotai Mega Resort project at a plot in the "Cotai" area. These projects form the core of Galaxy's investment obligations under the Concession. The Galaxy StarWorld and the Galaxy Cotai Mega Resort properties are to be high quality, fully integrated leisure entertainment and hotel/resort facilities, which Galaxy intends to build, own, and operate under its own brand. Both projects seek to offer comprehensive gaming as well as non-gaming amenities for gaming and non-gaming tourists to Macau.

Alongside these integrated leisure and entertainment projects is Galaxy's planned city club casinos chain, which offers sophisticated gaming facilities with emphasis on VIP gaming. The Galaxy Group has commenced business at its first city club casino, the Galaxy Casino at Waldo Hotel. The Galaxy Group intends to open two more city club casinos, namely, the Galaxy Casino at Cotai City Club, which is at the Cotai reclamation, and Galaxy Casino at Rio Hotel (collectively the "**City Club Casinos Chain**").

Set out below are the brief details of the existing or planned gaming facilities, location and estimated capital expenditure for the development of the City Club Casinos Chain, Galaxy StarWorld and Galaxy Cotai Mega Resort Phase I (collectively the "**Casino Projects**"). A more detailed description of the Casino Projects is set out in the section — "Description of the Galaxy Group" in the Circular.

Brief details of the Casino Projects at Latest Practicable Date

		The City Club Casinos Chain					
		Galaxy Casino at Waldo Hotel	Galaxy Casino at Cotai City Club	Galaxy Casino at Rio Hotel	Galaxy StarWorld	Galaxy Cotai Mega Resort (Phase I)	Total
Operational date		4-Jul-2004	1st quarter of 2006	1st quarter of 2006	mid 2006	2008	
GFA gaming (approximate)	sq.m.	3,500	14,000	6,500	26,000	28,800	78,800
Location		Waldo Hotel, Zona de Atterros do Porto Exterra (ZAPE), Lot 6J, Av. Da Amizade	Cotai reclamation area	Rio Hotel, Quarteirão 9 Lots C & D at ZAPE	Lote 3(A2/I) of NAPE, Avenida da Amizade	Cotai reclamation area	
Focus		VIP	VIP	VIP	Both	Both	
VIP table	no.	43	46	20	60	48	217
Non-VIP table	no.	20	100	60	140	300	620
		63	146	80	200	348	837
Slot machines	no.	74	200	150	300	1,000	1,724

CAPEX of the Casino Projects

	The City Club Casinos Chain	Galaxy StarWorld	Galaxy Cotai Mega Resort (Phase I)	Total
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*
Incurred up to 2004	49	317	13	379
2005–2006	157	1,483	1,344	2,984
2007–2009	Nil	31	2,728	2,759
Total	206	1,831	4,085	6,122

We have discussed with the senior management of the Galaxy Group who advised us that the Galaxy Group has the following key competitive strengths to execute the above development plans and to establish a leading position in the Macau gaming market:

(i) Galaxy is one of the only three concessionaires authorised to operate gaming facilities in a supply-constrained market;

(ii) The Galaxy Group has a clear and focused strategy to become the major gaming operator in Macau. As set out in the section — "Description of the Galaxy Group" in the Circular, the Galaxy Group's key strategy includes the following:

(a) leverage on the experience of its first city club casino at Waldo Hotel to increase the number of Galaxy's city clubs to expand the VIP gaming market through service providers and promoters with tailored gaming infrastructure and hotels and city club facilities;

(b) establish a leading position in the VIP gaming business by offering premier VIP services with custom designed properties and attention to detail to satisfy client preferences with the primary consideration being total customer satisfactory;

(c) establish a leading position in the mass market gaming business by giving patrons welcoming gaming resort facilities in Galaxy StarWorld and Galaxy Cotai Mega Resort with one-stop facilities that satisfy mass market gaming patrons who will be able to play games, dine, shop, be entertained and stay, under one roof;

(d) develop and promote the "Galaxy" brand as signifying world-class operating standards, offering high-quality custom-oriented entertainment and hospitality products and services, via various marketing and promotion channels to stimulate demand for the Galaxy Group's destinations; and

(e) develop a dedicated international cross-cultural efficient management team who are customer-oriented, and comprehend Asian clientele attributes and preferences, to encourage repeated patronage.

(iii) The Galaxy Group has established a significant and growing presence in Macau's VIP gaming market and has attained approximately 14% market share with only 63 gaming tables, representing less than 6% of the total gaming tables in Macau as at 31 December 2004;

(iv) The Galaxy Group has established strong relationships with a number of the top gaming promoters in Macau;

(v) The Galaxy Group has the cultural and local expertise and an experienced management team. The management of the Galaxy Group has extensive experience in managing casinos in Asia and Australia, where they catered extensively to the Asian VIP market; and

(vi) The Galaxy Group's current and future properties enjoy prime access to the overall transportation system for visitors to Macau. Galaxy Casino at Waldo Hotel is a short distance from Macau's main ferry terminal and helipad and is easily accessible by taxi and limousine. The site for Galaxy StarWorld is in the

heart of Macau's downtown gaming hub and, according to the management of Galaxy, the biggest site on Cotai is designated for Galaxy. The site for Galaxy Cotai Mega Resort is situated across from one of Macau's two Mainland China border crossings and a new bridge, one of three linking the Cotai resort area to the rest of Macau.

2.2 *Business and historical financial performance of KWCM Group*

2.2.1 *Business of KWCM Group*

KWCM Group is principally engaged in quarrying, manufacture of construction materials including ready-mixed concrete, cement, other concrete products and asphalt. More recently KWCM Group has further expanded into the slag business and the manufacture of PHC piles to enhance the vertical integration of its construction materials operations.

Besides Hong Kong, KWCM Group also has strategic business developments in the Mainland China. Operations have been set up in Beijing, Shanghai, Guangzhou, Shenzhen, Zhuhai, Nanjing, Anhui, Huzhou, Huidong and Kunming.

2.2.2 *Financial information*

The following table sets out some of the key financial information of KWCM Group for the last two financial years ended 31 December 2004 and is extracted from KWCM Group's annual reports:

	2004	**2003**
	HK$'000	*HK$'000*
Turnover	1,299,143	1,130,894
Profit attributable to shareholders	33,423	40,205
Shareholders' funds	1,445,533	1,414,263
Total assets	2,278,534	2,167,130
Total borrowings	321,580	300,800
Cash and bank balances	170,952	306,354
Current assets	817,886	870,703
Current liabilities	353,391	389,524
Current ratio	2.31 times	2.24 times
Gearing ratio (net debt to total assets)	6.6%	Net cash

Turnover and profit attributable to KWCM Shareholders for the year ended 31 December 2004 were HK$1,299 million and HK$33 million respectively, as compared to HK$1,131 million and HK$40 million respectively for the year ended 31 December 2003. The KWCM Group's turnover was slightly higher than that of 2003 but the profit attributable to KWCM Shareholders decreased by approximately 17% from 2003. As set out in the section on "Management Discussion and Analysis" in the "Financial Information about KWCM" in Appendix III in the Circular, the profit attributable to KWCM Shareholders in 2003 included a gain on disposal of operating rights of HK$28 million.

Even excluding such gain, the profit in 2004 improved over 2003. The gradual phasing in of new projects in the Mainland China brought in an additional contribution to the KWCM Group.

The shareholders' funds and net debt (total borrowings less cash) of KWCM Group as at 31 December 2004 were HK$1,446 million and HK$151 million respectively, with a gearing ratio, being net debt to total assets, of approximately 6.6%

2.3 ***Reasons for the Acquisition***

As disclosed in the Letter from the KWCM Directors and based on our discussion with the KWCM Directors, we have considered both macro and micro reasons for the Acquisition. In support of our analysis, we have researched the following data and statistics, which are extracted from official websites maintained by respective government or regulatory authorities.

2.3.1 *Macro reasons — Overview of the Macau tourism and gaming market*

Macau is the only legalised gaming destination in the Mainland China. According to the Macau Statistics and Census Service, tourism and gaming are the main industries supporting Macau's economy and gaming revenue (from Games of Fortune), and has grown from approximately USD2.2 billion in 1995 to approximately USD5 billion in 2004, reflecting an approximately 9.76% CAGR. In assessing the tourism and gaming market development in Macau, we have paid particular attention to the development of the Las Vegas Strip and the Atlantic City, which were respectively the largest and third largest gaming markets in the world in 2004.

(i) Continuous increase in the number of visitors

Macau's tourism has been expanding rapidly due to the surge in visitor arrivals, especially from the Mainland China. With the opening of Sands Macau Casino (the first mega-size casino since the liberalization of the gaming industry by granting gaming concessions to three operators by the Macau government) and the relaxation of the rules governing the entry of visitors from the Mainland China to Macau under the individual visit scheme, which started in July 2003 to allow travellers from Mainland China to visit Macau on an individual basis (the "**Individual Visit Scheme**"), total visitor arrivals for 2004 recorded notable year-on-year growth of approximately 40.2% from approximately 11.9 million in 2003 to approximately 16.7 million. According to the Macau Statistics and Census Bureau, 87.5% of the tourists who visited Macau in 2004 came from Hong Kong or the Mainland China. As set out in below table, visitors from Hong Kong as a percentage of the total visitors has shrunk from 44.2% in 2002 to 30.3% in 2004, while visitors from the Mainland China as a percentage of the total visitors has surged from 36.8% in 2002 to 57.2% in 2004. The CAGR for visitors from the Mainland China as a percentage of the total visitors for 1997 to 2004 was approximately 41.2%.

It is expected that the tourism industry will continue to expand in the coming years, following the recent extension of the Individual Visit Scheme in Zhanjiang, Maoming, Yangjiang, Shanwei, Shaoguan, Jieyang and Heyuan in May 2004 and Nanjing, Suzhou and Wuxi of Jiangsu Province, Hangzhou, Ningbo and Taizhou of the Zhejiang Province, as well as Fuzhou, Xiamen and Quanzhou of Fujian Province in July 2004. According to the Macau Statistics and Census Service, visitors to Macau in the first quarter of 2005 totalled 4.5 million, representing an increase of approximately 18.8% over the same period in 2004. Visitors from the Mainland China remain the major source of visitors, constituting approximately 55.8% of visitors to Macau in this period.

Distribution of visitors arrivals by country

Country of Residence	**2002**		**2003**		**2004**	
	No.	*%*	*No.*	*%*	*No.*	*%*
Hong Kong	5,101,437	44.2%	4,623,162	38.9%	5,051,059	30.3%
China	4,240,446	36.8%	5,742,036	48.3%	9,529,739	57.2%
Taiwan	1,532,929	13.3%	1,022,830	8.6%	1,286,949	7.7%
Japan	142,588	1.2%	85,613	0.7%	122,184	0.7%
South Korea	50,447	0.4%	38,281	0.3%	65,631	0.4%
Others Asia	190,712	1.7%	167,259	1.4%	290,501	1.7%
Rest of the World	272,282	2.4%	208,695	1.8%	326,493	2.0%
Total	11,530,841	100.0%	11,887,876	100.0%	16,672,556	100.0%
Year on year growth (%)	12.2%		3.1%		40.2%	

Sources: Macau government Tourist Office; Macau Public Security Forces

In addition to PRC visitors, according to the Macau Statistics and Census Service, visitors from South East Asia recorded a significant growth of approximately 97.55% during the first quarter of 2005 as compared to the same period in 2004, demonstrating the increasing attractiveness of Macau as a regional tourist destination since the opening of more gaming facilities during the second half of 2004 (i.e. Greek Mythology, Las Vegas Sands and Galaxy Casino at Waldo Hotel). As set out in the paragraphs below, with improving access and the increasing gaming and tourism facilities, Macau is well situated to attract visitors from different countries in the future.

(ii) Strategic location of Macau

Macau is accessible from various regions in the Pearl River Delta ("**PRD**") by many modes of transportation, including jetfoil, land and helicopter. Macau is situated at the entrance to the PRD at the tip of the Guangdong province, which is within a 3-hour drive from Macau with a population of around 80 million (according to the China Statistics Yearbook 2004). Macau is also easily accessible from Hong Kong with an hour away via a hydrofoil ferry system and 16 minutes via helicopter.

In addition, Macau is located at the heart of Southeast Asia. Macau is within 3-hour flight and 5-hour flight from a population of more than 1 billion and 3 billion respectively. The opening of the Macau international airport in 1995 greatly increased Macau's connectivity to the rest of Asia. It now serves more than 20 cities and handled over 3.7m passengers in 2004. Macau can also attract gaming customers from nearby countries in Asia such as Taiwan, South Korea and Japan. With the introduction of budget airlines in Macau in 2004, travelling to Macau has become more affordable, thereby increasing the frequency of visits.

Transportation	Travelling Time	Remarks
Jetfoil (Macau–Hong Kong)	1 hour	Operates 24 hours a day from Hong Kong to Macau at 15 min frequency
Helicopter (Macau–Hong Kong)	16 minutes	Operates every 30 min from 9:00 a.m. to 10:59 p.m.
Land (Macau–Guangzhou)	2.5 hours from Guangzhou	
Aircraft (Macau–South East Asia)	> 3 hours	Over 15 airlines travelling to several cities in Asia

(iii) Extended length of stay as a result of additional facilities

According to GLS Research, visitors to Las Vegas stayed an average of 4.6 days in 2003 and 2004. According to the "Monthly Bulletin of Statistics" published by the Macau Statistics and Census Service, the average visitor length of stay in Macau was only 1 day in 2004. The Galaxy Group expects this length of stay to increase with increased visitation, the expansion of gaming and the addition of upscale hotel resort accommodations in Macau. According to the Macau Statistics and Census Service, in 2004, there were 39 hotels and 31 guest houses in operation in Macau, of which nine were classified as "5-star". These hotels and guest houses maintained approximately 9,168 available rooms and on average experienced an approximately 75.6% occupancy rate.

(iv) Improved infrastructure and transportation

With the opening of Disneyland Hong Kong planned for September 2005, a major facelift proposed for the Ocean Park, a Safari Park in Zhuhai and theme parks in Shenzhen, there are now a cluster of entertainment attractions to which Macau gaming and entertainment facilities can add to their appeal upon completion in 2008. In addition, Beijing has given final approval to build a 29km length bridge

linking Hong Kong, Macau and Zhuhai. Upon planned completion in 2009, the bridge will link up Lantau Island (where the Hong Kong airport and the new Disneyland are located), the Cotai Strip and Zhuhai, which is the gateway to the PRD region. The new bridge is expected to cut the travel time between Hong Kong and Macau from 60 minutes by ferry to only 20 minutes by road.

With the increasing number of low cost carriers operating in Macau (Air Asia, Tiger Airways, and 2 more expected to be in operation in 2005), sufficient numbers of visitors are expected to be attracted, especially from the Mainland China, Taiwan and South East Asia. Moreover, the capacity of Macau international airport, which is about 2 kilometers away from the Cotai Strip, will increase from 6 million passengers per annum to 10 million. The expanded airport is expected to become the key support facility in order to cater for the increasing number of tourists from outside the Greater China region.

With the completion of the Jingzhu highway system in 2004, being the first completed north-south highway system in the Mainland China starting from Beijing and ending in Zhuhai (which is on the border of Macau) will enhance the accessibility for Chinese tourists from outside the PRD region.

(v) Gaming volume — Macau versus U.S.

Macau has demonstrated a strong growth potential in gaming market with 30.4% CAGR from 2001–2004. In 2004, Macau has taken over from the Atlantic City as the world's second largest gaming market, behind the Las Vegas Strip. In 2004, Macau recorded approximately US$5.0 billion (approximately HK$39 billion) in total gaming revenue, an increase of 44% over 2003.

	2001	**2002**		**2003**		**2004**		**2005**
Location	**Gaming revenue** *(bn)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*	**Gaming revenue** *(bn)*	**Growth rate** *(%)*	**Jan–Apr Gaming revenue** *(bn)*
Las Vegas Strip	US$4.70 (approx. HK$36.7)	US$4. 65 (approx. HK$36.3)	(1.1)	US$4.76 (approx. HK$37.2)	2.4	US$5.33 (approx. HK$41.6)	12.1	US$1.91 (approx. HK$14.9)
Atlantic City	US$4.30 (approx. HK$33.6)	US$4.38 (approx. HK$34.2)	1.9	US$4.49 (approx. HK$35.00)	2.5	US$4.81 (approx. HK$37.6)	7.1	US$1.57 (approx. HK$ 12.3)
Macau	MOP18.11 (approx. HK$17.6)	MOP21.55 (approx. HK$20.9)	19.0	MOP27.85 (approx. HK$27.1)	29.3	MOP40.19 (approx. HK$39.0)	44.3	MOP14.13 (approx. HK$13.7)

Sources: Nevada Gaming Control Board, New Jersey Casino Control Commission, Macau DICJ

A common measure of business performance in casinos is the daily win per table, which gauges how much a casino makes from each table. Set out below is a table comparing the daily win per table in 2004 for the Las Vegas Strip, Atlantic City (being respectively the largest and the third largest gaming markets in the world) and Macau:

Location	Average daily win (US$) per table
Las Vegas Strip, U.S.	2,400
Atlantic City, U.S.	2,400
Macau*	17,800
Galaxy	33,700

Sources: New Jersey Casino Control Commission, Nevada Gaming Commission, Macau DICJ

* The figure for Macau includes the win per table from Galaxy.

We have conducted research and noted that such wide variance in net win per table essentially indicates different gaming traits between the Chinese and Western players and more importantly, how the VIP market dominated the Macau gaming market under SJM's monopoly. As noted from the table above, the net win per table in Macau had, on average, approximately 7.4 times the net win of the average table in the Las Vegas Strip or the Atlantic City in 2004. Given that Galaxy is primarily focusing in the VIP market since its opening in July 2004, Galaxy has a much higher net win per table than the average in Macau.

Galaxy and SJM are the only two gaming companies in Macau operating casinos that primarily cater to VIP baccarat customers, which, according to the Macau DICJ, accounted for approximately 72% of net table win in Macau casinos in 2004 (as compared to approximately 77% of net table win in Macau in 2003 with SJM as the only gaming operator). As the overall gaming market expands, it is expected that higher margin gaming facilities, i.e. the mass-market tables and slot machines (as demonstrated by the net profit margin of 29.4% for Sands Macau Casino for the year 2004 with a focus on the mass market and 11.5% for SJM with a focus on the VIP market) which were traditionally less emphasised by Macau casino operators, will account for a growing segment of the Macau gaming market.

2.3.2 *Micro reason — The position of the Galaxy Group*

Galaxy holds one of only three gaming concessions awarded by the Macau government to operate casinos in Macau and the Macau government is precluded by contract from granting any additional gaming concessions until 2009. The KWCM Directors are of the view that the Galaxy Group is well positioned to take advantage of this unique business opportunity to enter into the Macau gaming market. Although there remains a possibility there will be additional gaming concessions after 2009, we have

considered and have taken into account the risks associated with competition when we performed our sensitivity analysis on the assumption of market share as set out in section 3.2.1 below.

Given (i) the prosperity of the Macau economic market, as driven by the gaming and tourism industries; (ii) the successful business model as evidenced by the Las Vegas Strip and the Atlantic City; (iii) the participation of international renowned gaming operators and hotel operators in Macau will assist Macau to transform to a world-class gaming and resort destination; and (iv) being a license holder and not a mere gaming room operator or agent, the KWCM Directors consider that the Acquisition will provide KWCM a significant presence in Macau's growing tourism, hospitality and gaming industry and presents unique opportunities for growth.

2.3.3 *Our Conclusion*

Based on our analysis of the overview of the Macau tourism and gaming market in section 2.3.1 above, we consider that the outlook of the Macau gaming and tourism market is promising as a result of (i) promising growth in gaming volume and visitors arrival in the last few years in view of the implementation of the Individual Visit Scheme; (ii) the strategic location of Macau and improved infrastructure, making it more easy and convenient for visitors to and from Macau; and (iii) the extended length of stay and purposes of stay as a result of additional hospitality facilities.

Moreover, given Galaxy is one of the three concession holders allowed by the Macau government to operate casinos in Macau, and no additional gaming concessions will be granted by the Macau government until 2009, the limited number of concessions currently will form a high entry barrier to any concession holders who are granted concessions from 2009. Any new entrants granted concessions from 2009 will be competing against existing concession holders who would, by then, already be established and entrenched in Macau. In this connection, we are of the view that the Acquisition will provide KWCM a significant presence in Macau's growing tourism and gaming industry and will offer more promising growth potential to KWCM.

3. Basis of consideration and valuation

3.1 *Basis of consideration*

The Purchase Price is HK$18,405,198,023, which will be satisfied as to:

(i) 80% by the allotment and issue of 1,840,519,798 Consideration KWCM Shares to the Vendors credited as fully paid at HK$8.0 per KWCM Share; and

(ii) 20% by the issue to the Vendors of HK$3,681,039,603 of FRNs, or at the sole discretion of KWCM, by FRNs and/or cash.

The KWCM Directors advised us that the Purchase Price and the Issue Price per Consideration KWCM Share have been arrived at after arm's length negotiations among the parties, with reference to, amongst other things:

(i) the valuation appraised by American Appraisal;

(ii) the historical performance of Galaxy's first city club casino since its opening on 4 July 2004 up till 31 January 2005; and

(iii) the average closing price per KWCM Share of HK$7.95 for the period of five consecutive trading days from 28 February 2005 up to and including the Last Dealing Date.

3.2 ***Valuation methodologies***

In assessing the valuation conducted by American Appraisal, we have reviewed and discussed with the management (i) all major assumptions contained in the financial projections prepared by the Galaxy Group; (ii) all major assumptions and methodologies used by American Appraisal in arriving at the valuation of the Galaxy Group, including but not limited to market share of the Galaxy Group, growth rate (i.e. economic growth rate, gaming revenue growth rate and visitors growth rate), capital expenditure and operating expenses. We have reviewed the fairness, reasonableness and completeness of all major assumptions as set out in the valuation and the financial projections. We believed that we have reviewed all material information that is necessary for us in performing the engagement. As discussed in detail below, we consider that all assumptions, bases and inputs used by American Appraisal are consistent with market practice and we are of the view that no major assumption used by American Appraisal is unreasonable and incomplete.

The fair market value of business enterprise of the Galaxy Group was appraised by American Appraisal, an independent valuer, at HK$23,544,000,000. Such value has already taken into account the "lack of marketability" discount, which reflects the fact that there is no ready market for shares in a closely held private company. The Purchase Price of HK$18,405,198,023 represents 80% of the pro-rated valuation provided by the independent valuer for 100% of the Galaxy Group, i.e. 20% discount to American Appraisal's fair value on the business enterprise of the Galaxy Group.

There are three basic approaches for valuing a business, namely cost approach, income approach and market approach. We have discussed with American Appraisal and understand that they have considered all three valuation approaches and have adopted the income approach and the market approach in valuing the Galaxy Group. The cost approach was not used as it is unable to capture future earning potential of the business of the Galaxy Group. The income approach considers the present value of the expected future economic benefits of the underlying assets and business to be acquired whilst the market approach considers market prices paid for similar assets and business. We are of the view that both approaches are appropriate in valuing the Galaxy Group. Neither approach is better than the other as they value assets and business from different perspectives which give the effect of checks and balances. Therefore, we concur with

American Appraisal that, taking the simple average of the value from both approaches is appropriate. We also concur with American Appraisal that the cost approach is not an appropriate valuation methodology in valuing the Galaxy Group's gaming business which is a high growth business. American Appraisal's valuation of the Galaxy Group is arrived at taking the average of the valuations determined using the market approach and the income approach. The business enterprise value of the Galaxy Group under the discounted cashflow ("**DCF**") of the income approach and guideline company method of the market approach (as detailed in paragraph 3.2.2) is HK$21,483,000,000 and HK$25,605,000,000 respectively. The fair value of 100% the Galaxy Group is therefore the average of the value derived from the two methodologies, i.e., HK$23,544,000,000. The benefit of taking the average valuation derived from two methodologies is the diversification of the risk and the application of a broader base of assumptions rather than relying on a single methodology.

3.2.1 *Income approach*

American Appraisal adopted the DCF method, which determines the value of a project through calculation of the present value of all cashflow that is expected to be derived from the project based on a series of forecasts of revenue and cost streams over the operating period. The DCF valuation is derived based on the financial projection of the Galaxy Group by the Galaxy Group's management from current year to 2022. We have reviewed the fairness, reasonableness and completeness of all major assumptions as set out in the financial projection, including gaming and non-gaming income, operating expenses, capital expenditure, depreciation method and assumptions applied in deriving such revenue and expenses. In addition to consider the overall macro assumptions such as market growth rate or visitors growth rate, we have performed analysis as to the Galaxy Group's business operation, such as hotel occupancy rate, room rates, increment of payroll and other expenses, interest expenses and considered that the management's projection is reasonable. We believe that we have reviewed all material information that is necessary for us in performing the engagement.

In valuing the Galaxy Group, we note that only the cashflow streams generated from 2005 to the expiry of the Concession, i.e. June 2022, are captured and no terminal value is taken into account in respect of the gaming business. Given all equipment and appliances in the casinos for gaming services will automatically be transferred to the Macau Government without compensation to Galaxy at the end of the Concession, i.e. June 2022, we are of the view that without taking into consideration the terminal value of the casino is a prudent and reasonable approach.

(i) Bases and assumptions for the valuation

We have discussed with American Appraisal the basis of the assumptions for the valuation, amongst other things, the growth rate of the Macau gaming market, the Galaxy Group's market share, the estimated capital expenditure required for the development of the Galaxy Group gaming business, etc. The principal assumptions and our analysis of the fairness, reasonableness and completeness of the assumptions are set out below.

(a) Growth of Macau gaming market

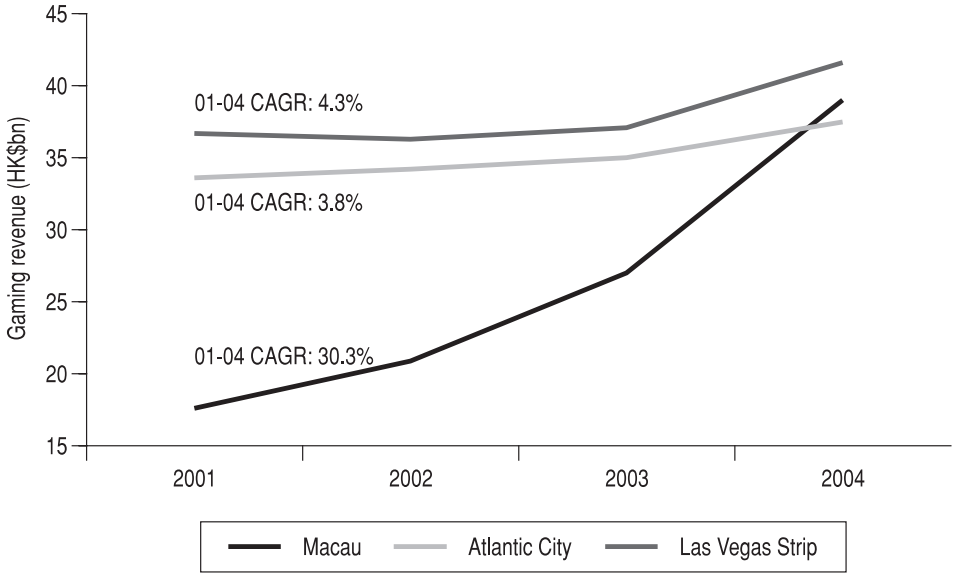
The annual growth in gaming revenue in Macau is forecast to be strong from 2005 onwards, though the growth rate is expected to gradually slow down. The DCF model of American Appraisal assumes a year-on-year growth in gaming revenue in 2005 to be 25%, the growth rate is assumed to gradually slow down over the years to 11% in 2010, and at a decreasing rate of 1% per annum thereafter. By 2016, the market growth rate will reach a constant growth of 5% till end of the concession. The forecast CAGR for 2005 to 2010 is 15.5%.

In considering whether the assumption on the Macau gaming market growth is reasonable, we have (i) considered the historical growth pattern of the Macau gaming market; (ii) conducted research on the gaming industry in Macau, and made comparison with the gaming market development in Las Vegas and Atlantic City, being the largest and the third largest gaming markets in the world in terms of gaming revenue; (iii) discussed with the management and American Appraisal the possible risks or factors that may negate or qualify the growth rate and assumptions as set out in the valuation, including possible competition from other South East Asian markets, the recruitment of promoters, the economic environment and hence the growth rate of visitors as anticipated. Such risks have been individually identified and have been considered and reflected in each individual assumption as per the financial valuation prepared by American Appraisal.

According to the gaming statistics recently announced by Macau DICJ, the gaming revenue in 2004 was MOP40.2 billion (equivalent to approximately HK$39.0 billion), representing an approximately 44.3% increment from 2003.

We have compared the growth in gaming revenue in Macau with that in the Las Vegas Strip and the Atlantic City from 2001 to 2004. As illustrated in the graph below, the gaming market growth in Macau is substantially higher than that in the Las Vegas Strip and the Atlantic City, in particular, Macau has overtaken the Atlantic City to be the second largest gaming market in the world in 2004. The CAGR for 2001–2004 in the gaming revenue in Macau is 30.3% versus 4.3% and 3.8% in Las Vegas and the Atlantic City, respectively.

Gaming revenue (HK$ bn) for 2001–2004 for Macau, the Atlantic City and the Las Vegas Strip



Source: Nevada Gaming Control Board, New Jersey Casino Control Commission, Macau DICJ

We anticipate that the growth rate in the Macau gaming market will continue to surpass that of Las Vegas and the Atlantic City in the next few years because (i) the Macau gaming market is in its growth stage following the liberalisation of the gaming industry; (ii) of the opening of new gaming facilities; and (iii) of the enormous growth potential in the untapped mass market, which currently accounts for less than 30% of total gaming revenue in Macau. In addition, we note that the growth rate assumption from 2005 to 2010 in the DCF model is in line with the estimates by the equity analysts of various equity research houses. We consider that research reports serve as a basis in assessing whether the management's anticipation in the growth rate of the overall gaming market in Macau is reasonable. In order to assess the fairness, reasonableness and completeness of such assumptions, in addition to the discussion with the management as to their reasons and estimation, we have cross-checked the same with the objective market consensus in order to ensure that such estimate is within the range of market consensus as derived from market professionals. We are of the view that market research reports serve as a good basis in reflecting views of market practitioners in the industry.

Taking into account that (i) the historical CAGR in the Macau gaming revenue for 2001–2004 was 30.3%; and (ii) our review of the industry reports on the forecast of gaming outlook in Macau and the forecast growth rate assumed in the DCF model is in line with the forecasts made by equity analysts, we are of the view that the forecast growth rate from 2005–2010 with a CAGR of 15.5% is reasonable.

In considering whether a constant growth of 5% is reasonable, we have also reviewed the long term growth in the gaming market in the Las Vegas Strip, a mature gaming market which is well-developed with a history of operating casinos for a century. Based on the gaming statistics available at the Nevada Gaming Control Board, the gaming revenue had a CAGR of 5.1% for 1996–2004. The gaming revenue grew substantially by 17.8% in 1999 and 12.0% in 2004 when there were new gaming facilities opened, indicating that even the well-developed Las Vegas gaming market still maintained a steady growth rate over a long period of time and was able to grow even at a higher rate in the years when new gaming facilities were introduced, i.e. several mega gaming resorts were opened or enhanced in 1999, such as Mirage, MGM, Bellagio, Paris Las Vegas, The Venetian, Casear's Palace and Mandalay Bay. In addition, there were expansions of Fashion Show Mall and new gaming facilities at Mandalay Bay, Casear's Palace, The Venetian and Bellagio in 2004. As such we consider that a growth rate of 5% from 2016 to 2022, being end of the Concession period, is fair and reasonable.

(b) the Galaxy Group's overall market share

The DCF model assumes that the Galaxy Group would attain an overall gaming market share of approximately 14% (a market share of 17.8% for the VIP market and of 2.9% for the non-VIP market) in 2005. With the scheduled opening of the Galaxy StarWorld and Galaxy Cotai Mega Resort in 2006 and 2008 respectively, the market share for the VIP and non-VIP market is assumed to increase gradually to 35% and 14% respectively by 2010. By then the Galaxy Group is expected to reach a mature state.

VIP Market

VIP market is broadly defined as providing VIP customers with gaming tables dedicated to special gaming and is conducted in private or semi-private rooms, typically involves high-stakes wagers. We have discussed with the management of the Galaxy Group and understand that substantially all Galaxy Casino at Waldo Hotel's VIP customers are recruited by VIP promoters, which is in line with the market practice. Most VIP customers in Macau rely on these promoters and their agents to make travel and other arrangement for them to play at a particular casino.

According to the Macau DICJ, approximately 72% of the total gaming revenues were generated from VIP baccarat table games in 2004. The VIP market is the major revenue contributor in early years of the forecast period, and is expected to contribute approximately 94% of gaming revenue in 2005. The VIP to non-VIP ratio will come down to roughly 80 : 20 with the opening of Galaxy Cotai Mega Resort in 2008.

Based on the net gaming win of approximately HK$2,995 million generated from Galaxy Casino at Waldo Hotel during the six months from the commencement of business on 4 July 2004 to 31 December 2004, Galaxy

Casino at Waldo Hotel achieved an overall market share of approximately 14% in terms of gaming revenue with less than 6% of the total gaming tables in operation in Macau. The KWCM Directors and the management of Galaxy advised us that Galaxy has recently converted three non-VIP tables to VIP tables as a result of increasing demand for VIP customers and Galaxy plans to convert six more non-VIP tables to VIP tables in the third quarter of 2005. For the two months ended 28 February 2005, the Galaxy Group achieved a market share of 9.3% of the overall Macau gaming market (both VIP and non-VIP market). We have discussed with the management of Galaxy the decrease in the overall market share of the Galaxy Group for the first two months of 2005 compared to the second half of 2004. The management of Galaxy explained that the overall market share decreased during the first two months of 2005 was the result of the Chinese New Year holiday, which is considered to be "low season" in the VIP market as most of the VIP customers, mainly PRC visitors, have the tradition of staying home to celebrate the festive season. Despite the fact that the market share in the first two months of 9.3% was below the full year target market share of 14% in 2005, which was assumed in the financial projections, the management of Galaxy expects the gaming revenue will increase in the remaining part of the year 2005 and that the 14% market share will be achieved. Given (i) Galaxy achieved 14% market share in the second half of 2004 since inception of business; and (ii) the planned increase in the number of VIP promoters in latter part of the year (the management of Galaxy advised us that Galaxy has endorsed the promoter applications for 16 promoters with the Macau DICJ. The management of Galaxy expects the first batch of the licensing process to be completed shortly. With the expected joining of the 16 promoters, each of which in turn has its own network of collaborators and patrons, Galaxy's market share in the second half of 2005 is expected to increase), we concur with the management of Galaxy that the revenue will increase in the latter part of the year and consider the assumption on the market share of Galaxy of 14% in 2005 to be fair and reasonable.

The VIP customers in Macau are mostly recruited by VIP promoters. Promoters in Macau are regulated and must be licensed by the Macau government. The registration of promoters requires the authorisation of the Macau government, through Macau DICJ. In order to obtain a licence, the applicant must submit to a suitability verification process conducted by Macau DICJ. Galaxy has currently engaged 3 promoters to solicit VIP customers for the 43 VIP tables. The U.S. based competitors of the Galaxy Group such as Las Vegas Sands, Wynn and MGM Mirage must comply with gaming regulations in the west (such as the Nevada and Mississippi gaming regulations) in addition to the Macau gaming regulations. We understand from the management of the Galaxy Group the requirements to comply with the relevant gaming regulations in the U.S. makes the U.S. based operators choose not to use extensively the services of VIP promoters in Macau, providing Galaxy and SJM with a competitive advantage in attracting VIP play.

As such, management of the Galaxy Group is of the view that the competition in the VIP market mainly comes from SJM, which has been operating the VIP business model in Macau for over 25 years.

We have compared the net profit margin and average daily revenue per table for the Galaxy Casino at Waldo Hotel and Sands Macau Casino as follows:

For the year ended 31 December 2004	**Galaxy Group**	**Sands Macau** *(Note 1)*
	HK$Mn	*HK$Mn*
Revenue	2,995	3,096
Net profit	73	909
Net profit margin	2.4%	29.4%
	HK$'000	*HK$'000*
Average daily revenue per table in 2004	263	39
Commencement of operation	4-Jul-04	18-May-04
No. of tables	63	348

Note:

1. Revenue includes gaming and non-gaming revenue. Revenue and net profit were extracted from accounts of Venetian Macau, S.A. for the year ended 31 December 2004.

For the year ended 31 December 2004 with a similar operating period, the Galaxy Group generated revenue of approximately HK$2,995 million with 63 gaming tables whilst Sands Macau Casino generated HK$3,096 million with about 348 tables. The average daily revenue per table for the Galaxy Group is far above the average daily revenue per table in the Sands Macau Casino, which was probably due to Sands Macau Casino's focus on the mass market as compared to Galaxy Casino at Waldo Hotel's focus on the VIP market with high stakes wagers. Having said that, we note that in Macau, the industry history shows that the profit margin of the VIP market is much lower than that of mass market as further explained below.

On the assumption that there will be no material relaxation in the relevant U.S. gaming regulations which deter Macau promoters, the Galaxy Group will, in our opinion, maintain its competitive advantage in operating the VIP market with its promoters, and we consider that it is fair to assume that the Galaxy Group will maintain a 35% market share in the VIP market in the long-run with SJM dominating the VIP market. We are of the view that such assumption is fair and reasonable. We have discussed with, and understand from, the management of the Galaxy Group that U.S. gaming operators have to comply

with stringent compliance and filing procedures with U.S. regulatory authorities in order to recruit promoters who can extend credits to their customers. We have researched on the gaming regulations in the U.S. and note that certain Nevada gaming regulations also apply to the U.S. based operators in jurisdictions outside the state of Nevada. In this context, given that SJM is at present the only real competitor in the VIP market, and even if it continues to dominate the market with a market share of 65%, we are of the view that the assumption that the Galaxy Group will reach a market share of 35% in the VIP market in 2010 is reasonable. We have further performed a sensitivity analysis taking into account a higher market share for SJM due to its long-established presence and greater experience in the industry, and other unforeseeable risks from other competitors, in which we have assumed a discount of approximately 30% on the market share in both VIP and non-VIP market, the result of which showed that the valuation under the DCF model was still above the Purchase Price. Therefore, we are of the view that the various risks such as inability to maintain a harmonious relationship with the promoters and the recruitment of new promoters which will affect the assumptions have been considered and taken into account in the valuation. In this connection, we are of the view that the market share assumptions are fair and reasonable.

Non-VIP/Mass market

For the non-VIP market or mass market, it is the Galaxy Group's strategy to enter the market with the opening of Galaxy StarWorld and Galaxy Cotai Mega Resort in 2006 and 2008 respectively. As noted from the Letter from the KWCM Directors, these two hotels will provide not only gaming facilities, but also other entertainment and leisure facilities to attract the mass market tourists in building up the Galaxy Group's market share in the non-VIP market. With the Galaxy Group's expertise in the Asian gaming market, it targets a 14% of share in the mass market by 2010. Given that both hotels are to be strategically located in the central and one of the most convenient spots in the peninsular of Macau and Cotai respectively, and are designed with attractions for the mass market tourists, we are of the view that the assumption in reaching a 14% market share in the non-VIP market in 2010, which assumes a lower market share than if all other five operators share the mass market equally, is fair and reasonable.

The Macau government's decision to break the gaming market monopoly led to the issue of three gaming concessions in February 2002 to three operators, namely SJM, Wynn Resorts (Macau) S.A., and Galaxy. As approved by the Macau government, a sub-concession was granted by Galaxy to Venetian Macau, S.A., the parent company of the Sands Macau Casino. SJM has recently granted a gaming sub-concession to a joint venture by MGM Mirage and Ms. Pansy Ho, daughter of Dr. Stanley Ho, managing director of SJM. Taking into account the sub-concessions of Las Vegas Sands and MGM Mirage (and assuming that Wynn Resorts (Macau) S.A. will grant a sub-concession to another party), there are effectively six operators competing in

the mass market. We consider the Galaxy Group's assumption to obtain a 14% market share in the mass market is fair and reasonable, which is one-seventh of the total market.

(c) Direct gaming expenses including gaming tax

Galaxy is subject to a special gaming tax rate of 35% of gross gaming revenues, and levies at 4% of gross gaming revenue to entities designated by Macau government for promoting education, charity and tourism promotion. Non-gaming revenue of the Galaxy Group is subject to 15% income tax, and tax loss can be carried forward for a period of three years. The major portion of direct gaming expense includes gaming tax and commission, which altogether accounts for approximately 80% of gaming revenue. This explains the much lower profit margin of the Galaxy Group as compared to Sands Macau Casino which currently focuses mainly on their higher margin mass-market and does not engage Macau promoters. The assumption on commission and allowances paid to promoters is based on Galaxy's current arrangement with the promoters which is in accordance with the longstanding industry practice in Macau.

As advised by the Galaxy Group's management, Galaxy has formed strong relationships with several promoters who are interested in the opportunity to develop their gaming business in a new casino under different management. The Galaxy Group believes it has successfully recruited some of the top promoters in Macau and that the supply of promoters in Macau will increase as more promoters are licensed as the Macau gaming industry develops. The Galaxy Group does not envisage a material change in the current arrangement with promoters which has been operated in Macau for over 30 years, in particular, given that the number of promoters will increase and the limited number of gaming operators in the market, the gaming operators are unlikely to alter the commission to compete for promoters. We consider the assumption on direct expenses, which accounts for approximately 80% of gaming revenue, is in accordance with the industry practice and is fair and reasonable.

(d) Capital expenditure ("**CAPEX**")

As set out in the Circular, the Galaxy Group's CAPEX budget (excluding finance costs) for the Casino Projects for 2005 to 2009 is approximately HK$5,743 million, and we note that the DCF model has taken into account CAPEX of HK$5,743 million. In addition to the CAPEX, the DCF model has factored in a capital reserve of approximately HK$5.5 billion for future repair and maintenance of the casino properties. Given that (i) the CAPEX budget has taken into account land value and construction costs; (ii) it is in line with Galaxy's commitment to the Macau government in terms of investment; (iii) the management of Galaxy are of the view that the amount is appropriate to the scale and scope of the development of the Casino Projects; we are of the view

that the amount of HK$5,743 million for the CAPEX of the Casino Projects is appropriate given that it is above the investment obligation of approximately MOP4,400 million (approximately HK$4,272 million) under the Concession, and (iv) the capital reserve, which represents approximately 1.1 times the CAPEX budget (excluding land cost) as set out in the Circular, we consider the assumption on CAPEX is fair and reasonable.

(e) Change in working capital

In the financial projection of the Galaxy Group, revenue earned and expenses incurred are assumed to be received and paid in the same period, irrespective of the payment terms of the revenue and expenses. As such there will be no change in the working capital position from the position as at 31 December 2004.

However, in practice, the management of KWCM and Galaxy expects the current liabilities will be higher than the current assets and that the working capital requirement will be negative as the gaming business is a cash business. This is also the case for the financial position of Galaxy as at 31 December 2004. It is because most of the gaming revenue is received as being earned (as there is only cash play) while credit terms are offered for the expense items. This is generally consistent with the characteristics of Comparable Companies (defined in section 3.2.2) of having negative working capital requirement based on our review of the latest published accounts of the Comparable Companies.

The negative working capital requirement of the Galaxy Group represents cash inflow to the business. If this is to be adjusted in the DCF calculation, the cash inflow from working capital should be added to the free cash flow of the Galaxy Group which will increase the valuation of the Galaxy Group. We concur with American Appraisal that the change in working capital (negative working capital requirement) should not be included in the DCF valuation of the Galaxy Group for conservation sake and we consider that the non-inclusion of the change in working capital in the DCF is fair and reasonable.

(f) Discount rate

A discount rate of 10% was used in the DCF model to discount the net cash flows of the Galaxy Group to present value. The discount rate was determined taking into account the relevant risks pertinent to the gaming operations in Macau. We have considered the discount rates of the Comparable Companies and the specific risks facing the Galaxy Group, we are of the view that the use of 10% discount rate taking into account the sensitivity analysis is fair and reasonable.

3.2.2 *Market approach*

American Appraisal has adopted the guideline company method which analysed a list of comparable companies which are engaged in the same or a similar line of business to the Galaxy Group. Five publicly traded companies which are engaged in the gaming industry in the U.S. and Macau are selected ("**Comparable Companies**"). We have discussed with American Appraisal and noted that the selection of the Comparable Companies was based on (i) the company size, with market capitalization of approximately USD8 billion to USD16 billion; (ii) geographic location; and (iii) similarity of business of the listed entity. We consider that the basis in selecting the Comparable Companies is reasonable.

We consider comparison to trading multiples of the Comparable Companies, which is based on historical performance, is not an appropriate methodology for valuing the Galaxy Group as the growth potential of the gaming business is not reflected in the historical results of the Galaxy Group, which is (i) in the early stage of development; (ii) the Galaxy Casino at Waldo Hotel has just commenced business for a short period of time since July 2004; and (iii) the Galaxy StarWorld and the Galaxy Cotai Mega Resort is scheduled to open in 2006 and 2008 respectively.

The calculations and analysis were based on the enterprise value ("**EV**") and projected operating cash flows before change in working capital for the year of 2009. EV is defined as market capitalisation plus net debt. The projected operating cash flow before change in working capital structure is regarded by the management of KWCM as earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). Based on our discussion, with American Appraisal, the management of KWCM and Galaxy, the projected cash flow before change in working capital for the year of 2009 was estimated on the assumption that revenue earned was received and expenses incurred were paid in the same period. Under this assumption, there are no changes in account payables, account receivables, prepayments, etc from the position as at 31 December 2004 and as such there is no change in working capital during 2005 to 2009. In fact, the assumption of non-inclusion of the change in working capital does not affect the estimate of the EBITDA in which revenues and expenses are, in any event, recognised, and irrespective of when the respective actual cash payment takes place. As revenue earned are assumed to be received and the expenses incurred to generate the revenue are assumed to be paid in the same period to which they relate, we consider the projected operating cash flows before change in working capital for the year of 2009 is a good proxy to the 2009 EBITDA and the assumption of revenue earned was received and expenses incurred were paid in the same period and the non-inclusion of the change in working capital are fair and reasonable for the purpose of estimating the EBITDA proxy.

This "EBITDA multiple" is one of the commonly used methods to determine the value of a company, which is appropriate when it is used from a potential acquirer's perspective because it takes debt into account, an item which other multiples like the price to earnings ratio do not include. We are of the view that the EV/EBITDA multiple is a commonly used and appropriate valuation benchmark for gaming business. In particular, we consider that the use of EV/EBITDA multiple as a valuation benchmark

is more appropriate in comparison with other valuation multiples such as the price to earnings ratio for the Acquisition since it is less distorted by the different capital structures, capital expenditure requirements, taxation regimes and policy on depreciation and amortisation amongst the Comparable Companies in the U.S. and Macau.

As mentioned above, we consider the use of projected cash flow before interest and tax as a proxy to EBITDA is appropriate, hence we consider the use of such 2009 EBITDA on a comparable basis with the EBITDA of the Comparable Companies is appropriate. In calculating the EV/EBITDA of the Comparable Companies, American Appraisal has employed the 2009 EBITDA. The 2009 EBITDA is used as the Galaxy Group will only become fully operational for a full financial year upon the completion of the Phase I Galaxy Cotai Mega Resort by 2008.

In arriving at the 2009 EBITDA, American Appraisal first considered the 2004-2006 EBITDA of the Comparable Companies forecasted by equity analysts, and then estimated the 2009 EBITDA by extrapolating from the 2006 EBITDA (being the market consensus on the 2006 EBITDA extracted from Bloomberg on 30 December 2004), considering the year-on-year growth in EBITDA and the projected CAGR of the respective Comparable Companies. We have discussed with American Appraisal and understand that in determining the CAGR of the respective Comparable Companies, they have taken into account (i) respective stages of growth of the underlying companies, whether it has steady growth or is in an expansion mode; and (ii) the market consensus projected CAGR of the respective Comparable Companies from 2003 to 2006 (calculated based on actual growth in 2003 and 2004 and the equity analysts' estimate growth in 2005 and 2006). We have reviewed the individual CAGR extrapolated by American Appraisal for each of the Comparable Companies from 2006 to 2009, and considered that (i) they are in line or below their respective CAGR from 2003 to 2006 as estimated by other equity analysts in the market; and (ii) they are also in line with or below their respective projected CAGR from 2003 to 2009, based on the EBITDA as estimated by other equity analysts in the market, we are of the view that the estimates of 2009 EBITDA arrived at by American Appraisal is fair and reasonable. Based on American Appraisal's calculation, the average EV/EBITDA of the Comparable Companies of 10.8 times is used for valuing the Galaxy Group. We have checked the 2004-2006 EBITDA of the Comparable Companies from Bloomberg and noted that there is no material change in the current market consensus on 2004-2006 EBITDA from that in December 2004.

The present value of the capital expenditure was subtracted from the business enterprises value devised by the above industry average of EV/EBITDA to arrive at the valuation of the Galaxy Group.

3.2.3 *PwC Letter*

We have reviewed the letter issued by PwC to KWCM (the "**PwC Letter**") in relation to its opinion on the DCF of Galaxy during its gaming concession period in Macau from 2005 to June 2022 and the 2009 EBITDA extracted from the DCF used in the valuation of the Galaxy Group prepared by American Appraisal. We have discussed it with PwC and understand that the PwC Letter was prepared in accordance with the Hong Kong

Standard on Assurance Engagements No.3000 with reference to the procedures set out in the Auditing Guidelines 3.341 "Accountants' report on profit forecast" ("**AG 3.341**") issued by the Hong Kong Institute of Certified Public Accountants, solely to assist the KWCM Directors in evaluating whether the DCF and the 2009 EBITDA used in the guideline companies valuation, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions made by the KWCM Directors and the management of Galaxy.

The PwC Letter was prepared with certain limitations of scope that have led to PwC being unable to evaluate on the appropriateness of the following bases and assumptions. As the limitations of scope of work might adversely impact on the degree of assurance given by PwC, we have not relied on the opinion in the PwC Letter. We have performed our own analysis and research as set out in this letter in arriving at our opinion. Nevertheless, we have summarised below our view on the each of the bases and assumptions qualified in the PwC Letter and the basis of our opinion.

	Bases and assumptions that PwC is unable to evaluate	**Our view on the relevant assumptions**
1.	Market conditions of the gaming industry in Macau over a period of 17 years up to 2022 as stated in the valuation report	Our study on the Macau gaming industry is set out in section "**2.3.1 Macro reasons — Overview of the Macau tourism and gaming market**". We are of the view that the market conditions, i.e. the growth rate of the Macau gaming market during the concession period assumed in the DCF and the 2009 EBITDA is fair and reasonable and our basis is set out in section "**3.2.1 (i) (a) Growth of Macau gaming market**" of this letter.
2.	Market position of Galaxy in Macau over a period of 17 years up to 2022 as stated in the valuation report	Our study on the market conditions of Galaxy is set out in section "**2.1 Business and historical financial performance of the Galaxy Group**" and section "**2.3.2 Micro reason — The position of Galaxy**". We are of the view that the market conditions of Galaxy which is interpreted by Galaxy's market share during the concession period assumed in the DCF and the 2009 EBITDA is fair and reasonable and our basis is set out in section "**3.2.1 (i) (b) the Galaxy Group's overall market share**" of this letter.

Bases and assumptions that PwC is unable to evaluate	Our view on the relevant assumptions
3. Cost structure of the gaming and non-gaming operations over a period of 17 years up to 2022 as stated in the valuation report	Based on our analysis in section "**3.2.1 (i) (c) Direct gaming expenses including gaming tax**" of this letter, we are of the view that the cost structure of the gaming and non-gaming operations assumed in the DCF and the 2009 EBITDA is fair and reasonable.
4. Obtaining of sufficient finance for the capital expenditure stated in the valuation report	The KWCM Directors advised us that the management of Galaxy intends to finance the estimated capital expenditure stated in the valuation through a combination of debt financing, equity financing and internal cashflows. The management of KWCM and Galaxy are in discussion with various banks and are actively reviewing financing proposals including project finance and debt securities. As revealed from recent market news, it is common for the gaming operators to raise external debts to finance their expansion plan. For instance, Wynn Resorts (Macau), S.A. successfully raised two tranches of project finances amounting to US$382,000,000 and HK$117,000,000 respectively in the second half of 2004. The transactions received strong market responses and were jointly syndicated by 12 banks. We are of the view that there still remains a risk that Galaxy cannot generate enough cash or find alternative sources of funding to satisfy the capital expenditure required for the Casino Projects. We have highlighted to the KWCM Independent Shareholders' attention such risk in section 8 of our letter. Please refer to Appendix I the "Risk Factors" section to the Circular for more details. We consider the above risk does not affect our view as to the fairness, completeness and reasonableness of the assumption used by American Appraisal.

Bases and assumptions that PwC is unable to evaluate	Our view on the relevant assumptions
5. The cash inflow or outflow from the change in working capital is not included in the DCF and the 2009 EBITDA.	Based on our analysis in section "**3.2.1 (i) (e) Change in working capital**" and section "**3.2.2 Market approach**" of this letter, we are of the view that the non-inclusion of the change in working capital in the DCF and the 2009 EBITDA is fair and reasonable.
6. Applying a discount rate of 10% used to derive the net cash flows of Galaxy during its gaming concession period in Macau from 2005 to 2022	Based on our analysis in section "**3.2.1 (i) (f) Discount rate**" of this letter, we are of the view that the assumption of a discount rate of 10% is fair and reasonable.

3.3 *Payment of the Purchase Price*

A substantial portion (being 80%) of the Purchase Price, i.e. HK$14,724,158,420, will be satisfied by the issue of Consideration KWCM Shares. Paying for the Acquisition in part by the Consideration Shares enables KWCM to make an acquisition of the high growth potential Macau gaming business, which it could not have afforded if cash consideration had been required. As detailed in paragraph 4.1 below, the issue price of the Consideration KWCM Shares of HK$8.0 (the "**Issue Price**") per share represents a substantial premium to the share price of KWCM Shares of below HK$2.0 prior to the potential injection of Macau gaming business first announced in October 2004.

The Issue Price also represents a substantial premium of (620.72%) to the net assets per KWCM Share of HK$1.11 as at 31 December 2004, which KWCM was then involved in the construction business only. In addition, we believe the market is making an assessment of the potential opportunities arising from the deregulation of the gaming market in Macau, as well as initiatives undertaken by the government of Macau to tourism and infrastructure improvements, which are already well progressed. The Issue Price reflected willing investment decisions based on their judgement of returns and risk perceived.

Having considered the basis of consideration, the valuation methodologies, the underlying assumptions and the form of payment of the Purchase Price (that a substantial portion of the Purchase Price is in non-cash form), we are of the view that the Purchase Price is fair and reasonable, bearing in mind that KWCM will gain control of a potentially high growth gaming business.

4. Forms of consideration

4.1 *Consideration KWCM Shares*

The Purchase Price will be satisfied as to about 80% by the issue of the Consideration KWCM Shares to the Vendors credited as fully paid at HK$8.0 per KWCM Share. City Lion, Dr. Lui and the Trusts have agreed to undertake to the Stock Exchange not to dispose of any KWCM Shares held by them at Completion for a period of six months following Completion. The Issue Price represents:

(i) a discount of approximately 5.88% to the closing price of HK$8.50 per KWCM Share as quoted on the Stock Exchange on 4 March 2005, being the Last Dealing Day;

(ii) a premium of approximately 0.63% to the average closing price of HK$7.95 per KWCM Share for the 5 consecutive trading days up to and including 4 March 2005, being the Last Dealing Day;

(iii) a discount of approximately 0.50% to the average closing price of HK$8.04 per KWCM Share for the 10 consecutive trading days up to and including 4 March 2005, being the Last Dealing Day;

(iv) a premium of approximately 3.23% to the average closing price of HK$7.75 per KWCM Share for the one month up to and including 4 March 2005, being the Last Dealing Day ;

(v) a premium of approximately 25.20% to the average closing price of HK$6.39 per KWCM Share for the three months up to and including 4 March 2005, being the Last Dealing Day;

(vi) a premium of approximately 90.48% to the average closing price of HK$4.20 per KWCM Share for the six months up to and including 4 March 2005, being the Last Dealing Day;

(vii) a premium of approximately 226.53% to the average closing price of HK$2.45 per KWCM Share for the One-year Period;

(viii) a premium of approximately 39.13% to the closing price of HK$5.75 per KWCM Share on the Latest Practicable Date; and

(ix) a premium of approximately 620.72% to the audited consolidated net asset value per KWCM Share of approximately HK$1.11 per KWCM Share as at 31 December 2004.

4.1.1 *Comparison to recent acquisitions*

We have conducted research on recent acquisitions in Hong Kong, where either the acquirer or the target is a Hong Kong listed company, with an announced value of target greater than HK$100 million in the past 12 months from 4 March 2005, in which

consideration shares issued represented a substantial portion of the total consideration for the acquisition. We have identified six transactions and note that the respective issue prices ranged from no discount to approximately 27.9%. The discount of the Issue Price as compared to the closing price of KWCM Share on the Last Dealing Day falls within this range.

Acquirer Name	**Announcement Date**	**Announced total value of the transaction*** *(HK$m)*	**% of consideration shares to total consideration** *(%)*	**Issue price discount/ (premium) to latest closing price before announcement** *(%)*
LENOVO GROUP LTD	12-Aug-04	1,750	48.0%	0.00%
DENWAY MOTORS LIMITED	04-Jan-05	128	21.0%	1.93%
ORIENTAL METALS	30-Dec-04	2,894	100.0%	3.87%
MEDTECH GROUP COMPANY LTD	20-Jan-05	169	40.0%	15.83%
SHUN TAK HOLDINGS LTD	11-Aug-04	1,500	50.0%	16.00%
VANDA	28-Jan-04	7,121	55.0%	27.90%
The Acquisition	18-Apr-05	18,405	80%	5.88%

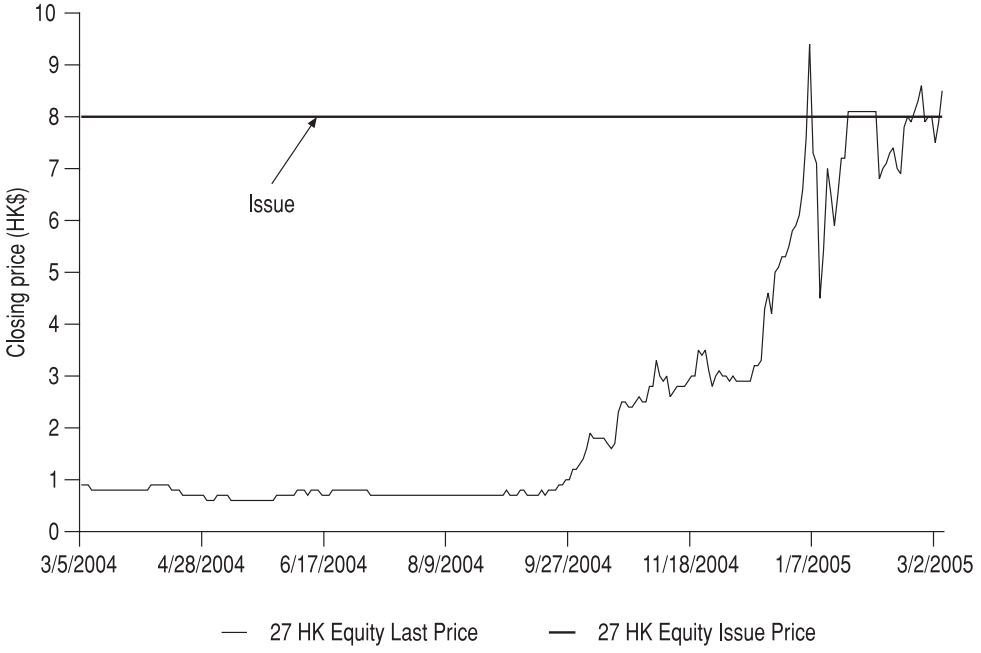
Source: Bloomberg

4.1.2 *Analysis of price of the KWCM Shares*

We have reviewed the share price performance of the KWCM Shares for the one-year period from 5 March 2004 up to and including 4 March 2005 (the "**One-year Period**"). The closing price per KWCM Share during the One-Year Period ranged from HK$0.55 to HK$9.35, with an average closing price of HK$2.45.

As shown in the chart below, the KWCM Shares were traded at prices substantially lower than the Issued Price, at below HK$1.2 from March 2004 to September 2004. Since then the KWCM Share price has maintained an upward trend and surged drastically by 6.8 times to the highest price in the One-year Period of HK$9.35 recorded on 6 January 2005. We have looked at the announcements published by KWCM during such period and noticed that on 7 October 2004, KWCM issued a joint announcement with KWIH in which KWCM announced that KWCM was carrying out preliminary conceptual studies relating to the feasibility of injection of certain Macau gaming business into KWIH or KWCM. On 20 January 2005, KWCM issued another joint announcement with KWIH announcing that Macau government's approval had been obtained for the possible injection into KWCM a majority interest in Galaxy.

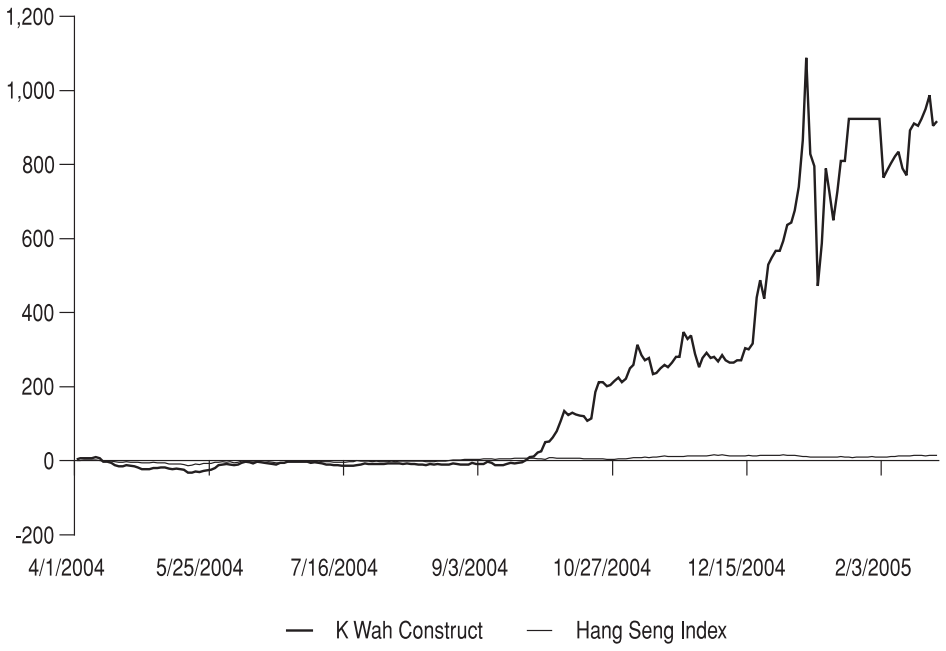
Share price movement of the Company



The following chart shows the performance of the KWCM Shares against the Hang Seng Index during the One-year Period.

We also examined the price of the KWCM Shares against the Hang Seng Index during the One-year Period to assess its performance relative to the Hang Seng Index. As shown in the below graph, KWCM Shares have out-performed significantly the Hang Seng Index since October 2004 while there was no unusual or material change in the existing business in construction materials. The Issue Price is at a significant premium to the KWCM Share price prior to the announcement dated 14 October 2004 in connection with the potential injection of the Macau gaming business from below HK$2.0 per KWCM Share and at a substantial premium (620.72%) to the net assets per KWCM Share of HK$1.11 as at 31 December 2004. The substantial upsurge of the KWCM Share price in recent months, in our opinion, indicates market anticipation of the injection of the Macau gaming business which led to the substantial increase in the share price of KWCM Shares, in other words, the share price of KWCM, no longer reflects its stand alone value following the corporate announcement on the potential injection of the gaming business. Given the KWCM Consideration KWCM Shares due to be allotted at a price that is at a premium for most of the period as set out in section 4.1 of this letter, from this perspective, we are of the view that the Issue Price of HK$8.0 is in fact favourable to KWCM and the KWCM Independent Shareholders.

KWCM Share performance relative to Hang Seng Index



Source: Bloomberg

4.1.3 *Net tangible assets*

We have also compared the Issue Price to the audited consolidated net tangible asset value per KWCM Share and the unaudited proforma consolidated net tangible asset value per KWCM Share immediately after the Acquisition. We note that the audited consolidated net asset value per KWCM Share and the unaudited proforma consolidated net asset value per KWCM Share immediately after the Acquisition are approximately HK$1.11 and HK$5.15 respectively. Hence, the Issue Price represent a premium of approximately 620.7% to the audited consolidated net asset value per KWCM Share and a premium of approximately 55.4% to the unaudited proforma consolidated net asset value per KWCM Share immediately after the Acquisition. The issue of Consideration KWCM Shares will enhance the net asset value per KWCM Share immediately after the Acquisition.

Based on our (i) analysis of the basis of consideration for the Acquisition; (ii) analysis of the price performance of the KWCM Shares; (iii) comparison performed on the issue price of consideration shares in public acquisition transactions in Hong Kong in the past 12 months; and (iv) comparison of the Issue Price to the net asset value per KWCM Share, we are of the view that, taking into consideration the Acquisition as a whole, the Issue Price is fair and reasonable.

4.2 ***Cash and/or FRNs***

The Purchase Price will be satisfied as to about 20% by the issue to the Vendors of HK$3,681,039,603 FRNs, or at the sole discretion of KWCM, FRNs and/or cash.

The terms of the FRNs are summarised in Appendix XV to the Circular. The principal terms of the FRNs include:

Repayment: 13 months after the date of issue of the FRNs unless previously redeemed

Status: unsecured, rank pari passu with all other present and future unsecured and unsubordinated obligations of KWCM

Interest:

1st month	0% p.a.
2nd–4th month	6% p.a.
5th–7th month	7% p.a.
8th–10th month	8% p.a.
11th–13th month	9% p.a.

Interest accrued shall be payable in arrears on the last day of each monthly interest period. No dividends may be declared by KWCM as long as the FRNs are outstanding.

Redemption: KWCM may redeem the FRNs at face value plus interest accrued and unpaid at any time on giving 3 business days' irrevocable prior written notice.

All net proceeds from equity related fund raising by KWCM or a related entity (but this shall not include the issue of shares under a share option scheme or an obligation existing at the date hereof) will be first applied to redeem the FRNs.

No dividend can be declared and/or paid by KWCM before the FRNs are fully redeemed.

KWCM cannot make any loan or other non-trade payment to any related company or person before the FRNs are fully redeemed other than loans or payments in the ordinary and usual course of business of the KWCM Group and/or the Galaxy Group.

The FRNs are a bridge loan by the Vendors to finance partly the Purchase Price. The FRNs are unsecured with an accelerating interest rate, which encourages early redemption of the FRNs. The interest rate per annum of the FRN for the first 12 months is approximately 6.8%. As extracted in Bloomberg, we have selected 19 existing bonds, which (i) were issued by the Comparable Companies since 1999; and (ii) have a tenor between five to eight years. We note that the yield to maturity of all bonds issued by the Comparable Companies range from 6% to 12% per annum.

The interest rate per annum of the FRN for the first 12 months of approximately 6.8% is within the range of the bonds issue above. Given (i) the FRN is non-tradable; (ii) short term tenor; (iii) no parental or corporate guarantee; and (iv) taking into account that

the FRNs are, in effect, a bridge loan and an acquisition financing (which usually commands a higher margin with an upfront arrangement fee), we are of the view that the average interest rate of 6.8% for the first 12 months for the FRN is fair and reasonable. Notwithstanding the accelerating interest rate, an all-inclusive interest rate (with no upfront arrangement fee payment) of approximately 6.8% is considered to be beneficial to KWCM in that if KWCM redeems the FRN prior to the maturity date, the actual interest rate per annum will be lower than 6.8%.

KWCM announced on 21 April 2005 a placement of 146 million KWCM Shares with investors at a price of HK$8.0 per KWCM Share. The KWCM Shares were placed by Sutimar Enterprises Ltd, a wholly owned subsidiary of KWIH. Upon completion of the placement, KWIH subscribed for 146 million new shares in KWCM at the price of HK$8.0 per KWCM Share. Net proceeds from the placement of approximately HK$1,137 million are intended to be used to fund obligations of KWCM under the Acquisition. As confirmed by KWCM Directors, the net proceeds will be applied against payment of the 20% Purchase Price. The 20% Purchase Price of HK$3,681 million will be satisfied by the issue to the Vendors of FRNs of HK$2,544 million and cash of HK$1,137 million from the net proceeds of the placement. Interest on the FRN of HK$2,544 million (assuming no redemption prior to the end of the 13 months) is estimated to be HK$191 million for the term of the 13 months. The KWCM Directors consider that the combined cashflows of KWCM Group and the Galaxy Group will be sufficient to service the interest payment and the principal redemption at maturity.

Having considered the above, given that (i) the Issue Price of the Consideration KWCM Shares is fair and reasonable; and (ii) we concur with the view of the KWCM Directors that there will be sufficient funds to service the interest payment and the principal redemption of the FRNs, we are of the view that the overall payment of the Purchase Price is fair and reasonable.

5. Financial impact of the Acquisition

We have reviewed the unaudited pro forma financial statement of the Enlarged KWCM Group as at 31 December 2004 prepared under HKFRS as set out in Appendix VI to the Circular and analysed the financial impact of the Acquisition on KWCM in the following.

5.1 *Net asset value*

The unaudited pro forma consolidated net assets statement of the Enlarged KWCM Group was prepared based on the consolidated balance sheet of the KWCM Group as at 31 December 2004 assuming the Acquisition had been completed as at 31 December 2004. The unaudited pro forma net assets of the Enlarged KWCM Group as at 31 December 2004 were approximately HK$16,151 million, representing an increase of HK$14,705 million over the net asset value of KWCM Group as at 31 December 2004 of HK$1,446 million mainly due to the pro forma adjustments for the net assets of the Galaxy Group as at 31 December 2004, as adjusted by the reorganisation of its issued share capital on 3 February 2005, the minority interest not acquired by KWCM and the fair values of all the identifiable assets and liabilities (including intangible assets and

contingent liabilities). Details of the pro forma adjustments are set out in the unaudited pro forma financial information on the Enlarged KWCM Group in Appendix VI to the Circular.

The unaudited pro forma net assets value per KWCM Share as at 31 December 2004 was HK$5.15 based on pro forma net assets of the Enlarged KWCM Group of HK$16,151 million and enlarged issued number of shares of 3,136,995,361 on a pro forma basis, a 364% increase over the net asset value per share immediately before Completion of HK$1.11.

5.2 ***Earnings***

The unaudited pro forma consolidated profit and loss statement of the Enlarged KWCM Group was prepared based on the consolidated profit and loss statement of KWCM Group for the year ended 31 December 2004 assuming that the Acquisition had been completed on 1 January 2004. The revenue and net profit of KWCM Group for the year ended 31 December 2004 was HK$1,299 million and HK$33 million respectively. The Acquisition will enlarge the revenue and profit base of KWCM Group. The unaudited pro forma revenue and net loss of the Enlarged KWCM Group would be HK$1,423 million and HK$955 million respectively.

The net loss was mainly attributable to the adjustment for the full year effect of the amortisation of approximately HK$888 million of the acquired intangible assets over the estimated useful live. The intangible asset represents mainly the right to operate the casino in Macau. As set out in the unaudited pro forma financial information of the Enlarged KWCM Group, the fair value of the Consideration KWCM Shares for accounting purposes and the fair values of the identifiable assets and liabilities of the Galaxy Group will be reassessed at the Completion date and any changes in their fair values will affect the value of intangible asset and the amount of amortisation charge. The difference between the cost of the Acquisition and the net attributable fair value of the identifiable assets and liabilities so recognised will be accounted for as goodwill, or negative goodwill, as the case may be. As a result, the magnitude of the goodwill, or negative goodwill (as the case may be) will, be subject to the share price of the KWCM Shares at the Completion date, be recognised in KWCM Group's profit and loss statement. We are of the view that the standalone effect of this amortisation of intangible assets is negative to the earnings of the Enlarged KWCM Group because under the Hong Kong law, as KWCM is permitted to declare dividends only out of distributable profits and cannot make any distribution by way of dividend for so long as it has accumulated losses. Accordingly, depending on the size of any goodwill after the Acquisition, KWCM may be unable to distribute any profit by way of dividend, unless and until it has either effected a capital reduction with court sanction to offset the accumulated losses or earned in subsequent years profit sufficient to offset such impact.

5.3 ***Gearing***

As set out in paragraph 2.2 (b) above, KWCM Group had a gearing ratio of 6.6% as at 31 December 2004. Based on the pro forma accounts of the Enlarged KWCM Group the gearing ratio would increase to 12.53% with the inclusion of the borrowings of the Galaxy Group and the FRNs.

As set out in the Circular, the estimated CAPEX for 2005-2009 of the Galaxy Group of approximately HK$5,743 million will be financed through a combination of debt financing, equity financing and internal cashflows. As set out in paragraph 4.2 above, KWCM announced on 21 April 2005 that new equity of 146 million shares with net proceeds of approximately HK$1,137 million would be issued via top up placement. The KWCM Directors further advised us that the shares were subscribed by leading investors in Asia, the U.S. and Europe, including pension funds and gaming specialists. Management of KWCM considers that there is no need in the near term for further capital raising through the equity market. KWCM and the Galaxy Group are actively reviewing financing proposals they have received for other forms of financing, including project finance and debt securities.

As Galaxy will become a subsidiary of KWCM upon completion of the Acquisition, KWCM will consolidate all borrowings (except the intra-KWCM Group borrowings) of the Galaxy Group in its consolidated accounts. Assuming the estimated CAPEX will be 100% financed by external borrowings, the gearing ratio of the Enlarged KWCM Group would be increased to 30.38%. We have compared the gearing ratio as at 31 December 2004 with the following companies, which are selected on the basis that (i) they are in the gaming business; (ii) they operate in a similar business and capital environment.

Companies	**Bloomberg code**	**Gearing ratio**
Las Vegas Sands	LVS US	13.75%
MGM Mirage	MGM US	45.20%
Caesars Entertainment	CZR US	40.14%
Wynn Resorts	WYNN US	37.75%
Melco International Development	200 HK	–13.36%
Average		24.69%
Average (excluding Melco International Development)		34.21
The Enlarged KWCM Group		**30.38%**

Source: Bloomberg

Based on the above, the gearing ratio of the Enlarged KWCM Group is within the range and close to the average of the Comparable Companies (excluding the outliner, Melco International Development, which had not commenced gaming operations in 2004), which we consider to be fair and reasonable for companies such as the Enlarged KWCM Group operating in the gaming business.

5.4 ***Working capital and liquidity***

As set out in paragraph 2.2 (b) above, KWCM Group had a current ratio of 2.31 times as at 31 December 2004. Based on the unaudited pro forma accounts the current ratio of the Enlarged KWCM Group would decrease to 1.39 times, still the current assets of the Enlarged KWCM Group would be sufficient to cover the current liabilities.

The Enlarged KWCM Group had cash and bank balances of approximately HK$1,514 million based on the unaudited pro forma accounts as compared to cash and bank balances of HK$171 million held by KWCM Group as at 31 December 2004. The increase in cash balances was due to substantial cash reserve held by the Galaxy Group for the unclaimed chips issued and issue of 751,900 new shares of Galaxy on 3 February 2005 for cash at par, totalling HK$730,000,000 (as set out in section III of the accountants' report). As at 31 December 2004, cash balances held by the Galaxy Group of approximately HK$808 million was sufficient to cover the chips issued as at 31 December 2004 of approximately HK$528 million.

We note that the Galaxy Group maintained net current liabilities of HK$365 million as at 31 December 2004 with a current ratio of 0.70 times. We have discussed with the management of KWCM the impact of the net current liabilities on the liquidity of the Galaxy Group. The management of KWCM has provided with us the latest management accounts of the Galaxy Group as at 28 February 2005 and advised us that the current ratio has been improved to 1.1 times, i.e., with a current net asset position instead of a net current liabilities position following the reorganization of its share capital underwent in February 2005. The share capital increased from HK$194 million as at 31 December 2004 to HK$924 million after completion of the reorganization and new issue of shares as detailed in Section III — Subsequent Events in Appendix V — Financial Information about Galaxy. Despite the current liabilities position of the Galaxy Group as at 31 December 2004, we are of the view that its effect on the working capital position of Enlarged KWCM Group is reasonable given (i) the current ratio of the Enlarged KWCM Group as at 31 December 2004 was 1.39, i.e., the current assets would be sufficient to cover the current liabilities; and (ii) the current ratio has improved to 1.1 times as at 28 February 2005 following the increase in share capital amid the reorganization exercise in February 2005.

The KWCM Directors are of the opinion that, after taking into account the working capital requirements for at least the 12 months period from the date of this Circular, the Enlarged KWCM Group will have sufficient working capital for its requirements in the absence of unforeseen circumstances.

Having considered the above as a whole, despite the standalone effect of the amortization of intangible assets is negative to the earnings of the Enlarged KWCM Group, given (i) the increase in net asset value of the Enlarged KWCM Group of HK$14,705 million from the net asset value of KWCM Group of HK$1,446 million and an increment of net asset value per KWCM Share of 364% from HK$1.11 to HK$5.15; (ii)

the gearing level of the Enlarged KWCM Group is in within the range of the Comparable Companies; and (iii) the decrease in current ratio is reasonable, we are of the view that the overall financial impact of the Acquisition on KWCM is positive.

6. Dilution of shareholding

The Purchase Price of HK$18,405,198,023 will be satisfied as to about 80% by the allotment and issue of 1,840,519,798 Consideration KWCM Shares to the Vendors credited as fully paid at HK$8.0 per KWCM Share.

The Consideration KWCM Shares represent about 141.9% of the share capital in issue of KWCM at the date of the Acquisition Agreement and would have represented about 58.7% of the enlarged issued share capital of KWCM if Completion took place on that date. Since then further KWCM Shares have been issued in the placing and subscription announced on 21 April 2005 and on exercise of Employee Options. Assuming that there is no change in its issued share capital from the date of this Circular to Completion save for the issue of the Consideration KWCM Shares at Completion, the Consideration KWCM Shares represent about 127.5% of the existing issued share capital of KWCM and about 56.0% of the enlarged issued share capital immediately after Completion.

The shareholding structure of KWCM (a) immediately before Completion; (b) immediately after Completion but before exercise of any of the Brightwealth Options or Employee Options; (c) immediately after Completion and full exercise of the Employee Options but before exercise of any of the Brightwealth Options; (d) immediately after Completion and full exercise of the Brightwealth Options but before exercise of any of the Employee Options; and (e) immediately after Completion and full exercise of the Brightwealth Options and Employee Options are as follows:

	Before Completion		**Immediately after Completion but before exercise of any of the Brightwealth Options** *(Note 2)* **and Employee Options** *(Note 5)*		**Immediately after Completion and full exercise of the Employee Options** *(Note 5)* **but before exercise of any of the Brightwealth Options** *(Note 4)*		**Immediately after Completion and full exercise of the Brightwealth Options** *(Note 4)* **but before exercise of any of the Employee Options** *(Note 5)*		**Immediately after Completion and full exercise of the Brightwealth Options** *(Note 4)* **and Employee Options** *(Note 5)*	
	No. of KWCM Shares	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*	*No. of KWCM Shares*	*%*
KWIH	852,775,351	59.06	852,775,351	25.96	852,775,351	25.82	852,775,351	25.96	852,775,351	25.82
The Trusts (including City Lion), Dr. Lui and his spouse	90,380,819	6.26	1,250,830,025	38.08	1,256,130,025	38.03	1,250,830,025	38.08	1,256,130,025	38.03
Lui Family members (other than Dr. Lui and his spouse)	2,164,135	0.15	274,368,695	8.35	282,228,695	8.54	599,984,317	18.27	607,844,317	18.40
Directors of KWCM (other than Lui Family members) *(Note 3)*	1,537,810	0.11	1,537,810	0.05	3,247,810	0.10	1,537,810	0.05	3,247,810	0.10
Directors of KWIH only (other than Lui Family members) *(Note 3)*	65,306	0.00	65,306	0.00	1,735,306	0.05	65,306	0.00	1,735,306	0.05
Pedro Ho through Future Leader	—	—	82,250,410	2.50	82,250,410	2.49	82,250,410	2.50	82,250,410	2.49
Brightwealth *(Note 4)*	—	—	325,615,622	9.91	325,615,622	9.86	—	—	—	—
Public shareholders	496,942,142	34.42	496,942,142	15.13	499,354,142	15.12	496,942,142	15.13	499,354,142	15.12
Total	1,443,865,563	100.0	3,284,385,361	100.0	3,303,337,361	100.0	3,284,385,361	100.0	3,303,337,361	100.0

Notes:

1. The above percentages are calculated on the assumption that other than on the exercise of the Brightwealth Options and the Employee Options there is no change in the issued share capital of KWCM from the Latest Practicable Date to Completion.

2. Details of the Brightwealth Options are set out in the Letter from the KWCM Directors in the paragraph headed "**Brightwealth Options**". Brightwealth, a wholly-owned subsidiary of Guoco Group Limited, is one of the Minority Vendors in the Acquisition and a passive investor in Galaxy. Neither Guoco Group Limited nor its controlling shareholders now hold, and none of them will hold, any management function in either Galaxy or KWCM. Brightwealth will be a public shareholder in respect of its shareholding in KWCM immediately after Completion.

3. Mr. William Lo Chi Chung and Dr. Charles Cheung Wai Bun are both directors of KWCM and of KWIH and own KWCM Shares. Their interests are classified only in "Directors of KWCM (other than Lui Family members)".

4. The KWCM Shares subject to the Brightwealth Options will on issue be controlled by Brightwealth which is an Independent Third Party in respect of KWIH and KWCM and amount to less than 10% of the then outstanding KWCM Shares and, as such, will be part of the public float of KWCM. If and when the Brightwealth Options are exercised in full, the 325,615,622 KWCM Shares that will after Completion be the subject of the Brightwealth Options will be owned by Kentlake and Top Notch. 231,615,731 KWCM Shares will then be owned by Top Notch, and Francis Lui will have a notifiable interest in them under the SFO. 93,999,891 KWCM Shares will then be owned by Kentlake, and both Francis Lui and Pedro Ho will have notifiable interests in them under the SFO.

The KWCM Shares which will be owned by Kentlake and Top Notch will no longer count toward the public float of KWCM. These shares are classified only in "Lui Family members (other than Dr. Lui and his spouse)". If the Brightwealth Options are exercised at a time when there are insufficient shares in public hands it will constitute a breach of Rule 13.32 of the Listing Rules and trading in the KWCM Shares may have to be suspended according until KWCM takes appropriate steps to restore its public float.

5. At the Latest Practicable Date, members of the Lui Family were interested in Employee Options, over an aggregate of 13,160,000 KWCM Shares and other KWCM Directors and KWIH Directors are interested in options, granted under the Employee Options, over an aggregate of 3,380,000 KWCM Shares.

As shown in the above table, the shareholding of public shareholders will be reduced from approximately 34.42% to approximately 25.04% immediately after Completion but before exercise of any of the Brightwealth Options or Employee Options (Brightwealth will be a public shareholder in respect of its shareholding in KWCM immediately after Completion). Accordingly, the existing public shareholders of KWCM will be subject to a dilution of approximately 27.25% to their existing shareholding as a result of the issue of the Consideration KWCM Shares.

Notwithstanding that there will be a dilution effect to the KWCM Independent Shareholders following the Acquisition, given that the overall financial impact on KWCM is positive, in particular, the increase of approximately 364% in the net asset value per KWCM Share following the Acquisition, we are of the view that the dilution to the shareholding of the KWCM Independent Shareholders is fair and reasonable so far as the KWCM Independent Shareholders are concerned.

7. Overall Conclusion

We are of the view that, on a stand-alone basis, the Acquisition will result in an increased of the net asset value per KWCM Share but will have a negative impact as to the earnings, gearing ratio and shareholding dilution. However, as discussed in the "Reasons for the Acquisition" in section 2.3 above, given the positive business prospect of the Galaxy Group, both in terms of overall macro analysis or specific business analysis, we are of the view that it would be in the interest of KWCM to expand into the prosperous gaming business, to enlarge its business scope and to increase the sources of revenues. In this connection, based on the results of all analyses taken as a whole, the Acquisition is fair and reasonable in so far as the KWCM Independent Shareholders are concerned.

8. Principal risk factors

In addition to various risk factors pertaining to the Acquisition as discussed in detail in Appendix I to the Circular, we summarize below the following principal risk factors, which (i) have been taken into consideration by American Appraisal in arriving at the valuation of the Galaxy Group; (ii) have been considered by us in reviewing the assumptions as set out in American Appraisals' valuation report, and the setting out of the factors below do not affect our view as to the fairness, reasonableness and completeness of the assumptions used by American Appraisal; and (iii) we consider the same to be of interest to the KWCM Shareholders:

(i) The 4.1% profit margin is only applicable to Galaxy Casino at Waldo Hotel as it was the Company's strategy to gain market share in a relatively short period as a new comer with minimal capital outlay. The overall profit margin is expected to improve over time as and when Galaxy StarWorld and Galaxy Cotai Mega Resort will commence business operation;

(ii) The availability of funding may not exactly match the funding requirement of the Galaxy Group. We understand from the KWCM Directors that the CAPEX will be funded through a mix of internally generated funds, equity and loans from KWCM Shareholders, cash on hand and borrowings;

(iii) Risks associated with whether additional concessions will be granted after 2009;

(iv) The ability to maintain a harmonious relationship with the promoters and the recruitment of new promoters;

(v) Visitors arrived from the Mainland China accounted for more than 50% of the total visitors to Macau during 2004 and visitors to the Galaxy Casino at Waldo Hotel are mostly PRC nationals. Any adverse change in economic and social conditions or laws and regulations in the Mainland China could negatively affect Mainland China's overall economic growth, the size of Mainland China's middle-class, the number of high net worth individuals or movement of funds out of the Mainland China; and

(vi) The Galaxy Group does not currently extend credit to promoters or players. Credit extended to promoters or players in Macau is typically unsecured, and the recoverability of receivables from VIP players could be negatively affected by economic trends or conditions in the countries where they reside. Given the increase in gaming casino facilities, the Galaxy Group may start extending credit to promoters or players in the future. As a result, Galaxy would have to pay gaming taxes on the winnings from these customers even if it were unable to collect the related receivables.

OVERALL RECOMMENDATION

Having considered all factors referred to above, we are of the view that the Acquisition is on normal commercial terms, fair and reasonable, and is in the interests of KWCM and the KWCM Shareholders as a whole. Accordingly, we recommend the KWCM Independent Board Committee to advise the KWCM Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
For and on behalf of
Commerzbank AG Hong Kong Branch

Harald W. A. Vogt	**Helen Ho**
General Manager	*Head of Corporate Finance — M&A Advisory*

The following is the text of a letter from the KWIH Independent Board Committee setting out its recommendation to the KWIH Independent Shareholders in relation to the Acquisition.

K. WAH INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code: 173)

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

30 June 2005

To the KWIH Independent Shareholders,

Dear Sir or Madam,

POSSIBLE ACQUISITION OF 88.1% OF THE VOTING SHARES CARRYING 97.9% OF THE ECONOMIC INTEREST IN GALAXY CASINO, S.A.

CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION FOR K. WAH CONSTRUCTION MATERIALS LIMITED

AND

CONNECTED TRANSACTION, DEEMED VERY SUBSTANTIAL DISPOSAL AND VERY SUBSTANTIAL ACQUISITION FOR K. WAH INTERNATIONAL HOLDINGS LIMITED

We refer to the circular dated 30 June 2005 issued jointly by KWIH and KWCM ("Circular"), of which this letter forms part. Terms defined in the Circular bear the same meaning herein unless the context otherwise requires.

We have been appointed as the members of the KWIH Independent Board Committee to consider the Acquisition and to advise the KWIH Independent Shareholders as to the fairness and reasonableness of the terms and conditions of the Acquisition, and to recommend whether or not the KWIH Independent Shareholders should vote for the ordinary resolution to be proposed at the KWIH SGM to consider, and if thought fit, approve the terms and conditions of the Acquisition. Anglo Chinese has been appointed as the independent financial adviser to advise the KWIH Independent Board Committee in relation to the terms of the Acquisition.

We wish to draw your attention to the Letter from the KWIH Directors (which is set out on pages 49 to 56 of this Circular) and the Letter from Anglo Chinese (which is set out on pages 143 to 161 of this Circular).

Having taken into account the advice from Anglo Chinese, we consider the terms and conditions of the Acquisition to be fair and reasonable so far as the KWIH Independent Shareholders are concerned and the Acquisition is in the interests of KWIH and the KWIH Shareholders as a whole. Accordingly, we recommend the KWIH Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the KWIH SGM to approve the terms and conditions of the Acquisition.

Yours faithfully,
The KWIH Independent Board Committee

Sir David Akers-Jones	**Dr. Leo Lee Tung Hai**
Independent non-executive Director	*Independent non-executive Director*
Dr. Robin Chan Yau Hing	**Mr. Robert George Nield**
Independent non-executive Director	*Independent non-executive Director*

The following is the text of a letter received from Anglo Chinese, the independent financial adviser to the KWIH Independent Board Committee and the Independent Shareholders in connection with the Acquisition.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

The Independent Board Committee
K. Wah International Holdings Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

30th June, 2005

Dear Sirs,

CONNECTED TRANSACTION, DEEMED VERY SUBSTANTIAL DISPOSAL AND VERY SUBSTANTIAL ACQUISITION FOR KWIH THROUGH THE ACQUISITION BY KWCM OF A 97.9% ECONOMIC INTEREST IN GALAXY

INTRODUCTION

We refer to our appointment to advise you and the KWIH Independent Shareholders in connection with the acquisition by KWCM, a listed subsidiary of KWIH, of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy and to the Circular of which this letter forms part.

The Acquisition constitutes a connected transaction for KWIH under the Listing Rules as Dr. Lui, the Lui Family, the Trusts or companies controlled by them are the majority shareholders of both KWIH and Galaxy. The Acquisition also constitutes a deemed very substantial disposal and a very substantial acquisition by KWIH under the Listing Rules. Accordingly, the Acquisition is conditional upon, amongst other things, the approval of the KWIH Independent Shareholders at the KWIH SGM.

Apart from normal professional fees for our services to KWIH, which are described above, no arrangement exists whereby Anglo Chinese will receive any fees or benefits from KWIH, its subsidiaries, directors, chief executive, substantial shareholders or any associates of any of them as defined in the Listing Rules.

The KWIH Independent Board Committee, comprising four of KWIH's independent non-executive directors, namely Sir David Akers-Jones, Dr. Robin Chan Yau Hing, Dr. Leo Lee Tung Hai and Mr. Robert George Nield, has been formed to consider the Acquisition and to advise the KWIH Independent Shareholders. The other KWIH Directors are not considered to be independent because of their interests in KWIH and Galaxy or they are salaried employees of the KWIH Group or they also sit on the board of KWCM.

In formulating our opinions and recommendations we have reviewed the published information on both KWIH and KWCM, including their audited annual financial statements for the three financial years ended 31st December, 2004; the working capital projections of KWIH and KWCM for the period ending 30th June, 2006; the banking facilities available to KWIH and KWCM; the price data on the shares in KWIH and KWCM; the price data on comparable listed companies in Hong Kong and the United States; the valuation report dated 8th March, 2005 and the valuation letter dated 30th June, 2005 prepared, in both cases, by American Appraisal valuing the entire equity interest in Galaxy as at 31st December, 2004 for KWCM; and research on market and other conditions and trends relevant to the Acquisition including data on Macau, comparable companies analysis and comparable transactions analysis. We have considered the letter (the "PwC Letter") dated 30th June, 2005 addressed to KWCM from PricewaterhouseCoopers ("PwC"), as set out in Appendix II to the Circular, regarding the valuation of Galaxy prepared by American Appraisal, which was prepared in accordance with the Hong Kong Standard on Assurance Engagements No. 3000 and with reference to the procedures under Auditing Guideline 3.341 issued by the Hong Kong Institute of Certified Public Accountants solely to assist the KWCM Directors in evaluating whether the net discounted cashflows used in the discounted cashflow valuation and the EBITDA used in the guideline companies valuation, both as prepared by American Appraisal, have been properly compiled in accordance with the basis and assumptions made by the Directors of KWCM and Galaxy so far as the calculations and bases and assumptions are concerned. We have considered the letter dated 30th June, 2005 addressed to KWCM from UBS Investment Bank, as set out in Appendix II to the Circular, setting out their opinion that the financial projections prepared by the KWCM Directors, for which the KWCM Directors are responsible, (the "Financial Projections") have been made after due and careful enquiry. We have also been given the opportunity to discuss with the management of Galaxy and KWCM their respective business strategies, performance, prospects and financing requirements.

We consider that the information we have received is sufficient to reach the conclusions set out in this letter and have no reason to believe any of the information provided is not true or omits a material fact and have been advised by the KWIH Directors that no material information has been omitted from the information provided to us or referred to us in the Circular. We have relied on this information and have assumed that the statements made are true and will continue to be true until the KWIH SGM. We have not, however, conducted an independent verification of the information provided to us nor have we conducted any form of in-depth investigation into the business and affairs of KWIH, KWCM or Galaxy.

The terms defined in the Circular have the same meanings in this letter, unless the context requires otherwise. In addition, we refer to the letter from the KWIH Directors contained in this Circular which gives full details of the Acquisition, its financial effects and the rationale for the Acquisition. Appendices in the Circular give additional information on KWIH and KWCM as required by the Listing Rules. In order not to repeat much of this information, only summaries of the Acquisition Agreement and the background to the transaction are given here.

In the sections that follow, we set out the principal factors that we have taken into account in arriving at our advice to the KWIH Independent Board Committee and the KWIH Independent Shareholders.

SUMMARY OF THE TERMS OF THE ACQUISITION

Under the Acquisition Agreement, a wholly-owned subsidiary of KWCM will acquire 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy for a consideration of HK$18,405,198,023 which will be satisfied as to HK$14,724,158,420 by the issue of 1,840,519,798 Consideration KWCM Shares at an issue price of HK$8.00 per KWCM Share and as to HK$3,681,039,603 the balance by the issue of HK$3,681,039,603 principal amount of FRNs or, at the sole discretion of KWCM, by FRNs or a combination of FRNs and cash.

The issue price of the Consideration KWCM Shares of HK$8.00 per share represents a discount of about 5.9% to the closing price per KWCM Share of HK$8.50 quoted on the Stock Exchange on the Last Dealing Date; a premium of about 0.6% to the five consecutive trading days' average closing price for a KWCM Share of HK$7.95 as quoted on the Stock Exchange for the period from 28th February, 2005 to the Last Dealing Date; and a premium of 39.1% to the closing price of HK$5.75 per KWCM Share on the Latest Practicable Date.

Unless previously redeemed, the FRNs will be repaid 13 months after the date of their issue. On issue the FRNs will be interest free. From the second month of issue, interest will be at 6% per annum and will increase by 1% per annum in each subsequent three month period until the final repayment date. It is expected the proceeds of any placing of new KWCM Shares by KWCM will be used to settle all or a portion of the cash portion of the consideration if KWCM Shares are issued before Completion and to repay FRNs in the event that KWCM Shares are placed after the completion of the Acquisition.

Dr. Lui, members of his family, companies controlled by them and a family trust together own some 66.2% of the issued shares of Galaxy carrying an economic interest of some 73.5%. The balance of the shares in Galaxy are owned by parties which are independent of members of Dr. Lui, the Lui Family, companies controlled by them or family trusts or parties associated with any of them.

THE PLACING AND SUBSCRIPTION

On 21st April, 2005, KWIH, through its wholly-owned subsidiary, placed 146 million existing KWCM Shares at a placing price of HK$8.00 per share and agreed to subscribe for the same number of new KWCM Shares at the same price. The proceeds of the Subscription will be used by KWCM to pay a portion of the cash consideration for the Acquisition. The effect of this Subscription is to increase the share element of the consideration to 1,986,519,798 KWCM Shares and reduce the cash element, before account is made of the expenses incurred by KWCM in connection with the Subscription, to some HK$2,513 million. For the purposes of our analysis of the Acquisition, we have adopted the effective mix of consideration as altered by the Subscription of new shares. Further, the percentage interest of KWIH in KWCM is reflected at the post-subscription percentage throughout.

We are of the view that the use of Consideration KWCM Shares and FRNs or, at the sole discretion of KWCM, by FRNs and, or cash to satisfy the Purchase Price under the Acquisition Agreement is fair and reasonable taking into consideration the price of KWCM Shares, market conditions and the capital structure of KWCM at the Latest Practicable Date. The overall result, based on the unaudited pro forma financial statements of the Remaining KWIH Group for the year

ended 31st December, 2004 (as contained in Appendix VII of the Circular) and the financial information about KWIH (as contained in Appendix IV of the Circular), is to increase the pro forma profit attributable to shareholders of the Remaining KWIH Group on a per KWIH Share basis to HK$1.72[1] relative to audited profit attributable to shareholders of the KWIH Group over the same period of HK$0.117[2]. Similarly, based on the unaudited pro forma balance sheet of the Remaining KWIH Group as at 31st December, 2004, net asset value ("NAV") for shareholders of the Remaining KWIH Group on a per KWIH Share basis is increased to HK$3.08[3] relative to audited NAV for shareholders of the KWIH Group over the same period of HK$1.36[4] (all stated on a per KWIH Share basis).

BACKGROUND TO THE MACAU GAMING INDUSTRY

Macau is the only legalised gaming market in China, located 37 miles southwest of Hong Kong. The Macau gaming industry had historically operated as a government controlled monopoly, run by one concessionaire, a company controlled by Dr. Stanley Ho. However, in 2002, the Macau government liberalised the gaming industry by granting licences to operate casinos to three operators that together have pledged to invest a total of US$2.2 billion[5] as part of their licence conditions, according to the Macau DICJ. The three operators are SJM, Wynn Resorts (Macau), S.A. and Galaxy. With the approval of the Macau government, Galaxy has granted the Sub-concession to Venetian Macau, S.A., a company controlled by Las Vegas Sands Corp, which will develop its gaming business independently of Galaxy.

In 2004, Macau was the world's second largest gaming market, behind Las Vegas Strip, and recorded approximately US$5 billion[5] (HK$39 billion) of gaming revenue which was a 44% increase relative to 2003, according to the Macau DICJ. Win per table per day in Macau was approximately US$15,000 (HK$117,000) compared to approximately US$2,500 (HK$19,500) to US$2,700 (HK$21,060) in Las Vegas Strip and Atlantic City respectively according to an equity research report issued by JP Morgan[6]. According to the Macau DICJ, approximately 70% of the play in the Macau market was VIP baccarat table play. Gaming revenue for 2003 and 2002 was approximately US$3.5 billion (HK$27 billion) and US$2.7 billion (HK$21 billion), representing a year-on-year growth of 29% and 19% respectively.

The Macau economy began climbing out of recession in 2001, with positive gross domestic product ("GDP") growth of 4.6%[7], according to the Australian Government Department of Foreign Affairs and Trade, for the first time since 1995. Growth since then has remained strong, with GDP growing by 14.2% in 2003 and 28%[8] in 2004, according to The Foreign Economic Relations Department of the Macao Economic Services. Rapid import growth is being driven by both rising local consumption demand and by the significant amounts pledged for investment by the new gaming licensees and the tourism sector catering to increased visitor arrivals.

[1] Remaining KWIH Group profit attributable to shareholders of HK$3,433,161,000 divided by weighted average number of shares of 1,996,230,000 for the year ended 31st December, 2004.

[2] Basic earnings per share of KWIH for the year ended 31st December, 2004.

[3] Remaining KWIH Group shareholders' funds of HK$6,214,805,000 divided by 2,015,644,738 issued and fully paid ordinary shares as at 31st December, 2004.

[4] KWIH shareholders' funds of HK$2,731,235,000 divided by 2,015,644,738 issued and fully paid ordinary shares as at 31st December, 2004.

[5] www.dicj.gov.mo

[6] "Las Vegas Sands Corp." equity research report by JP Morgan, dated 4th February, 2005

[7] www.dfat.gov.mo

[8] www.economia.gov.mo

According to the Macau Statistics and Census Service, for the first quarter of 2004 and for the first quarter of 2005, visitor arrivals to Macau increased by 18.8% to total 4.5 million. Visitors from Mainland China increased 13.5% to 2.5 million, which accounted for approximately 55.8% of total visitors.[9]

According to the Macau Statistics and Census Service, in 2004, 16.7 million visitors arrived in Macau, a growth rate of 40% relative to 2003. Of the 16.7 million visitors arriving in Macau in 2004, 9.5 million of them came from Mainland China, representing 57% of the total. Visitors to Macau in 2003 and 2002 were approximately 11.8 million and 11.5 million respectively. Visitors from Mainland China represented 48% and 37% respectively.[9]

An estimated one billion people are within a three hour flight to Macau. Due to Mainland China's lifting of travel restrictions to Macau from certain selected cities in China, Mainland Chinese visitors to Macau have increased by 67% in 2004 compared to 2003.[9] Currently, the policy only applies to Guangdong province and 13 other cities in Mainland China[10]. However, the Chinese Government is expected to continue to broaden its travel policy to other cities within China, leading to anticipated further growth in visitors to Macau.

THE GALAXY CONCEPT

Galaxy holds one of the three concessions granted in Macau in 2002, following the ending of the monopoly in the gaming sector. Galaxy's strategy is to have five market leading gaming facilities in operation by 2008 in the Peninsula and Cotai areas in Macau. The facilities will include two full-service mass market facilities, Galaxy StarWorld and Galaxy Cotai Mega Resort, and three city club casinos at the Waldo Hotel, the Rio Hotel and at Cotai. The table below shows the planned location, target market, operating date, gaming facilities and hotel rooms at each facility.

Property	Location	Target market	Operational date	No. of VIP tables	No. of mass market tables	No. of slots machines	No. of hotel rooms
Galaxy StarWorld	Peninsula	Mass/VIP	Mid 2006	60	140	300	560
Galaxy Cotai Mega Resort (Early Phase 1)	Cotai	Mass/VIP	First quarter 2008	48	300	1,000	2,000
City club casinos	Waldo Hotel	VIP	July 2004	43	20	83	161
	Rio Hotel	VIP	First quarter 2006	20	60	150	445
	Cotai	VIP	First quarter 2006	46	100	200	316
Total				**217**	**620**	**1,733**	**3,482**

The portfolio of Galaxy assets has been designed to have appeal for each segment of the potential Macau gaming market from mass market to VIP. The spread of locations is intended to provide variety, convenience and broad geographic and market segment coverage (VIP and mass market).

[9] www.dsec.gov.mo

[10] www.news.gov.hk

Galaxy StarWorld will be located in downtown Macau and is expected to be completed by mid-2006 as one of the tallest hotels in Macau. Galaxy StarWorld is targeted at appealing to both VIP and mass market customers. There will be 26,000 square metres of gaming space and the hotel will have a total gross area of 95,000 square metres spread over 33 floors.

Galaxy StarWorld is expected to build on the success of the first Galaxy facility, Galaxy Casino at Waldo Hotel, which has been in operation since July 2004 and achieved a 14% market share after 6 months of operations.

In the first quarter of 2006, the Galaxy Casino at Rio Hotel and Cotai City Club are expected to commence operation, followed by the Galaxy Cotai Mega Resort which is expected to start its first phase of operation in the first quarter of 2008. Galaxy's strategy is to (a) focus on becoming the premier gaming destination in Macau by the creation of a prominent profile; (b) development of high quality integrated gaming, leisure and entertainment facilities carefully targeted to the needs of its customers; and (c) sustain its long-term competitiveness and market position through its profitable business model.

The management of Galaxy believes its competitive advantage will be its ability to leverage its understanding of the best in Eastern and Western customer service and management skills, the quality of its gaming assets and the location of its gaming facilities in prime locations designed to maximise appeal to its target customers.

ASSESSMENT OF THE VALUATION OF GALAXY PREPARED BY AMERICAN APPRAISAL

A valuation report dated 8th March, 2005 and the valuation letter dated 30th June, 2005 prepared, in both cases, by American Appraisal, an independent valuer, to assess the fair market value of the entire equity interest in Galaxy as at 31st December, 2004 in connection with its existing and planned casino operations in Macau. The valuation report has been produced to comply with the reporting requirements set forth by the Uniform Standards of Professional Appraisal Practice. In the opinion of American Appraisal, the fair market value for the entire interest in Galaxy as at 31st December, 2004 was HK$23,544,000,000.

We understand that American Appraisal prepared valuations of Galaxy based on two different methodologies: (a) Discounted cashflow analysis; and (b) Guideline companies analysis. Both methodologies are generally used by market practitioners in the valuation of earnings generating companies. American Appraisal then took an average of the resulting valuations derived from each methodology to estimate an approximate overall valuation for Galaxy. Taking an average of a range of valuations, in this case of the valuation generated by each methodology, is a generally used technique and is an objective approach that can be taken when there is no basis for applying unequal weightings to different valuation methods and, or, there is no obviously more appropriate methodology. We believe the valuation methodologies used accord with general market practice and we consider the approach taken to be fair and reasonable.

To assess the fairness and reasonableness of the valuation report, we have reviewed the methodology, bases, inputs (including the Financial Projections) and assumptions employed in the valuation for fairness, reasonableness and completeness.

The assumptions underlying the Financial Projections of operating cashflow include no change in working capital due to income and expenses being matched in the same period to approximate the cash intensive nature of payments received relative to some accruals on expenses in the gaming business, which is generally consistent with other comparable gaming companies. This tends to lead to a relatively more conservative valuation using the discounted cashflow methodology. By assuming a level of working capital the discounted cashflow valuation so derived can be relatively higher as accruals imply certain operating expenses are deferred to later discounting periods. Hence, we are of the view the working capital assumption is fair and reasonable.

Operating cashflow, as included in the Financial Projections, is projected before changes in working capital and, therefore, we consider it to be a fair and reasonable approximation of earnings before interest, tax, depreciation and amortisation ("EBITDA") in the guideline companies valuation.

(a) Discounted cashflow analysis

We have reviewed the methodology, bases, inputs (including the Financial Projections) and assumptions used in the discounted cashflow approach to valuation. Under the discounted cashflow method, the valuation is sensitive to the inputs and assumptions used and, usually, the terminal value which is conventionally calculated as a perpetuity. In the case of Galaxy, the concession has a term of 20 years expiring in June 2022 so there is no perpetuity terminal value calculation on the gaming operations. The perpetuity terminal value of the non-gaming operations represents approximately 8.3% of the discounted cashflow valuation which we consider to be a relatively small proportion of the total discounted cashflow valuation and therefore prudent.

American Appraisal has employed standard discounted cashflow methodology involving discounting cashflows generated throughout the term of the project using a weighted average cost of capital ("WACC"). The WACC has been estimated based on a standard formula incorporating the assumed cost of equity and cost of debt and assuming a fixed capital structure. The cost of equity is derived using the Capital Asset Pricing Model involving an estimate of a project's expected return adjusted for market risk and the capital structure used to fund the project. The final discounted cashflow valuation of Galaxy has been adjusted downwards by an arbitrary 10% for an assumed illiquidity discount which serves to bias conservatively the resulting valuation.

We do not believe an illiquidity discount is applicable given the competition that exists in the market for the acquisition of gaming assets. The WACC used in the discounted cashflow calculation can also be increased marginally for enhanced prudence within a sensitivity analysis. The higher WACC is used to represent the risk of occurrence of unexpected events that are difficult to predict or quantify, such as increased future competition, economic shocks, delays in development and other negative factors. Applying sensitivity analysis to increase the WACC from 10% to a more conservative 12% and to vary the illiquidity discount from 10% to 0% suggests variations in the valuation range up to approximately plus and minus 20% around the central valuation of approximately HK$21.5 billion.

American Appraisal has been provided with operating assumptions by the management of Galaxy. It has been assumed that the current regulatory and corporate fiscal framework will continue throughout the term of the project and Galaxy will achieve its business plan. Based on the current understanding of the fiscal and regulatory regime, whereby no specific changes in the future can be foreseen, it is reasonable to assume that the current system will be in effect for the term of the project. The outline of the Galaxy business plan has been made public and includes the development of Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Waldo Hotel, Galaxy Casino at Rio Hotel and Galaxy Casino at Cotai City Club.

We have discussed and reviewed with American Appraisal about the reasonableness of the key assumptions, bases and inputs which are derived from the Galaxy business plan; and methodology used in the discounted cashflow valuation. The management of Galaxy has confirmed that it intends to follow its business plan which includes consideration of the resources, both financial and non-financial, needed to achieve its objectives. We have examined the business plan which includes certain business objectives and assumptions which have been incorporated into the Financial Projections. The Financial Projections include projections of prospective financial performance such as profit margins, capital expenditure plans and availability of financing to fund capital expenditure and working capital. We are of the view that the business plan is consistent with the historical and expected growth in the Macau gaming market, including the expected growth in the economy of Macau, growth in tourism in Macau and trends for growth in Mainland China tourism to Macau.

Having regard to the aforesaid, we are of the view that the methodology applied is consistent with market practice and overall all the assumptions, bases and inputs used (including the Financial Projections) are fair, reasonable and complete and the discounted cashflow valuation is fair and reasonable.

(b) Guideline companies method

The Guideline Companies Method can include the analysis of comparable companies to establish the trading valuation multiples of an industry peer group and of comparable transactions to establish a premium for control which is applied to a comparable companies derived valuation to estimate an acquisition price for the entire share capital of a company.

American Appraisal has selected five companies for its comparable companies analysis which are MGM Mirage, Caesars Entertainment Inc., Wynn Resorts Ltd., Las Vegas Sands Corp. and Melco International Development Limited. The reference comparable companies used establish a peer group Enterprise Value to EBITDA multiple ("EV/EBITDA") which is applied to American Appraisal's estimate of Galaxy's 2009 EBITDA (when the Galaxy facilities will be fully operational), adjusted for planned capital expenditure up to that date, to estimate an enterprise value for Galaxy as if it was an independent listed entity. A premium for control is also applied to estimate an acquisition valuation for Galaxy on the basis that its entire equity capital is to be purchased. The premium chosen was 20% which was considered by American Appraisal to be appropriate for the entertainment sector and was derived from data on control premiums paid in different industries in the United States.

We have conducted an analysis combining the use of both the analysis of comparable companies and precedent comparable transactions involving the purchase of casino assets.

We have selected and reviewed six companies listed in Hong Kong and the United States which have significant casino operations, representing a peer group of companies which approximate most closely to Galaxy as comparable companies. The EV/EBITDA valuation multiples shown in the table below are based on the market capitalisations of the comparable companies as at the Latest Practicable Date and based on the audited financial information for the year ended 31st December, 2004.

Comparable companies	**Bloomberg code**	**EV/EBITDA** *(times)*[(1)(2)(3)]
Melco International Development	200 HK	94.4
Las Vegas Sands	LVS US	37.5
Wynn Resorts	WYNN US	N/A[(4)]
MGM Mirage	MGM US	12.2
Caesars Entertainment	CZR US	8.9
Ameristar	ASCA US	9.0
Mean		32.4
Median		**12.2**
American Appraisal EV/EBITDA estimate		**10.8**

Notes:

(1) Closing share prices as at the Latest Practicable Date, except Caesars Entertainment which is as at 13th June, 2005, the last trading day of its shares pursuant to its acquisition by Hurrah's Entertainment, Inc.

(2) EV is the Enterprise Value which is defined as the sum of a company's equity market capitalisation derived from closing share prices as at the Latest Practicable Date plus audited net debt and minority interests for the year ended 31st December, 2004.

(3) EBITDA is defined as profit before taxation plus net interest expense plus depreciation plus amortisation.

(4) Net loss in 2004.

We calculate the median EV/EBITDA of the comparable companies to be 12.2 times compared to a relatively more conservative EV/EBITDA multiple of 10.8 times estimated by American Appraisal. The median value has been chosen to reduce bias resulting from outlying values in the sample that can skew the mean.

The table below lists selected precedent comparable transactions involving the acquisition of a gaming company, which were completed between January 2002 and the Latest Practicable Date to assess the premium for control. The one-day bid premium has been selected as it is a standard reference point.

Comparable Transactions

Announcement date	Company	Acquirer	Enterprise value[1] *(US$MM)*	EV/ EBITDA[1][2][3] *(times)*	Premium (one day)[4] *(%)*
4th June, 04	Mandalay Resort	MGM Mirage	7,643.7	11.6	30.0
28th Jan, 02	Europeenne de Casinos	Groupe Partouche	371.7	9.7	16.9
High				11.6	30.0
Low				9.6	16.9
Mean				10.7	23.4
Median				**10.7**	**23.4**

Source: Thompson Financial

Notes:

(1) Closing share prices as at the acquisition date.

(2) Enterprise Value or EV is defined as the sum of a company's equity market capitalisation at the acquisition date plus audited net debt and minority interests for the year ended 31st December, 2004.

(3) EBITDA is defined as profit before taxation plus net interest expense plus depreciation plus amortisation.

(4) Premium of offer price to target trading price one day prior to the original announcement date of the acquisition, expressed as a percentage.

The comparable transactions analysis suggests a one-day acquisition premium in the range of 16.9% to 30.0% with a mean and median of 23.4%. The median and mean acquisition premium of 23.4% reasonably approximates to the premium of 20% estimated by American Appraisal.

We are of the view that the use of the EV/EBITDA valuation ratio is the most appropriate comparable companies valuation multiple as its calculation aims to reduce differences in valuation that result from companies having different depreciation/amortisation accounting policies, tax positions and capital structures. EV/EBITDA is also widely used by the market in valuing cash generative companies, such as casinos.

The basis for estimating Galaxy's EBITDA has been discussed above under "Assessment of the valuation of Galaxy prepared by American Appraisal". The use of the 2009 EBITDA value is, in our view, fair and reasonable as it is taken to be representative of the longer-term EBITDA earnings capability of Galaxy when it is fully operational. Further, American Appraisal estimated the EBITDAs for comparable companies by extrapolating from growth trends forecast by equity analysts for the period 2003 to 2006. We have reviewed the basis of the EBITDA

extrapolations for comparable companies and are of the view that they are consistent with market expectations, as represented by the views of equity analysts, and historical growth rates.

In addition, we have estimated a comparable companies valuation of Galaxy based on the present value of 2009 EBITDA using a discount rate of 10% and capital expenditure adjustment, as estimated by American Appraisal and which we consider to be fair and reasonable; and the EV/EBITDA multiple of 12.2 times and control premium of 23.4% that we have estimated above. The comparable companies valuation of Galaxy so derived by us is approximately HK$21.9 billion, which is 19.0% more than the HK$18.4 billion consideration payable for Galaxy and 14.4% less than American Appraisal's guideline companies valuation of approximately HK$25.6 billion.

Having regard to the aforesaid, we are of the view that the methodology applied is consistent with market practice and overall all the assumptions, bases and inputs used (including the Financial Projections) are fair, reasonable and complete and the guideline companies valuation is fair and reasonable.

THE PWC LETTER

The PwC Letter regarding the valuation of Galaxy prepared by American Appraisal is addressed only to KWCM and has not been relied upon by us in forming our opinion. We note that it was prepared solely to assist the KWCM Directors in evaluating whether the net discounted cashflows used in the discounted cashflow valuation and EBITDA used in the guideline companies valuation, both prepared by American Appraisal, have been properly compiled in accordance with the basis and assumptions made by the Directors of KWCM and Galaxy so far as the calculations and bases and assumptions are concerned. The PwC Letter was prepared with certain limitations of scope that have led to PwC being unable to evaluate the appropriateness of the bases and assumptions used in arriving at the discounted cashflow and the estimate of EBITDA used in the guideline companies valuations. PwC highlights six principal assumptions which we discuss below.

The first three assumptions PwC are unable to evaluate relate to: (1) the market conditions of the gaming industry in Macau; (2) market position of Galaxy in Macau; and (3) assumptions on the cost structure of Galaxy's gaming and non-gaming operations over a period of 17 years up to June 2022 will be the same as stated in the discounted cashflow and guideline company valuations.

We are of the view that over a period of 17 years up to June 2022, the market conditions of the gaming industry in Macau, market position of Galaxy in Macau and assumptions on the cost structure of Galaxy's gaming and non-gaming operations assumed in the Financial Projections should be considered together as they are inter-related and underlie the Financial Projections. We are of the view that these three assumptions are consistent with historical trends, the Galaxy business plan, currently available public information and general market sentiment of expected future trends as we discuss in this letter under "Background to the Macau gaming industry", "The Galaxy concept", "Assessment of the valuation of Galaxy prepared by American Appraisal" and "Share price performance of KWCM and KWIH". The management of KWCM has adopted conventional market practice by estimating a discounted cashflow valuation by using 10 years of financial projections and a gaming operations terminal value assuming a fixed growth rate from year 11 to the end of the concession period. For the six years up to 2022, a gradual decline in the

annual growth rate of the Macau gaming market from 25% in 2005 to 5% in 2016 and constant growth of 5% to 2022 has been assumed. We state above in "(a) Discounted cashflow analysis" that we are of the view these Financial Projections are fair, reasonable and complete.

Further, the risk of inaccuracies in projections of financial performance which may or may not result from differences between the assumptions in the Financial Projections and actual future market conditions of the gaming industry in Macau, market position of Galaxy in Macau and assumptions on the cost structure of Galaxy's gaming and non-gaming operations can be represented in a discounted cashflow valuation by the addition of a risk premium to the discount rate. Given the absence of perfect foresight, the accuracy of financial projections tends to diminish the farther into the future to which a financial projection relates. The discounted cashflow valuation adjusts for the risk of financial projections being less accurate the farther into the future period that they relate. The effect of compounding of the discount rate means that the farther into the future a financial projection the more heavily it is discounted. Hence, less weight is accorded to those financial projections which have a relatively lower degree of certainty. We are of the view this is prudent and show in "(a) Discounted cashflow analysis" above the effect on the discounted cashflow valuation of adjusting the discount rate for a risk premium in a sensitivity analysis.

For the reasons discussed above, we are of the view the assumptions of market conditions of the gaming industry in Macau, market position of Galaxy in Macau and assumptions on the cost structure of Galaxy's gaming and non-gaming operations which underlie the Financial Projections are fair and reasonable.

Assumption (4) which PwC is unable to evaluate relates to the assumption of sufficient finance being obtained for the capital expenditure stated in the Financial Projections. Las Vegas Sands Corp. raised US$120,000,000 (equivalent to approximately HK$936,000,000) of floating rate notes debt in 2003 to fund the development of its Sands Macau which commenced operation in May 2004. Wynn Resorts, Ltd raised an aggregate of US$397,000,000 (equivalent to approximately HK$3,096,600,000) of debt financing for the design, development, construction and pre-opening expenses of its Macau gaming project in September 2004. KWCM successfully completed a placement of 146,000,000 KWCM Shares to independent investors to raise net proceeds of approximately HK$1,137,000,000 in April 2005. Melco International Development raised net proceeds of approximately HK$1,239,000,000 from a placement of shares to independent investors for its gaming related project in Macau in May 2005. Given the absence of perfect foresight, there can be no absolute guarantee that funding will be available to Galaxy in the future as required in its business plan. However, given market conditions and historical precedent, we are of the view it is fair and reasonable to assume that Galaxy will be able to raise sufficient finance for its capital expenditure plans.

Assumption (5) which PwC is unable to evaluate relates to the assumption of change in net working capital continuing to be positive over the concession period given the payment terms with trade creditors and debtors of both gaming and non-gaming operations to arrive at the guideline companies valuation. For the reasons stated above in "Assessment of the valuation of Galaxy prepared by American Appraisal" this assumption tends to lead to a more conservative valuation and we are of the view this assumption is fair and reasonable.

Assumption (6) which PwC is unable to evaluate relates to the assumption of a 10% discount rate applied to the net cashflows of Galaxy during its gaming concession period in Macau from 2005 to June 2022. We are of the view the discount rate estimated is consistent with comparable companies and, as set out above in "(a) Discounted cashflow analysis", we have analysed the effect of variations in the discount rate on the discounted cashflow valuation. We are of the view the assumption on the discount rate is fair and reasonable.

Having regard to the aforesaid, we are of the view that the six assumptions set out above are fair, reasonable and complete.

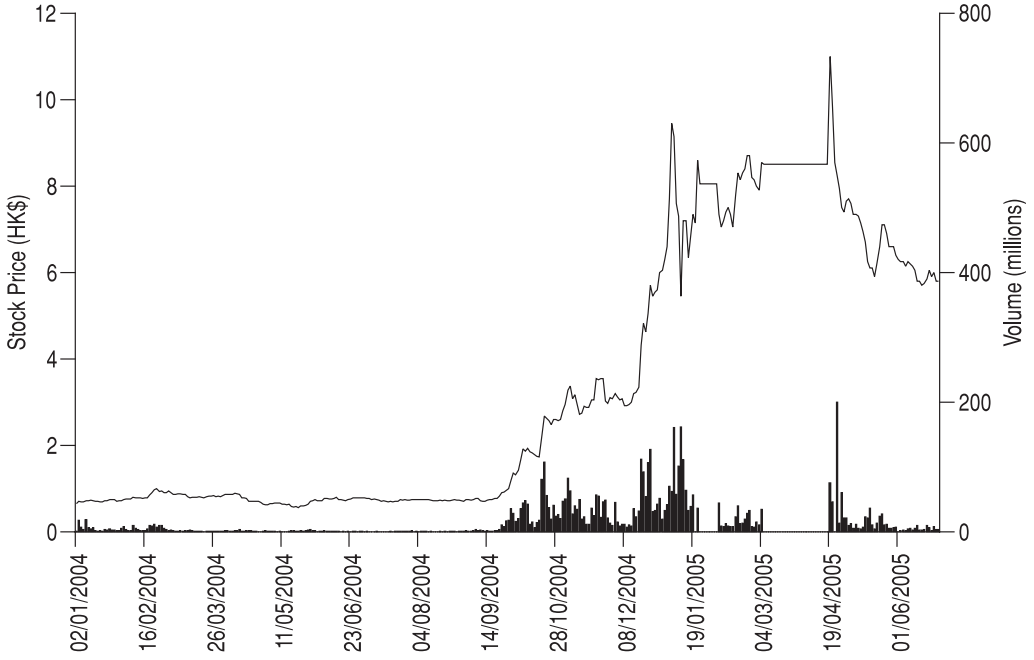
CONCLUSION ON VALUATION

Having regard to the aforesaid, we are of the view that the discounted cashflow and guideline companies methodologies applied are generally consistent with market practice and overall all the assumptions, bases and inputs used (including the Financial Projections) are fair, reasonable and complete, and therefore the valuation is fair and reasonable.

SHARE PRICE PERFORMANCE OF KWCM AND KWIH

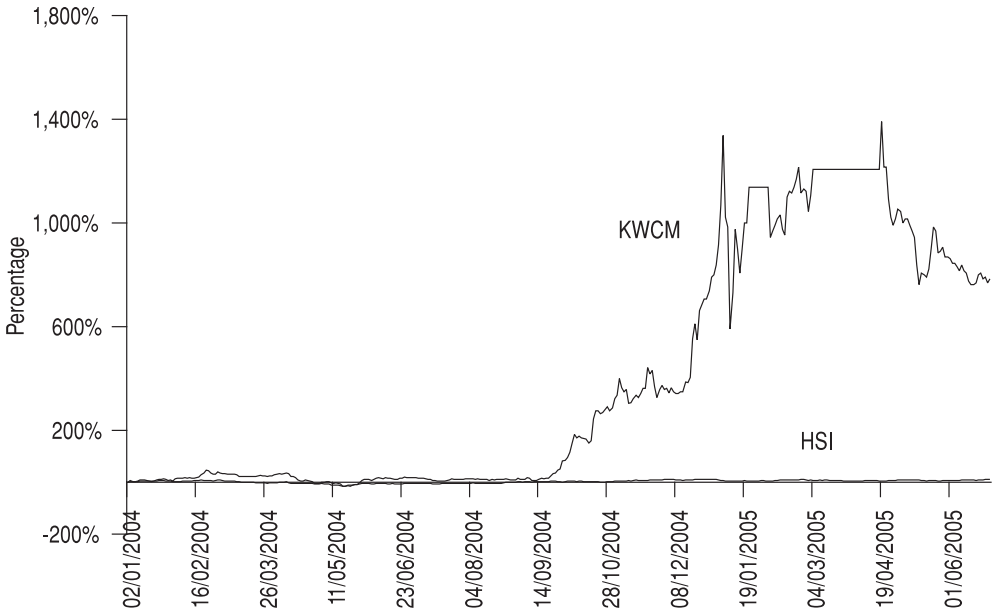
The charts below show the share performance and traded volume of KWCM Shares from 1st January, 2004 until the Latest Practicable Date, and the performance of KWCM Shares relative to the All Ordinaries Index of the Stock Exchange over the same period. The period shown starts from 1st January, 2004 to illustrate the trading levels of the KWCM Shares before the influence of Macau gaming market related factors began to affect their value.

KWCM Share price performance



Source: Bloomberg

KWCM Share performance relative to the All Ordinaries Index

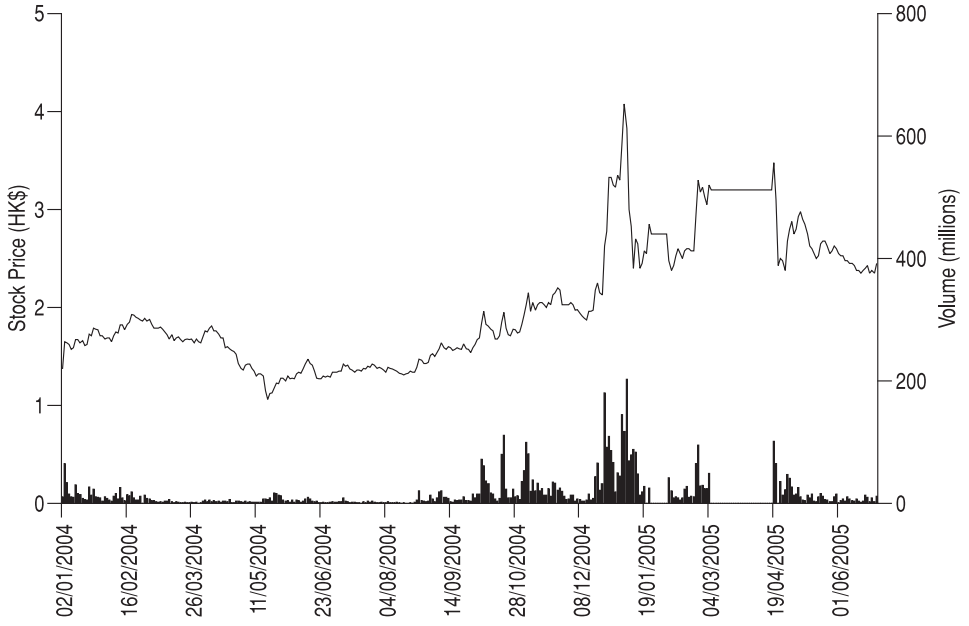


Source: Bloomberg

As can be seen from the first chart, the KWCM Shares traded at consistently below HK$1.00 per share and on low daily volumes until after the second week of September 2004 when both the traded volume and price of KWCM Shares increased substantially and, prior to the announcement of the Acquisition, closed at an all time high of HK$9.35 per share on 6th January, 2005. The price performance relative to the All Ordinaries Index shows that the increase in the price of KWCM Shares was not caused to any material extent by movements in the market as a whole. These charts demonstrate clearly the impact of the expectation of the market from the latter part of September 2004 onwards that KWCM was a potential play on the prospects of gaming in Macau; a prospect which was confirmed by KWCM on 21st January, 2005 when it announced that the Macau government had approved the transfer of a majority interest in Galaxy to KWCM and that preliminary conceptual studies by KWCM were being conducted on the feasibility of such an acquisition. It is apparent also that the valuation of KWCM Shares was not being driven by an assessment of its existing construction materials businesses in Hong Kong and Mainland China but by an assessment of the potential of its possible acquisition of the Galaxy gaming concession. The increase in the equity market capitalisation of KWCM is, therefore, substantially, if not entirely, the product of the market's interest in the potential of gaming in Macau in which the controlling shareholders of KWCM had secured a valuable position through the grant to Galaxy of one of the three gaming concessions in Macau. Accordingly, in assessing the price at which the KWCM Shares are to be issued as part of the consideration payable for the Acquisition, a very substantial portion of the value of the consideration already reflects the value of Galaxy's gaming concession and is not supported only by the value of KWCM's existing businesses.

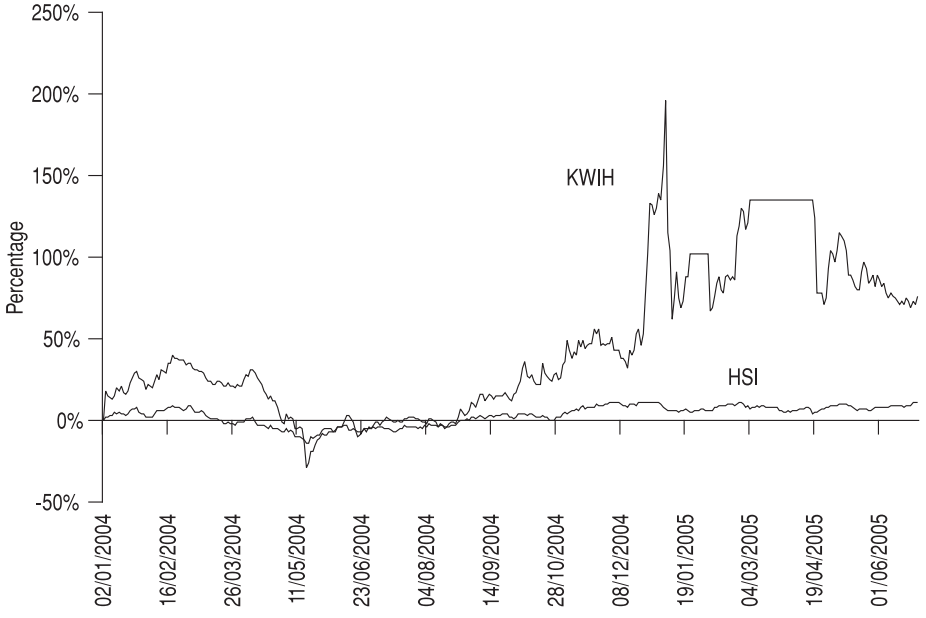
Set out below are two charts for KWIH: the first chart shows the share price performance and traded volume of KWIH Shares from 1st January, 2004 until the Latest Practicable Date and the second chart shows the performance of KWIH Shares relative to the All Ordinaries Index over the same period.

KWIH Share price performance



Source: Bloomberg

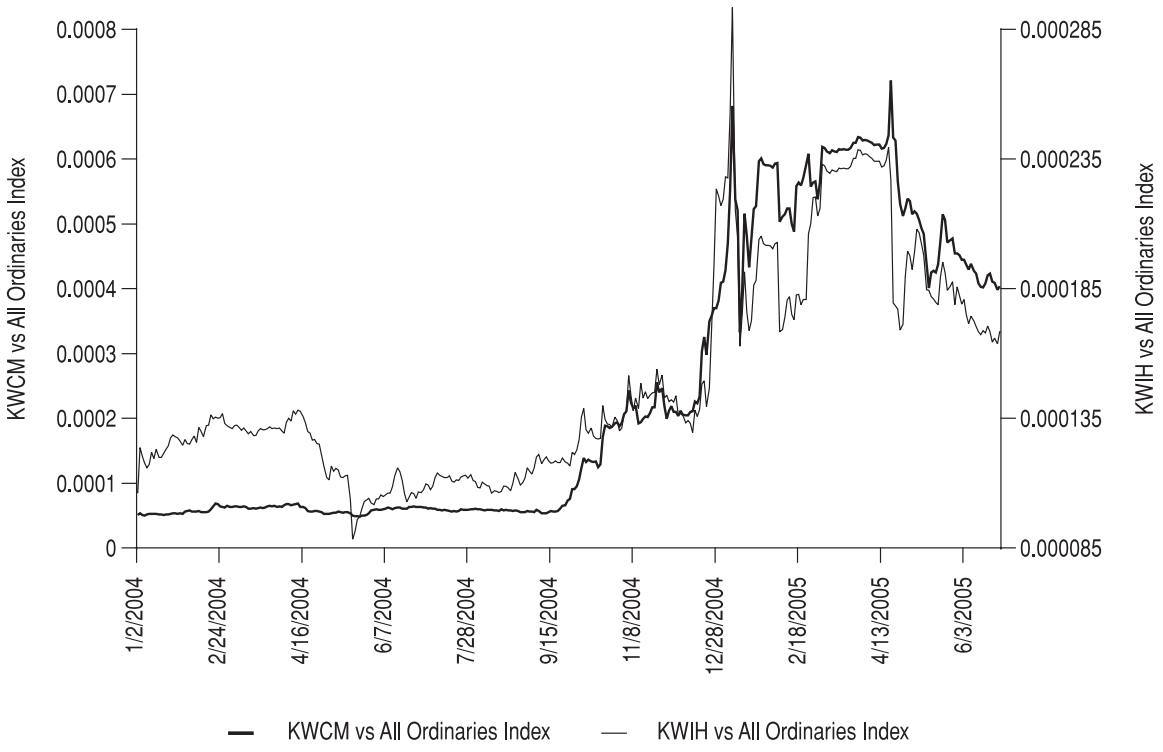
KWIH Share performance relative to the All Ordinaries Index



Source: Bloomberg

As illustrated in the chart below, the price performance of KWIH Shares and their performance relative to the market as a whole, represented by the All Ordinaries Index, shows the same pattern as KWCM Shares but to a lesser extent, because the investment in approximately 59.1% of the issued share capital of KWCM constitutes only a portion of the assets of KWIH.

KWIH and KWCM share price performance relative to the All Ordinaries Index



Source: Bloomberg

Nonetheless, it can also be seen that a substantial portion of the present valuation of KWIH Shares is supported by an assessment of its potential indirect investment in gaming in Macau through an investment in Galaxy and not only its existing investments, businesses and assets.

We have also estimated the correlation coefficient for the share prices of KWIH Shares and KWCM Shares between 1st January, 2004 and the Latest Practicable Date to be approximately 0.943 which indicates a high positive correlation between the two share prices showing they tend to move together.

KWCM WITHOUT THE ACQUISITION AND EFFECTS OF THE ACQUISITION ON KWIH

We have reviewed selected companies listed on the Stock Exchange with significant cement, ready mix concrete and pre-cast concrete product operations, representing companies which approximate closest to KWCM as comparable companies. The EV/EBITDA, price/earnings ("P/E") and price/net assets valuation multiples shown in the table below are based on the equity market capitalisations of the comparable companies at the Latest Practicable Date and audited financial information for the year ended 31st December, 2004.

Comparable companies	**Bloomberg code**	**EV/ EBITDA[(1)(2)(3)]** *(times)*	**P/E[(1)(4)]** *(times)*	**Price/net assets[(1)(5)]** *(times)*
China Resources Cement	712 HK	4.7	7.1	0.6
Anhui Conch Cement	914 HK	3.5	9.5	0.6
Daido Group	544 HK	6.1	3.3	0.7
Luks Industrial	366 HK	4.1	15.3	12.6
Chia Hsin Cement	699 HK	8.0	10.0	0.7
High		**8.0**	**15.3**	**12.6**
Low		3.5	3.3	0.6
Mean		5.3	9.0	3.0
Median		4.7	9.5	0.7
KWCM (at start of 3rd quarter 2004)		**10.0**	**24.1**	**0.7**
KWCM[(6)]		**52.4**	**248.3**	**5.7**

Notes:

(1) Closing share price as at the Latest Practicable Date.

(2) EBITDA is defined as profit before taxation plus net interest expense plus depreciation plus amortisation.

(3) EV is defined as the sum of the company's equity market capitalisation at the Latest Practicable Date plus the audited net debt and minority interests for the year ended 31st December, 2004.

(4) P/E is defined as the ratio of equity market capitalisation at the Latest Practicable Date to the earnings attributable to ordinary shareholders.

(5) Price/net assets is defined as the ratio of market capitalisation to the historical net assets at the Latest Practicable Date.

(6) Historical financial figures are not adjusted for the placing that took place on 21st April, 2005.

The median EV/EBITDA, median P/E and median price/net assets of the comparable companies are chosen as they eliminate bias resulting from outlying values in the sample that can skew the mean.

The market valuation of KWCM increased significantly between the beginning of the third quarter in 2004 and the Latest Practicable Date during which expectations of a gaming related acquisition were confirmed. We believe the current valuation of KWCM factors in the value enhancement from the Acquisition and is reflected in the relative difference in the valuation of KWCM at the start of the third quarter in 2004 and the Latest Practicable Date. We note that the market valuation of KWCM started to rise during the last quarter of 2004 based on the market's assessment of the prospects for KWCM to be involved in a gaming related transaction. This was significantly before the announcement of the Acquisition on 19th April, 2005 and could be interpreted as the market's view that such transaction would add value to the KWCM Shares.

Further, the analysis of KWCM comparable companies suggests that in the absence of the Acquisition and, if KWCM Shares were to be traded more in line with its peers, then KWCM's valuation would be significantly diminished compared to current levels. This is reinforced by trading prospects for the comparable companies, which have faced an increasingly competitive business environment that has led to a decline in the average cement price over the course of 2005. These competitive pressures may continue and prevent a recovery in the average cement price in the short term.

We are of the view that KWCM's high P/E valuation multiple relative to comparable companies in the building materials sector at the Latest Practicable Date is indicative of the market's expectation for increased shareholder value from the combined group after the Acquisition having relatively higher growth prospects than KWCM without the Acquisition.

It is our view that the current valuation reflects the anticipation of the Acquisition and, in the absence of the Acquisition, it is likely that KWCM Shares would be valued in line with its peer group of comparable companies in the EV/EBITDA range of 3.5 to 8.0 times, P/E range of 3.3 to 15.3 times and price/net assets range of 0.6 to 12.6 times. This would indicate a price per KWCM Share at levels which prevailed before the third quarter of 2004, being a price below HK$1.00 per share.

In turn, the market value of KWIH's interest in KWCM would be reduced by a corresponding amount of the reduction in value resulting from a re-rating of KWCM to a level in line with its comparable peer group in the absence of the Acquisition.

Having considered the valuation consequences of the Acquisition and, in particular, the potential value of KWIH's interest in KWCM with and without the Acquisition, we are of the view that the Acquisition is fair and reasonable and is in the interests of the KWIH Independent Shareholders in terms of its positive impact on the market valuation of KWCM Shares.

The financial implications of the Acquisition

The Acquisition will have a profound impact on KWCM. Presently, KWCM generates positive net discretionary cashflow from its operations which together with a comparatively modest level of gearing (as at 31st December, 2004, total borrowings substantially all of which were long term, amounted to some 14.1% of total assets). This cashflow has been used to finance its expansion plans in Mainland China and enabled it to be a consistent dividend payer, notwithstanding the decline of its after tax earnings over the past five years. Following the completion of the Acquisition, it is uncertain whether over the next few years KWCM will

pay dividends and will require additional funding in the form of increased borrowings and, in the longer term, potentially equity, in order to finance Galaxy's investment in its resort and gaming businesses in Macau.

Presently, Galaxy is projecting capital expenditures up to the end of 2009 of some US$736 million, equivalent to some HK$5,743 million. Consequently, as a result of the Acquisition, it is uncertain whether KWIH can expect to receive dividend payments from KWCM which in respect of the financial year ended 31st December, 2004 amounted to some HK$17.0 million. Further, given the scale of the investment projected by Galaxy, it can be expected that, during the course of the planned development, further equity will be raised by KWCM which might dilute KWIH's percentage interest in KWCM in the future. However, this impact is compensated for by the substantial increase in the value of KWIH's investment in KWCM.

Although KWIH's holding in KWCM will be diluted by the Acquisition, the value of KWCM is expected to increase significantly as KWCM's long-term growth prospects are enhanced by Galaxy's higher growth prospects, profitability and cash generation which is expected to deliver relatively higher shareholder value than KWCM without the Acquisition. We are of the view that this is currently the key factor supporting KWCM's valuation at the Latest Practicable Date and that KWCM would not be priced by the market at such levels in the absence of the Acquisition. Without the Acquisition, KWCM is likely to be priced by the market at P/E valuation multiple levels more close to that of comparable companies in the building materials sector between approximately 3.3 times and 15.3 times, and a median of 9.5 times.

ADVICE

Having considered the above factors, we are of the view that the connected transaction, deemed very substantial disposal and very substantial acquisition for KWIH through the Acquisition by KWCM of a 97.9% economic interest in Galaxy is on normal commercial terms and the terms of the Acquisition Agreement to be fair and reasonable and in the interest of KWIH and its shareholders generally. Accordingly, we recommend that the KWIH Independent Board Committee advise the KWIH Independent Shareholders to vote in favour of the resolution to approve the Acquisition and the issue of Consideration KWCM Shares by KWCM to be proposed at the KWIH SGM.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited

Stephen Clark
Managing Director

In considering whether or not to vote in favour of the Acquisition KWIH Shareholders and KWCM Shareholders should consider all of the information set out in this Circular, including the following risk factors. Any of the risks described below could cause Galaxy's financial performance and hence that of the Enlarged KWCM Group to differ significantly from the goals, plans, objectives, intentions and expectations expressed in this Circular. If any of the following risks and uncertainties actually occur, the Galaxy Group's business, financial condition or operating results (and thus those of the Enlarged KWCM Group) could be materially and adversely affected.

Risks relating to Galaxy's business

Galaxy has a limited history

Galaxy was formed to develop and operate a gaming business and related properties. Galaxy has a limited history and there is no assurance Galaxy will be able to attract a sufficient number of gaming and other visitors to its properties to maintain or increase profit from operations.

Galaxy's operations are subject to the significant business, economic, regulatory and competitive uncertainties and contingencies frequently encountered by businesses in competitive environments, many of which are beyond Galaxy's control. Because Galaxy has a limited operating history, it may be more difficult for Galaxy to prepare for and respond to these types of risks and the risks described elsewhere than for longer-established groups. Failure to manage these risks successfully could negatively impact Galaxy's operations and thus those of the Enlarged KWCM Group.

Galaxy's casino and proposed hotel and resort facilities face competition

The casino/hotel/resort industry is highly competitive. Many of Galaxy's competitors have established gaming operations elsewhere and/or a longer trading history, and may have greater financial and other resources than Galaxy.

Details of Galaxy's competitors in Macau are set out in the part of this Circular headed "The Macau Gaming Industry — Competition".

Galaxy will face increased competition if any of the existing concessionaires construct new, or renovates pre-existing casinos in Macau. The Macau government is precluded by contract from granting any additional gaming concessions until 2009 if as a result thereof will cause more than three concessions to exist concurrently. In addition, the current laws only permit three gaming concessions, although sub-concessions are permitted subject to Macau government approval. However, if the laws are changed to permit the Macau government to grant additional gaming concessions before 2009 or further sub-concessions are granted, Galaxy would face additional competition, which could have a material adverse effect on Galaxy's financial condition and results of operations.

In addition, Galaxy's gaming operations face competition for gaming visitors from gaming operators outside Macau. These include, but are not restricted to, the following:

- Star Cruises, which operates a fleet of about 21 ships with over 31,000 lower berths. Star Cruises vessels in the Asia-Pacific area offer extensive gaming to their passengers whilst in international waters.
- Genting Highlands is a large scale gaming resort approximately a one-hour drive from Kuala Lumpur, Malaysia.
- Korea has allowed gaming for some time but it is primarily available only to foreign visitors; however, a new casino recently opened in an old mining area of Korea, which allows Korean nationals to gamble.
- The Philippines has a number of casinos that cater to the Asian market.
- Japan currently offers non-traditional gaming amenities including pachinko and pachislot, as well as speedboat racing.
- Singapore has recently announced that it will legalise gaming and grant two licences.
- A number of casinos have been opened in Cambodia, Myanmar and Vietnam, particularly on the borders of Cambodia and Myanmar.
- Australia has the gaming facilities comparable to Las Vegas casinos.
- Las Vegas receives significant visitor traffic from Asia and has a concentration of casinos unrivalled elsewhere.

Galaxy's business could be adversely affected by limitations on the export of RMB and changes in the value of RMB and other currencies

Galaxy accepts wagers only in Hong Kong dollars and MOP, not in RMB. Galaxy is exposed to risks relating to limitations on the export of RMB. See "Risk Factors — The Macau gaming industry may be highly dependent on Mainland China". RMB is not a freely convertible currency and there are restrictions on the export of RMB outside of Mainland China. Mainland China residents face restrictions on their ability to obtain or hold foreign currencies. Any tightening of these restrictions may discourage the flow of gaming customers from Mainland China to Macau, inhibit the growth of gaming in Macau and negatively impact Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Changes to the foreign exchange policies in relation to the HK dollar, the RMB and the MOP could adversely affect Galaxy

Galaxy cannot be sure that the HK dollar, the RMB and the MOP will continue to be directly or indirectly pegged to the U.S. dollar. Changes to the foreign exchange policies affecting these currencies could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Galaxy is at present dependent upon one facility for all of Galaxy's cash flow

Galaxy does not expect to have material operations other than at the Galaxy Casino at Waldo Hotel until the opening of Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel in the first quarter of 2006. As a result, Galaxy will remain dependent upon the Galaxy Casino at Waldo Hotel for all of Galaxy's cash flow for some time and be subject to a greater degree of risk than a company with several operating properties or properties inside and/or outside Macau. As a result, risks to which Galaxy has a greater degree of exposure include:

- dependence on local economic and competitive conditions of a single market;
- changes in Macau laws and regulations, including gaming laws and regulations;
- natural and other disasters affecting the market;
- a decline in the number of visitors to Macau; and
- a decrease in activities at the Galaxy Casino at Waldo Hotel.

Factors affecting discretionary spending, may harm Galaxy's, and thus KWCM's, results.

The strength and profitability of Galaxy's business and planned business depends on consumer demand for gaming and for hotel casino resorts in Macau. Changes in consumer preferences or discretionary consumer spending could harm Galaxy's business. Galaxy's business depends on the willingness of its customers to travel to Macau. Most of Galaxy's customers travel to reach Macau. Local residents generate a very small portion of Galaxy's business. The terrorist attacks of 11 September 2001, the ongoing conflict in Iraq, recent terrorist activities in Indonesia and Thailand, the United States' ongoing military campaign against terrorism and continued violence, conflicts and instability in several regions of the world have disrupted and discouraged international leisure travel. Galaxy cannot predict the extent to which disruptions in air or other forms of travel as a result of any future terrorist act, outbreak of hostilities or escalation of war would adversely affect Galaxy's business, cash flows, financial condition, results of operations and prospects.

In addition to terrorist activities, military conflicts, the outbreak of infectious diseases or the impact of a natural disaster such as a tsunami or typhoon, other factors affecting discretionary consumer spending, including general economic conditions, disposable consumer income, fears of recession and reduced consumer confidence in the economy, may negatively impact Galaxy's business. Negative changes in factors affecting discretionary spending could reduce customer demand for the products and services Galaxy will offer, thus bringing pricing pressure and harming Galaxy's and thus the Enlarged KWCM Group's operations.

Galaxy's business operations will be affected by international, national and local economic conditions. A recession or downturn in the general economy, or in a region constituting a significant source of customers for Galaxy, could result in fewer customers visiting Galaxy's facilities, which would adversely affect Galaxy's revenues and thus those of the Enlarged KWCM Group.

Galaxy is subject to extensive regulation, and gaming authorities have significant influence over Galaxy's operations

The opening and operation of Galaxy's proposed facilities will be contingent upon Galaxy's receipt and maintenance of all regulatory licences, permits, approvals, registrations, findings of suitability, orders and authorisations. The laws, regulations and ordinances requiring these licenses, permits and other approvals generally relate to the responsibility, financial stability and character of the owners and managers of gaming operations, as well as persons financially interested or involved in gaming operations. Extensive approvals are required to open and operate a facility. Failure to obtain or maintain the necessary approvals could prevent or delay the completion or opening of all or part of the facilities.

Galaxy's operations are subject to risks related to Macau's developing regulatory framework. Failure to comply with the regulatory and gaming environment in Macau could result in the revocation of Galaxy concession or otherwise negatively affect its operations.

Galaxy's failure to comply with applicable gaming laws may result in the Stock Exchange cancelling the listing of KWCM

Under the guidelines issued by the Stock Exchange in relation to "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers" dated 11 March 2003, should KWCM or Galaxy be engaged in gambling activities and the operations of such activities (i) fail to comply with the applicable laws in the areas where such activities operate and/or; (ii) contravene the Gambling Ordinance such that KWCM or its business may be considered unsuitable for listing under Rule 8.04 of the Main Board Listing Rules, the Stock Exchange may direct KWCM to take remedial action, and/or may suspend the dealings in, or may cancel the listing of, its securities.

If a third party successfully challenges Galaxy's ownership of, or right to use, the Galaxy-related service marks, Galaxy's business or results of operations could be harmed

Galaxy has registered a variety of Galaxy-related trademarks and service marks in connection with a variety of goods and services. Some of the applications are based upon ongoing use and others are based upon a bona fide intent to use the marks in the future. Details are set out in Appendix XIII ("General Information about Galaxy").

Whilst no challenges had been made at the Latest Practicable Date such registrations are not conclusive as to the right to such marks. Third parties who claim prior rights with respect to similar marks may challenge Galaxy's right to registrations or Galaxy's use of the marks and seek to overcome the presumptions afforded by such registrations.

If a third party asserts other forms of intellectual property claims against Galaxy, Galaxy's business or results of operations could be adversely affected

Intellectual property rights such as patents and copyrights are used by Galaxy in its business. Whilst no challenges had been made at the Latest Practicable Date it is possible that, in the future, third parties might assert superior intellectual property rights or allege that their intellectual property

rights cover some aspect of Galaxy's operations. The defence of such allegations may result in substantial expense, and, if such allegations should be true, may have a material impact on Galaxy's business.

Galaxy needs to recruit a substantial number of new employees

Galaxy will need to recruit a substantial number of new employees before Galaxy's planned facilities open and the employees may seek union representation. Galaxy cannot be certain that Galaxy will be able to recruit a sufficient number of qualified employees for Galaxy's resorts or casinos. In addition, unions may seek to organise the workers although this had not occurred at the Latest Practicable Date. Unionisation, pressure to unionise or other forms of collective bargaining could increase Galaxy's labour costs.

Simultaneous construction of new facilities may stretch management time and resources

Galaxy has more than one construction project underway. Since there is significant overlap of the development and construction of these projects, members of Galaxy's senior management are simultaneously involved in planning and developing these projects. Management's inability to devote sufficient time and attention to any one project may delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on Galaxy's business and operations and thus those of the Enlarged KWCM Group.

Reliance on promoters

Galaxy's reliance on promoters exposes Galaxy to a number of risks, including the following:

- *Recruitment and retention of key promoters:* Galaxy may be unable to renew or extend its contracts with key promoters or may otherwise lose their services, and Galaxy may face difficulties recruiting and retaining new promoters on acceptable terms. There are a limited number of experienced promoters in Macau, and demand for them may increase as the Macau gaming industry develops. Despite exclusivity, incentive and non-competition provisions in certain of its contracts with promoters, Galaxy cannot be sure that it will be able to retain its current promoters or that its promoters will not direct VIP player business to other casinos. Competition for leading promoters could take the form of increased commissions, extensions of credit or the granting of other favourable terms to promoters at Galaxy's expense. The Macau government may revoke any promoter's licence or choose not to renew a promoter's licence. In addition, the licensing and suitability requirements for promoters under Macau law may change, which could make it more difficult, or more expensive, for Galaxy to attract or retain key promoters. The loss of one or more key promoters could have a material adverse impact on Galaxy's, and thus the Enlarged KWCM Group's business, cash flows, financial condition, results of operations and prospects.

- *Changes in US regulation:* The US-based competitors of Galaxy who are subject to Nevada and Mississippi gaming regulations do not at present use extensively the services of VIP promoters in Macau, providing Galaxy and SJM with a competitive advantage in attracting VIP play. Should such US-based competitors or other entrants to the Macau gaming market start using extensively the services of VIP promoters, competition for VIP

players in Macau could increase and Galaxy's share of the VIP gaming market in Macau could decline. KWCM cannot be sure that Galaxy will be able to compete effectively against SJM or that Galaxy will not lose VIP player market share to SJM or other competitors.

- *Competition among promoters:* Each promoter relies on several collaborators, who in most cases enjoy personal client relationships with the VIP players. These collaborators generally do not work on an exclusive basis with the promoters and are free to direct VIP business to Galaxy's competitors. Galaxy's promoters compete with SJM and its promoters to forge and maintain relationships with key VIP collaborators and players. Compared to Galaxy, SJM has considerably more experience in the Macau VIP player market and longer relationships with VIP promoters, their collaborators and players. SJM also has more resources at its disposal to provide complimentary amenities to VIP players supplied by its promoters. Galaxy cannot be sure that its promoters will compete effectively in the Macau VIP gaming market or will be able to bring a sufficient number of VIP players to Galaxy's casinos to sustain earnings, which in turn could adversely affect Galaxy's results of operations or be insufficient to support Galaxy's expansion plans.

- *Reputation risk:* Any investigation or regulatory enforcement action taken, including in respect of money laundering, against a promoter employed by Galaxy, or such a promoter's collaborators, could harm Galaxy's reputation, invite regulatory scrutiny and make Galaxy's casinos a less attractive destination for VIP and mass-market players.

Any of these risks could have a material adverse effect on Galaxy's (and thus the Enlarged KWCM Group's) business, cash flows, financial condition, results of operations and prospects.

Galaxy may in future be exposed to promoter and player credit risk

Although permitted to do so under Macau law since 1 July 2004, Galaxy does not currently extend credit to players. To attract the most desirable players and retain the services of key promoters and their collaborators, Galaxy may in the future extend credit to VIP players, directly or by providing credit to promoters, potentially exposing Galaxy to substantial player credit risk. Galaxy may also come under pressure to extend credit if competitors start to extend or increase credit to players. Credit extended to players in Macau is typically unsecured, and the collectibility of receivables from VIP players could be negatively affected by economic trends or conditions in the countries where they reside. While regulated gaming debts are generally enforceable in Macau, other jurisdictions may determine that direct or indirect enforcement of gaming debts is against public policy.

If Galaxy starts extending credit, Galaxy would have to pay gaming taxes on the winnings from these customers even if it were unable to collect the related receivables.

Galaxy has not in the past but may in the future extend credit to its VIP promoters to cover the promoter's liability to Galaxy for VIP player wins. Galaxy cannot be sure that in these cases subsequent wins will cover promoter liabilities to Galaxy or that Galaxy will ultimately be able to collect amounts owed to it by its promoters.

Extensions of credit to players or promoters may be made with limited information or credit analysis and are often based primarily on historical gaming chip purchases. Galaxy's limited operating history may put Galaxy at a disadvantage compared to its competitors when evaluating credit risk.

Any inability to collect receivables from players or promoters could have a material adverse impact on Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Galaxy depends on the continued services of key managers and employees, some of whom must undergo periodic suitability assessments

Galaxy's ability to compete depends in part on the services of its senior management team. Galaxy cannot be sure that key members of management will remain with Galaxy. Galaxy's directors and some of its principal employees must apply for and undergo a finding of suitability and ongoing suitability assessment and, for that purpose, may be investigated by the Macau gaming authorities at any time. These authorities may deny an application or a finding of suitability for any cause they deem reasonable. Accordingly, Galaxy may lose principal employees who are found to be unsuitable, and Galaxy may encounter difficulties finding suitable replacements. The death or loss of the services of any of Galaxy's senior managers or the inability to attract and retain additional senior management personnel could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Galaxy may not be able to realise the benefits of its business strategy

The construction and development of Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club, and Galaxy Casino at Rio Hotel are part of Galaxy's business strategy to expand its VIP and mass-market player business, develop new properties and increase its market reach. Galaxy may not be able to implement this strategy fully or may not fully realise its anticipated benefits as a result of changes in demand in the Macau tourism and gaming market. Galaxy may change its strategies. Furthermore, Galaxy may not be successful in its plan to promote customer use of the various amenities under development, including gaming, hotel, entertainment and other amenities, as anticipated or to a degree that will allow Galaxy to achieve its performance goals.

In particular, Galaxy may not be able to attract a sufficient number of VIP or mass-market gaming customers and other visitors in order to achieve its performance goals. Galaxy StarWorld and Galaxy Cotai Mega Resort will need to attract significant non-VIP play in order to become profitable operations. Galaxy has limited experience in attracting non-VIP players and in operating mass-market gaming operations. In addition, non VIP players in Asia may prefer a Las Vegas-style casino experience and related hotel dining and entertainment amenities, which Galaxy's U.S.-based competitors are better positioned to offer.

Any failure by Galaxy to implement its business strategy effectively could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Galaxy is currently highly reliant on VIP play

Currently, VIP play accounts for approximately 95% of gaming wins at Galaxy Casino at Waldo Hotel and VIP play will likely continue to account for a substantial proportion of Galaxy's gaming wins until the opening of Galaxy StarWorld expected in mid 2006. VIP play is more volatile than other forms of gaming, and variances in win-loss results attributable to VIP play may have a positive or negative impact on cash flow and earnings in a particular period. If the Macau gaming market develops into a predominantly mass-market player market, Galaxy Casino at Waldo Hotel and the planned Galaxy Casino at Cotai City Club, and Galaxy Casino at Rio Hotel, which are or will be highly dependent on lower-margin VIP play, may face increasing difficulty competing against casinos that have successfully developed a higher margin, mass-market gaming business. Moreover, Galaxy cannot be sure that VIP player business will keep pace with projected growth in Macau's mass-market gaming sector or will not decline as a result of such growth.

A decline or levelling off in the growth of VIP play in Macau or the failure of Galaxy to effectively develop its mass-market gaming business would materially impair Galaxy's financial condition, future results of operations and prospects.

Galaxy's insurance coverage may not be adequate to cover casualty events, Galaxy's insurance costs may increase and Galaxy may not be able to obtain adequate insurance coverage in the future

Galaxy has limited insurance coverage for terrorist acts and related losses for Galaxy Casino at Waldo Hotel and plans to purchase similar coverage for future properties. It also has "all-risk" property insurance for Galaxy Casino at Waldo Hotel covering damage caused by a casualty loss (such as fire and natural disasters) and plans to purchase similar policies for its future properties. Each such policy has and will have certain exclusions and Galaxy's insurance coverage for its facilities may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, nuclear events, acts of war, loss of income due to cancellations resulting from fear of terrorism, deterioration or corrosion, insect or animal damage and pollution, may not be covered at all under Galaxy's policies. Therefore, certain acts could expose Galaxy to heavy, uninsured losses.

In addition to the damage caused to Galaxy's properties by a casualty loss (such as fire, natural disasters, acts of war or terrorism), Galaxy may suffer disruption of its business as a result of these events or be subject to claims by third parties. Galaxy's general liability insurance may not be adequate to cover all losses in such event.

Galaxy renews its insurance policies annually. Among other factors, it is possible that the ongoing conflict in Iraq, acts, threatened acts or fears of terrorism, other catastrophic events or any change in laws requiring insurance carriers to offer coverage for certain acts of terrorism could materially limit the availability of insurance coverage and result in increased premia on available coverage (which may cause Galaxy to elect to reduce policy limits) and additional exclusions from coverage. The Concession requires Galaxy to maintain insurance coverage. Such coverage may not be adequate to cover casualty events at Galaxy's properties. Moreover, a serious or repeated breach by Galaxy of the Concession's insurance requirements could cause an event of default under the Concession that could result in the unilateral termination of the Concession by the Macau government without any compensation to Galaxy.

Any of these risks could have a material adverse impact on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Related shareholders, whose interests may be different from those of other shareholders, will control KWCM after Completion

The Trusts, Dr. Lui and some members of the Lui Family will after Completion have direct or indirect beneficial ownership of a substantial majority of KWCM's outstanding Shares. Accordingly, the Trusts, Dr. Lui and members of the Lui Family will exercise significant influence over KWCM's and thus Galaxy's business policies and affairs, including the composition of KWCM's board of directors and any action requiring the approval of its shareholders, such as the adoption of amendments to its articles of incorporation or the approval of a merger or sale of all or substantially all of its assets. This concentration of ownership may delay, defer or prevent a change in control of Galaxy and may make some transactions more difficult or impossible to proceed without the support of the Lui Family. The interests of the Lui Family may conflict with the interests of the other shareholders.

Risks relating to Galaxy's expansion and construction plans

Any failure by Galaxy to fulfil its investment obligations under the Concession could result in the loss of the Concession

Galaxy was originally obliged under the Concession to invest at least MOP8.8 billion (approximately HK$8.54 billion) in development projects in Macau by June 2012 and to develop and open two resort, hotel and casino projects in Macau by 2006 and a convention centre by December 2006. Pursuant to a supplement to the Concession, Galaxy is also required to develop two city club casinos in Macau. Under the Sub-Concession entered into in December 2002, Venetian Macau S.A. as the sub-concessionaire, is now responsible for MOP4.4 billion (approximately HK$4.27 billion) of Galaxy's original investment obligations under the Concession and the obligations to construct and develop one of the two required resort, hotel and casino projects, the convention centre and one of the two city club casinos.

Galaxy plans to satisfy its remaining investment obligations by developing Galaxy StarWorld and Galaxy Cotai Mega Resort, which together are expected to cost approximately MOP5.8 billion (approximately HK$5.6 billion). Galaxy expects to complete Galaxy StarWorld by mid 2006, Galaxy Cotai Mega Resort by early 2008 and Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel in the first quarter of 2006. The development of Galaxy StarWorld could satisfy Galaxy's obligation to develop a resort, hotel and casino project and the development of Galaxy Casino at Waldo Hotel should have satisfied the requirement to develop a city club casino.

The construction and development of Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel will require significant additional debt or equity financing and face development and construction risks. Galaxy cannot be sure that it will be able to obtain the required financing or complete these projects as scheduled or within budget. If Galaxy does not meet its investment obligations, the Macau government has the right to terminate the Concession without compensation to Galaxy.

Galaxy will require substantial capital expenditure to complete Galaxy StarWorld, Galaxy Cotai Mega Resort and other projects and may not be able to generate sufficient cash flow or obtain sufficient financing

Galaxy estimates that the aggregate remaining cost of designing, developing, constructing and equipping Galaxy StarWorld, Galaxy Cotai Mega Resort (Phase 1 only: the costs of designing, developing, constructing and equipping the other phases are subject to material changes as plans are at an early stage), Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel will be approximately MOP5.9 billion (approximately HK$5.7 billion).

Galaxy expects that these remaining costs will be financed by a combination of debt financing, equity financing and cash flows from operations. Galaxy cannot be sure that the funds needed to complete these projects will be available on commercially acceptable terms, or at all. Furthermore, Galaxy cannot be sure that it will be able to generate the required amount of cash from operations to complete these projects. If Galaxy is not able to generate enough cash to pay for these projects, or if it cannot meet its budget, Galaxy will need to find additional sources of funds. Galaxy may not be able to raise any additional funds that are required on acceptable terms, if at all. Further, if Galaxy incurs additional debt to cover the cost of these projects, risks related to Galaxy's substantial indebtedness would intensify. If Galaxy cannot generate enough cash or find alternative sources of funding to complete these projects, the Enlarged KWCM Group's business, cash flows, financial condition, results of operations and prospects could be materially adversely affected.

Galaxy may encounter problems during development and construction that could substantially increase the construction costs or delay opening

Construction projects such as the construction of Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel are subject to significant development and construction risks. These risks include:

- shortages of, and price increases in, energy, material and skilled labour;
- delays in obtaining or inability to obtain necessary permits, licenses and approvals;
- changes in law applicable to gaming or construction projects;
- changes to the plans and specifications;
- engineering problems, including defective plans and specifications;
- increases in labour costs, labour disputes or work stoppages;
- disputes with and defaults by contractors and subcontractors;
- environmental issues;
- weather interferences or delays;
- fire, typhoons and other natural disasters; and

- geological, construction, excavation, regulatory and equipment problems.

Labour costs in Macau are likely to increase as a result of the significant increase in gaming related building activity in Macau, which will likely increase the demand for labour. KWCM Directors believe that most contractors will be able to obtain cheaper labour from Mainland China, provided that the contractor obtains approval from the Macau government. KWCM Directors believe that the application for such an approval may take several weeks or months. Galaxy cannot be sure that such an approval will be granted in a timely manner or at all. Increased costs of labour in Macau will increase the risk that contractors will fail to perform under their contracts on time and within budget.

The timetable for construction of Galaxy StarWorld depends on Galaxy's ability to carry on construction works during non-business hours, which is subject to receipt of necessary approvals from the Macau government. With the large increase in casino-related construction, local residents may lobby the Macau government or seek legal remedies to impose stricter limitations on construction schedules and methods.

KWCM cannot be sure that the various contractors will have sufficient financial resources to fund any costs overruns for which they are responsible or otherwise to perform their obligations under the various contracts to complete the work on schedule and for the agreed-upon amount. KWCM does not expect Galaxy to enter into guaranteed maximum price contracts with all contractors for superstructure and other specialist work. KWCM cannot be sure that Galaxy will be able to avoid cost overruns and schedule delays. If Galaxy incurs significant cost overruns, it may not be able to arrange for additional financing to pay for such costs.

Any of the above construction risks could cause unanticipated costs, increases and delays, which could have a material adverse effect on Galaxy's ability to complete these projects and on Galaxy's business, cash flows, financial condition, results of operations and prospects and result in a loss of the Concession.

Galaxy may change its development and construction plans for its future projects that could substantially increase the construction costs or delay opening and adversely effect its business operations and prospects

The anticipated costs and completion dates for Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Rio Hotel and Galaxy Casino at Cotai City Club are based on budgets, concepts/ design and schedules that may change. Galaxy will continue to evaluate the project design of Galaxy StarWorld, Galaxy Cotai Mega Resort, Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel with respect to its construction schedule and budget and the demands of the Macau tourism and gaming market. All of the features of Galaxy's future projects described in this Circular are based on Galaxy's current plans for the projects but the design of individual elements of Galaxy's projects may be changed from the descriptions in this Circular.

KWCM cannot be sure that Galaxy's contractors will perform work for a fixed sum, and any fixed sum contracts that Galaxy is able to enter into will almost certainly have certain exceptions and exclusions that will allow for increases in the fixed sum contract price as a result of variations.

A material change to its future projects could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects and result in a loss of the Concession.

Occupation permits for Galaxy StarWorld, Galaxy Cotai Mega Resort and other projects cannot be issued if Galaxy fails to secure required land concessions on acceptable terms

Development of Galaxy StarWorld, Galaxy Cotai Mega Resort and Galaxy Casino at Cotai City Club cannot proceed if Galaxy or its partners fail to secure required land concessions on acceptable terms. Galaxy is building Galaxy StarWorld on land partly ultimately owned by Galaxy and partly owned by the Macau government and has commenced site formation works of the Galaxy Cotai Mega Resort site. Although negotiations with the Macau government have commenced, Galaxy has not yet secured the lease rights to the entire proposed 6,864 square metre site for Galaxy StarWorld. Moreover, negotiations on leases or land concessions for Galaxy Cotai Mega Resort have just commenced. Galaxy cannot be sure that Galaxy will be able to secure all the rights that Galaxy requires with respect to these sites. In addition, Galaxy cannot be sure that, if granted, these land concessions will be on economic terms that are acceptable to Galaxy or that the final economic and financial terms of the land concession will not exceed the amount Galaxy has budgeted for premium and rental payments under the land concessions. Any failure by Galaxy to secure these land concessions upon acceptable terms could prevent completion of Galaxy StarWorld and Galaxy Cotai Mega Resort, could lead to the termination of the Concession and could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Construction will subject Galaxy to environmental regulation and could expose Galaxy to environmental liabilities

As an owner and developer (directly or indirectly, in part or in total) of real property at Galaxy StarWorld and Galaxy Cotai Mega Resort, Galaxy will incur costs and expend funds to comply with environmental requirements that may impair Galaxy's ability to develop or use its properties, within budget and schedule. This could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Risks relating to Macau

The Macau government may terminate the Concession under certain circumstances without compensation to Galaxy

The Macau government has the right to terminate the Concession unilaterally in the event of non-compliance by Galaxy with its basic obligations under the Concession and applicable Macau law including:

- the deviation from the object of the Concession, namely through the operation of unauthorised types of games or the exercise of activities that exceed the exclusive object of Galaxy;

- abandonment or suspension of Galaxy's gaming business in Macau without reasonable grounds for more than seven consecutive days or more than 14 days within any calendar year;
- unauthorised transfer of all or part of Galaxy's gaming operations in breach of applicable laws;
- failure to pay taxes, premiums, levies or other amounts payable to the Macau government;
- failure to resume operations under the Concession following temporary assumption of operations by the Macau government;
- repeated failure to comply with decisions of the Macau DICJ or repeated opposition to Macau DICJ supervision;
- failure to provide or supplement the bonds or the guarantees specified in the Concession within the prescribed period;
- bankruptcy or insolvency or serious fraudulent activity with the intent of defrauding public interest of Galaxy;
- serious and repeated violation by Galaxy of the rules for carrying out casino games of chance or games of other forms.

Galaxy also has a general obligation to operate games of fortune or chance or other casino games in a fair and honest manner and free of criminal influence. This would include ensuring compliance with applicable anti-money laundering laws and regulations.

Galaxy's failure to comply with the Concession could result in the termination of the Concession and expose Galaxy to liability to the Macau government for damages or losses. Under the Concession, Galaxy would not be compensated if the Macau government decided to terminate the Concession because of Galaxy's failure to perform. Upon such termination, all of Galaxy's casino gaming operations and related equipment in Macau would be automatically transferred to the Macau government, and Galaxy would cease to generate any revenues from these operations.

In addition, the Concession permits the Macau government at any time to rescind the Concession unilaterally when it is in the public interest, if the Macau government rescinds the Concession on the ground of public interest, Galaxy would be entitled to reasonable compensation, which will take into consideration the remaining concession period and Galaxy's investment made under the Concession. Galaxy cannot be sure that such compensation would be adequate to cover the loss of the Concession.

In many instances, the Concession does not provide a specific cure period within which any default by Galaxy under the Concession may be cured and, instead, Galaxy would rely on consultations and negotiations with the Macau government to give Galaxy an opportunity to remedy any such default. In addition, the Concession contains various general covenants and obligations and other provisions, the determination as to compliance with which is subjective. Galaxy cannot be

sure that it will perform such covenants in a way that satisfies the requirements of the Macau government and, accordingly, Galaxy will be dependent on its ongoing communications and good faith negotiations with the Macau government to ensure that it is performing its obligations under the Concession in a manner that would avoid a default. If any disagreement arises between Galaxy and the Macau government regarding the interpretation of, or Galaxy's compliance with, a provision of the Concession, Galaxy will rely on the consultation process with the applicable Macau governmental agency. During any such consultation, however, Galaxy will be obliged to comply with the terms of the Concession as interpreted by the Macau government.

The Concession allows the Macau government to request various changes in the plans and specifications of Galaxy's Macau properties and to make various other decisions that may be binding on Galaxy. For example, the Macau government has the right to require that additional capital be contributed to Galaxy or that Galaxy provide certain bonds or other guarantees of performance in any amount determined by the Macau government to be necessary. Galaxy is required to obtain the approval of the Macau gaming and governmental authorities before raising certain debt or equity. As a result, KWCM cannot be sure that Galaxy will be able to comply with these requirements or any other requirements of the Macau government or with the other requirements and obligations imposed by the Concession.

Galaxy is obliged to comply not only with the terms of the Concession, but also with laws and regulations that the Macau government may promulgate in the future. KWCM cannot be sure that Galaxy will be able to comply with any such laws or regulations or that any such laws or regulations would not adversely affect its ability to operate its Macau properties or develop new Macau properties. Changes in existing laws or regulations could also have a material adverse impact on Galaxy's operations. The loss of the Concession for these or other reasons would prohibit Galaxy from conducting gaming operations in Macau, which would have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Revenues from Galaxy's Macau gaming operations will cease if Galaxy cannot secure an extension of its Concession in 2022 or if the Macau government exercises its redemption right in 2017

The Concession expires in June 2022. Unless the Concession is extended, on that date, all of Galaxy's casino operations and related equipment in Macau will be automatically transferred to the Macau government without compensation to Galaxy and Galaxy will cease to generate any revenues from these operations. Beginning in June 2017, the Macau government may redeem the Concession on at least one year's prior notice. In the event the Macau government exercises this right, Galaxy is entitled to fair compensation or indemnity. The amount of such compensation or indemnity will be determined based on the amount of revenue generated during the tax year prior to the redemption. Galaxy may not be able to renew or extend Galaxy's Concession on terms favourable to Galaxy or at all. KWCM also cannot be sure that if Galaxy's Concession is redeemed, the compensation paid will be adequate to compensate Galaxy for the loss of future revenues.

The premium, levy and taxes Galaxy pays under the Concession and Macau law are subject to change

Under the Concession, Galaxy is obliged to pay a "premium" to the Macau government in return for operating casino games of chance. The premium has a fixed portion of MOP30 million (approximately HK$29.13 million), paid annually, and a variable portion, paid monthly. The fixed portion is payable starting from 26 June 2005. The variable portion is equal to: (i) MOP300,000 (approximately HK$291,262) per year for each VIP gaming table; (ii) MOP150,000 (approximately HK$145,631) per year for each general use gaming table and (iii) MOP1,000 (approximately HK$971) per year for each electrical or mechanical gaming machine, including slot machines. The variable portion of the premium became payable upon the commencement of operations at Galaxy Casino at Waldo Hotel. From that time until the opening of Galaxy StarWorld, the amount of the variable portion of the premium cannot be less than the amount Galaxy would owe if Galaxy operated 20 VIP gaming tables and 20 general use gaming tables per year (i.e. MOP9 million (approximately HK$8.74 million)). Upon the opening of Galaxy StarWorld, the minimum variable portion of the premium cannot be less than the amount Galaxy would owe if Galaxy operated 100 VIP gaming tables and 100 general use gaming tables per year (i.e., MOP45 million (approximately HK$43.69 million)). The variable portion of the premium is subject to renegotiation after 26 June 2005.

Galaxy must also contribute monthly a levy consisting of 1.6% of its gross gaming revenues to a public foundation, the scope of which is promoting, developing or studying culture, society, economy, education, science, academic and charity activities and 2.4% of its gross gaming revenues to the Macau Government for developing urban construction, promoting tourism and providing social security in Macau. The levy is subject to change in 2010. Galaxy also pays a special gaming tax of 35% of gross gaming revenues and applicable withholding taxes. Currently, the gaming tax in Macau is calculated as a percentage of gross gaming revenues. Gross gaming revenues do not include deductions for credit losses. In addition, Galaxy's current exemption from corporate taxation on its gaming revenue ends on 31 December 2008.

Galaxy cannot be sure that it will be able to reach acceptable terms with the Macau government when the variable premium, the levy and Galaxy's exemption from corporate taxation come up for review. Any increase to the premium, the levy or the gaming tax, or any change to or loss of Galaxy's exemption from corporate taxation, could have a material adverse impact on Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group.

Macau's transportation infrastructure may not adequately support development of the gaming industry

Macau is connected to Mainland China by two border crossings. Macau has an airport and frequent connections to Mainland China and various cities in Asia, Macau is connected to Hong Kong by jetfoil, ferry and helicopter. In order to support Macau's planned transformation into a mass-market gaming destination, bus, flight and ferry frequencies to Macau must increase significantly. In addition, Macau's internal road system is prone to congestion and will need to be substantially improved to support projected increases in traffic. While various projects are under

development to improve Macau's internal and external transportation links, Galaxy cannot be sure that such projects will be approved, financed or constructed in time to handle projected increased demand for transportation or at all.

The Macau gaming industry may be highly dependent on Mainland China

Of the 16.7 million visitors to Macau during 2004, 9.5 million arrived from Mainland China, according to the Macau Statistics and Census Service, and Galaxy believes a substantial portion of its patrons are from Mainland China. The economy of Mainland China differs from the economies of most developed countries in many respects, including with respect to government involvement, level of development, growth rates, control of foreign exchange and allocation of resources. While Mainland China's economy has experienced significant growth in the past 20 years, such growth has been concentrated in certain geographic areas and economic sectors. Mainland China's government has implemented various measures to encourage economic growth and to allocate resources. Some of these measures may have a negative effect on Galaxy. Mainland China's government continues to play a significant role in economic development and Mainland China's economy is still a planned economy and has yet to fully open. As such the government controls Mainland China's economic growth through direct government directives as well as monetary and fiscal policies.

Any adverse change in economic and social conditions in Mainland China, in the policies of Mainland China government or in the laws and regulations of Mainland China (including a change in Mainland China's policy on travel outside Mainland China) could negatively affect Mainland China's overall economic growth, the size of Mainland China's middle-class, the number of high net worth individuals in Mainland China, movements of funds out of Mainland China and the amount of leisure travel by Mainland China residents. Such developments could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Macau may fail to become a successful mass-market gaming destination and may lose its appeal to VIP players

The Macau government has begun to liberalise the gaming licensing regime and regulatory framework in order to promote economic growth and investment in Macau. Macau's growth into much larger mass-market gaming destination could be hindered by, among other factors, a lack of mass-market experience among some of Macau's casino operators, inadequate transportation infrastructure, insufficient supply of accommodation and related amenities, insufficient tourist attractions, competition from other gaming markets, or a lack of demand in the PRC and elsewhere in Asia for mass-market gaming. Galaxy cannot assure that the Macau gaming market will grow in line with expectations or successfully foster the launch of mass-market gaming. Any of these factors could result in the Macau gaming market ceasing to grow and Macau's casinos and hotel casino resorts may not continue to be popular. A decline or levelling off in the growth or popularity of hotel casino resorts or the appeal of the features offered by Galaxy could materially impair Galaxy's financial condition and future results of operations.

Conducting business in Macau poses political and economic risks

Galaxy's business, cash flows, financial condition, results of operations and prospects and thus those of the Enlarged KWCM Group may be materially and adversely affected by political, social, legal, tax and economic developments in Macau. Many of Macau's laws and regulations concerning gaming and gaming concessions are new, with little or no precedent available to guide their interpretation. KWCM is of the view that Galaxy's structure and operations are in compliance with applicable laws and regulations of Macau. However, these laws and regulations are complex, and a court or administrative or regulatory body may in the future render an interpretation of these laws and regulations, or issue regulations, that differs from Galaxy's interpretation. In such an event, Galaxy could be found to be in breach of applicable law or the Concession, which could lead to the Concession's termination. Galaxy's activities in Macau are subject to administrative review and approval by various agencies of the Macau government. Macau law permits redress to the courts with respect to administrative actions. However, such redress is largely untested in relation to gaming disputes.

An outbreak of severe acute respiratory syndrome, avian flu or other highly infectious disease could adversely affect the number of visitors to Galaxy's facilities and disrupt their operations

In 2003, Macau, Taiwan, Mainland China, Hong Kong, Singapore and certain other places experienced an outbreak of the highly contagious severe acute respiratory syndrome. As a result of the outbreak, there was a substantial decrease in travel to and from, and economic activity in, affected regions, including Macau. Recently, there have been several outbreaks of avian flu in Asia, including reports of human-to-human transmission. An outbreak of highly infectious disease could adversely affect the number of visitors to Galaxy's facilities. Furthermore, an outbreak might disrupt Galaxy's ability to staff its business adequately and could disrupt its operations and expansion plans. If any of Galaxy's customers or employees is suspected of having contracted severe acute respiratory syndrome, avian flu or a similar disease, Galaxy may be required to quarantine such customers or employees or the affected areas of its facilities and temporarily suspend part or all of its operations at affected facilities. Any new outbreak of severe acute respiratory syndrome, avian flu or other infectious disease could have a material adverse effect on Galaxy's business, cash flows, financial condition, results of operations and prospects.

Macau is susceptible to severe typhoons that may disrupt operations

In the past, typhoons have caused considerable disruptions to Macau's infrastructure and economy. In the event of a major typhoon or other natural disaster in Macau, Galaxy's business may be severely disrupted. Although Galaxy has insurance coverage with respect to these events, it cannot be sure that its coverage will be sufficient to indemnify Galaxy fully against all direct and indirect costs, including loss of business, that could result from substantial damage to, or partial or complete destruction of, Galaxy's Macau properties or damage to the infrastructure or economy of Macau.

Risks related to Galaxy's expected substantial indebtedness

Galaxy will be highly leveraged and future cash flow may not be sufficient for Galaxy to meet Galaxy's obligations, and Galaxy might have difficulty obtaining more financing

KWCM expects to have a substantial amount of consolidated debt in relation to Galaxy. KWCM anticipates that Galaxy will have to borrow up to an estimated HK$5.7 billion under new credit facilities to fund the construction of its planned facilities. Galaxy's substantial indebtedness could have important consequences. For example:

- it could make it more difficult to satisfy Galaxy's obligations with respect to its indebtedness;
- if Galaxy does not complete construction of its planned facilities by the scheduled completion dates, which may be extended in certain circumstances but not beyond dates specified in the contracts, or if Galaxy fails to meet Galaxy's payment obligations or otherwise default under the instruments governing Galaxy's indebtedness, the lenders under those agreements will have the right to accelerate the indebtedness and exercise other rights and remedies against Galaxy. These rights and remedies are likely to include the rights to:
  - take possession of assets pledged as collateral,
  - petition a court to appoint a receiver for Galaxy or for substantially all of Galaxy's assets, and
  - if Galaxy is insolvent, initiate involuntary bankruptcy proceedings against Galaxy, in each case, subject to procedural restraints and limitations applicable to secured creditors generally and also those imposed by applicable gaming laws, rules and regulations;
- once Galaxy StarWorld is constructed, Galaxy will be required to use a substantial portion of Galaxy's cash flow from operations to service indebtedness and to pay development costs which will reduce the available cash flow to fund working capital, capital expenditures and other general corporate purposes;
- Galaxy may have a limited ability to respond to changing business and economic conditions and to withstand competitive pressures, which may affect Galaxy's financial condition;
- Galaxy may have a limited ability to obtain additional financing, if needed, to fund development and construction costs, working capital requirements, capital expenditures, debt service, general corporate or other obligations;
- the interest rates Galaxy pays will fluctuate with market rates and, accordingly, Galaxy's interest expense will increase if market interest rates increase;

- Galaxy's substantial indebtedness exposes Galaxy to general adverse economic and industry conditions; and

- Galaxy may be placed at a competitive disadvantage to Galaxy's competitors who are not as highly leveraged.

The agreements governing Galaxy's debt facilities are likely to contain covenants that restrict Galaxy's ability to engage in certain transactions and may impair Galaxy's ability to respond to changing business and economic conditions

The instruments governing Galaxy's debt facilities are likely to contain covenants that restrict Galaxy's ability to engage in certain transactions and may impair Galaxy's ability to respond to changing business and economic conditions. The debt facilities are likely to impose operating and financial restrictions on the Galaxy Group.

Failure to comply with covenants contained in the debt facilities, including failure as a result of events beyond Galaxy's control, could result in an event of default, which could materially and adversely affect Galaxy's operating results and Galaxy's financial condition and thus those of the Enlarged KWCM Group.

Often loan agreements and debts instruments contain "cross-default" provisions, which mean a default with respect to borrowings with one lender may trigger a default respecting the borrowings with another, or other lenders, even though the borrower has always observed its obligations to the latter. This triggers acceleration of debt repayment, and the holders of the debt could cause all amounts outstanding with respect to that debt to be due and payable immediately and this may cause debt of other members of the Enlarged KWCM Group also to become due and payable. Galaxy's assets or cash flow may not be sufficient to fully repay borrowings under Galaxy's outstanding debt instruments if accelerated upon an event of default, and the Enlarged KWCM Group may be unwilling or unable to repay, refinance or restructure the payments on those debts.

Other Risks

KWCM may be unlikely to pay dividends in the foreseeable future

Declaration or recommendation of dividends is a matter within the discretion of the KWCM Board. The decision of the KWCM Directors to declare or recommend dividends will be based on conditions then existing, including earnings, financial condition and capital requirements of the Enlarged KWCM Group, as well as economic and other conditions. The declaration of dividends is subject also to the requirements of the Hong Kong Companies Ordinance which prohibits KWCM from declaring dividends otherwise than out of realized profits attributable to shareholders.

On Completion, Galaxy will become a subsidiary of KWCM, which will recognise all the identifiable assets and liabilities of Galaxy at fair values in its consolidated financial statements. The difference between the cost of acquisition and the net attributable fair value of the identifiable assets, liabilities and contingent liabilities so recognised will be accounted for as goodwill or negative goodwill, as the case may be. Any goodwill arising from the Acquisition will be recognised as an asset in KWCM's consolidated balance sheet and carried at cost, subject to annual impairment review. Such impairment will have to be recognised as an expense in the profit and loss

statement. Any negative goodwill arising from the Acquisition will be credited to profit and loss statement as other revenues. As required by HKFRS No. 3, the fair value of the Consideration KWCM Shares for accounting purposes will be determined at the Completion date. As a result, the magnitude of the goodwill or negative goodwill will be subject to the share price of the KWCM Shares at the Completion date. If consequently goodwill arises from the Acquisition, it may be wholly written off to the profit and loss statement, and this may turn retained earnings into accumulated losses. Under Hong Kong law KWCM cannot make any distribution by way of dividend for so long as it has accumulated losses. Accordingly depending on the size of any goodwill after the Acquisition, KWCM may be unable to distribute any profit by way of dividend unless and until it has either effected a capital reduction with court sanction to offset the accumulated losses or earned profit sufficient to offset them.

All net proceeds from equity related fund raising by KWCM or a related entity will be first applied to redeem the FRNs (but this does not include the issue of shares under a share option scheme or an obligation existing at the date of the Acquisition Agreement).

No dividend can be paid by KWCM before the FRNs are fully redeemed and KWCM cannot make any loan or other non-trade payment to any related company or person before the FRNs are fully redeemed other than loans or payments in the ordinary and usual course of business of the KWCM Group and/or the Galaxy Group.

Due to its heavy capital investment commitment on, principally, the Galaxy Cotai Mega Resort and Galaxy StarWorld projects, Galaxy does not expect to be in a position to pay cash dividends until at least 2009. As a holding company, KWCM will be dependent in part upon the operation of Galaxy — its principal subsidiary after Completion — for cash. The terms of Galaxy's future debt are likely to restrict the ability of Galaxy to dividend funds up to KWCM.

In addition, in view of intense business competition in the gaming industry in Asia Pacific region, KWCM may face competition for funds or need to finance its operations and business expansion solely through retained earnings.

Statistics contained in this Circular that derived from publicly available sources may not be reliable

Certain statistical and other information contained in this Circular which relates to Macau and the gaming industry was derived from various official publications which have not been independently verified by KWCM and KWIH and may be inaccurate, incomplete or outdated. KWCM and KWIH make no representation as to the correctness or accuracy of such information and, accordingly, such information should not be unduly relied upon.

Galaxy may become subject to Hong Kong or Mainland China taxation

Although its entire business and operations are outside Hong Kong and not subject to Hong Kong or Mainland China taxation there is no assurance that the Hong Kong or Mainland China tax rules will remain the same and that Galaxy's business and operations will never be subject to Hong Kong or Mainland China taxation.

A. The following is the valuation report of the Galaxy Group prepared by American Appraisal.

American Appraisal
International Valuation Consultancy

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30 June 2005

The Directors
K. Wah Construction Materials Limited
29/F, K.Wah Centre
191 Java Road
North Point, Hong Kong

Dear Sirs,

In accordance with your instructions, we have made an appraisal of the fair market value of the business enterprises of Galaxy Casino, S.A. and its subsidiaries (together, "**Galaxy**" or the "Company") by reference to its existing as well as planned casino and hospitality operations in Macau in connection with the proposed acquisition of a 97.9% economic (and 88.1% voting) interest in Galaxy (the "**Acquisition**") by K. Wah Construction Materials Limited ("**KWCM**"). We understand that KWCM will disclose this letter in the circular to the shareholders of KWCM and K. Wah International Holdings Limited ("**KWIH**") and to the Stock Exchange of Hong Kong Limited ("**SEHK**") pursuant to the requirements of the Rules Governing the Listing of Securities on SEHK.

The purpose of this appraisal is to express an independent opinion of the fair market value of the business enterprises of Galaxy as at 31 December 2004 for the Acquisition. This letter identifies the assets appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value. We are not aware of any material adverse change in the industry systematic risks, and neither have we noticed nor have we been advised by Galaxy of any material adverse change in the non-systematic risks, which taken as a whole, would make it necessary for us to update the valuation since 31 December 2004.

We conducted our appraisal in compliance with the reporting requirements under the Uniform Standards of Professional Appraisal Practice ("USPAP"), which are valuation standards generally accepted and be followed by professional practitioners in the United States.

In valuation context, "*fair market value*" is the estimated amount at which an enterprise may be expected to exchange between a willing buyer and a willing seller, neither being under any compulsion and each having reasonable knowledge of all relevant facts. "Business enterprise" is defined as the invested capital that is equivalent to the combination of all interest-bearing debts, and shareholders' equity and loans. The fair market value of a business enterprise is based upon the expected future economic benefit to which the shareholders and debt holders will be entitled.

Company Background

In 2002, Galaxy won a gaming concession for 20 years in Macau. Venetian Group then entered into a sub concession agreement with Galaxy that was approved by the Macau government. Under the sub concession agreement, Galaxy and Venetian Group will develop and operate certain casino projects in Macau separately. Each of the two companies is obliged to invest MOP4.4 billion in development projects within 7 years.

Galaxy's first City Club Casino at Waldo Hotel, which commenced operation in July 2004, is a small-scale casino in the downtown area of Macau offering 63 gaming tables and 74 slot machines. Galaxy also planned to open additional city club casinos in 2006. Galaxy has planned to build two major complexes:

(a) Galaxy StarWorld hotel, entertainment and casino complex, situated close to the Bank of China Building and will start to operate in mid 2006.

(b) Galaxy Cotai Mega Resort, entertainment and casino complex situated on Taipa Island and is scheduled to open in 2008. It is the largest site of Galaxy facilities and will target family visitors and VIP gaming customers with more emphasis on entertainment facilities for mass market.

Scope of work and assumption

Our work included discussions with the management of Galaxy in relation to the history, operations and prospects of the business, study of the industry environment, a review of the financial projections in respect of the future operation roll-out schedule of Galaxy (the "**Financial Projections**") provided to us by the management of the Company, as well as a review of other relevant documents. We assessed major items in the Financial Projections including principal bases and assumptions. The assessment was accomplished through our limited research, but sufficient for the purpose of this valuation, on economic, industry outlook, market conditions prevailing as of the appraisal date and discussion with the management of KWCM on the forecast performance. We are of the opinion that the business plan and roll-out schedule is reasonable and realistic. We have assumed, and have no reason to believe otherwise, that the data we obtained in the course of this valuation as well as the information, opinions and representation provided to us by the management of KWCM, which we cannot verify through standard procedures, are true and accurate. We have no reason to suspect that any material facts have been omitted, nor are we aware of any facts or circumstances, which would render the information, opinion and representations made to us to be untrue, inaccurate or misleading. In arriving at our opinion of value, we have considered the following principal factors:

— Macau overall gaming market and its potential growth

— the financial condition of Galaxy

— the historical operating results and book value of Galaxy

— the economic outlook in Macau and the People's Republic of China in general and the specific economic and competitive elements affecting the gaming industry in Macau

- the stage of development of Galaxy
- Gaming concession and sub-concession agreements
- the Financial Projections of Galaxy
- the business risks of Galaxy
- analysis of the industry and competitive environment in which Galaxy operates
- analysis of the comparable companies as described hereunder which has been undertaken for the purpose of price multiple ratio analysis and derivation of discount rate

Due to the changing environment in which Galaxy is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the equity interest. All the principal assumptions adopted in this appraisal are stated as follows:

- the Financial Projections of Galaxy have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of KWCM
- the Financial Projections provided by KWCM's management will materialize
- there will be no major changes in the existing political, legal and economic conditions in Macau in which Galaxy will carry on its business
- industry trends and market conditions for Macau's gaming will not deviate significantly from the forecast
- Macau's gaming revenue will grow by 25% in 2005 and gradually slow down to 5% in 2016 and remain constant at 5% thereafter over the remaining period of the concession
- the proportion of Macau's gaming revenue from VIP and mass markets will shift from 72:28 in 2004 to 65:35 in 2012 and remain at a constant split of 65:35 thereafter over the remaining period of the concession
- given the stated commitment of the Macau Government that, up to April 2009, the number of gaming concessions in Macau will not be more than 3, except for the existing three concessions and probably up to three sub-concessions, there will be no further concessions or sub-concessions granted during the concession period
- the required rate of return devised from comparable data in an efficiency market have reflected both existing competition and expected future competition
- Galaxy will run at least 5 gambling and resort sites in Macau by 2008
- revenue streams are primarily driven by gaming revenue on VIP and mass market as well as hospitality revenue

- Galaxy's overall market share of Macau's gaming revenue will increase gradually from 14% in the second half of 2004 to 28% by 2010 (representing 35% of the VIP market and 14% of the mass market)

- Galaxy's gaming revenue will be spread across different casinos operated by Galaxy with reference to the quality and location of the casinos, and the number of gaming tables planned

- the basis of the non-gaming revenue has taken into consideration the size and quality of the facilities, location, market competition and the growth in Macau's tourism industry

- the direct gaming expenses will mainly comprise gaming tax of 35%, statutory contribution of 4%, and in line with the industry practices, commission and allowances to promoters of approximately 40% of VIP gaming revenue

- Galaxy's non-gaming expenses are mainly related to its hotel and entertainment facilities, and are estimated by the management of the Company with reference to industry benchmarks

- other operating expenses, including staff costs, administrative and marketing expenses, property related expenses, etc., are based on estimates of KWCM's management with reference to the scale of operations

- capital reserve for major renovation, equipment replacement and expansion is set aside and assumed a 1.5% of the gross revenue

- capital expenditures (which have been estimated after taking into account inflation) relating to building the planned casinos and hospitality operations at future price level are funded internally (principally from operation) and/or externally (principally from debt) sourced cash flow and paid based on normal payment terms with contractors as market participants

- Galaxy is subject to gaming tax plus statutory contributions of 39% on gross gaming revenues but not income tax on the gaming operations; however, there remains a 15% tax on the operating profit of hospitality operations

- there will be no major changes in the current taxation law in Macau in which Galaxy operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with

- revenues earned and expenses incurred are received and paid in the same period

- the management of the Company expects that the change in net working capital will continue to be positive over the concession period given the payment term with trade creditors and debtors of both gaming and non-gaming operations. However, on a prudent basis, the cash inflow or outflow from the change in working capital is not included in the Financial Projections of Galaxy

— the availability of finance will not be a constraint on the development growth of operation in accordance with the Financial Projections of Galaxy

— exchange rates and interest rates will not differ materially from those presently prevailing

— Galaxy will retain competent management, key personnel and technical staff to support their ongoing operations

Valuation Methodology

In the appraisal of a business, regardless of their diversity, location or technological complexity, there are three basic approaches to value. The descriptive titles typically attached to these approaches are cost, income and market.

Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. Cost approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraisal. Market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by market approach. Income approach is the conversion of expected periodic benefits of ownership into an indication of value.

In normal circumstances, we (as the appraiser) will consider all three approaches, as any, or perhaps all, may provide reliable measures of value.

To develop our opinion of value, the three generally accepted approaches to value are considered: cost, market and income. While useful for certain purposes, the cost approach is generally not considered applicable to the valuation of a going concern, as it does not capture future earning potential of the business in early stages of development. Thus it was not utilized in the valuation. In forming our opinion we relied upon the market and income approaches to prepare a business enterprise value analysis of Galaxy. We used both approaches for the purpose of a sanity check which is both appropriate and recommended by USPAP. The valuation on Galaxy is done on a "whole-business" basis. The valuation methodologies used have taken into account the increase in turnover (including, the increase in revenue contribution from non-VIP tables), increase in revenue/earnings (especially, profit margin improvement), increase in operating expenses, and additional capital expenditure/commitments of the planned projects and future expansion.

Market Approach — Guideline Company Method

The guideline company method provides an indication of value by relating the market value of publicly-traded comparable companies to measures of their operating results, then applying such multiples to the business being appraised. This method also employs market price data of stocks of corporations engaged in the same or a similar line of business as that of the subject company.

Our calculations and analysis were based on the enterprise value ("EV") and projected operating cash flows before change in working capital for the year of 2009 which is considered as the stabilized year as by then, all the planned major components of Galaxy facilities, — namely StarWorld, Cotai Mega Resort Phase 1, and the 2 new city club casinos — will all have passed the run-in period and come into full year of operation. In this valuation, we defined EV as being market capitalization plus net debt. This definition of EV is generally used in the investment community for the guideline company method and to avoid the distortion of differences in capital structure of comparable companies. This projected operating cash flow before change in working capital is being regarded by the management of the Company as earnings before interest, tax, depreciation and amortization ("EBITDA"). In view of Galaxy's business is largely in cash nature, it is prudent to assume that revenue earned are received and expenses incurred are paid in the same period: as such, there will be no incidental effect on the working capital. Accordingly, the projected operating cash flow before change in working capital will be a good proxy to EBITDA from valuation perspective. The assumption of revenue earned was received and expenses incurred were paid in the same period was made for conservative sake given that casino operation is cash business and the comparable companies have negative working capital requirement based on our research of their latest published accounts. In addition, as the projected operating cash flow of Galaxy before change in working capital was used as the EBITDA proxy, the assumption on changes in working capital will not affect the market approach.

The EBITDA, based on the Financial Projection, is estimated to be HK$2,594,000,000. The EV/EBITDA multiples of comparable companies that we consider were representative of the industry average. The average EV/EBITDA multiple of 10.84 derived from guideline companies was applied to Galaxy in a stabilized year to arrive at the enterprise value of Galaxy on a freely traded basis. In our analysis on the average EV/EBITDA of guideline companies, the EBITDA in 2006 is forecasted by equity analysts and then further extrapolated to 2009 taking into consideration, (i) the year-on-year growth in EBITDA, (ii) projected compound growth rate for 2003–2006 for guideline companies, and (iii) respective stages of development of guideline companies. Five publicly traded companies listed in United States and Hong Kong were selected as comparable companies based on company size, geographic location and similarity of business nature. These comparable companies included MGM Mirage, Caesars Entertainment, Wynn Resorts, Las Vegas Sands and Melco International Development.

Besides, a 20% premium for control was added to and the present value of approximately HK$4.8 billion for the remaining initial investment cost as of the valuation date was subtracted from the business enterprises value devised by the industry average of EV/EBITDA. These adjustments were needed as the indicated value developed through the guideline company method only represented the value at which minority shareholders would be prepared to invest in such a business, whereas an additional value, known as the premium for control, is typically required for the acquisition of a control and cannot reflect the fact that the planned capital investments of Galaxy has not fully been incurred at this stage. As indicated by market data extracted from the Mergerstat Review 2004 and Bloomberg database a 20% of control premium for entertainment sector in the United States is appropriate. Accordingly, the control premium applied to the business enterprise of Galaxy was in line with the market and was considered to be the most relevant and appropriate industry statistics available. There is no similar statistics in Hong Kong for companies of appropriate size sufficient for sampling purpose by industry.

Based on the analysis described above, the indicated value of the business enterprise of Galaxy derived from the market approach was arrived at approximately HK$25.6 billion after the adjustment for lack of marketability (please refer to "Additional Adjustment" paragraph below).

Income Approach — Discounted Cashflow Method

The discounted cashflow method of the income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as periodic income, cost savings, or sale proceeds. Indication of value is developed by discounting future free cash flow available for distribution to shareholders and for servicing debts to the present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

The rate at which the annual net cash flows discounted to present value is based on the estimated weighted average cost of capital ("WACC"), which incorporates the cost of equity and debt, weighted by the proportionate amount of each source of capital in the capital structure. The cost of equity for the valuation is developed through the application of the Capital Asset Pricing Model ("CAPM"), which is the most commonly adopted method of estimating the required rate of return for equity. CAPM stated that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk (also known as Beta) times equity market premium in general. Another component of WACC is cost of debt, which is based on the estimated lending rate of 8%. The WACC is then computed by summing the weighted cost of equity and cost of debt based on the Company's long term debt-to-equity ratio.

With the consideration of the industry systematic risks and non-systematic risks (mostly related to company-specific risk) of the Company, we believed that the discount rate of 10% was appropriate in valuing the business enterprise of Galaxy based on the average estimated required return of the above mentioned five comparable companies plus risk premium for non-systematic risks.

Given that Galaxy's casino operation has been granted a concession period of 20 years from June 2002 or 17.5 years from the valuation date of December 31, 2004, the cashflow stream generated from the current year through to the end of concession period is captured. Nevertheless, its non-gaming operation that includes hotel and entertainment facilities will continue to exist in 2022 and beyond. The cashflow stream generated from the current year through to the end of 2022 is therefore captured. The terminal value is also taken into consideration for non-gaming operation but not for casino operation.

With regard to Galaxy's gaming and non-gaming operations, the present value of discounted cash flows from the current year through to the end of 2022 is estimated to be HK$22,091,000,000. Based on the analysis described above, the indicated value of the business enterprise of Galaxy derived from the income approach was arrived at approximately HK$21.4 billion after the adjustment for lack of marketability (please refer to "Additional Adjustment" paragraph below).

Additional Adjustment

To reflect the relative non-liquidity of the privately held shares in Galaxy as opposed to a publicly traded corporation, a discount of 10% for lack of marketability was applied to reflect the relative non-liquidity of the shares in Galaxy as opposed to a publicly traded corporation. The discount applied in the valuation for lack of marketability was determined by reference to the Mergerstat Review 2004 on the statistics of the median price to earnings ratios ("P/E") offered, for acquisitions of public companies and private companies. The discount was considered to be relevant and appropriate in the business enterprise of Galaxy based on the median P/E of 21.2 offered for public company as opposed to the median P/E of 19.4 paid for a private company in the latest year.

Sensitivity Analysis

We tested the two most important factors to which the value conclusion are most sensitive and covered the most likely range of fluctuations based on our professional judgment. The sensitivity analysis of the business enterprise value of Galaxy based on various discount rates and market multiples is as follow:

	Worst	Base	Optimistic
Discount rate (%)	12.0	10.0	8.0
EV/EBITDA (times)	8.84	10.84	12.84

The indicative value we arrived at for Galaxy was based on the simple average of the values resulting from the market approach and the income approach we adopted in the valuation since no particular approach was more appropriate than the other in this appraisal.

	Worst	Base	Optimistic
Indicative value (HK$'000)	18,669,000	23,544,000	29,301,000

CONCLUSION OF VALUE

Based upon our investigation and analysis as outlined above and on the appraisal method we employed, it is our opinion that the fair market value of the business enterprise of Galaxy Casino S.A., as of December 31 2004, is reasonably stated at the amount of **HONG KONG DOLLARS TWENTY THREE BILLION FIVE HUNDRED AND FORTY FOUR MILLION (HK$23,544,000,000) ONLY**.

We arrive at this conclusion of value on the basis of generally accepted valuation procedures and practices, which rely to considerable extent on use of assumptions and consideration of uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated title to, or on liabilities against, assets appraised.

We certify that we have neither present nor prospective interest in KWCM and KWIH, or on the value conclusion of its business hereby reported on.

Respectfully submitted,
For and on behalf of American Appraisal China Limited

Patrick Wu	**Ricky Lee, ACCA, ASA**
President & Managing Director	*Vice President*

Note: Mr. Patrick Wu as Managing Director of American Appraisal China Limited, among others, is also responsible for management review/quality assurance: ensuring compliance with American Appraisal internal Worldwide Practice Policies and Standards and external regulatory requirements.

Mr. Ricky Lee is a member of the Association of Chartered Certified Accountants in the United Kingdom and accredited senior appraiser of the American Society of Appraisers and has been conducting business valuations, which include infrastructure projects and entertainment businesses, in the Greater China region since 1995.

KWCM has received from its reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, and its financial advisers, UBS Investment Bank, the following letters prepared for inclusion of this Circular in respect of the business valuation of the Galaxy Group.

A. Report from PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
K. Wah Construction Materials Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

Dear Sirs

We refer to the business valuation dated 30 June 2005 prepared by American Appraisal China Limited ("American Appraisal") in respect of the appraisal of the fair market value of the business enterprise of Galaxy Casino, S. A. and its subsidiaries (collectively "Galaxy") set out on pages 182 to 190 in Appendix II of the circular of K Wah Construction Materials Limited ("KWCM") dated 30 June 2005 (the "Circular").

As stated in the valuation letter set out on pages 182 to 190 of the Circular, the valuation has been arrived at based on a combination of the income approach (discounted cashflow method) and market approach (guideline company method) (hereinafter collectively referred to as the "Valuations"), after taking into account other adjustments which are considered necessary by American Appraisal.

The valuation based on the income approach takes into account the net discounted cash flows of Galaxy during its gaming concession period in Macau from 2005 to June 2022, amounting to HK$22,091 million (the "DCF"). Being a projection of future cash flows, the DCF does not involve the application of any accounting policies adopted or to be adopted by Galaxy. Accordingly, there are no accounting policies for us to report on.

The valuation based on the market approach (the "Market Approach Valuation") takes into account the projected operating cash flows before change in working capital for the year of 2009 extracted from the DCF. This projected operating cash flows is being regarded by the Directors of KWCM as earnings before interest, tax, depreciation and amortisation, amounting to HK$2,594

million (the "EBITDA") on the assumption that the revenues earned and expenses paid will be received and paid in the same period. Accordingly, the EBITDA is considered to be the same as the projected operating cash flows.

The DCF and EBITDA have been prepared using the assumptions, as set out in the valuation letter on pages 184 to 186 of the Circular, for which the Directors of KWCM and Galaxy are solely responsible. The DCF and EBITDA have been prepared for use in the Valuations to derive the fair market value of the business enterprise of Galaxy as at 31 December 2004. Since Galaxy is in a start-up phase, the DCF and EBITDA have been prepared using a set of assumptions that include hypothetical assumptions about future events and actions of the management of KWCM that may or may not necessarily be expected to occur. Consequently, readers are cautioned that the DCF and EBITDA may not be appropriate for purposes other than for deriving the fair market value of the business enterprise of Galaxy as at 31 December 2004. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to be different from the DCF and EBITDA since the other anticipated events frequently may or may not occur as expected and the variation may be material.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance engagements other than audits or reviews of historical financial information" with reference to the procedures under Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants. We examined the arithmetical accuracy of the calculations in arriving at the DCF and EBITDA. Our work has been undertaken solely to assist the Directors of KWCM in evaluating whether the DCF and EBITDA, so far as the calculations and bases and assumptions are concerned, have been properly compiled in accordance with the basis and assumptions made by the Directors of KWCM and Galaxy. Our work does not constitute any valuation of Galaxy.

As set out in the bases and assumptions on pages 184 to 186 of the Circular, the DCF and EBITDA have been prepared based on a number of assumptions, of which the principal assumptions are set out below:

1. The hypothetical assumption that the market conditions of the gaming industry in Macau over a period of 17 years up to June 2022 will be the same as stated in the Valuations. Given the expected rapid expansion of the gaming industry in Macau and the potential impact of the increased competition from other major gaming operators, we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the bases and assumptions made.

2. The hypothetical assumption that the market position of Galaxy in Macau over a period of 17 years up to June 2022 will be the same as stated in the Valuations. Given the limited operational history and the significant scale and scope of the planned projects (including StarWorld, Galaxy Casinos at Cotai City Club and Rio Hotel and Galaxy Cotai Mega Resort) of Galaxy to commence operations during the period from 2006 to 2008 to the Valuations, we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the bases and assumptions made.

3. The hypothetical assumption of the cost structure of the gaming and non-gaming operations over a period of 17 years up to June 2022 will be the same as stated in the Valuations. Given the limited operational history of the gaming operation at Galaxy Casino at Waldo Hotel and the significant scale and scope of the planned projects of Galaxy to commence operations during the period from 2006 and 2008 to the Valuations, we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the bases and assumptions made.

4. The management assumption of sufficient finance will be obtained for the capital expenditure stated in the Valuations. Since the expected finance has not been arranged or confirmed, we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the basis and assumption made.

5. The management assumption of the cash inflow or outflow from the change in working capital is not included in the DCF and EBITDA. The amount of working capital required will depend on the management and the application of funding for working capital. Given the limited operational history and the significance of the planned projects of Galaxy during the period from 2005 to 2009, we were unable to obtain sufficient appropriate evidence to evaluate or express any opinion on the appropriateness of the basis and assumption made.

6. The management assumption of a discount rate of 10% will be applied on the net cash flows of Galaxy during its gaming concession period in Macau from 2005 to June 2022. Given the start up nature of Galaxy's operations in Macau, the inherent uncertainties and risks associated with the growing gaming industry in Macau since its recent liberalisation in gaming concession, we were unable to obtain sufficient appropriate evidence to evaluate or give any opinion on the appropriateness of the assumption made.

Because of the significance of the matters discussed above, we are unable to evaluate the appropriateness of the bases and assumptions used in arriving at the DCF and EBITDA.

Based on the work we have performed, in our opinion, the DCF and EBITDA, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions set out on pages 184 to 186 of the Circular made by the Directors of KWCM and Galaxy.

Our work in connection with the DCF and EBITDA has been undertaken solely for the purpose of reporting under paragraphs 14.62(2) and 14A.59(17) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We accept responsibility solely to the Directors of KWCM. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

B. Report from UBS Investment Bank

30 June 2005

The Directors
K. Wah Construction Materials Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

Dear Sirs

We refer to the business valuation prepared by American Appraisal China Limited ("American Appraisal") in relation to the appraisal of the fair market value (the "Valuation") of the business enterprise of Galaxy Casino S.A. ("Galaxy") and the requirements under Rules 14.62 and 14A.59(17)(b) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We note that the Valuation has been developed by American Appraisal through the application of the income approach, known as the discounted cash flow method, and the market approach, known as the guideline companies method.

We also note that American Appraisal in preparing the Valuation took account of financial projections (the "Projections") made by the management of Galaxy. We have discussed with American Appraisal, the management of Galaxy and yourselves the bases and assumptions upon which the Projections have been made. We have also considered the letter dated 30 June 2005 addressed to yourselves from PricewaterhouseCoopers regarding the calculations upon which the Projections have been made.

On the basis of the foregoing and on the bases of the calculations reviewed by PricewaterhouseCoopers, we are of the opinion that the Projections, for which you are responsible, have been made after your due and careful enquiry.

Yours faithfully
For and on behalf of
UBS AG

Glenn Fok	**Angus Barker**
Managing Director	*Executive Director*

FINANCIAL STATEMENTS OF THE KWCM GROUP

Set out below is an extract from the audited financial statements of the KWCM Group for the year ended 31 December 2004 (the date to which the latest audited financial statements were made up), together with the comparative figures for the year ended 31 December 2003 with the relevant notes to the annual accounts of KWCM Group. The results for the year ended 31 December 2002 were extracted from the audited financial statements of KWCM Group for the year ended 31 December 2002.

Consolidated Profit and Loss Statement

		Year ended 31 December		
		2004	**2003**	**2002**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	3	1,299,143	1,130,894	1,010,999
Cost of sales		(1,248,459)	(1,085,600)	(909,523)
Gross profit		50,684	45,294	101,476
Other revenues	3	21,355	21,527	29,783
Other operating income		27,218	44,132	8,342
Administrative expenses		(54,376)	(48,538)	(52,821)
Other operating expenses		(15,084)	(23,003)	(18,212)
Operating profit	4	29,797	39,412	68,568
Finance costs	5	(3,864)	(5,508)	(7,193)
Share of profits less losses of				
Jointly controlled entities		14,622	6,874	4,439
Associated companies		3,371	998	3,944
Profit before taxation		43,926	41,776	69,758
Taxation (charge)/credit	9	(3,861)	341	(4,414)
Profit after taxation		40,065	42,117	65,344
Minority interests		(6,642)	(1,912)	(3,016)
Profit attributable to shareholders	25	33,423	40,205	62,328
Dividends	11	(25,804)	(25,168)	(24,829)
		HK cents	*HK cents*	*HK cents*
Earnings per share	12	2.6	3.2	5.1

Consolidated Balance Sheet
At 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Property, plant and equipment	13	787,028	802,153
Jointly controlled entities	16	382,136	237,449
Associated companies	17	18,650	16,098
Other non-current assets	18	272,834	240,727
Non-current assets		1,460,648	1,296,427
Current assets			
Inventories	19	93,175	68,716
Debtors and prepayments	20	547,604	482,310
Tax recoverable		1,938	8,173
Other investments	21	4,217	5,150
Cash and bank balances		170,952	306,354
		817,886	870,703
Current liabilities			
Creditors and accruals	22	341,995	288,923
Current portion of long-term liabilities	26	10,000	10,000
Short-term bank loans, unsecured		—	90,000
Taxation payable		1,396	601
		353,391	389,524
Net current assets		464,495	481,179
		1,925,143	1,777,606
Financed by:			
Share capital	23	129,648	125,893
Reserves	25	1,315,885	1,288,370
Shareholders' funds		1,445,533	1,414,263
Minority interests		154,010	147,891
Long-term liabilities	26	311,580	200,800
Non-current liabilities	27	14,020	14,652
		1,925,143	1,777,606

KWCM Balance Sheet
At 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Subsidiaries	15	1,714,067	1,488,442
Current assets			
Debtors and prepayments	20	4	8
Tax recoverable		339	1,991
Cash and bank balances		21,179	195,298
		21,522	197,297
Current liabilities			
Creditors and accruals	22	2,189	1,329
Current portion of long-term liabilities	26	10,000	10,000
Short-term bank loans, unsecured		—	90,000
		12,189	101,329
Net current assets		9,333	95,968
		1,723,400	1,584,410
Financed by:			
Share capital	23	129,648	125,893
Reserves	25	1,282,172	1,257,717
Shareholders' funds		1,411,820	1,383,610
Long-term liabilities	26	311,580	200,800
		1,723,400	1,584,410

Consolidated Cash Flow Statement
For the year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
Cash flows from operating activities			
Cash generated from operations	28(a)	21,229	59,415
Hong Kong profits tax refunded/(paid)		6,731	(2,545)
Mainland China income tax paid		(1,996)	(2,037)
Interest paid		(3,864)	(5,508)
Net cash from operating activities		22,100	49,325
Cash flows from investing activities			
Purchase of plant and equipment		(68,894)	(131,287)
Proceeds from sale of plant and equipment		5,883	2,258
Increase in investments in jointly controlled entities		(95,883)	(29,954)
Advances to jointly controlled entities		(37,376)	(5,582)
Deferred expenditure		(4,145)	(20,446)
Decrease in deferred receivable		1,440	2,873
Acquisition of long-term investments		(51,864)	—
Decrease in long-term investments		1,402	—
Acquisition of listed investments		(18,456)	(5,715)
Proceeds from disposal of listed investments		15,563	5,117
Advance to a fellow subsidiary		—	(219,000)
Repayment from a fellow subsidiary		70,000	149,000
Interest received		3,296	9,235
Dividends received from jointly controlled entities		3,223	681
Net cash used in investing activities		(175,811)	(242,820)
Cash flows from financing activities			
Issue of new shares		13,842	—
Net increase in loans from minority shareholders		—	2,053
Draw down of short-term bank loans		—	90,000
Repayment of short-term bank loans		(90,000)	(65,905)
Draw down of long-term bank loans		271,580	429,800
Repayment of long-term bank loans		(160,800)	(219,000)
Dividends paid to shareholders		(17,205)	(16,631)
Dividends paid to minority interests		(851)	(1,104)
Net cash from financing activities	28(b)	16,566	219,213
Net (decrease)/increase in cash and bank balances		(137,145)	25,718
Changes in exchange rates		1,743	(2,426)
Cash and bank balances at beginning of year		306,354	283,062
Cash and bank balances at end of year		170,952	306,354

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Note	2004 HK$'000	2003 HK$'000
At beginning of the year		1,414,263	1,392,570
Changes in exchange rates	25	1,210	(1,881)
Issue of shares upon exercise of share options	23 & 25	13,842	—
Reserve arising on scrip dividends	23 & 25	8,318	8,279
Profit for the year	25	33,423	40,205
Dividends			
Final dividend	25	(12,690)	(12,432)
Interim dividend	25	(12,833)	(12,478)
At end of the year		1,445,533	1,414,263

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

(a) *Basis of preparation*

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain properties and other investments, and in accordance with Hong Kong Financial Reporting Standards.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The KWCM Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The KWCM Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(b) *Basis of consolidation*

The consolidated financial statements include the financial statements of K. Wah Construction Materials Limited and its subsidiaries made up to 31 December and the KWCM Group's attributable share of post-acquisition results and reserves of its jointly controlled entities and associated companies.

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

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill or negative goodwill which remains unamortised, including those previously taken directly to reserves.

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

All significant inter-company transactions and balances within the KWCM Group are eliminated.

(c) *Subsidiaries*

A company is a subsidiary in which the KWCM Group directly or indirectly, holds more than 50% of the issued equity capital for the long-term, or controls more than 50% of the voting power, or controls the composition of the Board of Directors.

In KWCM's balance sheet, investments in subsidiaries are carried at or below cost. Provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. The results of subsidiaries are accounted for by KWCM on the basis of dividend income.

(d) *Jointly controlled entities*

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

1. Principal accounting policies (continued)

(d) *Jointly controlled entities (continued)*

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

(e) *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.

Associated companies are accounted for under the equity method whereby the KWCM Group's share of results is included in the consolidated profit and loss statement and the KWCM Group's share of net assets is included in the consolidated balance sheet.

(f) *Goodwill*

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the KWCM Group's share of the net assets of the acquired subsidiaries, jointly controlled entities or associated companies at the effective date of acquisition.

Goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight-line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill is reviewed annually and provision is only made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature.

Leasehold land and buildings and improvements are depreciated over their respective lease periods using the straight-line method. Other assets are depreciated over their estimated useful lives, using the straight-line method, at the following annual rates:

Plant and machinery	5 to 25%
Other assets	20 to 25%

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the KWCM Group. The carrying amounts of assets are reviewed regularly. When the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amount.

Profit or loss on disposal is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss statement. Upon the disposal of revalued assets, the relevant realised revaluation reserve is transferred directly to revenue reserve.

1. Principal accounting policies (continued)

(h) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, held for their long-term investment potential and are not occupied by the KWCM Group. Investment properties are carried at fair values, representing their open market value based on professional valuation. A deficit in valuation is charged to the profit and loss statement; an increase is first credited to the profit and loss statement to the extent of valuation deficit previously charged and thereafter is credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement.

No depreciation is provided on investment properties held on leases of more than twenty years.

(i) *Investments*

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

Securities which are acquired principally for the purpose of generating a profit from short-term fluctuation in prices are included in the balance sheet under current assets and are carried at fair value. The net unrealised gains or losses arising from the changes in fair value of investments are recognised in the profit and loss statement. Profits or losses on disposal of investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss statement as they arise.

(j) *Deferred expenditure*

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight-line method.

Pre-operating costs are expensed as they are incurred.

(k) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(l) *Provisions*

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, 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.

1. Principal accounting policies (continued)

(m) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses 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 differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(n) *Revenue recognition*

Sales of construction materials are recognised when the goods are delivered and legal title is transferred to customers. Rental income, net of any incentive given to the lessee, is recognised over the periods of the respective leases on a straight-line basis. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Dividend income is recognised when the right to receive payment is certain.

(o) *Leased assets*

Leases where a significant portion of the risk and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss statement on a straight-line basis over the lease terms.

(p) *Employee benefits*

Contributions to defined contribution retirement benefit schemes are charged to the profit and loss statement in the year to which the contributions relate.

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 KWCM 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.

(q) *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 the asset 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 when they are incurred.

1. Principal accounting policies (continued)

(r) *Foreign currencies*

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss statement.

Profit and loss statements of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments are taken directly to reserves.

(s) *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.

2. Segment information

The KWCM Group is principally engaged in the manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. In accordance with the KWCM Group's internal financial reporting and operating activities, the primary segment reporting is by geographical segments and a separate business segment is not relevant. Segment assets primarily consist of property, plant and equipment, other non-current assets, inventories, debtors and prepayments, and mainly exclude certain investments. Segment liabilities comprise mainly creditors and accruals. Sales are based on the country in which the customers are located.

A summary of the geographical segments is set out as follows:

Year ended 31 December 2004

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Turnover	461,800	837,343	1,299,143
Other revenues	20,371	984	21,355
Operating profit	9,066	20,731	29,797
Finance costs			(3,864)
Share of profits less losses of			
Jointly controlled entities	—	14,622	14,622
Associated companies	3,371	—	3,371
Profit before taxation			43,926
Taxation charge			(3,861)
Profit after taxation			40,065
Minority interests	—	(6,642)	(6,642)
Profit attributable to shareholders			33,423
Segment assets	814,147	785,984	1,600,131
Jointly controlled entities	3,248	378,888	382,136
Associated companies	18,650	—	18,650
Unallocated assets			277,617
Total assets			2,278,534
Segment liabilities	119,113	223,018	342,131
Minority interests	99,721	54,289	154,010
Unallocated liabilities			336,860
Total liabilities			833,001
Capital expenditure	10,303	62,736	73,039
Depreciation	39,309	37,821	77,130
Amortisation	15,916	2,264	18,180

2. Segment information (continued)

A summary of the geographical segments is set out as follows:

Year ended 31 December 2003

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Turnover	537,482	593,412	1,130,894
Other revenues	20,995	532	21,527
Operating profit	13,831	25,581	39,412
Finance costs			(5,508)
Share of profits less losses of			
Jointly controlled entities	18	6,856	6,874
Associated companies	998	—	998
Profit before taxation			41,776
Taxation credit			341
Profit after taxation			42,117
Minority interests	—	(1,912)	(1,912)
Profit attributable to shareholders			40,205
Segment assets	904,727	584,386	1,489,113
Jointly controlled entities	3,078	234,371	237,449
Associated companies	16,098	—	16,098
Unallocated assets			424,470
Total assets			2,167,130
Segment liabilities	122,666	167,025	289,691
Minority interests	99,697	48,194	147,891
Unallocated liabilities			315,285
Total liabilities			752,867
Capital expenditure	38,184	113,549	151,733
Depreciation	41,670	25,352	67,022
Amortisation	14,897	778	15,675

3. Turnover and other revenues

	2004	2003
	HK$'000	*HK$'000*
Turnover		
Sales of construction materials	1,299,143	1,130,894
Other revenues		
Rental income	13,138	12,292
Interest income		
Loan to a fellow subsidiary *(note 32(b))*	579	5,169
Loan to jointly controlled entities *(note 16)*	981	—
Other receivable	3,940	—
Bank deposits	1,396	2,545
Deferred receivable *(note 18)*	1,321	1,521
	21,355	21,527
	1,320,498	1,152,421

4. Operating profit

	2004	2003
	HK$'000	*HK$'000*
Operating profit is stated after crediting:		
Gain on disposal of operating rights	—	28,260
Foreign exchange gain/(loss)	823	(920)
Write back of revaluation deficit of investment properties	103	—
Amortisation of negative goodwill	632	632
and after charging:		
Depreciation	77,130	67,022
Amortisation		
Quarry site development	1,780	1,284
Overburden removal costs	16,400	14,391
Operating lease rental		
Land and buildings	13,067	12,148
Plant and machinery	—	779
Royalty	5,003	4,275
Auditors' remuneration	1,038	979
Unrealised loss/(gain) of listed investments	933	(2,180)
Loss/(profit) on disposal of listed investments	2,893	(2,372)
Loss on disposal of plant and equipment	1,109	800
Cost of inventories sold	1,141,258	952,187
Staff costs, including Directors' remuneration	163,353	155,295
Impairment of long-term investments	2,880	2,145

5. Finance costs

	2004	2003
	HK$'000	*HK$'000*
Interest expense		
Bank loans and overdrafts	3,864	5,508

6. Directors' remuneration

	2004	2003
	HK$'000	*HK$'000*
Fees	390	440
Salaries and other emoluments	5,836	3,921
Retirement benefits	408	259
	6,634	4,620

The emoluments of individual Directors of KWCM fell within the following bands:

	Number of Directors	
	2004	2003
Nil–HK$1,000,000	8	7
HK$2,000,001 to HK$2,500,000	3	2
	11	9

Fees paid to independent non-executive Directors amounted to HK$120,000 (2003: HK$240,000) and no other emoluments were paid.

During the year, no option to subscribe for shares (2003: 6,000,000 shares at exercise price of HK$0.514 per share) of KWCM were granted to the Directors. 650,000 options (2003: nil) were exercised by a Director at the exercise price of HK$0.5216.

7. Management remuneration

The five individuals whose emoluments were the highest in the KWCM Group for the year include three (2003: two) Directors whose emoluments are reflected in note 6 above. The emoluments of the remaining two (2003: three) individuals are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other emoluments	5,040	5,575
Retirement benefits	186	332
	5,226	5,907

7. Management remuneration (continued)

The emoluments of these individuals fell within the following bands:

	Number of employees	
	2004	**2003**
HK$1,500,001–HK$2,000,000	—	1
HK$2,000,001–HK$2,500,000	1	2
HK$3,000,001–HK$3,500,000	1	—
	2	3

8. Retirement benefit schemes

The KWCM Group operates two defined contribution schemes in Hong Kong under the Mandatory Provident Fund (MPF) Scheme and Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. The KWCM Group makes monthly contributions to the MPF Scheme equal to 5% of the employee's relevant income in compliance with the legislative requirement. The KWCM Group, where applicable, makes contributions to the ORSO Scheme at a rate equal to 5% to 10% of the employee's basic salary after deducting the contributions in respect of the MPF Scheme. The KWCM Group's contributions to the ORSO Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the Schemes are held separately from those of the KWCM Group in independently administered funds.

The employees in Mainland China participate in various pension plans organised by the relevant municipal and provincial government under which the KWCM Group is required to make monthly defined contributions to these plans at rates ranging from 8% to 22.5%, dependent upon the applicable local regulations. The KWCM Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the profit and loss statement during the year comprise contributions to the schemes of HK$12,307,000 (2003: HK$13,735,000), after deducting forfeitures of HK$419,000 (2003: HK$82,000), leaving HK$47,000 (2003: HK$57,000) available to reduce future contributions.

9. Taxation (charge)/credit

	2004	**2003**
	HK$'000	*HK$'000*
Company and subsidiaries		
Hong Kong profits tax	(78)	(150)
Mainland China income tax	(2,217)	(1,578)
Deferred taxation *(note 27(a))*	—	3,061
	(2,295)	1,333
Jointly controlled entities		
Mainland China income tax	(756)	(848)
Associated companies		
Hong Kong profits tax	(810)	(144)
	(3,861)	341

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year after setting off available taxation losses brought forward. Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

9. Taxation (charge)/credit (continued)

The taxation on the KWCM Group's 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 KWCM Group operates, as follows:

	2004 *HK$'000*	2003 *HK$'000*
Profit before taxation	43,926	41,776
Tax calculated at applicable tax rate	(7,978)	(6,070)
Income under tax relief	14,253	15,260
Income not subject to tax	111	373
Expenses not deductible for tax purpose	(2,248)	(3,631)
Utilisation of previously unrecognised tax losses	662	4,686
Tax loss not recognised	(8,984)	(9,923)
Over provision of tax	323	932
Increase in tax on change in tax rate	—	(1,286)
Taxation (charge)/credit	(3,861)	341

10. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of KWCM to the extent of HK$31,573,000 (2003: HK$37,277,000).

11. Dividends

	2004 *HK$'000*	2003 *HK$'000*
Interim scrip dividend with a cash option of 1 cent (2003: 1 cent) per share	12,833	12,478
Proposed final cash dividend of 1 cent (2003: scrip dividend with a cash option of 1 cent) per share	12,971	12,690
	25,804	25,168
The dividends have been partially settled by cash as follows:		
Interim	11,044	6,197
Final	—	6,161
	11,044	12,358

The Board of Directors recommended a final cash dividend of 1 cent (2003: scrip dividend with a cash option of 1 cent) per share. This dividend will be accounted for as an appropriation of revenue reserves in the year ending 31 December 2005.

12. Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK$33,423,000 (2003: HK$40,205,000) and the weighted average number of 1,276,189,000 shares (2003: 1,247,373,000 shares) in issue during the year.

The diluted earnings per share is not presented as the exercise of the share options outstanding as at 31 December 2004 would not have a dilutive effect on the earnings per share.

13. Property, plant and equipment

KWCM Group

	Leasehold land and buildings	Investment properties	Leasehold improve-ments	Plant and machinery	Other assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation						
At 31 December 2003	348,943	42,000	31,983	668,523	262,314	1,353,763
Additions	19,625	—	563	42,448	6,258	68,894
Disposals	—	—	—	(10,588)	(11,891)	(22,479)
Reclassification	(27,940)	27,940	—	—	—	—
Revaluation	—	(4,440)	—	—	—	(4,440)
At 31 December 2004	340,628	65,500	32,546	700,383	256,681	1,395,738
Accumulated depreciation						
At 31 December 2003	46,325	—	22,299	360,423	122,563	551,610
Charge for the year	8,574	—	1,854	42,782	23,920	77,130
Reclassification	(4,543)	4,543	—	—	—	—
Disposals	—	—	—	(6,492)	(8,995)	(15,487)
Revaluation	—	(4,543)	—	—	—	(4,543)
At 31 December 2004	50,356	—	24,153	396,713	137,488	608,710
Net book value						
At 31 December 2004	290,272	65,500	8,393	303,670	119,193	787,028
At 31 December 2003	302,618	42,000	9,684	308,100	139,751	802,153

(a) Leasehold land and buildings are stated at cost or valuation less depreciation as detailed in note 14. Investment properties are held under medium term leases in Hong Kong and were valued at 31 December 2004 on an open market value basis by Vigers Appraisal & Consulting Limited, independent professional valuers.

(b) Leasehold land and buildings with net book values of HK$226,628,000 (2003: HK$231,966,000) have been pledged to secure the KWCM Group's banking facilities.

(c) Other assets comprise barges, furniture and equipment and motor vehicles.

(d) Apart from the properties mentioned under (a) above, all other assets are carried at cost.

14. Leasehold land and buildings

Leasehold land and buildings are held under medium term leases as follows:

	Hong Kong	Outside Hong Kong	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At cost	296,935	43,693	340,628	321,003
At professional valuation 1990	—	—	—	27,940
	296,935	43,693	340,628	348,943

15. Subsidiaries

	KWCM	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	1	1
Loans receivable	300,556	370,556
Amounts receivable	2,103,854	1,776,330
Amounts payable	(673,952)	(642,053)
	1,730,459	1,504,834
Provision	(16,392)	(16,392)
	1,714,067	1,488,442

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

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the KWCM Group are given in note 36(a).

16. Jointly controlled entities

	KWCM Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	248,243	141,913
Amounts receivable	133,893	95,536
	382,136	237,449

Amounts receivable of HK$42,705,000, of which HK$5,645,000 is secured, carry interest at prevailing market rate and have fixed terms of repayment. The remaining amounts receivable are unsecured, interest free and have no fixed terms of repayment.

Details of jointly controlled entities which, in the opinion of the Directors, materially affect the results or net assets of the KWCM Group are given in note 36(b).

17. Associated companies

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Share of net assets	18,650	16,098

Details of associated companies which, in the opinion of the Directors, materially affect the results or net assets of the KWCM Group are given in note 36(c).

18. Other non-current assets

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Deferred expenditure		
Overburden removal costs	99,679	114,366
Quarry site development	14,073	13,421
	113,752	127,787
Deferred receivable	6,707	8,147
Long-term investments		
Listed in Hong Kong	972	2,487
Unlisted	151,403	102,306
	152,375	104,793
	272,834	240,727
Market value of listed long-term investments	708	736

Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2009. The current portion of the receivable is included under other receivables.

19. Inventories

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Aggregates and sand	36,959	24,820
Concrete pipes, piles and blocks	16,762	8,723
Cement	8,750	4,813
Spare parts	22,620	22,861
Consumables	8,084	7,499
	93,175	68,716

The carrying amounts of inventories stated at net realisable value amounted to HK$3,550,000 (2003: HK$1,809,000).

20. Debtors and prepayments

	KWCM Group		KWCM	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade debtors *(note (a))*	455,380	345,050	—	—
Loan to a fellow subsidiary *(note (b))*	—	70,000	—	—
Other receivables	32,973	29,330	4	—
Prepayments	59,251	37,930	—	8
	547,604	482,310	4	8

(a) The KWCM Group has established credit policies which follow local industry standards. The KWCM Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

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

	2004	**2003**
	HK$'000	*HK$'000*
Within one month	124,282	127,199
Two to three months	153,943	141,138
Four to six months	88,658	57,015
Over six months	88,497	19,698
	455,380	345,050

(b) In July 2002, the KWCM Group granted a guaranteed unsecured revolving loan facility of HK$330 million to a fellow subsidiary. The loan carries interest at 2.38% per annum above three-month HIBOR, with maturity of three years and an option to extend the maturity for further one or two years. The maximum loan outstanding during the year was HK$70 million (2003: HK$219 million).

21. Other investments

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Listed in Hong Kong, at market value	4,217	5,150

22. Creditors and accruals

	KWCM Group		KWCM	
	2004	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade creditors	193,859	138,266	—	—
Other creditors	55,773	62,794	—	—
Accrued operating expenses	87,078	82,052	2,189	1,329
Deposits received	5,285	5,811	—	—
	341,995	288,923	2,189	1,329

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

	2004	**2003**
	HK$'000	*HK$'000*
Within one month	80,834	81,864
Two to three months	62,659	38,658
Four to six months	26,502	9,649
Over six months	23,864	8,095
	193,859	138,266

23. Share capital

	Ordinary shares of HK$0.10 each	*HK$'000*
Authorised:		
At 31 December 2003 and 2004	3,888,000,000	388,800
Issued and fully paid:		
At 31 December 2002	1,243,207,815	124,321
Issued as scrip dividends	15,726,836	1,572
At 31 December 2003	1,258,934,651	125,893
Exercise of share options	26,936,000	2,695
Issued as scrip dividends	10,604,912	1,060
At 31 December 2004	1,296,475,563	129,648

24. Share option scheme

KWCM operates a share option scheme under which options to subscribe for ordinary shares in KWCM are granted to selected executives. At the Annual General Meeting of KWCM held on 30 May 2002, the shareholders approved the adoption of a new share option scheme and termination of the existing share option scheme (which was adopted on 23 June 2000), whereas options granted under the old scheme remain effective. Under the new scheme, share options may be granted to Directors, senior executives or employees of KWCM or its affiliates. Consideration to be paid on each grant of option is HK$1.00. The period within which the shares to be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than 10 years from the date of grant of the option.

Movements in the number of share options outstanding during the year are as follows:

	2004	2003
At beginning of year	58,746,000	38,264,000
Granted *(note (a))*	—	20,482,000
Exercised *(note (b))*	(26,936,000)	—
Lapsed *(note (c))*	(11,468,000)	—
At end of year *(note (d))*	20,342,000	58,746,000

(a) *Options granted*

Share options were granted on 28 February 2003 at the exercise price of HK$0.5140 per share and expire on 28 February 2013. Consideration received was HK$67 in 2003 in respect of the share options granted.

24. Share option scheme (continued)

(b) *Options exercised*

Exercise period	Exercise price *HK$*	Number of shares issued
January 2004	0.5333	130,000
January 2004	0.5216	684,000
February 2004	0.5333	1,500,000
February 2004	0.5216	3,292,000
February 2004	0.5140	300,000
March 2004	0.5333	54,000
March 2004	0.5216	724,000
March 2004	0.5140	3,420,000
April 2004	0.5216	124,000
May 2004	0.5333	270,000
May 2004	0.5216	650,000
June 2004	0.5333	270,000
June 2004	0.5216	200,000
June 2004	0.5140	476,000
July 2004	0.5333	80,000
July 2004	0.5216	216,000
July 2004	0.5140	58,000
August 2004	0.5216	400,000
August 2004	0.5140	404,000
September 2004	0.5333	880,000
September 2004	0.5216	2,196,000
September 2004	0.5140	1,046,000
October 2004	0.5333	706,000
October 2004	0.5216	2,376,000
October 2004	0.5140	4,102,000
November 2004	0.5333	194,000
November 2004	0.5216	622,000
November 2004	0.5140	890,000
December 2004	0.5216	590,000
December 2004	0.5140	82,000
		26,936,000

(c) *Options lapsed*

Exercise period	Exercise price *HK$*	Number of share options 2004	2003
20 May 1999 to 19 May 2008	0.5333	3,876,000	—
30 December 2000 to 29 December 2009	0.5216	6,314,000	—
1 March 2004 to 28 February 2013	0.5140	1,278,000	—
		11,468,000	—

24. Share option scheme (continued)

(d) *Outstanding options*

Exercise period	Exercise price *HK$*	Number of share options 2004	2003
Directors			
20 May 1999 to 19 May 2008	0.5333	3,100,000	3,100,000
30 December 2000 to 29 December 2009	0.5216	4,470,000	4,470,000
1 March 2004 to 28 February 2013	0.5140	6,850,000	6,000,000
Employees and others			
20 May 1999 to 19 May 2008	0.5333	1,902,000	9,862,000
30 December 2000 to 29 December 2009	0.5216	2,444,000	20,832,000
1 March 2004 to 28 February 2013	0.5140	1,576,000	14,482,000
		20,342,000	58,746,000

25. Reserves

KWCM Group

	Share premium	Capital reserve	Capital redemption reserve	Land and buildings revaluation reserve	Revenue reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2003	544,000	4,395	70	27,363	712,542	1,288,370
Changes in exchange rates	—	—	—	—	1,210	1,210
Premium on shares issued	11,147	—	—	—	—	11,147
Shares issued as scrip dividends	(1,060)	—	—	—	—	(1,060)
Reserves arising on scrip dividends	—	—	—	—	8,318	8,318
Profit for the year	—	—	—	—	33,423	33,423
2003 final dividend	—	—	—	—	(12,690)	(12,690)
2004 interim dividend	—	—	—	—	(12,833)	(12,833)
At 31 December 2004	554,087	4,395	70	27,363	729,970	1,315,885
Company and subsidiaries	554,087	4,395	70	27,363	736,281	1,322,196
Jointly controlled entities	—	—	—	—	(12,309)	(12,309)
Associated companies	—	—	—	—	5,998	5,998
	554,087	4,395	70	27,363	729,970	1,315,885
At 31 December 2002	545,572	4,395	70	27,363	690,849	1,268,249
Changes in exchange rates	—	—	—	—	(1,881)	(1,881)
Shares issued as scrip dividends	(1,572)	—	—	—	—	(1,572)
Reserves arising on scrip dividends	—	—	—	—	8,279	8,279
Profit for the year	—	—	—	—	40,205	40,205
2002 final dividend	—	—	—	—	(12,432)	(12,432)
2003 interim dividend	—	—	—	—	(12,478)	(12,478)
At 31 December 2003	544,000	4,395	70	27,363	712,542	1,288,370
Company and subsidiaries	544,000	4,395	70	27,363	731,852	1,307,680
Jointly controlled entities	—	—	—	—	(22,756)	(22,756)
Associated companies	—	—	—	—	3,446	3,446
	544,000	4,395	70	27,363	712,542	1,288,370

25. Reserves (continued)

KWCM

	Share premium	Capital reserve	Capital redemption reserve	Revenue reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2003	544,000	235,239	70	478,408	1,257,717
Premium on share issue	11,147	—	—	—	11,147
Shares issued as scrip dividends	(1,060)	—	—	—	(1,060)
Reserves arising on scrip dividends	—	—	—	8,318	8,318
Profit for the year	—	—	—	31,573	31,573
2003 final dividend	—	—	—	(12,690)	(12,690)
2004 interim dividend	—	—	—	(12,833)	(12,833)
At 31 December 2004	554,087	235,239	70	492,776	1,282,172
At 31 December 2002	545,572	235,239	70	457,762	1,238,643
Shares issued as scrip dividends	(1,572)	—	—	—	(1,572)
Reserves arising on scrip dividends	—	—	—	8,279	8,279
Profit for the year	—	—	—	37,277	37,277
2002 final dividend	—	—	—	(12,432)	(12,432)
2003 interim dividend	—	—	—	(12,478)	(12,478)
At 31 December 2003	544,000	235,239	70	478,408	1,257,717

Reserves of KWCM available for distribution to shareholders amount to HK$492,776,000 (2003: HK$478,408,000).

26. Long-term liabilities

	KWCM Group		KWCM	
	2004	2003	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans				
Secured	—	20,800	—	20,800
Unsecured	321,580	190,000	321,580	190,000
	321,580	210,800	321,580	210,800
Current portion included in current liabilities	(10,000)	(10,000)	(10,000)	(10,000)
	311,580	200,800	311,580	200,800

The bank loans are repayable within the following periods:

Within one year	10,000	10,000	10,000	10,000
Between one to two years	40,000	30,800	40,000	30,800
Between two to five years	271,580	170,000	271,580	170,000
	321,580	210,800	321,580	210,800

27. Non-current liabilities

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Deferred taxation liabilities *(note (a))*	13,884	13,884
Negative goodwill *(note (b))*	136	768
	14,020	14,652

(a) *Deferred taxation*

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the KWCM Group operates. Movements on the deferred taxation liabilities/(assets) are as follows:

	Depreciation allowance	**Tax losses**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2002	41,743	(24,169)	(629)	16,945
(Credit)/charge to profit and loss statement	2,387	(5,257)	(191)	(3,061)
At 31 December 2003	44,130	(29,426)	(820)	13,884
(Credit)/charge to profit and loss statement	(4,667)	3,847	820	—
At 31 December 2004	39,463	(25,579)	—	13,884

Deferred taxation assets of HK$32,252,000 (2003: HK$28,508,000) arising from unused tax losses and other temporary differences totalling of HK$165,108,000 (2003: HK$138,359,000) have not been recognised in the accounts. Unused tax losses of HK$121,008,000 (2003: HK$81,162,000) have no expiry date and the balance will expire at various dates up to and including 2010.

(b) *Negative goodwill*

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
Cost	2,663	2,663
Accumulated amortisation	(2,527)	(1,895)
At end of the year	136	768

28. Notes to consolidated cash flow statement

(a) *Reconciliation of operating profit to cash generated from operations*

	2004	2003
	HK$'000	*HK$'000*
Operating profit	29,797	39,412
Depreciation	77,130	67,022
Write back of revaluation deficit of investment properties	(103)	—
Loss on disposal of plant and equipment	1,109	800
Loss/(profit) on disposal of listed investments	2,893	(2,372)
Unrealised loss/(gain) on listed investments	933	(2,180)
Impairment of long-term investments	2,880	2,145
Interest income	(8,217)	(9,235)
Amortisation of deferred expenditure	18,180	15,675
Amortisation of negative goodwill	(632)	(632)
Operating profit before working capital changes	123,970	110,635
Increase in inventories	(24,459)	(26,091)
Increase in debtors and prepayments	(135,294)	(51,651)
Increase in creditors and accruals	57,012	26,522
Cash generated from operations	21,229	59,415

(b) *Analysis of changes in financing*

	Share capital and premium	Bank loans	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As 31 December 2003	669,893	300,800	147,891	1,118,584
Changes in exchange rates	—	—	328	328
Minority share of profits for the year	—	—	6,642	6,642
Cash inflow/(outflow) from financing	13,842	20,780	(851)	33,771
At 31 December 2004	683,735	321,580	154,010	1,159,325
As 31 December 2002	669,893	65,905	145,334	881,132
Changes in exchange rates	—	—	(304)	(304)
Minority share of profits for the year	—	—	1,912	1,912
Cash inflow from financing	—	234,895	949	235,844
At 31 December 2003	669,893	300,800	147,891	1,118,584

29. Capital commitments

	KWCM Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted but not provided for	75,198	51,339

30. 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:

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
First year	7,497	7,339
Second to fifth years inclusive	24,843	23,743
After the fifth year	22,696	30,638
	55,036	61,720

31. Operating lease rental receivable

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

	KWCM Group	
	2004	**2003**
	HK$'000	*HK$'000*
First year	13,444	11,876
Second to fifth years inclusive	47,952	39,408
After the fifth year	20,525	30,377
	81,921	81,661

32. Related party transactions

Significant related party transactions carried out in the normal course of the KWCM Group's business activities during the year are as follows:

(a) Sales of aggregates to an associated company amounted to HK$18,640,000 (2003: HK$16,375,000). These were made at prices and terms no less than those charged to other third party customers of the KWCM Group.

(b) The KWCM Group receives interest income of HK$579,000 (2003: HK$5,169,000) in respect of loan advanced to a fellow subsidiary as detailed in note 20(b).

(c) Rental income from an associated company amounted to HK$9,737,000 (2003: HK$9,691,000) based on the terms of rental agreement between the parties.

33. Contingent liabilities

KWCM has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK$289,804,000 (2003: HK$291,516,000), of which HK$104,792,000 (2003: HK$108,490,000) have been utilised.

34. Holding company and ultimate holding company

At 31 December 2004, KWCM was a 65.8% owned subsidiary of Sutimar Enterprises Limited, incorporated in the British Virgin Islands, which is a wholly owned subsidiary of K. Wah International Holdings Limited, incorporated in Bermuda.

34. Holding company and ultimate holding company (continued)

The Directors regard K. Wah International Holdings Limited as being the ultimate holding company.

35. Approval of accounts

The financial statements were approved by the Board of Directors on 3 March 2005.

36. Principal subsidiaries, jointly controlled entities and associated companies

(a) *Subsidiaries*

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Number of non-voting deferred shares	Issued share capital: Par value per share *HK$*	Percentage of equity held by the KWCM Group	Principal activities
Incorporated in Hong Kong						
Barichon Limited	Hong Kong	3,000,000	—	1	99.93	Sale and distribution of concrete pipes
Brighten Lion Limited	Hong Kong	2	—	1	100	Provision of finance
Chelsfield Limited	Hong Kong	2,111,192	—	10	100	Investment holding
Citifair Asia Limited	Hong Kong	10	—	1	100	Investment holding
Construction Materials Limited	Hong Kong	30,000	—	10	100	Sale of aggregates
Doran (Hong Kong) Limited	Hong Kong	1,000	—	10	100	Sale and distribution of concrete pipes
K. Wah Concrete Company Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	10	100	Provision of management services
K. Wah Construction Products Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	—	1	100	Trading

36. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Number of non-voting deferred shares	Issued share capital: Par value per share *HK$*	Percentage of equity held by the KWCM Group	Principal activities
K. Wah Quarry Company Limited	Hong Kong	2	100,000	100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	100	Quarrying
K. Wah Trading and Development Limited	Hong Kong	2	2	10	100	Trading
KWP Quarry Co. Limited	Hong Kong	9,000,000	—	1	63.5	Quarrying
Lightway Limited	Hong Kong	2	2	1	100	Property investment
Master Target Limited	Hong Kong	2	—	1	100	Investment holding
Quanturn Limited	Hong Kong	2	—	1	100	Equipment leasing
Rainbow Country Limited	Hong Kong	2	—	1	100	Investment holding
Rainbow Mark Limited	Hong Kong	100	—	1	95	Investment holding
Rainbow States Limited	Hong Kong	2	—	1	100	Investment holding
Star Home Limited	Hong Kong	2	—	1	100	Investment holding
Triconville Investments Limited	Hong Kong	10	—	1	100	Investment holding

36. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the KWCM Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
Doran Construction Products (Shenzhen) Co., Ltd	Shenzhen	HK$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Construction Products (Shenzhen) Co., Ltd.	Shenzhen	US$1,290,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK$1,560,000	100	Provision of management services
K. Wah Consultancy (Shanghai) Co., Ltd.	Shanghai	US$350,000	100	Provision of management services
K. Wah Quarry (Huzhou) Co., Ltd.	Huzhou	US$4,250,000	100	Quarrying
Shanghai K.Wah Qingsong Concrete Co. Ltd.	Shanghai	US$2,420,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shenzhen K. Wah Concrete Piles Company Limited (深圳嘉華混凝土管樁有限公司)	Shenzhen	US$2,100,000	100	Manufacture, sale and distribution of concrete piles
Cooperative joint venture				
Beijing Shoujia Stone Co., Ltd.	Beijing	US$1,080,000	55	Quarrying
Beijing K.Wah GaoQiang Concrete Co. Ltd.	Beijing	US$2,450,000	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Materials (Huidong) Ltd.	Huidong	US$2,800,000	100	Quarrying
Nanjing K. Wah Concrete Co., Ltd.	Nanjing	US$1,330,000	100	Manufacture, sale and distribution of ready-mixed concrete

36. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the KWCM Group	Principal activities
Shanghai Beicai Concrete Co., Ltd.	Shanghai	RMB31,500,000	100	Manufacture, Sale and distribution of ready-mixed concrete
Shanghai Jiajian Concrete Co., Ltd.	Shanghai	RMB17,400,000	60	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jia Shen Concrete Co., Ltd.	Shanghai	RMB4,400,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	100	Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance service
Shanghai K. Wah Concrete Piles Co., Ltd.	Shanghai	US$2,500,000	100	Manufacture, sale and distribution of concrete piles
Equity joint venture				
Shanghai Ganghui Concrete Co., Ltd.	Shanghai	US$4,000,000	60	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiafu Concrete Co., Ltd.	Shanghai	US$1,400,000	55	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Xin Cai Concrete Co., Ltd.	Shanghai	US$2,100,000	99	Manufacture, sale and distribution of ready-mixed concrete

36. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Par value per share	Percentage of equity held by the KWCM Group	Principal activities
Incorporated in the British Virgin Islands					
Eternal Profits International Limited	Hong Kong	10	US$1	100	Property investment
Fairlight Investments Limited	Hong Kong	10	US$1	100[(1)]	Investment holding
High Regard Investments Limited	Hong Kong	20	US$1	100	Investment holding
Latent Developments Limited	Hong Kong	10	US$1	100	Investment holding
Profit Access Investments Limited	Hong Kong	10	US$1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	US$1	100	Investment holding
Taksin Profits Limited	Hong Kong	17	US$1	100	Investment holding
Woodland Assets Limited	Hong Kong	10	US$1	100	Investment holding
Incorporated in Macau					
K. Wah (Macao Commercial Offshore) Company Limited	Macau	1 quota	MOP100,000	100	Trading

(1) wholly owned and directly held by KWCM

36. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(b) *Jointly Controlled Entities*

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the KWCM Group	Principal activities
Incorporated in Mainland China				
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US$4,290,000	30	Manufacture, sale and distribution of slag
Beijing Shougang K. Wah Construction Materials Co. Ltd.	Beijing	RMB50,000,000	40	Manufacture, sale and distribution of slag
Guangzhou K. Wah Nanfang Cement Limited	Guangzhou	RMB100,000,000	50	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Ltd.	Shanghai	US$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete
Maanshan Masteel K.Wah Concrete Co. Ltd.	Maanshan	US$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete
Yunnan Kungang & K. Wah Cement Construction Materials Co. Ltd.	Kunming	RMB300,000,000	30	Manufacture, sales and distribution of cement and slag
Guangdong Shaogang Jia Yang New Materials Co. Ltd.	Shaoguan	US$6,000,000	35	Manufacture, sale and distribution of slag

(c) *Associated Companies*

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Par value per share *HK$*	Percentage of equity held by the KWCM Group	Principal activities
Incorporated in Hong Kong					
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	10	20	Manufacture, sale and distribution and laying of asphalt

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE YEARS ENDED 31 DECEMBER 2004

(A) Operating Results Analysis

A geographical analysis of the KWCM Group's operating results for the three years ended 31 December 2004 is set out below:

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Hong Kong	553,060	537,482	461,800
Mainland China	457,939	593,412	837,343
	1,010,999	1,130,894	1,299,143
Operating Profit			
Hong Kong	50,495	13,831	9,066
Mainland China	18,073	25,581	20,731
	68,568	39,412	29,797
Profit before taxation			
Hong Kong	49,685	10,208	12,437
Mainland China	20,073	31,568	31,489
	69,758	41,776	43,926

Year ended 31 December 2003 compared with year ended 31 December 2002

Overview

Turnover and profit before taxation for the year ended 31 December 2003 were HK$1,131 million and HK$42 million, as compared to HK$1,011 million and HK$70 million for the year ended 31 December 2002, respectively. The KWCM Group's turnover was slightly higher than 2002 but the profit before taxation decreased by approximately 40% from 2002 due to deteriorating market environment in Hong Kong.

Despite additional contribution from the gradual phasing in of certain new projects in the Mainland China, the profit of the KWCM Group as a whole decreased as compared to 2002.

Business in Hong Kong

In 2003, the economy of Hong Kong further worsened due to the outbreak of SARS and the war in Iraq. However, with the initiatives taken by the Central Government, there were signs that the local economy had begun to regain luster in the last quarter of 2003.

Notwithstanding such a difficult environment, the KWCM Group achieved a comparatively satisfactory performance among the industry in Hong Kong for the year. Besides maintaining a cost-efficient operation, the KWCM Group continued to explore new business opportunities to enhance our profit contribution. Capitalising on its sound track record among the industry as well as its reputation in terms of product quality and customer services, the KWCM Group successfully extended its ready-mixed concrete business to Daya Bay, Huidong and was awarded the ready-mixed concrete supply contract for the CNOOC and Shell Petrochemical Complex at Huizhou. Furthermore, a pile factory was set up in Shenzhen during the year and production commenced in February 2004 supplying concrete piles to nearby markets.

The KWCM Group is environmentally-minded and continued to explore business opportunities in environmentally friendly products. In July 2003, the KWCM Group had entered into a contract with Hong Kong Polytechnic University for the manufacture of paving blocks designed by the University using recycled construction materials. Production of these paving blocks commenced and are now being supplied to the market.

The rehabilitation works of KWP Quarry Co. Limited at Anderson Road Quarry in which the KWCM Group has a 63.5% interest is proceeding in accordance with the planned schedule. The subsidiary met the third milestone on time in accordance with the contract with the Hong Kong SAR Government.

The KWCM Group will continue to seize business opportunities in the emerging market along the Pearl River Delta area.

Business in Mainland China

The success of the KWCM Group's expansion strategy in Mainland China has built a solid platform for the KWCM Group to maintain a continued growth in future. The new projects which commenced operation as planned, have provided additional contribution to the KWCM Group during the year. In addition to the joint venture set up with Maanshan Masteel for the manufacturing of slag, the KWCM Group has also entered into agreements with Shougang Group, Guangdong Shaoguan Iron and Steel Group and Kunming Iron and Steel Group to set up joint ventures in Beijing, Shaoguan and Kunming, respectively, for the manufacture of slag. When all these joint ventures gradually come into operation, the KWCM Group will become one of the largest suppliers of slag in the Mainland China and it is envisaged that all these projects will bring in good contribution to the KWCM Group.

The sales volume of its Shanghai operations continued to grow as compared to 2002. The KWCM Group's wholly owned quarry in Huzhou began supplying aggregates to the Shanghai market during the year. This will enhance the competitiveness of its Shanghai ready-mixed concrete operation, which help to strengthen the KWCM Group's leading position in the industry.

In order to capitalise on the growing ready-mixed concrete market in Nanjing and Maanshan, the KWCM Group set up ready-mixed concrete plants in these areas during the year. Both plants brought in satisfactory profit contribution to the KWCM Group. The performance of the KWCM Group's pile factory in Shanghai, which commenced operation in early 2003, was satisfactory and has made contribution to the KWCM Group.

The KWCM Group's quarry operation in Beijing, the Beijing Shoujia Stone Co., Ltd., in which the KWCM Group has a 55% interest, has achieved an increase both in sales volume and profit contribution. With the Beijing 2008 Olympic Games, massive housing projects and associated infrastructure works have resulted in a surge in demand for good quality ready-mixed concrete in Beijing. To seize such valuable opportunity, the KWCM Group set up a ready-mixed concrete plant, Beijing K. Wah Gaoqiang Concrete Co., Ltd., to serve the growing market in Beijing. The operation commenced production in 2003 and the performance was satisfactory. The KWCM Group will continue to look for suitable investment opportunities in the area in order to broaden its income base.

In Guangzhou, the market conditions improved during the year although they remained competitive. The KWCM Group's cement operation, Guangzhou K. Wah Nanfang Cement Limited, in which the KWCM Group has a 50% interest recorded a satisfactory result in 2003. Both turnover and profit contribution have increased over 2002.

Technology Investment

According to the strategic mandate, the KWCM Group continued to maintain a balanced investment portfolio similar to that of 2002 and the total investments at 31 December 2003 stood at approximately HK$116 million, same as 2002.

Year ended 31 December 2004 compared with year ended 31 December 2003

Overview

Turnover and profit attributable to shareholders for the year ended 31 December 2004 were HK$1,299 million and HK$33 million, as compared to HK$1,131 million and HK$ 40 million for the year ended 31 December 2003, respectively. The KWCM Group's turnover was slightly higher than that of 2003 but the profit attributable to shareholders decreased by approximately 17% from 2003. The profit attributable to shareholders in 2003 included a gain on disposal of operating rights of HK$28 million. Excluding such gain, the profit in 2004 improved over 2003. The gradual phasing in of new projects in Mainland China brought in an additional contribution to the KWCM Group.

Business in Hong Kong

As the economy of Hong Kong revitalised during the year, the overall sentiment has continued to improve. Unemployment rate peaked and began to drop, while the property market showed an encouraging growth during the year. The improving business environment certainly benefited most sectors of the economy and yet the construction activities remained at a low level. In 2004, the construction materials business in Hong Kong faced declining demand as the number of household flats completed during the year was substantially fewer than in prior years. Despite such a challenging business environment, the KWCM Group was able to achieve its objective to deliver a stable operating income. These results, reached in a declining market demand situation, once again reflect the KWCM Group's ability to continuously improve its operational efficiency.

The KWCM Group's ready-mixed concrete operation at Hui Dong Daya Bay commenced operation in 2003 made satisfactory profit contribution this year and the pile factory commenced production in February 2004 achieved the target and successfully established a stable customer base in the nearby markets.

The rehabilitation work of KWP Quarry Co., Limited at Anderson Road Quarry in which the KWCM Group has a 63.5% interest is proceeding in accordance with planned schedule.

With the continuous improving economy in Hong Kong and the growing development in the Pan Pearl River Delta area, it is envisaged that the profit contribution of the region will further improve in the coming years.

The KWCM Group will continue to grip business opportunities both in Hong Kong and the Pan Pearl River Delta area.

Business in Mainland China

The KWCM Group's expansion strategy in Mainland China begun to deliver results during the year 2004 as it accounted for more than 50% of the KWCM Group's turnover and profit contribution in 2004. The new projects proceeded as planned during the year. When all these projects gradually come on stream, it will enable the KWCM Group to have a continuous profit growth in future.

The austerity measure introduced by the Central Government helped to stabilise the rapid rising raw material prices in the first half of the year, thus restoring the profit margin of its operations on the Mainland China the KWCM Group's ready-mixed concrete operations in Shanghai, Nanjing and Maanshan have all made profit contribution to the KWCM Group during the year. Its quarry at Huzhou achieved the target performance and is now supplying aggregates to its ready-mixed concrete plants and pile factory in Shanghai. The joint venture with Maanshan Iron and Steel Group for the manufacture and sale of slag commenced operation as planned.

The KWCM Group's cement operation in Guangzhou, Guangzhou K.Wah Nanfang Cement Limited, in which the KWCM Group has a 50% interest, expanded its production facilities to capture the increasing local market demand. The operation continued to deliver good profit contribution for the year. The plant set up work of the joint venture with Guangdong Shaoguan Iron and Steel Group for manufacture and sales of slag in which the KWCM Group has a 35% interest has been completed and was scheduled for commissioning very shortly.

The KWCM Group's ready-mixed operation in Beijing continued to grow during the year and made profit contribution to the KWCM Group. The joint venture with Shouguan Group for the manufacture and sale of Slag in which the KWCM Group has 40% interest commenced operation during the year and made profit contribution to the KWCM Group.

In August 2004, the KWCM Group entered into an agreement with Kunming Iron and Steel Group to set up a joint venture for the manufacture and sale of cement and slag in which the KWCM Group has a 30% interest. Operation of the joint venture commenced as planned during the year.

Technology Investment

The KWCM Group continued to maintain a balanced investment portfolio similar to that of 2003 and the total investment at 31 December 2004 was HK$115 million, similar to 2003.

(B) Financial Position, Gearing Ratio, Liquidity and Financial Resources

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Non-current Assets	1,193,491	1,296,427	1,460,648
Current assets excluding Cash and bank balances	409,200	564,349	646,934
Cash and bank balances	283,062	306,354	170,952
Current portion of long-term liabilities	—	(10,000)	(10,000)
Short-term bank loans	(65,905)	(90,000)	—
Other current liabilities	(263,599)	(289,524)	(343,391)
Gross assets employed	1,556,249	1,777,606	1,925,143
Sources of funding			
Share Capital	124,321	125,893	129,648
Reserves	1,268,249	1,288,370	1,315,885
Minority interests	145,334	147,891	154,010
Long-term liabilities	—	200,800	311,580
Non-current liabilities	18,345	14,652	14,020
	1,556,249	1,777,606	1,925,143

The financial position of the KWCM Group continuously improved during the three years ended 31 December 2004. The shareholders' funds increased by 1.5% in 2003 as compared to 2002 and 2.3% in 2004 as compared to 2003. The KWCM Group's gross assets employed increased by 14% in 2003 as compared to 2002 and 8% in 2004 as compared to 2003.

The gearing ratio, defined as the ratio of total loans outstanding less cash and bank balances to total assets, was maintained at a satisfactory level of 7% at 31 December 2004 and the KWCM Group was practically debt free both at 31 December 2002 and 31 December 2003. KWCM has given guarantees in favour of banks in respect of facilities extended to its subsidiaries amounting to HK$289,804,000 in 2004 (2003: HK$291,516,000; 2002: HK$299,370,000) of which HK$104,792,000 (2003: HK$108,490,000; 2002: HK$154,805,000) had been used.

The KWCM Group maintained a satisfactory cash position for the three years ended 31 December 2004. The KWCM Group's liquidity remains strong and the KWCM Group has sufficient cash and available banking facilities to meet its commitment, working capital requirements and future assets acquisition.

The KWCM Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong dollars, United States dollars or in the local currencies of the operating subsidiaries, keeping a low exposure to foreign exchange risks. All of the KWCM Group's borrowings are in either Hong Kong dollars or Renminbi. Forward foreign contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The KWCM Group has not engaged in the use of other derivative products.

Other information on the KWCM Group

(A) ***Employees***

The KWCM Group, excluding associated companies and jointly controlled entities, employed over 2,000 employees at the end of 2004 (2003: 1,960 employees, 2002: 1,400 employees) in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK$156 million. (2003: HK$151 million, 2002: HK$138 million)

The KWCM Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. The KWCM Group implemented a share option scheme for executives from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market levels with emphasis on provision of training and development opportunities.

(B) ***Human and Organisation Development***

The KWCM Group promotes learning by sponsoring employees to attend external and internal training courses in a wide range of areas such as knowledge of the KWCM Group and its businesses, business integrity and ethics, presentation and technical skills, quality awareness and safety, language and computer software applications in addition to tailor-made management development programs.

To augment the KWCM Group's present expansion, localisation plan and future development in Mainland China, the KWCM Group continues with its Management Trainee Program to recruit high potential graduates and develop them to be its future managers. In alliance with Tongji University, Shanghai, a training plan was formulated to upgrade and strengthen the technical and managerial competencies of its technical, middle and senior managerial employees.

To operate more effectively, the KWCM Group also to promotes greater transparency, delegation, ownership and better decision making among its senior management team.

(C) ***Health, Safety and Environment***

Health, safety and environmental protection ("HSE") are integral parts of the KWCM Group's business. It is a shared initiative between KWCM and all those concerned to give due consideration to stakeholders' HSE needs in its operations.

The KWCM Group applies both international and local standards and practices aimed at providing a safe and healthy workplace for its employees, and protecting the environment. The KWCM Group implements a comprehensive HSE system with a range of initiatives that include promoting safe and green working practices, managing hazards and environmental impacts that might arise, and providing training to its employees.

In 2004 the KWCM Group successfully reduced the frequency rate (the number of lost time injuries per 100,000 work hours) of Hong Kong operations by 75% from 0.8 in 2000 to 0.2 in 2004. The KWCM Group also deployed the system in its Mainland China operations.

INDEBTEDNESS OF KWCM GROUP

As at the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the KWCM Group had outstanding borrowings of approximately HK$446,859,000, comprising bank loans of approximately HK$357,200,000 (in which secured bank loans are of approximately HK$157,400,000 and unsecured bank loans are of approximately HK$199,800,000, respectively) and unsecured loans from minority shareholders of subsidiaries of approximately HK$89,659,000. The aggregate amount repayable at 30 April 2005 is as follows:

	HK$'000
Bank loans repayable	
Within one year	250,500
Between one and two years	87,500
Between two and five years	19,200
	357,200
Loans from minority shareholders of subsidiaries	
Repayable on demand	89,659
	446,859

Leasehold land and buildings with a net book value of HK$224,849,000 have been pledged to secure the KWCM Group's banking facilities.

A wholly-owned subsidiary of KWCM has given a several counter-guarantee amounting to HK$103,774,000 in respect of a guarantee provided by a shareholder of an unlisted investee company on the banking facilities granted to the unlisted investee company of the KWCM Group in Mainland China. This counter-guarantee was given pursuant to an amendment agreement to a joint venture contract entered by it in February 2004 in respect of its acquisition of 10% equity interest in the unlisted investee company. These facilities have been fully utilised as at 30 April 2005. The amount of this counter-guarantee represents about 6.6% of the total banking facilities granted to the investee company, which is less than the KWCM Group's proportional equity share in that company.

As at 30 April 2005, save as disclosed in this Circular and apart from intra-group liabilities, the KWCM Group did not have any debt securities issued and outstanding, or authorised/otherwise created but un-issued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/unsecured, guaranteed or not), any mortgages and charges, any contingent liabilities or guarantees.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2005.

Property interests held by the KWCM Group

The KWCM Group's property interests as at 31 March 2005 have been valued by independent valuers. The text of the letter valuation summary and valuation certificates in connection with the aforesaid property interests are set out in Appendix IX of this circular.

The statement below shows the reconciliation of property interests from the audited consolidated financial statements as at 31 December 2004 to the unaudited consolidated management accounts as at 31 March 2005 (the effective date of the valuation):

	HK$'000	*HK$'000*
Net book value as at 31 December 2004		355,772
Movement for the three months ended 31 March 2005		
Additions		794
Depreciation		(1,915)
Net book value as at 31 March 2005		354,651
Gross valuation surplus	2,181	
Gross valuation deficit *(note)*	(39,332)	
Net valuation deficit		(37,151)
Valuation as at 31 March 2005 per Appendix IX		317,500

KWCM confirms that there is no change in the KWCM Group's property interests since 31 March 2005 (being the effective date of the valuation).

Note: The valuation deficit is attributable to cost of structures in the Mainland China presently in active use for office and production by KWCM Group and are of "no commercial value" for the purpose of property valuation because it was tailor-made for internal use of the KWCM Group. Such assets are stated on the balance sheet at cost less accumulated depreciation at a net book value of approximately HK$39,332,000 as at 31 March 2005.

INDEBTEDNESS OF ENLARGED KWCM GROUP

As at the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged KWCM Group had outstanding borrowings of approximately HK$797,165,000, comprising bank loans of approximately HK$674,200,000 (in which secured bank loans are of approximately HK$474,400,000 and unsecured bank loans are of approximately HK$199,800,000 respectively), unsecured other loans from related companies of approximately HK$32,863,000 (which are non-interest bearing and will be repaid prior to Completion), obligations under finance leases of approximately HK$443,000 and unsecured loans from minority shareholders of subsidiaries of approximately HK$89,659,000. The aggregate amount repayable at 30 April 2005 is as follows:

	KWCM Group *HK$'000*	**Galaxy Group** *HK$'000*	**Enlarged KWCM Group** *HK$'000*
Bank loans repayable			
Within one year	250,500	317,000	567,500
Between one and two years	87,500	—	87,500
Between two and five years	19,200	—	19,200
	357,200	317,000	674,200
Other loans repayable			
Within one year	—	32,863	32,863
Finance lease obligations payable			
Within one year	—	202	202
Between one and two years	—	202	202
Between two and five years	—	39	39
	—	443	443
	357,200	350,306	707,506
Loans from minority shareholders of subsidiaries			
Repayable on demand	89,659	—	89,659
	446,859	350,306	797,165

Leasehold land and buildings with a net book value of HK$492,849,000 and time deposit of HK$254,406,248 have been pledged to secure the Enlarged KWCM Group's banking facilities.

A wholly-owned subsidiary of KWCM has given a several counter-guarantee amounting to HK$103,774,000 in respect of a guarantee provided by a shareholder of an unlisted investee company on the banking facilities granted to the unlisted investee company of the Enlarged KWCM Group in Mainland China. This counter-guarantee was given pursuant to an amendment agreement to a joint venture contract entered by it in February 2004 in respect of its acquisition of 10% equity interest in the unlisted investee company. These facilities have been fully utilised as at 30 April

2005. The amount of this counter-guarantee represents about 6.6% of the total banking facilities granted to the investee company, which is less than the Enlarged KWCM Group's proportional equity share in that company.

As at 30 April 2005, save as disclosed in this Circular and apart from intra-group liabilities, the Enlarged KWCM Group did not have any debt securities issued and outstanding, or authorised/ otherwise created but un-issued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/unsecured, guaranteed or not), any mortgages and charges, any contingent liabilities or guarantees.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2005.

WORKING CAPITAL

Taking into account the financial resources available to the Enlarged KWCM Group, including internally generated funds and the available banking facilities, the KWCM Directors are of the opinion that the Enlarged KWCM Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of publication of this Circular.

NO MATERIAL ADVERSE CHANGE

Save for the Acquisition as disclosed in the Letter from KWCM Directors as in this Circular, KWCM confirms that there is no material change in the financial or operating position or prospects of the KWCM Group since 31 December 2004 (being the date to which the latest audited financial statements of the KWCM Group were made up).

The following is a report prepared for the purpose of inclusion in this Circular from the auditors and reporting accountants of KWIH, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
K. Wah International Holdings Limited

Dear Sirs

We set out below our report on the financial information relating to K. Wah International Holdings Limited ("KWIH") and its subsidiaries (hereinafter collectively referred to as the "KWIH Group") for each of the three years ended 31 December 2002, 2003 and 2004 (the "Relevant Periods") for inclusion in the circular of KWIH dated 30 June 2005 (the "Circular") in connection with the possible acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. ("Galaxy") (the "Acquisition") by K Wah Construction Materials Limited ("KWCM") and the resulting deemed disposal of 38.56% interest in KWCM (the "Disposal") pursuant to the Acquisition Agreement dated 14 March 2005, as amended by the Supplemental Agreements.

KWIH was incorporated in Bermuda on 2 May 1989 with limited liability. As at the date of this report, KWIH had direct and indirect interests in the principal subsidiaries set out in note 37(a) of Section II below. All companies comprising the KWIH Group have adopted 31 December as their financial year end date.

We acted as the auditors of KWIH for each of the three years ended 31 December 2002, 2003 and 2004.

The financial information as set out in Sections I to IV (the "Financial Information") has been prepared based on the audited consolidated financial statements of the KWIH Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards. For the purpose of this report, we have examined the Financial Information of the KWIH Group for each of the Relevant Periods and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The Directors of KWIH are responsible for preparing the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of KWIH and the KWIH Group as at 31 December 2002, 2003 and 2004 and of the results and cash flows of the KWIH Group for the Relevant Periods.

I. FINANCIAL INFORMATION

(a) Consolidated profit and loss statement

		Year ended 31 December		
		2002	2003	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	4	2,134,552	3,076,143	1,730,538
Cost of sales		(1,901,579)	(2,891,632)	(1,548,383)
Gross profit		232,973	184,511	182,155
Other revenues	4	11,720	17,645	17,164
Other operating income		24,858	72,888	56,281
Administrative expenses		(82,267)	(77,599)	(136,755)
Other operating expenses		(48,962)	(51,924)	(49,893)
Operating profit	6	138,322	145,521	68,952
Finance costs	7	(8,619)	(17,144)	(13,425)
Share of profits less losses of				
Jointly controlled entities		4,406	53,845	238,976
Associated companies		2,400	998	3,371
Profit before taxation		136,509	183,220	297,874
Taxation	11	(11,365)	(45,831)	(42,434)
Profit after taxation		125,144	137,389	255,440
Minority interests		(22,810)	(17,009)	(21,117)
Profit attributable to shareholders	29	102,334	120,380	234,323
Dividends	13	57,376	59,273	128,347
		HK cents	*HK cents*	*HK cents*
Earnings per share	14			
Basic		5.4	6.2	11.7
Diluted		N/A	N/A	9.9

(b) Consolidated balance sheet

		At 31 December		
		2002	2003	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	15	1,091,920	1,136,196	1,115,426
Jointly controlled entities	18	536,708	537,030	440,476
Associated companies	19	15,244	16,098	18,650
Other non-current assets	20	303,491	433,227	304,898
		1,947,363	2,122,551	1,879,450
Current assets				
Development properties	21	3,490,159	2,519,342	4,561,850
Inventories	22	42,625	68,716	93,175
Debtors and prepayments	23	521,590	554,484	665,360
Tax recoverable		12,683	8,173	4,384
Other investments	24	62,404	81,556	44,547
Cash and bank balances	25	686,409	517,065	781,306
		4,815,870	3,749,336	6,150,622
Current liabilities				
Creditors and accruals	26	523,505	493,655	510,432
Current portion of long-term liabilities	30	693,469	156,078	808,409
Tax payable		8,489	38,297	39,779
Short-term bank loans and overdrafts — unsecured		153,767	176,984	36,133
		1,379,230	865,014	1,394,753
Net current assets		3,436,640	2,884,322	4,755,869
		5,384,003	5,006,873	6,635,319
Financed by:				
Share capital	27	191,955	197,797	201,564
Reserves	29	2,233,979	2,333,890	2,529,671
Shareholders' funds		2,425,934	2,531,687	2,731,235
Minority interests		1,067,785	1,083,869	1,147,265
Long-term liabilities	30	1,800,916	1,302,184	2,675,209
Other non-current liabilities	31	89,368	89,133	81,610
		5,384,003	5,006,873	6,635,319

(c) KWIH Balance Sheet

		At 31 December		
		2002	2003	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Subsidiaries	17	2,889,232	2,701,386	2,294,531
Current assets				
Debtors and prepayments	23	630	729	270
Tax recoverable		—	—	1,077
Cash and bank balances		225	245	320,893
		855	974	322,240
Current liabilities				
Creditors and accruals	26	3,378	1,871	1,728
Current portion of long-term liabilities	30	90,000	53,000	395,000
Short-term bank loans and overdrafts — unsecured		60,000	50,000	—
		153,378	104,871	396,728
Net current liabilities		(152,523)	(103,897)	(74,488)
		2,736,709	2,597,489	2,220,043
Financed by:				
Share capital	27	191,955	197,797	201,564
Reserves	29	1,894,754	1,944,692	1,993,479
Shareholders' funds		2,086,709	2,142,489	2,195,043
Long-term liabilities	30	650,000	455,000	25,000
		2,736,709	2,597,489	2,220,043

(d) Consolidated Cash Flow Statement

	Note	Year ended 31 December 2002 HK$'000	2003 HK$'000	2004 HK$'000
Cash flows from operating activities				
Cash (used in)/generated from operations	32(a)	(206,501)	995,755	(1,773,049)
Net tax paid		(30,253)	(179)	(2,514)
Interest element of finance lease rental payments		(2)	—	—
Interest paid		(74,302)	(51,540)	(56,241)
Net cash (used in)/from operating activities		(311,058)	944,036	(1,831,804)
Cash flows from investing activities				
Purchase of property, plant and equipment		(164,158)	(133,712)	(71,365)
Deferred expenditure		(36,536)	(20,446)	(4,145)
(Loans to)/payments from associated companies and jointly controlled entities		(46,680)	82,057	392,636
Acquisition of long-term investments		(10,173)	—	(51,864)
Decrease in long-term investments		—	—	1,402
Proceeds from sale of property, plant and equipment		4,537	6,736	5,905
Proceeds from disposal of long-term investments		5,295	—	—
Proceeds from disposal of an associated company		20,700	—	—
(Increase)/decrease in deferred receivable		(1,893)	2,873	1,440
Increase in investments in jointly controlled entities		(11,733)	(39,786)	(100,290)
Purchase of listed investments		—	(5,715)	(18,456)
Proceeds from disposal of listed investments		—	5,117	15,563
Proceeds from disposal of unlisted investment		—	—	44,404
Interest received		10,864	16,169	10,436
Dividends received from listed investments		856	1,326	1,807
Dividends received from associated companies		3,400	—	—
Dividends received from jointly controlled entities		—	681	3,223
Net cash (used in)/from investing activities		(225,521)	(84,700)	230,696

(d) Consolidated Cash Flow Statement (continued)

	Note	Year ended 31 December 2002 HK$'000	2003 HK$'000	2004 HK$'000
Cash flows from financing activities	32(b)			
Issue of new shares		2,178	1,121	4,940
Issue costs for convertible bonds		—	—	(16,348)
Capital element of finance lease rental payments		(638)	—	—
Net increase in loans from minority shareholders		21,183	4,999	36,328
New long-term loans		1,430,483	842,153	2,299,816
Repayment of long-term loans		(630,797)	(1,878,276)	(274,460)
(Decrease)/increase in short-term bank loans repayable after three months from date of advance		(216,261)	28,078	(140,851)
Dividends paid to shareholders		(30,227)	(14,718)	(40,757)
Dividends paid to minority interests		(13,369)	(5,150)	(5,292)
Net cash from/(used in) financing activities		562,552	(1,021,793)	1,863,376
Net increase/(decrease) in cash and cash equivalents		25,973	(162,457)	262,268
Cash and cash equivalents at beginning of year		654,580	681,548	517,065
Changes in exchange rates		995	(2,026)	1,973
Cash and cash equivalents at end of year		681,548	517,065	781,306
Analysis of cash and cash equivalents				
Cash and bank balances		686,409	517,065	781,306
Bank overdrafts		(4,861)	—	—
		681,548	517,065	781,306

(e) Consolidated Statement of Changes in Equity

		Year ended 31 December		
		2002	**2003**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year		2,350,418	2,425,934	2,531,687
Changes in exchange rates	29	1,231	(1,030)	1,042
Issue of shares upon exercise of share options		2,178	1,121	4,940
Reserve arising on scrip dividends	29	26,250	43,324	39,081
Profit for the year	29	102,334	120,380	234,323
Dividends				
Final dividend	29	(37,513)	(38,412)	(39,643)
Interim dividend	29	(18,964)	(19,630)	(40,195)
At end of year		2,425,934	2,531,687	2,731,235

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate update

At 31 December 2004, the KWIH Group held an approximately 65.8% equity interest in KWCM. Pursuant to the announcement by KWIH and KWCM dated 18 April 2005, KWCM proposed to acquire, through a wholly-owned subsidiary, 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy for an aggregate purchase price of HK$18,405,198,000, which will be partly satisfied by the issue of 1,840,519,798 new shares of KWCM at HK$8 per share, and partly by cash and/or unsecured fixed rate notes of HK$3,681,039,603 to be issued by KWCM. Upon completion of the Acquisition by KWCM, the KWIH Group's equity interest in KWCM would be reduced to approximately 27.2% of the enlarged capital of KWCM. Consequently, KWCM would cease to be a subsidiary but become an associated company of the KWIH Group.

The financial information of KWCM for the three years ended 31 December 2002, 2003 and 2004 is summarised in note 5 below.

2. Principal accounting policies

(a) *Basis of preparation*

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain properties and investments and in accordance with Hong Kong Financial Reporting Standards.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The KWIH Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The KWIH Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(b) *Basis of consolidation*

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

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

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill or negative goodwill which remains unamortised, including those previously taken directly to reserves and any related accumulated exchange reserve.

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

All significant intercompany transactions and balances within the KWIH Group are eliminated.

(c) *Subsidiaries*

Subsidiaries are companies in which the KWIH Group has the power to exercise control governing the financial and operating policies of the company.

In KWIH's balance sheet, investments in subsidiaries are carried at or below cost. Provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. The results of subsidiaries are accounted for by KWIH on the basis of dividend income.

(d) *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 KWIH Group together with the venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

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

(e) *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.

Associated companies are accounted for under the equity method whereby the KWIH Group's share of the results is included in the consolidated profit and loss statement and the KWIH Group's share of net assets is included in the consolidated balance sheet.

(f) *Goodwill*

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the KWIH Group's share of the net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the effective date of acquisition.

Goodwill arising on acquisitions is included in the consolidated balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill is reviewed annually and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the consolidated profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

(g) *Property, plant and equipment*

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature.

The cost or valuation of long-term and medium-term leasehold land is depreciated over the remaining term of the lease, including the period for which a right of renewal is attached, using the straight-line method. The cost or valuation of all other land and buildings and leasehold improvements is depreciated over their respective lease periods using the straight-line method.

Increases in valuation of leasehold land and buildings are credited to the property revaluation reserve; subsequent decreases are first set off against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss statement.

The cost of other assets is depreciated over their estimated useful lives, using the straight-line method, at the following annual rates:

Plant and machinery	5 to 25%
Other assets	20 to 50%

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the KWIH Group. The carrying amounts of assets are reviewed regularly. When the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the 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. Upon the disposal of revalued assets, the relevant realised revaluation reserve is transferred directly to revenue reserve.

(h) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, held for their long-term investment potential and are not occupied by the KWIH Group. Investment properties are carried at fair values, representing their open market value based on professional valuation. A deficit in valuation is charged to the profit and loss statement; an increase is first credited to the profit and loss statement to the extent of valuation deficit previously charged and thereafter is credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement.

No depreciation is provided on investment properties held on leases of more than twenty years.

(i) *Investments*

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

Securities which are acquired principally for the purpose of generating a profit from short-term fluctuation in prices are included in the balance sheet under current assets and are carried at fair value. The net unrealised gains or losses arising from the changes in fair value of investments are recognised in the profit and loss statement. Profits or losses on disposal of investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss statement as they arise.

(j) *Deferred expenditure*

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight-line method. Expenses incurred in connection with long-term financing are deferred and amortised on a straight line basis over the relevant tenure of the finance.

Pre-operating costs are expensed as they are incurred.

(k) *Development properties*

Development properties are included under current assets and comprise land cost, construction costs, an appropriate proportion of overhead expenditure and interest attributable to the development, and profit taken to date, less sales instalments received and provisions for possible losses. They 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.

(l) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(m) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on property, plant and equipments, provisions for expenses and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses 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 can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) *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.

(o) *Revenue recognition*

Sales of construction materials are recognised when the goods are delivered and legal title is transferred to customers.

Sales of completed properties are recognised upon execution of the sales agreements. When a development property is sold in advance of completion, sales are recognised over the course of the development and are computed as a proportion of the total estimated sales to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds.

Where purchasers fail to pay the balance of the purchase price on completion and the KWIH Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit, and sales recognised up to the date of forfeiture are written back.

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Dividend income is recognised when the right to receive payment is certain.

(p) *Employee benefits*

Contributions to defined contribution retirement schemes are charged to the profit and loss statement in the year to which the contributions relate.

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 KWIH 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.

(q) *Leased assets*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss statement on a straight-line basis over the lease terms.

(r) *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 the assets 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 year in which they are incurred.

(s) *Foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss statement.

Profit and loss statements of subsidiaries, jointly controlled entities and associated companies denominated in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments are taken directly to reserves.

(t) *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.

3. Segment information

The KWIH Group is principally engaged in property development and investment, manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. In accordance with the KWIH Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets primarily consist of property, plant and equipment, other non-current assets, inventories, properties, debtors and prepayments and mainly exclude certain investments. Segment liabilities comprise mainly creditors and accruals. There are no sales or trading transactions between the business segments.

A summary of the business segments is set out as follows:

	Properties *HK$'000*	**Construction materials** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2002				
Turnover	1,079,095	1,010,999	44,458	2,134,552
Other revenues	4,362	6,499	859	11,720
Operating profit	89,600	45,954	2,768	138,322
Finance costs				(8,619)
Share of profits less losses of				
Jointly controlled entities	(33)	4,439	—	4,406
Associated companies	(1,544)	3,944	—	2,400
Profit before taxation				136,509
Taxation				(11,365)
Profit after taxation				125,144
Minority interests	222	(23,005)	(27)	(22,810)
Profit attributable to shareholders				102,334
Segment assets	4,082,913	1,340,767	26,106	5,449,786
Jointly controlled entities	340,381	196,327	—	536,708
Associated companies	—	15,244	—	15,244
Unallocated assets				761,495
Total assets				6,763,233
Segment liabilities	252,000	263,801	7,704	523,505
Unallocated liabilities				2,746,009
Total liabilities				3,269,514
Capital expenditure	1,710	154,628	20	156,358
Depreciation	3,012	58,976	123	62,111
Amortisation	—	14,879	—	14,879
Write back of additional provision for plant and equipment	—	11,303	—	11,303

3. Segment information (continued)

	Properties	Construction materials	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2003				
Turnover	1,879,105	1,130,894	66,144	3,076,143
Other revenues	12,102	4,066	1,477	17,645
Operating profit	109,347	22,483	13,691	145,521
Finance costs				(17,144)
Share of profits less losses of				
Jointly controlled entities	46,971	6,874	—	53,845
Associated companies	—	998	—	998
Profit before taxation				183,220
Taxation				(45,831)
Profit after taxation				137,389
Minority interests	260	(17,232)	(37)	(17,009)
Profit attributable to shareholders				120,380
Segment assets	3,209,513	1,480,474	21,978	4,711,965
Jointly controlled entities	299,581	237,449	—	537,030
Associated companies	—	16,098	—	16,098
Unallocated assets				606,794
Total assets				5,871,887
Segment liabilities	197,887	289,691	6,077	493,655
Unallocated liabilities				1,762,676
Total liabilities				2,256,331
Capital expenditure	2,425	151,733	—	154,158
Depreciation	3,132	66,018	130	69,280
Amortisation	—	15,675	—	15,675
Unrealised gain on listed investments	—	2,180	13,852	16,032

3. Segment information (continued)

	Properties	Construction materials	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004				
Turnover	369,809	1,299,143	61,586	1,730,538
Other revenues	7,709	7,638	1,817	17,164
Operating profit	41,249	16,613	11,090	68,952
Finance costs				(13,425)
Share of profits less losses of				
Jointly controlled entities	224,354	14,622	—	238,976
Associated companies	—	3,371	—	3,371
Profit before taxation				297,874
Taxation				(42,434)
Profit after taxation				255,440
Minority interests	(3,109)	(17,971)	(37)	(21,117)
Profit attributable to shareholders				234,323
Segment assets	5,056,052	1,557,701	26,445	6,640,198
Jointly controlled entities	58,340	382,136	—	440,476
Associated companies	—	18,650	—	18,650
Unallocated assets				930,748
Total assets				8,030,072
Segment liabilities	158,598	341,995	9,839	510,432
Unallocated liabilities				3,641,140
Total liabilities				4,151,572
Capital expenditure	2,454	73,039	17	75,510
Depreciation	3,326	76,125	102	79,553
Amortisation	2,452	18,180	—	20,632
Unrealised (loss)/gain on listed investments	—	(933)	16,128	15,195

3. Segment information (continued)

A summary of the geographical segments is set out as follows:

	Turnover	Operating profit/(loss)	Total assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2002				
Hong Kong	1,479,594	98,858	3,531,192	55,395
Mainland China	583,176	37,179	3,025,036	100,940
Singapore	27,324	1,938	189,480	3
Japan	44,458	347	17,525	20
	2,134,552	138,322	6,763,233	156,358
Year ended 31 December 2003				
Hong Kong	2,322,052	118,746	2,368,831	38,742
Mainland China	678,729	30,031	3,307,148	115,392
Singapore	9,218	(3,776)	179,690	24
Japan	66,144	520	16,218	—
	3,076,143	145,521	5,871,887	154,158
Year ended 31 December 2004				
Hong Kong	746,529	41,681	3,403,250	12,217
Mainland China	913,233	32,659	4,432,940	63,264
Singapore	9,190	(5,803)	174,811	12
Japan	61,586	415	19,071	17
	1,730,538	68,952	8,030,072	75,510

4. Turnover and other revenues

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
Sale of properties	1,039,956	1,842,095	332,135
Sale of construction materials	1,010,999	1,130,894	1,299,143
Rental	39,139	37,010	37,674
Sale of goods	44,458	66,144	61,586
	2,134,552	3,076,143	1,730,538
Other revenues			
Interest from banks	6,733	5,918	2,627
Interest from mortgage loans	2,213	8,730	6,488
Interest from loans to jointly controlled entities	—	—	981
Interest from other receivables	—	—	3,940
Interest from deferred receivable	1,918	1,521	1,321
Dividends from listed investments	856	1,476	1,807
	11,720	17,645	17,164
Total revenues	2,146,272	3,093,788	1,747,702

5. Financial information of KWCM

KWCM, which is engaged in manufacture, sale and distribution of construction materials in Hong Kong and mainland China, is a company incorporated and also listed in Hong Kong. The consolidated profit and loss statement, the consolidated balance sheet and the consolidated cash flow statement of KWCM for the Relevant Periods were as follows:

(a) *Consolidated Profit and Loss Statement*

	Year ended 31 December		
	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,010,999	1,130,894	1,299,143
Cost of sales	(909,523)	(1,085,600)	(1,248,459)
Gross profit	101,476	45,294	50,684
Other revenues	29,783	21,527	21,355
Other operating income	8,342	44,132	27,218
Administrative expenses	(52,821)	(48,538)	(54,376)
Other operating expenses	(18,212)	(23,003)	(15,084)
Operating profit	68,568	39,412	29,797
Finance costs	(7,193)	(5,508)	(3,864)
Share of profits less losses of			
Jointly controlled entities	4,439	6,874	14,622
Associated companies	3,944	998	3,371
Profit before taxation	69,758	41,776	43,926
Taxation (charge)/credit	(4,414)	341	(3,861)
Profit after taxation	65,344	42,117	40,065
Minority interests	(3,016)	(1,912)	(6,642)
Profit attributable to shareholders	62,328	40,205	33,423
Dividends	(24,829)	(25,168)	(25,804)
	HK cents	*HK cents*	*HK cents*
Earnings per share	5.1	3.2	2.6

5. Financial information of KWCM (continued)

(b) *Consolidated Balance Sheet*

	At 31 December		
	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	740,946	802,153	787,028
Jointly controlled entities	196,327	237,449	382,136
Associated companies	15,244	16,098	18,650
Other non-current assets	240,974	240,727	272,834
Non-current assets	1,193,491	1,296,427	1,460,648
Current assets			
Inventories	42,625	68,716	93,175
Debtors and prepayments	360,659	482,310	547,604
Tax recoverable	5,916	8,173	1,938
Other investments	—	5,150	4,217
Cash and bank balances	283,062	306,354	170,952
	692,262	870,703	817,886
Current liabilities			
Creditors and accruals	262,401	288,923	341,995
Current portion of long-term liabilities	—	10,000	10,000
Short-term bank loans, unsecured	65,905	90,000	—
Taxation payable	1,198	601	1,396
	329,504	389,524	353,391
Net current assets	362,758	481,179	464,495
	1,556,249	1,777,606	1,925,143
Financed by:			
Share capital	124,321	125,893	129,648
Reserves	1,268,249	1,288,370	1,315,885
Shareholders' funds	1,392,570	1,414,263	1,445,533
Minority interests	145,334	147,891	154,010
Long-term liabilities	—	200,800	311,580
Other non-current liabilities	18,345	14,652	14,020
	1,556,249	1,777,606	1,925,143

5. Financial information of KWCM (continued)

(c) *Consolidated Cash Flow Statement*

	Year ended 31 December		
	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Cash generated from operations	105,634	59,415	21,229
Hong Kong profits tax (paid)/refunded	(7,858)	(2,545)	6,731
Mainland China income tax paid	(5,125)	(2,037)	(1,996)
Interest paid	(7,191)	(5,508)	(3,864)
Interest element of finance lease rental payment	(2)	—	—
Net cash from operating activities	85,458	49,325	22,100
Cash flows from investing activities			
Purchase of plant and equipment	(118,092)	(131,287)	(68,894)
Proceeds from sale of plant and equipment	4,508	2,258	5,883
Increase in investments in jointly controlled entities	(10,039)	(29,954)	(95,883)
Advances to jointly controlled entities	(4,609)	(5,582)	(37,376)
Deferred expenditure	(36,536)	(20,446)	(4,145)
(Increase)/decrease in deferred receivable	(1,893)	2,873	1,440
Acquisition of long-term investments	(10,173)	—	(51,864)
Decrease in long-term investments	5,295	—	1,402
Acquisition of listed investments	—	(5,715)	(18,456)
Proceeds from disposal of listed investments	—	5,117	15,563
Proceeds from redemption of other investments	280,000	—	—
Advance to a fellow subsidiary	(50,000)	(219,000)	—
Repayment from a fellow subsidiary	50,000	149,000	70,000
Interest received	16,559	9,235	3,296
Dividends received from jointly controlled entities	—	681	3,223
Dividends received from associated companies	3,400	—	—
Net cash from/(used in) investing activities	128,420	(242,820)	(175,811)
Cash flows from financing activities			
Issue of new shares	592	—	13,842
Net increase in loans from minority shareholders	18,960	2,053	—
Draw down of short-term bank loans	—	90,000	—
Repayment of short-term bank loans	(117,785)	(65,905)	(90,000)
Draw down of long-term bank loans	225,000	429,800	271,580
Repayment of long-term bank loans	(325,917)	(219,000)	(160,800)
Capital element of finance lease rental payments	(638)	—	—
Dividends paid to shareholders	(27,673)	(16,631)	(17,205)
Dividends paid to minority interests	(2,153)	(1,104)	(851)
Net cash (used in)/from financing activities	(229,614)	219,213	16,566
Net (decrease)/increase in cash and bank balances	(15,736)	25,718	(137,145)
Changes in exchange rates	(325)	(2,426)	1,743
Cash and bank balances at beginning of year	299,123	283,062	306,354
Cash and bank balances at end of year	283,062	306,354	170,952

6. Operating profit

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Operating profit is stated after crediting:			
Unrealised gain on listed investments	950	16,032	15,195
Profit on disposal of listed investments	103	2,372	—
Write-back of provision for development properties	7,726	8,478	—
Profit on disposal of property, plant and equipment	343	—	—
Write-back of additional provision for plant and equipment	11,303	—	—
Gain on disposal of operating rights	—	28,260	—
Net foreign exchange gains	—	—	4,748
Amortisation of negative goodwill	631	632	632
and after charging:			
Cost of inventories sold	821,812	1,008,355	1,194,494
Revaluation deficits of investment properties	6,066	12,071	5,503
Net foreign exchange losses	5,123	4,108	—
Depreciation	62,111	69,280	79,553
Amortisation			
Quarry site development	846	1,284	1,780
Overburden removal costs	14,033	14,391	16,400
Issue costs for convertible bonds	—	—	2,452
Staff costs including directors' remuneration	211,276	234,191	247,726
Royalty	3,076	4,275	5,003
Auditors' remuneration	1,928	1,897	2,097
Operating lease rentals			
Land and buildings	11,740	12,148	13,067
Plant and machinery	1,888	779	—
Impairment of long-term investments	561	2,145	2,880
Loss on disposal of an associated company	12,658	—	—
Loss on disposal of property, plant and equipment	—	1,349	1,206
Loss on disposal of listed investments	—	—	2,893
Loss on disposal of unlisted investment	—	—	7,800
Loss on deemed disposal of a subsidiary	—	—	10,501
Outgoings in respect of investment properties	3,091	3,755	3,929

7. Finance costs

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Interest expense			
Bank loans, overdrafts and others	74,302	51,540	56,241
Finance lease obligations wholly repayable within five years	2	—	—
	74,304	51,540	56,241
Capitalised as cost of properties under development	(65,685)	(34,396)	(42,816)
	8,619	17,144	13,425

The capitalisation rates applied to funds borrowed generally and used for the development of properties range between 2% to 5%, 1% to 5% and 1% to 5% per annum for the years ended 31 December 2002, 2003 and 2004, respectively.

8. Directors' remuneration

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Fees	1,060	910	860
Salaries and other emoluments	10,844	13,608	16,559
Retirement benefits	745	908	1,093
	12,649	15,426	18,512

The emoluments of individual directors of KWIH fell within the following bands:

	Number of Directors		
	2002	2003	2004
Nil – HK$1,000,000	10	8	7
HK$1,000,001 – HK$1,500,000	—	2	1
HK$1,500,001 – HK$2,000,000	1	—	2
HK$2,000,001 – HK$2,500,000	1	1	2
HK$3,000,001 – HK$3,500,000	2	—	—
HK$4,000,001 – HK$4,500,000	—	1	1
HK$4,500,001 – HK$5,000,000	—	1	1
	14	13	14

Fees paid to independent non-executive directors amounted to HK$460,000, HK$410,000 and HK$410,000 for the years ended 31 December 2002, 2003 and 2004, respectively, and no other emoluments were paid.

In 2002, no options were granted to or exercised by the directors.

In 2003, options to subscribe for 7,691,000 shares of KWIH at the exercise price of HK$0.72 per share were granted to the directors and no options were exercised by the directors.

In 2004, no options to subscribe for shares of KWIH were granted to the directors and 300,000 and 870,000 options were exercised by the directors at the respective exercise prices of HK$0.5586 and HK$0.36.

9. Management emoluments

The five individuals whose emoluments were the highest in the KWIH Group for the year include three, two and two directors for the years ended 31 December 2002, 2003 and 2004, respectively, whose emoluments are reflected in note 8 above. The emoluments of the remaining two, three and three individuals for the years ended 31 December 2002, 2003 and 2004, respectively, are as follows:

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other emoluments	3,868	6,160	7,609
Retirement benefits	287	466	322
	4,155	6,626	7,931

The emoluments of these individuals within the following bands:

	Number of employees		
	2002	2003	2004
HK$1,500,001 – HK$2,000,000	1	—	—
HK$2,000,001 – HK$2,500,000	1	3	2
HK$3,000,001 – HK$3,500,000	—	—	1
	2	3	3

10. Retirement benefit schemes

The KWIH 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) Ordinance. All the assets under the schemes are held separately from the KWIH Group under independently administered funds. Contributions to the MPF Scheme follow the MPF 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 KWIH Group's 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 employer's contributions on the employee.

The employees in the Mainland China participate in various pension plans organised by the relevant municipal and provincial government under which the KWIH Group is required to make monthly defined contributions to these plans at rates ranging from 8% to 22.5% of the employees' basic salary, depending upon the applicable local regulations. The KWIH 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 Relevant Periods comprises contributions made by the KWIH Group to the schemes of HK$12,624,000, HK$17,077,000 and HK$16,124,000, less forfeitures of HK$379,000, HK$264,000 and HK$518,000, leaving HK$123,000, HK$112,000 and no balance available at the balance sheet date to reduce future contribution for the years ended 31 December 2002, 2003 and 2004, respectively.

11. Taxation

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH and subsidiaries			
Hong Kong profits tax	3,301	27,396	1,389
Overseas taxation	6,092	7,085	6,396
Deferred taxation *(note 31(a))*	1,376	397	(6,891)
	10,769	34,878	894
Jointly controlled entities			
Hong Kong profits tax	—	8,839	42,229
Overseas taxation	558	848	756
Deferred taxation	—	1,122	(2,255)
Associated companies			
Hong Kong profits tax	38	144	810
	11,365	45,831	42,434

Hong Kong profits tax has been provided at the rate of 16%, 17.5% and 17.5% for the years ended 31 December 2002, 2003 and 2004, respectively, on the estimated assessable profits for the respective years 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 KWIH Group operates.

The taxation on the KWIH Group's 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 KWIH Group operates, as follows:

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	136,509	183,220	297,874
Tax calculated at applicable tax rate	14,019	30,408	53,696
Income under tax relief	(6,284)	(15,260)	(14,253)
Income not subject to taxation	(15,151)	(6,710)	(11,635)
Expenses not deductible for taxation purposes	15,132	14,557	9,339
Utilisation of previously unrecognised tax losses	(9,039)	(7,862)	(8,031)
Tax losses not recognised	12,605	29,311	13,680
Under/(over) provision in previous years	83	(32)	(362)
Increase in tax rate	—	1,419	—
Taxation charge	11,365	45,831	42,434

12. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of KWIH to the extent of HK$79,158,000, HK$69,377,000 and HK$88,371,000 for the years ended 31 December 2002, 2003 and 2004, respectively.

13. Dividends

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Interim scrip dividend with a cash option (2002: 1 cent per share; 2003: 1 cent per share; 2004: 2 cents per share)	18,964	19,630	40,195
Final scrip dividend with a cash option (2002: 2 cents per share; 2003: 2 cents per share)	38,412	39,643	—
Final cash dividend (2004: 4 cents per share)	—	—	88,152
	57,376	59,273	128,347
The dividends have been partially settled by cash as follows:			
Interim	7,555	4,531	33,284
Final	10,187	7,473	—
	17,742	12,004	33,284

14. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to shareholders of HK$102,334,000, HK$120,380,000 and HK$234,323,000 for the years ended 31 December 2002, 2003 and 2004, respectively, and the weighted average number of 1,888,664,000 shares, 1,944,096,000 shares and 1,996,230,000 shares in issue during the years ended 31 December 2002, 2003 and 2004, respectively.

The calculation of the diluted earnings per share for the year ended 31 December 2004 is based on the following:

	HK$'000
Profit for calculation of basic earnings per share	234,323
Effect of dilutive potential ordinary shares:	
Interest on convertible bonds, net of tax	2,675
Unamortised issue costs for convertible bonds, net of tax	(11,464)
Profit for calculation of diluted earnings per share	225,534
	Number of shares
Weighted average number of shares for calculating basic earnings per share	1,996,230,000
Effect of dilutive potential ordinary shares:	
Convertible bonds	265,522,000
Share options	17,563,000
Weighted average number of shares for calculating diluted earnings per share	2,279,315,000

The diluted earnings per share for the years ended 31 December 2002 and 2003 were not presented as the exercise of the share options outstanding as at 31 December 2002 and 2003 would not have a dilutive effect on the earnings per share.

15. Property, plant and equipment

	Leasehold land and buildings *HK$'000*	Investment properties *HK$'000*	Plant and machinery *HK$'000*	Other assets *HK$'000*	Total *HK$'000*
KWIH Group					
Cost or valuation					
At 31 December 2001	415,562	282,705	605,762	237,103	1,541,132
Additions	12,459	44,336	36,537	70,826	164,158
Disposals	(626)	—	(32,389)	(23,536)	(56,551)
Reclassification	(2,516)	—	11,808	(9,292)	—
Revaluation deficit	—	(6,066)	—	—	(6,066)
At 31 December 2002	424,879	320,975	621,718	275,101	1,642,673
Additions	5,246	—	65,723	62,743	133,712
Disposals	(5,845)	—	(18,918)	(20,543)	(45,306)
Revaluation deficit	—	(12,071)	—	—	(12,071)
At 31 December 2003	424,280	308,904	668,523	317,301	1,719,008
Additions	19,624	—	42,448	9,293	71,365
Disposals	—	—	(10,588)	(14,150)	(24,738)
Reclassification	(27,940)	27,940	—	—	—
Revaluation deficit	—	(10,046)	—	—	(10,046)
At 31 December 2004	415,964	326,798	700,383	312,444	1,755,589
Accumulated depreciation					
At 31 December 2001	46,308	—	341,941	164,273	552,522
Charge for the year	7,689	—	35,588	18,834	62,111
Disposals	(129)	—	(31,011)	(21,437)	(52,577)
Reclassification	(918)	—	4,354	(3,436)	—
Write-back of additional provision	—	—	(11,303)	—	(11,303)
At 31 December 2002	52,950	—	339,569	158,234	550,753
Charge for the year	8,042	—	37,926	23,312	69,280
Disposals	(1,247)	—	(17,072)	(18,902)	(37,221)
At 31 December 2003	59,745	—	360,423	162,644	582,812
Charge for the year	9,162	—	42,782	27,609	79,553
Disposals	—	—	(6,492)	(11,167)	(17,659)
Reclassification	(4,543)	4,543	—	—	—
Revaluation deficit	—	(4,543)	—	—	(4,543)
At 31 December 2004	64,364	—	396,713	179,086	640,163
Net book value					
At 31 December 2002	371,929	320,975	282,149	116,867	1,091,920
At 31 December 2003	364,535	308,904	308,100	154,657	1,136,196
At 31 December 2004	351,600	326,798	303,670	133,358	1,115,426

15. Property, plant and equipment (continued)

(a) Leasehold land and buildings are stated at cost or valuation less depreciation as detailed in note 16.

Investment properties held under long-term leases outside Hong Kong amounting to HK$100,975,000, HK$93,904,000 and 86,298,000 were valued at 31 December 2002, 2003 and 2004, respectively, on an open market value basis by CB Richard Ellis (Pte) Ltd., independent professional valuers.

Investment properties held under medium-term leases outside Hong Kong amounting to HK$53,000,000 were valued at 31 December 2002, 2003 and 2004 on an open market value basis by Knight Frank Hong Kong Limited, independent professional valuers.

Investment properties held under long-term leases in Hong Kong amounting to HK$125,000,000, HK$120,000,000 and HK$122,000,000 were valued at 31 December 2002, 2003 and 2004, respectively, on an open market value basis by Savills (Hong Kong) Limited, independent professional valuers.

Investment properties held under medium-term leases in Hong Kong amounting to HK$42,000,000, HK$42,000,000 and HK$65,500,000 were valued at 31 December 2002, 2003 and 2004, respectively, on an open market value basis by Vigers Appraisal & Consulting Limited, independent professional valuers.

(b) Investment properties and leasehold land and buildings with carrying values of HK$225,975,000, HK$266,904,000 and HK$261,298,000 at 31 December 2002, 2003 and 2004, respectively, and HK$295,904,000, HK$290,082,000 and HK$284,260,000 at 31 December 2002, 2003 and 2004, respectively, were pledged to secure the KWIH Group's banking facilities.

(c) Other assets comprise barges, furniture and equipment, leasehold improvements and motor vehicles.

(d) Apart from the properties mentioned in (a) above, all other assets are carried at cost.

16. Leasehold land and buildings

	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000*
KWIH Group			
Hong Kong			
Long-term lease	113,741	113,741	113,741
Medium-term lease	278,996	278,997	251,057
	392,737	392,738	364,798
Outside Hong Kong			
Long-term lease	5,847	2,495	2,495
Medium-term lease	26,295	29,047	48,671
	32,142	31,542	51,166
	424,879	424,280	415,964

Medium-term leasehold land and buildings in Hong Kong amounting to HK$250,062,000, HK$250,062,000 and HK$222,122,000 at 31 December 2002, 2003 and 2004, respectively, were revalued as at 31 March 1990 on an open market basis by Jones Lang LaSalle Ltd., independent professional valuers. Subsequent revaluations of these properties are not required to be made in accordance with paragraph 80 of Hong Kong Statement of Standard Accounting Practice 17 — Property, Plant and Equipment. Had these properties been carried at cost, their carrying values would have been HK$166,955,000, HK$163,203,000 and HK$158,973,000 at 31 December 2002, 2003 and 2004, respectively. All other properties are carried at cost.

17. Subsidiaries

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH			
Unlisted shares, at cost	259,561	259,561	259,561
Loan receivable	828,000	586,000	300,000
Amounts receivable	1,801,671	1,855,825	1,734,970
	2,889,232	2,701,386	2,294,531

The loan receivable is unsecured, carries interest at prevailing market rate and has no fixed terms of repayment. The amounts receivable are unsecured, interest-free 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 KWIH Group are given in note 37(a).

18. Jointly controlled entities

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Share of net assets	112,259	194,638	489,739
Loan receivable	334,489	246,848	21,336
Amounts receivable	89,960	95,544	133,901
Amounts payable	—	—	(204,500)
	536,708	537,030	440,476

The loans receivable are unsecured, carry interest at prevailing market rate and have no fixed terms of repayment. At 31 December 2004, amounts receivable of HK$42,705,000, of which HK$5,645,000 is secured, carry interest at prevailing market rate and have fixed terms of repayment. The remaining amounts receivable are unsecured, interest free and have no fixed terms of repayment. The amounts payable are unsecured, interest free and have no fixed terms of repayment.

The share of results of jointly controlled entities include an amount of HK$156,565,000 (2003: HK$27,282,000; 2002: loss of HK$7,000) derived from profit recognised from property development during the year, the turnover and profit after taxation of which are HK$1,660,086,000 (2003: HK$1,401,528,000; 2002: Nil) and HK$626,260,000 (2003: HK$109,132,000; 2002: loss of HK$28,000), respectively.

Details of jointly controlled entities which, in the opinion of the directors, materially affect the results or net assets of the KWIH Group are given in note 37(b).

19. Associated companies

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Share of net assets	15,244	16,098	18,650

Details of associated companies which, in the opinion of the directors, materially affect the results or net assets of the KWIH Group are given in note 37(c).

20. Other non-current assets

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Deferred expenditure			
Overburden removal costs	111,564	114,366	99,679
Quarry site development	11,452	13,421	14,073
Issue costs for convertible bonds	—	—	13,896
	123,016	127,787	127,648
Deferred receivable *(note (a))*	11,020	8,147	6,707
Mortgage loans *(note (b))*	62,517	192,500	18,168
Long-term investments			
Listed in Hong Kong	2,487	2,487	972
Unlisted	104,451	102,306	151,403
	303,491	433,227	304,898
Market value of listed long-term investments	1,346	736	708

(a) Deferred receivable represents advances to various contractors. The advances are secured by assets provided by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2009. The current portion of the receivable is included under other receivables.

(b) Mortgage loans are advances to purchasers of development properties of the KWIH Group and secured by second mortgages on the related properties. The current portion of the loans is included under other receivables.

21. Development properties

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Completed	1,075,233	352,355	228,325
Under development, at cost less provision	2,414,926	2,166,987	4,333,525
At cost less provision	3,490,159	2,519,342	4,561,850

22. Inventories

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Aggregates and sand	7,653	24,820	36,959
Concrete pipes and blocks	4,952	8,723	16,762
Cement	6,598	4,813	8,750
Spare parts	19,857	22,861	22,620
Consumables	3,565	7,499	8,084
	42,625	68,716	93,175

The carrying amount of inventories stated at net realisable value amounted to HK$1,572,000, HK$1,809,000 and HK$3,550,000 at 31 December 2002, 2003 and 2004, respectively.

23. Debtors and prepayments

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Trade debtors	358,434	379,975	471,934
Other receivables	108,001	134,847	130,293
Prepayments	55,155	39,662	63,133
	521,590	554,484	665,360
KWIH			
Prepayments	630	729	270

The KWIH Group has established credit policies which follow local industry standards. The average normal credit period offered ranges from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

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

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Within one month	162,881	148,678	135,270
Two to three months	131,538	151,263	157,988
Four to six months	50,709	57,813	89,423
Over six months	13,306	22,221	89,253
	358,434	379,975	471,934

24. Other investments

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Listed in Hong Kong, at market value	10,200	29,352	44,547
Unlisted shares	52,204	52,204	—
	62,404	81,556	44,547

25. Cash and bank balances

The cash and bank balances of the KWIH Group include HK$206,147,000, HK$146,628,000 and HK$24,476,000 at 31 December 2002, 2003 and 2004, respectively, which have been pledged or assigned for specific purposes under certain conditions.

26. Creditors and accruals

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Trade creditors	322,106	296,370	300,403
Other creditors	87,683	86,948	78,456
Accrued operating expenses	102,017	95,806	102,701
Deposits received	11,699	14,531	28,872
	523,505	493,655	510,432
KWIH			
Other creditors	1,615	1,673	1,547
Accrued operating expenses	1,763	198	181
	3,378	1,871	1,728

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

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Within one month	174,554	234,086	186,800
Two to three months	124,735	39,129	63,237
Four to six months	9,324	9,661	26,502
Over six months	13,493	13,494	23,864
	322,106	296,370	300,403

27. Share capital

	Ordinary shares of HK$0.10 each	*HK$'000*
Authorised:		
At 31 December 2001, 2002 and 2003	3,888,000,000	388,800
Increase during 2004	1,112,000,000	111,200
At 31 December 2004	5,000,000,000	500,000
Issued and fully paid:		
At 31 December 2001	1,870,745,070	187,075
Share options exercised	5,041,000	504
Issued as scrip dividends	43,759,361	4,376
At 31 December 2002	1,919,545,431	191,955
Share options exercised	2,378,000	238
Issued as scrip dividends	56,045,317	5,604
At 31 December 2003	1,977,968,748	197,797
Share options exercised	6,875,000	687
Issued as scrip dividends	30,800,990	3,080
At 31 December 2004	2,015,644,738	201,564

By a special resolution passed on 31 May 2004, the authorised share capital of KWIH was increased from HK$388,800,000 to HK$500,000,000 by the creation of an additional 1,112,000,000 ordinary shares of HK$0.10 each.

28. Share option scheme

KWIH operates a share option scheme under which options to subscribe for ordinary shares in KWIH are granted to selected executives. Under the scheme, share options may be granted to Directors, senior executives or employees of KWIH or its affiliates and other qualifying grantees. Consideration to be paid on each grant of option is HK$1.00. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than 10 years from the date of grant of the option.

Movements in the number of share options outstanding during the year are as follows:

	2002	**2003**	**2004**
At beginning of year	22,582,000	17,541,000	39,767,000
Granted *(note (a))*	—	24,754,000	—
Exercised *(note (b))*	(5,041,000)	(2,528,000)	(6,725,000)
Lapsed *(note (c))*	—	—	(5,211,000)
At end of year *(note (d))*	17,541,000	39,767,000	27,831,000

28. Share option scheme (continued)

(a) *Options granted*

17,754,000 and 7,000,000 share options were granted on 28 February 2003 and 29 December 2003 at the exercise price of HK$0.72 and HK$1.30 per share and will expire on 28 February 2013 and 29 December 2013, respectively. Consideration of HK$65 was received in respect of the share options granted.

(b) *Options exercised*

Exercise period	Exercise price *HK$*	Number of shares issued
February 2002	0.3600	1,170,000
April 2002	0.3600	1,654,000
April 2002	0.5586	1,130,000
May 2002	0.3600	237,000
May 2002	0.5586	700,000
June 2002	0.3600	150,000
Number of shares issued in 2002		5,041,000
January 2003	0.3600	200,000
January 2003	0.5586	133,000
March 2003	0.3600	550,000
April 2003	0.5586	160,000
September 2003	0.3600	100,000
October 2003	0.3600	435,000
October 2003	0.5586	400,000
October 2003	0.7200	300,000
December 2003	0.5586	100,000
Number of shares issued in 2003		2,378,000
December 2003 *(note)*	0.5586	150,000
Number of options exercised in 2003		2,528,000

Note: These shares were allotted on 19 January 2004.

28. Share option scheme (continued)

(b) *Options exercised (continued)*

Exercise period	Exercise price *HK$*	Number of shares issued
January 2004	0.3600	870,000
January 2004	0.5586	500,000
March 2004	0.7200	1,637,000
April 2004	0.7200	388,000
May 2004	0.3600	370,000
May 2004	0.5586	240,000
May 2004	0.7200	426,000
September 2004	0.7200	529,000
October 2004	1.3000	500,000
November 2004	0.7200	264,000
November 2004	1.3000	500,000
December 2004	0.7200	501,000
Number of options exercised in 2004		6,725,000
December 2003 *(note)*	0.5586	150,000
Number of share issued in 2004		6,875,000

Note: These options were exercised on 31 December 2003 but the shares were allotted on 19 January 2004.

(c) *Options lapsed*

No options lapsed in 2002 and 2003.

Exercise period	Exercise price *HK$*	Number of share options 2004
20 May 1999 to 19 May 2008	0.5586	2,111,000
30 December 2000 to 29 December 2009	0.3600	2,004,000
1 March 2004 to 28 February 2013	0.7200	1,096,000
Options lapsed in 2004		5,211,000

28. Share option scheme (continued)

(d) *Outstanding options*

Exercise period	Exercise price *HK$*	Number of share options 2002	2003	2004
Directors				
20 May 1999 to 19 May 2008	0.5586	3,400,000	3,400,000	3,100,000
30 December 2000 to 29 December 2009	0.3600	4,790,000	4,790,000	3,920,000
1 March 2004 to 28 February 2013	0.7200	—	7,691,000	7,691,000
Employees and others				
20 May 1999 to 19 May 2008	0.5586	4,122,000	3,179,000	628,000
30 December 2000 to 29 December 2009	0.3600	5,229,000	3,944,000	1,570,000
1 March 2004 to 28 February 2013	0.7200	—	9,763,000	4,922,000
30 December 2003 to 29 December 2013	1.3000	—	7,000,000	6,000,000
		17,541,000	39,767,000	27,831,000

29. Reserves

	Share premium	Contributed surplus	Capital redemption reserve	Capital reserve	Property revaluation reserve	Revenue reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
KWIH Group							
At 31 December 2001	816,896	99,089	13	34,188	68,037	1,145,120	2,163,343
Changes in exchange rates	—	—	—	—	—	1,231	1,231
Premium on shares issued	1,674	—	—	—	—	—	1,674
Shares issued as scrip dividends	(4,376)	—	—	—	—	—	(4,376)
Reserve arising on scrip dividends	—	—	—	—	—	26,250	26,250
Profit for the year	—	—	—	—	—	102,334	102,334
2001 final dividend	—	—	—	—	—	(37,513)	(37,513)
2002 interim dividend	—	—	—	—	—	(18,964)	(18,964)
At 31 December 2002	814,194	99,089	13	34,188	68,037	1,218,458	2,233,979
Changes in exchange rates	—	—	—	—	—	(1,030)	(1,030)
Premium on shares issued	883	—	—	—	—	—	883
Shares issued as scrip dividends	(5,604)	—	—	—	—	—	(5,604)
Reserve arising on scrip dividends	—	—	—	—	—	43,324	43,324
Profit for the year	—	—	—	—	—	120,380	120,380
2002 final dividend	—	—	—	—	—	(38,412)	(38,412)
2003 interim dividend	—	—	—	—	—	(19,630)	(19,630)
At 31 December 2003	809,473	99,089	13	34,188	68,037	1,323,090	2,333,890
Changes in exchange rates	—	—	—	—	—	1,042	1,042
Premium on shares issued	4,253	—	—	—	—	—	4,253
Shares issued as scrip dividends	(3,080)	—	—	—	—	—	(3,080)
Reserve arising on scrip dividends	—	—	—	—	—	39,081	39,081
Profit for the year	—	—	—	—	—	234,323	234,323
2003 final dividend	—	—	—	—	—	(39,643)	(39,643)
2004 interim dividend	—	—	—	—	—	(40,195)	(40,195)
At 31 December 2004	810,646	99,089	13	34,188	68,037	1,517,698	2,529,671

29. Reserves (continued)

	Share premium	Contributed surplus	Capital redemption reserve	Capital reserve	Property revaluation reserve	Revenue reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
KWIH Group							
Retained by:							
KWIH and subsidiaries	814,194	99,089	13	34,188	68,037	1,235,809	2,251,330
Jointly controlled entities	—	—	—	—	—	(34,945)	(34,945)
Associated companies	—	—	—	—	—	17,594	17,594
At 31 December 2002	814,194	99,089	13	34,188	68,037	1,218,458	2,233,979
KWIH and subsidiaries	809,473	99,089	13	34,188	68,037	1,295,697	2,306,497
Jointly controlled entities	—	—	—	—	—	8,929	8,929
Associated companies	—	—	—	—	—	18,464	18,464
At 31 December 2003	809,473	99,089	13	34,188	68,037	1,323,090	2,333,890
KWIH and subsidiaries	810,646	99,089	13	34,188	68,037	1,292,941	2,304,914
Jointly controlled entities	—	—	—	—	—	203,741	203,741
Associated companies	—	—	—	—	—	21,016	21,016
At 31 December 2004	810,646	99,089	13	34,188	68,037	1,517,698	2,529,671

29. Reserves (continued)

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Capital redemption reserve *HK$'000*	Revenue reserve *HK$'000*	Total *HK$'000*
KWIH					
At 31 December 2001	816,896	213,560	13	818,056	1,848,525
Premium on shares issued	1,674	—	—	—	1,674
Shares issued as scrip dividends	(4,376)	—	—	—	(4,376)
Reserve arising on scrip dividends	—	—	—	26,250	26,250
Profit for the year	—	—	—	79,158	79,158
2001 final dividend	—	—	—	(37,513)	(37,513)
2002 interim dividend	—	—	—	(18,964)	(18,964)
At 31 December 2002	814,194	213,560	13	866,987	1,894,754
Premium on shares issued	883	—	—	—	883
Shares issued as scrip dividends	(5,604)	—	—	—	(5,604)
Reserve arising on scrip dividends	—	—	—	43,324	43,324
Profit for the year	—	—	—	69,377	69,377
2002 final dividend	—	—	—	(38,412)	(38,412)
2003 interim dividend	—	—	—	(19,630)	(19,630)
At 31 December 2003	809,473	213,560	13	921,646	1,944,692
Premium on shares issued	4,253	—	—	—	4,253
Shares issued as scrip dividends	(3,080)	—	—	—	(3,080)
Reserve arising on scrip dividends	—	—	—	39,081	39,081
Profit for the year	—	—	—	88,371	88,371
2003 final dividend	—	—	—	(39,643)	(39,643)
2004 interim dividend	—	—	—	(40,195)	(40,195)
At 31 December 2004	810,646	213,560	13	969,260	1,993,479

The distributable reserves of KWIH, under the Companies Act 1981 of Bermuda (as amended), amounted to HK$1,080,547,000, HK$1,135,206,000 and HK$1,182,820,000 at 31 December 2002, 2003 and 2004, respectively.

30. Long-term liabilities

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Bank loans			
Secured	1,330,417	707,332	1,874,622
Unsecured	1,163,968	750,930	744,736
	2,494,385	1,458,262	2,619,358
Convertible bonds *(note (a))*	—	—	864,260
	2,494,385	1,458,262	3,483,618
Current portion included in current liabilities	(693,469)	(156,078)	(808,409)
	1,800,916	1,302,184	2,675,209
The bank loans are repayable within the following periods:			
Within one year	693,469	156,078	808,409
Between one to two years	756,206	735,969	636,537
Between two to five years	1,044,710	566,215	1,174,412
	2,494,385	1,458,262	2,619,358

(a) In March 2004, the KWIH Group issued convertible bonds in the aggregate of HK$864,260,000, which are listed on the Luxembourg Stock Exchange, at par value. The bonds carry interest at 0.5% per annum and the right to convert, subject to the right of the KWIH Group to pay cash in lieu of the shares, into new ordinary shares of HK$0.10 each in the issued share capital of KWIH at an initial conversion price of HK$2.25 per share, subject to adjustment, at any time from 23 April 2004 to 8 March 2009. Unless previously redeemed or converted, the bonds will be redeemed at 91.49% of their principal amount on 23 March 2009. The KWIH Group may, at its option at any time after 6 April 2005 and prior to 23 March 2009, redeem the bonds in whole or in part, at fixed redemption prices under certain specific circumstances.

As at 24 June 2005, HK$710.3 million of the convertible bonds have been converted into 315.7 million ordinary shares of KWIH.

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH			
Unsecured bank loans	740,000	508,000	420,000
Current portion included in current liabilities	(90,000)	(53,000)	(395,000)
	650,000	455,000	25,000
The bank loans are repayable within the following periods:			
Within one year	90,000	53,000	395,000
Between one to two years	245,000	430,000	25,000
Between two to five years	405,000	25,000	—
	740,000	508,000	420,000

31. Other non-current liabilities

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Deferred taxation *(note (a))*	87,968	88,365	81,474
Negative goodwill *(note (b))*	1,400	768	136
	89,368	89,133	81,610

(a) *Deferred taxation*

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the KWIH Group operates.

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

The movement in deferred taxation assets and liabilities of the KWIH Group during the year is as follows:

	Deferred tax assets		Deferred tax liabilities		
	Tax losses	Others	Accelerated depreciation allowance	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2001	(21,242)	(937)	42,104	66,667	86,592
Charged/(credited) to profit and loss statement	(2,927)	308	(74)	4,069	1,376
At 31 December 2002	(24,169)	(629)	42,030	70,736	87,968
Charged/(credited) to profit and loss statement	(5,257)	(191)	2,577	3,268	397
At 31 December 2003	(29,426)	(820)	44,607	74,004	88,365
Charged/(credited) to profit and loss statement	3,847	820	(4,426)	(7,132)	(6,891)
At 31 December 2004	(25,579)	—	40,181	66,872	81,474

Deferred taxation assets of HK$61,733,000, HK$84,553,000 and HK$87,692,000 arising from unused tax losses and other temporary differences totaling HK$359,526,000, HK$458,618,000 and HK$473,388,000 at 31 December 2002, 2003 and 2004, respectively, have not been recognised in the financial statements. Unused tax losses of HK$307,356,000, HK$401,421,000 and HK$419,670,000 at 31 December 2002, 2003 and 2004, respectively, have no expiry date and the balance will expire at various dates up to and including 2010.

31. Other non-current liabilities (continued)

(b) *Negative goodwill*

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
Cost at beginning and end of year	2,663	2,663	2,663
Accumulated amortisation	(1,263)	(1,895)	(2,527)
At end of the year	1,400	768	136

32. Notes to the consolidated cash flow statement

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

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Operating profit	138,322	145,521	68,952
Depreciation	62,111	69,280	79,553
Amortisation of deferred expenditure	14,879	15,675	20,632
(Profit)/loss on disposal of listed investments	(103)	(2,372)	2,893
Loss on disposal of unlisted investment	—	—	7,800
Loss on disposal of an associated company	12,658	—	—
Unrealised gain of listed investments	(950)	(16,032)	(15,195)
Impairment of long-term investments	561	2,145	2,880
Interest income	(10,864)	(16,169)	(15,357)
Interest capitalised on properties under development	65,685	34,396	42,816
Dividend income from listed investments	(856)	(1,476)	(1,807)
(Profit)/loss on sale of property, plant and equipment	(343)	1,349	1,206
Amortisation of negative goodwill	(631)	(632)	(632)
Write back of provision for development properties	(7,726)	(8,478)	—
Revaluation deficits of investment properties	6,066	12,071	5,503
Loss on deemed disposal of a subsidiary	—	—	10,501
Write back of additional provision for plant and equipment	(11,303)	—	—
Operating profit before working capital changes	267,506	235,278	209,745
(Increase)/decrease in development properties	(543,328)	979,295	(2,042,508)
Decrease/(increase) in inventories	20,454	(26,091)	(24,459)
Decrease/(increase) in debtors and prepayments	58,923	(32,894)	(110,876)
(Increase)/decrease in mortgage loans receivable	(40,576)	(129,983)	174,332
Increase/(decrease) in creditors and accruals	30,520	(29,850)	20,717
Cash (used in)/generated from operations	(206,501)	995,755	(1,773,049)

32. Notes to the consolidated cash flow statement (continued)

(b) *Analysis of changes in financing*

	Share capital and share premium *HK$'000*	Minority interests *HK$'000*	Loans and finance lease obligations *HK$'000*	Total *HK$'000*
At 31 December 2001	1,003,971	1,037,218	2,060,504	4,101,693
Cash inflow from financing	2,178	7,814	582,787	592,779
Change in exchange rates	—	(57)	—	(57)
Minority interests' share of profits	—	22,810	—	22,810
At 31 December 2002	1,006,149	1,067,785	2,643,291	4,717,225
Cash inflow/(outflow) from financing	1,121	(151)	(1,008,045)	(1,007,075)
Change in exchange rates	—	(774)	—	(774)
Minority interests' share of profits	—	17,009	—	17,009
At 31 December 2003	1,007,270	1,083,869	1,635,246	3,726,385
Cash inflow from financing	4,940	31,036	1,884,505	1,920,481
Additional interest	—	10,501	—	10,501
Change in exchange rates	—	742	—	742
Minority interests' share of profits	—	21,117	—	21,117
At 31 December 2004	1,012,210	1,147,265	3,519,751	5,679,226

33. Commitments

(a) *Contracted but not provided for*

	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000*
KWIH Group			
Commitments in respect of property developments	699,684	935,850	969,302
Commitments in respect of capital expenditure	53,616	51,339	75,198
Share of commitments of the jointly controlled entities in respect of property developments	197,691	185,168	—

(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:

	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000*
KWIH Group			
First year	8,199	7,339	7,497
Second to fifth years inclusive	24,517	23,743	24,843
After fifth year	38,564	30,638	22,696
	71,280	61,720	55,036

34. Operating lease rental receivable

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

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
KWIH Group			
First year	28,815	26,409	68,883
Second to fifth years inclusive	55,006	47,350	165,595
After fifth year	53,878	32,715	21,720
	137,699	106,474	256,198

35. Contingent liabilities

KWIH has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK$3,844,074,000 (2002: HK$2,136,836,000; 2003: HK$1,505,277,000), of which HK$1,903,793,000 (2002: HK$1,389,943,000; 2003: HK$766,554,000) have been utilised.

At 31 December 2002, KWIH has executed guarantees in favour of banks and financial institutions in respect of facilities granted to a jointly controlled entity amounting to HK$203,500,000, of which HK$68,750,000, have been utilised.

At 31 December, 2004 KWIH has executed guarantees in favour of convertible bondholders in respect of the convertible bonds issued by a subsidiary amounting to HK$864 million.

KWIH has executed a guarantee in favour of the HKSAR Government in respect of the performance by a subsidiary's obligation under a contract with the HKSAR Government at 31 December 2002, 2003 and 2004.

36. Related party transactions

The following is a summary of significant transactions between the KWIH Group and related parties, in addition to those disclosed elsewhere in the financial statements during the Relevant Periods:

(a) Sales of aggregates to an associated company amounted to HK$26,585,000, HK$16,375,000 and HK$18,640,000 for the years ended 31 December 2002, 2003 and 2004, respectively. These were made at prices and terms no less than those charged to other third party customers of the KWIH Group.

(b) Rental income from an associated company amounted to HK$9,971,000, HK$9,691,000 and HK$9,737,000 for the years ended 31 December 2002, 2003 and 2004, respectively, based on the terms of rental agreement between the parties.

(c) On 22 July 2002, Brighten Lion Limited, a 66% owned subsidiary, granted a guaranteed unsecured revolving loan facility of HK$330 million to Great Place Developments Limited, a wholly-owned subsidiary. The facility carries interest at the rate of 2.38% per annum over three-month HIBOR, with a maturity of three years and an option to extend the maturity for further one or two years. The maximum loans outstanding were HK$50 million, HK$219 million and HK$70 million for the years ended 31 December 2002, 2003 and 2004, respectively.

37. Principal subsidiaries, jointly controlled entities and associated companies

(a) *Subsidiaries*

Name of company	Principal place of operation	Issued share/registered capital: Number of ordinary shares	Number of non-voting deferred shares	Par value per share	Effective percentage of equity held by the KWIH Group	Principal activities
Directly held by KWIH						
Incorporated in the British Virgin Islands				*US$*		
Sutimar Enterprises Limited	Hong Kong	100	—	1	100	Investment holding
Indirectly held by KWIH						
Incorporated in Hong Kong				*HK$*		
Barichon Limited	Hong Kong	3,000,000	—	1	66	Sale and distribution of concrete pipes
Bright City Development Limited	Hong Kong	2	—	1	100	Property development
Brighten Lion Limited	Hong Kong	2	—	1	66	Provision of finance
Chelsfield Limited	Hong Kong	2,111,192	—	10	66	Investment holding
Chely Well Limited	Hong Kong	1,000	—	1	65	Investment holding
Chinapex Company Limited	Singapore	1,000	—	10	100	Property investment and development
China Win Enterprise Limited	Hong Kong	5,000,000	—	1	100	Investment holding
Citifair Asia Limited	Hong Kong	10	—	1	66	Investment holding
Colour Day International Limited	Hong Kong	2	—	1	100	Investment holding
Construction Materials Limited	Hong Kong	30,000	—	10	66	Sale of aggregates
Doran (Hong Kong) Limited	Hong Kong	1,000	—	10	66	Sale and distribution of concrete pipes
Friendly Star Company Limited	Hong Kong	1,000	—	10	100	Property development
Full Wealth Limited	Hong Kong	2	—	1	100	Property development
Greenwell Investments Limited	Guangzhou	2	—	1	100	Investment holding and property development
Gold Base Limited	Hong Kong	2	—	1	100	Investment holding
Goldstar Power Limited	Hong Kong	1	—	1	100	Property development and investment holding
Gracerock Limited	Hong Kong	2	—	1	100	Investment holding
Hero Plaza Limited	Hong Kong	2	—	1	100	Property development
Kingrand Limited	Hong Kong	2	—	1	100	Property investment
K. Wah Concrete Company Limited	Hong Kong	2	1,000	100	66	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	10	66	Provision of management services
K. Wah Construction Materials Limited	Hong Kong	1,296,475,563	—	0.1	66	Investment holding
K. Wah Construction Products Limited	Hong Kong	2	1,000	100	66	Manufacture, sale and distribution of concrete products

37. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

		Issued share/registered capital				
Name of company	**Principal place of operation**	**Number of ordinary shares**	**Number of non-voting deferred shares**	**Par value per share**	**Effective percentage of equity held by the KWIH Group**	**Principal activities**
K. Wah Management Services Limited	Hong Kong	100	—	100	100	Provision of management services
K. Wah Materials Limited	Hong Kong	28,080,002	—	1	66	Trading
K. Wah Properties Investment Limited	Hong Kong	1,000	—	10	100	Investment holding
K. Wah Quarry Company Limited	Hong Kong	2	100,000	100	66	Sale of aggregates
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	—	0.2	100	Investment holding
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	66	Quarrying
K. Wah Trading and Development Limited	Hong Kong	2	2	10	66	Trading
KWP Quarry Co. Limited	Hong Kong	9,000,000	—	1	42	Quarrying
Lightway Limited	Hong Kong	2	2	1	66	Property investment
Lucky Way Investment Limited	Hong Kong	2	—	1	100	Property development
Master Target Limited	Hong Kong	2	—	1	66	Investment holding
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
Quanturn Limited	Hong Kong	2	—	1	66	Equipment leasing
Rainbow Country Limited	Hong Kong	2	—	1	66	Investment holding
Rainbow Mark Limited	Hong Kong	100	—	1	63	Investment holding
Rainbow States Limited	Hong Kong	2	—	1	66	Investment holding
Star Home Limited	Hong Kong	2	—	1	66	Investment holding
Triconville Investments Limited	Hong Kong	10	—	1	66	Investment holding
Union Profits Limited	Hong Kong	2	—	1	100	Property development
Victory Way Limited	Hong Kong	9,901,000	—	1	99.9	Investment holding

37. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Issued share capital: Number of ordinary shares	Issued share capital: Par value per share	Effective percentage of equity held by the KWIH Group	Principal activities
Incorporated in Japan			*Yen*		
Asahi Kohatsu Corporation	Japan	240	50,000	75	Trading
Incorporated in the British Virgin Islands			*US$*		
All Smart Profits 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
Eternal Profits International Limited	Hong Kong	10	1	66	Property investment
Fairlight Investments Limited	Hong Kong	10	1	66	Investment holding
Greatest Smart Limited	Hong Kong	10	1	100	Investment holding
High Regard Investments Limited	Hong Kong	20	1	66	Investment holding
K. Wah International Finance Limited	Hong Kong	10	1	100	Provision of finance
Latent Developments Limited	Hong Kong	10	1	66	Investment holding
Ontrack Development Limited	Hong Kong	10	1	100	Investment holding
Profit Access Investments Limited	Hong Kong	10	1	66	Investment holding
Prosperous Fields Limited	Hong Kong	10	1	66	Investment holding
Repton Developments Limited	Hong Kong	10	1	100	Investment holding
Taksin Profits Limited	Hong Kong	17	1	66	Investment holding
Top Ridge Management Limited	Singapore	10	1	100	Property investment
Woodland Assets Limited	Hong Kong	10	1	66	Investment holding

37. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the KWIH Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
Doran Construction Products(Shenzhen) Co., Ltd.	Shenzhen	HK$10,000,000	66	Manufacture, sale and distribution of concrete pipes
Guangzhou Shi K. Wah Hua Dao Real Estate Co., Ltd. 廣州市嘉華花都置業有限公司	Guangzhou	HK$93,600,000	100	Property development
K. Wah (China) Investment Co., Ltd.	Shanghai	US$30,000,000	100	Investment holding
K. Wah Construction Development Consultancy (Shanghai) Ltd.	Shanghai	US$525,000	100	Provision of consultancy services
K. Wah Construction Products (Shenzhen) Co., Ltd.	Shenzhen	US$1,290,000	66	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK$1,560,000	66	Provision of management services
K. Wah Consultancy (Shanghai) Co., Ltd.	Shanghai	US$350,000	66	Provision of management services
K. Wah Quarry (Huzhou) Co., Ltd.	Huzhou	US$4,250,000	66	Quarrying
Shanghai Guoguang Real Estate Development Co., Ltd.	Shanghai	US$27,000,000	100	Property development
Shanghai K.Wah Qingsong Concrete Co. Ltd.	Shanghai	US$2,420,000	66	Manufacture, sale and distribution of ready-mixed concrete
Shenzhen K. Wah Concrete Piles Co., Ltd. 深圳嘉華混凝土管樁有限公司	Shenzhen	US$2,100,000	66	Manufacture, sale and distribution of concrete pipes
Cooperative joint venture				
Beijing Shoujia Stone Co. Ltd.	Beijing	US$1,080,000	36	Quarrying
Beijing K. Wah GaoQiang Concrete Co. Ltd.	Beijing	US$2,450,000	66	Manufacture, sale and distribution of ready-mixed concrete
Hui Cheng Real Estate Development Co. Ltd. Guangzhou	Guangzhou	HK$200,000,000	100	Property development
K. Wah Materials (Huidong) Ltd.	Huidong	US$2,800,000	66	Quarrying
Nanjing K. Wah Concrete Co., Ltd.	Nanjing	US$1,330,000	66	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Beicai Concrete Co., Ltd.	Shanghai	RMB31,500,000	66	Manufacture, sale and distribution of ready-mixed concrete

37. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(a) *Subsidiaries (continued)*

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the KWIH Group	Principal activities
Shanghai Jiajian Concrete Co., Ltd.	Shanghai	RMB17,400,000	39	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jia Shen Concrete Co., Ltd.	Shanghai	RMB4,400,000	66	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jia Zhao Real Estate Development Co., Ltd.	Shanghai	US$24,000,000	100	Property development
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	66	Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance services
Shanghai K. Wah Concrete Piles Co., Ltd.	Shanghai	US$2,500,000	66	Manufacture, sale and distribution of concrete piles
Yue Hua Real Estate Development Co. Ltd. Guangzhou	Guangzhou	HK$187,000,000	100	Property development
Equity joint venture				
Jia Hui Da Real Estate Development Co., Ltd. Shanghai	Shanghai	US$53,000,000	36	Property development
Shanghai Ganghui Concrete Co., Ltd	Shanghai	US$4,000,000	39	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiafu Concrete Co., Ltd.	Shanghai	US$1,400,000	36	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiagangcheng Real Estate Development Co., Ltd.	Shanghai	US$13,000,000	95	Property development
Shanghai Jiashen Real Estate Development Co., Ltd.	Shanghai	US$26,000,000	99	Property development
Shanghai Xin Cai Concrete Co., Ltd.	Shanghai	US$2,100,000	65	Manufacture, sale and distribution of ready-mixed concrete
Incorporated in Macau				
K. Wah (Macao Commercial Offshore) Company Limited	Macau	MOP100,000	66	Trading

37. Principal subsidiaries, jointly controlled entities and associated companies (continued)

(b) *Jointly Controlled Entities*

Name of company	Principal place of operation	Issued share capital Number of ordinary shares	Par value per share *HK$*	Effective percentage of equity held by the KWIH Group	Principal activities
Incorporated in Hong Kong					
Anglers' Bay Property Management Co. Ltd.	Hong Kong	2	1	50	Property management
Golden Famous International Limited	Hong Kong	2	1	25	Property development
Prime Force Limited	Hong Kong	2	1	50	Property development
Top Falcon Limited	Hong Kong	2	1	50	Provision of finance
Incorporated in Mainland China		**Registered capital**			
Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US$4,290,000	N/A	20	Manufacture, sale and distribution of slag
Beijing Shougang K.Wah Construction Materials Co. Ltd.	Beijing	RMB50,000,000	N/A	26	Manufacture, sale and distribution of slag
Guangdong Shaogang Jia Yang New Materials Co. Ltd.	Shaoguan	US$6,000,000	N/A	23	Manufacture, sale and distribution of slag
Guangzhou K. Wah Nanfang Cement Limited	Guangzhou	RMB100,000,000	N/A	33	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Limited.	Shanghai	US$4,000,000	N/A	33	Manufacture, sale and distribution of ready-mixed concrete
Maanshan Masteel K. Wah Concrete Co. Ltd.	Maanshan	US$2,450,000	N/A	20	Manufacture, sale and distribution of ready-mixed concrete
Yunnan Kungang & K. Wah Cement Construction Materials Co. Ltd.	Kunming	RMB300,000,000	N/A	20	Manufacture, sale and distribution of cement and slag

(c) *Associated companies*

Name of company	Principal place of operation	Issued share capital Number of ordinary shares	Par value per share *HK$*	Effective percentage of equity held by the KWIH Group	Principal activities
Incorporated in Hong Kong					
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	10	13	Manufacture, sale and distribution and laying of asphalt

III. SUBSEQUENT EVENTS

(a) On 31 January 2005, KWIH entered into a Joint Venture Agreement with Shanghai Baosteel Group Corporation, Mitsubishi Corporation and Tokyu Land Corporation to establish a joint venture company, to be named as "Shanghai Baoland Co., Ltd.", in Shanghai, in which the KWIH Group will hold 41.5% interest. The KWIH Group will invest HK$423.5 million in the joint venture company as share capital and premium.

(b) On 14 March 2005, Canton Treasure Group Limited, a wholly owned subsidiary of KWCM, entered into an agreement for the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy for an aggregate purchase price of HK$18,405,198,023, which will be partly satisfied by the issue of 1,840,519,798 new shares of KWCM at HK$8 per share, and partly by cash and/or unsecured fixed rate notes of HK$3,681,039,603 to be issued by KWCM. Completion of the acquisition is subject to the fulfilment of certain conditions precedent and the Acquisition has not yet been completed as at the date of this report. Upon completion of the Acquisition, KWCM will cease to be a subsidiary and become an associated company.

(c) On 21 April 2005, Sutimar Enterprises Limited ("Sutimar"), a wholly owned subsidiary of KWIH, agreed to place 146,000,000 shares of KWCM to third party placees at the price of HK$8 per share for cash. Sutimar also agreed to subscribe for 146,000,000 new shares of KWCM at the same price of HK$8 per share for cash and KWCM will bear the costs and expenses in connection with the placing and the subscription. The net proceeds of the new shares for KWCM was approximately HK$1,136.8 million. The KWIH Group's equity interest in KWCM was reduced from approximately 65.7% to approximately 59.1% as a result of the placing and subscription.

(d) As at 24 June 2005, HK$710.3 million of the convertible bonds (note 30) have been converted into 315.7 million ordinary shares of KWIH at the conversion price of HK$2.25 per share.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for KWIH or its subsidiaries in respect of any period subsequent to 31 December 2004. In addition, no dividend or distribution has been declared, made or paid by KWIH or its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

INDEBTEDNESS

As at the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Remaining KWIH Group had outstanding borrowings of approximately HK$3,150,867,000, comprising bank loans of approximately HK$2,501,475,000 (in which secured bank loans are of approximately HK$1,986,117,000 and unsecured bank loans are of approximately HK$515,358,000 respectively), unsecured convertible bonds of HK$349,000,000 due on 23 March 2009 and the unsecured loans from minority shareholders of subsidiaries of approximately HK$300,392,000. The aggregate amount repayable at 30 April 2005 was as follows:

	KWIH Group *HK$'000*	KWCM Group *HK$'000*	Remaining KWIH Group *HK$'000*
Bank loans repayable			
Within one year	1,209,636	250,500	959,136
Between one and two years	557,364	87,500	469,864
Between two and five years	1,091,675	19,200	1,072,475
	2,858,675	357,200	2,501,475
Convertible bonds repayable			
Between two and five years	349,000	—	349,000
Loans from minority shareholders of subsidiaries			
Repayable on demand	390,051	89,659	300,392
	3,597,726	446,859	3,150,867

The Remaining KWIH Group's current banking facilities are secured by legal charges on investment properties, leasehold land and buildings, properties under development for sale and completed properties held for sale with an aggregate book value of approximately HK$4,922,877,000 as at 30 April 2005. All the properties and land and buildings referred to above are held by the Remaining KWIH Group.

A wholly-owned subsidiary of KWCM has given a several counter-guarantee amounting to HK$103,774,000 in respect of a guarantee provided by a shareholder of an unlisted investee company on the banking facilities granted to the unlisted investee company of the KWCM Group in Mainland China. This counter-guarantee was given pursuant to an amendment agreement to a joint venture contract entered by it in February 2004 in respect of its acquisition of 10% equity interest in the unlisted investee company. These facilities have been fully utilised as at 30 April 2005. The amount of this counter-guarantee represents about 6.6% of the total banking facilities granted to the investee company, which is less than the KWCM Group's proportional equity share in that company.

As at 30 April 2005, save as disclosed in this Circular and apart from intra-group liabilities, the Remaining KWIH Group did not have any debt securities issued and outstanding, or authorised/ otherwise created but un-issued, any term loans (secured, unsecured, guaranteed or not), any other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured/unsecured, guaranteed or not), any mortgages and charges, any contingent liabilities or guarantees.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2005.

Working capital

Taking into account the financial resources available to the Remaining KWIH Group, including internally generated funds and the available banking facilities, the KWIH Directors are of the opinion that the Remaining KWIH Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of publication of this Circular.

REVIEW OF RESULTS OF OPERATION

Year ended 31 December 2004 compared to year ended 31 December 2003

Turnover of the KWIH Group for the year ended 31 December 2004 was HK$1,731 million as compared to HK$3,076 million for the year ended 31 December 2003, a decrease of 44%.

Profit attributable to KWIH Shareholders for the year ended 31 December 2004 was HK$234 million as compared to HK$120 million for the corresponding year ended 31 December 2003, an increase of 95%.

The decrease in the KWIH Group's turnover but with a double in profit attributable to KWIH Shareholders was due to the increase in profit from sales of properties from jointly controlled entities where only the KWIH Group's share of profit is included in the profit and loss statement.

Contribution from the properties division during the year was performing well with the continued rising trend of properties prices as a result of the improvement in the overall economic outlook and property market sentiment in Hong Kong. Major properties sold were the Anglers' Bay and The Cairnhill in Hong Kong.

During the year, the KWIH Group had acquired through Government public auction and tender of the Urban Renewal Authority, two sites are at Tung Lo Wan Hill Road in Shatin and are at Johnston Road in Wanchai with a total gross floor area of approximately 24,000 and 19,000 square metres respectively. Development plans are now underway. It is expected that the two projects will be completed in 2007 and 2008 respectively with good contributions to the KWIH Group.

Other major properties held for sale or investment in Hong Kong and the Mainland are as follows:

The Anglers' Bay, 18A Castle Peak Road, Tsing Lung Tau (50% owned)

This is a development property joint venture of which the KWIH Group and Sino Group each holds 50% interest. The Group was appointed project manager for the development.

The property is situated at Sham Tseng Bay and close by the Tsing Ma Bridge and the Route 3 highway, thus providing convenient access to Kowloon and Hong Kong. The development comprises two blocks of high-rise building towers with 248 residential units and a fully equipped clubhouse. All the units are southeast-oriented with balconies and command a scenic seaview of the Tsing Ma and the Ting Kau Bridges.

Superstructure work was completed and occupation permit was obtained in September 2004. Nearly all of the residential units have been sold.

The Cairnhill, 108 Route Twisk, Tsuen Wan (25% owned)

This is a development property joint venture of which the KWIH Group holds a 25% interest. The remaining 50% and 25% are owned by Cheung Kong (Holdings) Limited and Sino Group respectively.

This project has a total gross floor area of approximately 92,450 square metres for low-density residential property development. Superstructure work was completed and occupation permit was obtained in November 2004. All the 770 units have been sold. The Cheung Kong group was appointed project manager for the development.

Skyline Commercial Centre, Wing Lok Street, Sheung Wan

The property is a 24-storey commercial building comprising approximately 3,900 square metres of office space and ground floor shops. The property is held for long term investment purpose. It enjoys a high occupancy and contributes a steady rental income to the KWIH Group.

Shopping Arcade at Grandview Garden, Pau Chung Street, Tokwawan

The property, a shopping arcade of approximately 2,700 square metres, was sold in January 2005. During 2004, the property was leased and maintained a high occupancy rate with competitive rentals.

Kingsfield Centre, Shell Street, North Point

The property comprises approximately 1,900 square metres of office space inside a 26-storey commercial building. The property is held for sale and is currently leased for rental. The occupancy rates are satisfactory.

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

The project is named as Shanghai Westwood with a total gross floor area of approximately 380,000 square metres. With reference to the style of the Westwood area in Los Angeles, USA, the project is designed as a luxurious condominium with full amenities. Shanghai Westwood is divided into three development phases. Construction works for phase one, with the gross floor area of about 140,000 square metres, was commenced in mid-2004 and is expected to be completed in 2006. Pre-sale is scheduled to be launched in the first half of 2005. The development of other two phases with gross floor area of approximately 140,000 square metres and 100,000 square metres is targeted to start in late 2005 and 2006 respectively.

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (35.75%)

This is a development property joint venture in which the KWIH Group holds an effective 35.75% interest. The KWIH group is the single largest shareholder in this project. The other partners are SVA Electron Co., Ltd. (30%), Tidefull Investment Ltd. (15.4%), Shanghai Xu Fang (Group) Co., Ltd. (15%) and Nissho Iwai Hong Kong Corporation Ltd. (3.85%). The Group is also the project manager for the development.

Located at the inner ring area of Shanghai and in the heart of the thriving downtown Huaihai Road commercial area, the development is of approximately 69,000 square metres and comprises a high rise Grade A office tower with two ancillary buildings. The Main Office Building (with a total lettable area of about 64,500 square metres) was 70% leased by the end of 2004 and vacant possession of those units leased had been handed over to tenants by January 2005. The whole project will be completed in the first quarter of 2005.

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

The project is one of the last sizable pieces of land in the heritage region of Xuhui District. The project location is the traditional up scale residential area in Shanghai. We plan to develop this site as a residential landmark in the area with a total gross floor area of approximately 140,000 square metres. With a heavy French influence, the project would further enhance the historical value of this scarce piece of land. Demolition work is in progress and the development is expected to be completed by 2007.

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

The project is located in Jingan District Urumqi Bei Road and close to the prosperous Central Business District (CBD) of Nanjing West Road. Luxurious residential buildings with a total gross floor area of approximately 100,000 square metres will be constructed on this remarkable location. The land site measures 450 metres from East to West. All the units are designed with a south-facing orientation. This also guarantees an unobstructed view overseeing the CBD of Nanjing West Road and the Yan On Highway. Demolition work is in progress and the development is expected to be completed by 2007.

Turnover for the Construction Materials Division was slightly higher than that of last year but the profit attributable to KWIH Shareholders decreased by approximately 17% from last year.

Year ended 31 December 2003 compared to year ended 31 December 2002

Turnover of the KWIH Group for the year ended 31 December 2003 was HK$3,076 million as compared to HK$2,135 million for the corresponding year ended 31 December 2002, an increase of 44%.

Profit attributable to KWIH Shareholders for the year ended 31 December 2003 was HK$120 million as compared to HK$102 million for the corresponding year ended 31 December 2002, an increase of 18%.

During the year, the lacklustre performance of the Hong Kong economy, especially after the outbreak of SARS in March 2003, had an adverse impact on the retail sales, residential property sales and the construction industry in Hong Kong in general.

Nevertheless, with the KWIH Group's strategy focusing on customers' needs by providing end users with residential property of "superior design, top quality and value for money", property sales of The Palace in Kowloon Tong, the La Costa in Ma On Shan and The Cairnhill in Tsuen Wan were well received by the market. Sales from this Division accounted for approximately 61% of the KWIH Group's turnover.

Due to the escalating competition in Hong Kong, contribution from the Construction Materials Division was 51% less than that of last year despite the increased contribution from the gradual phasing in of the new projects in the Mainland.

Year ended 31 December 2002 compared to year ended 31 December 2001

Turnover of the KWIH Group for the year ended 31 December 2002 was HK$2,135 million as compared to HK$2,275 million for the corresponding year ended 31 December 2001, a decrease of 6%

Profit attributable to KWIH Shareholders for the year ended 31 December 2002 was HK$102 million as compared to HK$100 million for the corresponding year ended 31 December 2001, an increase of 2%.

The Hong Kong economy underwent a long-term structural adjustment in year 2002. Despite the lacklustre economic conditions, the KWIH Group adopted the strategy of developing premium properties.

Contribution from development and sale of properties increased during the year of 2002 as compared to 2001. Major properties sold were the Seacrest, La Costa and the Palace in Hong Kong, Chez Moi in Shanghai and Parkview Place phase 3 in Guangzhou. Sales from this Division accounted for approximately 51% of the KWIH Group's turnover.

Due to the competition, operating profit of the construction materials business for the year was 59% less than that of preceding year.

REVIEW OF FINANCIAL CONDITION

1. Financial Position

Total funds employed, defined as shareholders' funds plus minority interests and bank loans and overdrafts, was HK$7.4 billion at 31 December 2004, an increase of 40% as compared to HK$5.3 billion at 31 December 2003.

Total funds employed at 31 December 2003 was HK$5.3 billion, a decrease of 13% as compared to HK$6.1 billion at 31 December 2002.

Total funds employed at 31 December 2002 was HK$6.1 billion, an increase of 11% as compared to HK$5.5 billion at 31 December 2001.

2. Liquidity, Financial Resources and Gearing Ratio

Cash Flows from Operating Activities

The KWIH Group had a net cash outflow from operating activities of HK$311 million for the year ended 31 December 2002, a net cash inflow from operating activities of HK$944 million for the year ended 31 December 2003 and a net cash outflow from operating activities of HK$1,832 million for the year ended 31 December 2004.

Compared to 31 December 2002, the increase of cash inflow in 2003 was primarily due to increase in cash inflow from sale of properties.

Compared to 31 December 2003, the increase of cash outflow in 2004 was primarily due to increase in cash outflow for properties under development in respect of Hong Kong projects.

Cash Flows from Investing Activities

The KWIH Group had a net cash outflow from investing activities of HK$226 million and HK$85 million for the year ended 31 December 2002 and 2003 respectively, a net cash inflow from investing activities of HK$231 million for the year ended 31 December 2004.

Compared to 31 December 2002, the decrease of cash outflow in 2003 was primarily due to less new loans being extended to associated companies and jointly controlled entities.

Compared to 31 December 2003, the increase of cash inflow in 2004 was primarily due to the repayment of loans from associated companies and jointly controlled entities.

Cash Flows from Financing Activities

The KWIH Group had a net cash inflow of HK$563 million from financing activities for the year ended 31 December 2002, a net cash outflow of HK$1,022 million for the year ended 31 December 2003, a net cash inflow HK$1,863 million for the year ended 31 December 2004. The net cash inflow for the year ended 31 December 2002 mainly represented the KWIH Group's net drawdown of long-term and short-term bank loans of HK$584 million.

The net cash outflow for the year ended 31 December 2003 mainly represented the KWIH Group's net repayment of long-term bank loans of HK$1,036 million.

The net cash inflow for the year ended 31 December 2004 mainly represented the KWIH Group's net drawdown of long-term and short-term bank loans of HK$1,020 million and the net proceeds of convertible bonds of HK$848 million.

Cash and Bank Balances

The KWIH Group had cash and bank balances less short term loans and overdraft of HK$745 million at 31 December 2004, HK$340 million at 31 December 2003 and HK$533 million at 31 December 2002.

Gearing

The gearing ratio, defined as the total loans outstanding less cash balances to total assets, remained at a healthy level of 38% at 31 December 2004, 21% at 31 December 2003 and 32% at 31 December 2002.

Working Capital and Liquidity

The working capital, being current assets less current liabilities, was HK$4,756 million at 31 December 2004, HK$2,884 million at 31 December 2003 and HK$3,437 million at 31 December 2002.

The KWIH Group's liquidity position remains strong and the KWIH Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future assets acquisitions. Commitments are defined as the outstanding payments for the acquisition of lands and related development and construction costs both in Hong Kong and in the Mainland.

3. Treasury Policies

The KWIH Group adopts a conservative approach regarding foreign exchange exposure and its aim is to minimize risk. The majority of the KWIH Group's borrowings are in Hong Kong dollars. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate. Interest rate swap contracts are also utilised when considered appropriate to avoid impact of any undue interest rate fluctuation on the KWIH Group's operation, the KWIH Group has not engaged in the use of derivative products and considers these products not necessary for its treasury management activities.

4. Contingent Liabilities

KWIH has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries and jointly controlled entities.

At 31 December 2004, the amount granted to certain subsidiaries was HK$3,844 million. The facilities utilised amounted to HK$1,904 million.

At 31 December 2003, the amount granted to certain subsidiaries was HK$1,505 million. The facilities utilised amounted to HK$767 million.

At 31 December 2002, the amounts granted to certain subsidiaries and jointly controlled entities were HK$2,137 million and HK$204 million, respectively. The facilities utilised amounted to HK$1,390 million and HK$69 million respectively.

PROPERTY INTEREST HELD BY KWIH GROUP

The KWIH Group's property interests as at 31 March 2005 have been valued by independent valuers. The text of the letter, valuation summary and valuation certificates in connection with the aforesaid property interests are set out in Appendices VIII & IX of this circular.

The statement below shows the reconciliation of property interests from the audited consolidated financial statements as at 31 December 2004 to the unaudited consolidated management accounts as at 31 March 2005 (the effective date of the valuation):

	HK$'000	*HK$'000*
Net book value as at 31 December 2004		5,240,248
Movement for the three months ended 31 March 2005		
Additions		195,689
Disposals		(55,158)
Depreciation		(2,050)
Development costs incurred		(639,155)
Net book value as at 31 March 2005		4,739,574
Gross valuation surplus	4,093,863	
Gross valuation deficit	(49,427)	
Net valuation surplus		4,044,436
Valuation as at 31 March 2005 (see note):		8,784,010

Note:

HK$8,784,010,000 is calculated by adding the following:

(1) Valuation of KWIH Group Properties at HK$166,386,600 according to Valuation Report on page number of 370 of the Circular.

(2) Valuation of KWIH Group Properties at HK$1,412,730,000 according to Valuation Report on page number of 381 of the Circular.

(3) Valuation of KWIH Group Properties at HK$298,970,000 according to Valuation Report on page number of 393 of the Circular.

(4) Valuation of KWIH Group Properties at HK$830,150,000 according to Valuation Report on page number of 402 of the Circular.

(5) Valuation of KWIH Group Properties at HK$1,977,000,000 according to Valuation Report on page number of 415 of the Circular.

(6) Valuation of KWIH Group Properties at HK$8,018,868 according to Valuation Report on page number of 421 of the Circular.

(7) Valuation of KWIH Group Properties at HK$1,700,000,000 according to Valuation Report on page number of 428 of the Circular.

(8) Valuation of KWIH Group Properties at HK$808,490,566 according to Valuation Report on page number of 438 of the Circular.

(9) Valuation of KWIH Group Properties at HK$37,405,660 according to Valuation Report on page number of 447 of the Circular.

(10) Valuation of KWIH Group Properties at HK$1,227,358,491 according to Valuation Report on page number of 454 of the Circular.

(11) Valuation of KWCM Group Properties at HK$317,500,000 according to Valuation Report on page number of 466 of the Circular.

Apart from some small sale of properties and construction costs incurred in the normal course of business, KWIH has not made any disposal or acquisition of property interest after 31 March 2005 (being the effective date of the valuation).

OTHER INFORMATION ON THE KWIH GROUP

(a) Employees and Remuneration Policy

At 31 December 2004, the KWIH Group, excluding associated companies and jointly controlled entities, employed 2,356 employees in Hong Kong and the Mainland China (2003: 2,141 and 2002: 1,600). Employee costs, excluding KWIH Directors' emoluments, amounted to HK$229 million for 2004 (2003: HK$219 million and 2002: HK$199 million).

The KWIH Group recruits and promotes individuals based on merit and their development potential and ensures that remuneration packages are competitive. Following approval by the KWIH Shareholders in 1989, the KWIH Group has a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise, in the Mainland China, employees' remuneration is commensurate with market pay levels and the KWIH Group puts emphasis on provision of training and development opportunities.

(b) Training and Development

The KWIH Group believes that achievement of its business goals greatly relies on the competencies of its staff. To strive for excellence, the KWIH Group promotes a continuous learning culture by sponsoring staff to attend external and internal training courses.

Besides, an annual corporate seminar and a series of tailor-made management development programs with the focus on teambuilding, communication, analytical thinking and problem solving skills and legal knowledge are organized to equip KWIH Group's staff with the latest knowledge and skills so as to enhance their technical competencies.

Besides, the KWIH Group continues to sponsor staff in attending external training courses and workshops which cover the areas of languages, finance, taxation, laws, human resources, computer software applications, quality assurance and safety, etc.

To augment the growth of KWIH Group's Mainland China business, the KWIH Group has re-launched the Management Trainee Programme targeted at recruiting and training up high potential university graduates in the Mainland China and develops them to be KWIH Group's future managers and leaders.

(c) Major Customers and Suppliers

For the three years ended 31 December 2004, the aggregate amount of turnover attributable to the KWIH Group's five largest customers represented less than 30% of the KWIH Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the KWIH Group's five largest suppliers represented less than 30% of the KWIH Group's total of such purchases.

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

The following is a report, prepared for the purpose of incorporation in this circular and adopting the same accounting policies as those in the preparation of the report set out in Appendix III of this Circular, from the auditors and reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
K. Wah International Holdings Limited
K. Wah Construction Materials Limited

Dear Sirs,

We set out below our report on the financial information relating to Galaxy Casino, S.A. ("Galaxy") and its subsidiaries (herein collectively referred to as the "Galaxy Group") for each of the period from 30 November 2001 to 31 December 2002 and two years ended 31 December 2003 and 2004 (the "Relevant Periods") for inclusion in the joint circular of K. Wah International Holdings Limited and K. Wah Construction Materials Limited ("KWCM") dated 30 June 2005 (the "Circular"), in connection with the possible acquisition by KWCM of 88.1% of the voting shares carrying 97.9% of the economic interest of Galaxy (the "Acquisition").

Galaxy was incorporated in the Macau Special Administrative Region of the People's Republic of China on 30 November 2001 with limited liability. As at the date of this report, Galaxy has direct and indirect interests in the following subsidiaries, all of which are private companies:

Name	Country/place and date of incorporation	Issued and fully paid share capital	Attributable equity interests %	Principal activities
Interests held directly:				
Majestic Orient Limited	British Virgin Islands 28 March 2003	US$1 1 share of US$1 each	100	Investment holding
Sky Majestic Enterprises Limited	British Virgin Islands 8 August 2003	US$1 1 share of US$1 each	100	Investment holding
Success Tower Properties Limited	British Virgin Islands 23 July 2002	US$10 10 shares of US$1 each	100	Property holding
Year Forward Limited	British Virgin Islands 10 June 2003	US$10 10 shares of US$1 each	100	Investment holding
Archiever Capital Limited	British Virgin Islands 13 October 2004	US$10 10 shares of US$1 each	100	Investment holding

Name	Country/place and date of incorporation	Issued and fully paid share capital	Attributable equity interests %	Principal activities
Interest held indirectly:				
Majesty (International) Hotel Investment Company Limited	Macau 21 January 1992	MOP100,000	100	Property holding

All companies comprising the Galaxy Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for Majestic Orient Limited, Sky Majestic Enterprises Limited, Success Tower Properties Limited, Year Forward Limited, Archiever Capital Limited and Majesty (International) Hotel Investment Company Limited since their respective dates of incorporation as there is no statutory requirement for these entities to prepare audited financial statements.

We have acted as the statutory auditors of Galaxy for the year ended 31 December 2004 and CSC & Associates, Auditors were the statutory auditors of Galaxy for the period from 30 November 2001 to 31 December 2002 and the year ended 31 December 2003. The statutory financial statements of Galaxy have been prepared in accordance with accounting principles generally accepted in Macau. We have also carried out independent audits on the consolidated financial statements of the Galaxy Group for the Relevant Periods, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

The financial information as set out in sections I to IV below (the "Financial Information") has been prepared based on the audited consolidated financial statements of the Galaxy Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards. For the purpose of this report, we have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The Directors of Galaxy are responsible for the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Galaxy Group and Galaxy as at 31 December 2002, 2003 and 2004, and of the results and cash flows of the Galaxy Group for the Relevant Periods.

I. FINANCIAL INFORMATION

(a) Consolidated profit and loss statement

	Note	30 November 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000
Revenues from gaming operations	4	—	—	123,777
Other revenues	5	1,835	1,153	3,643
Administrative expenses		(84,031)	(84,016)	(49,381)
Other operating expenses		—	—	(1,202)
Operating profit/(loss)	6	(82,196)	(82,863)	76,837
Finance costs	9	(304)	(4,063)	(4,179)
Profit/(loss) before income tax		(82,500)	(86,926)	72,658
Income tax	10	—	—	—
Profit/(loss) for the year/period		(82,500)	(86,926)	72,658

(b) Consolidated balance sheet

	Note	As at 31 December 2002 HK$'000	2003 HK$'000	2004 HK$'000
Non-current assets				
Property, plant and equipment	13	69	286,717	376,750
Intangible assets	14	—	136	1,859
Other investments	15	—	—	26,000
Restricted bank deposits	17	251,822	252,975	253,572
		251,891	539,828	658,181
Current assets				
Inventories		—	—	2,556
Amounts due from related parties	18	2,109	917	42,424
Debtors and prepayments	19	1,750	751	5,390
Cash and bank balances		15	19,675	808,490
		3,874	21,343	858,860
Current liabilities				
Amounts due to related parties	20	—	12,010	82,010
Creditors and accruals	21	—	8,298	825,088
Short-term borrowings	22	—	315,087	317,000
Current portion of obligations under finance leases	25	—	—	218
		—	335,395	1,224,316
Net current assets/(liabilities)		3,874	(314,052)	(365,456)
		255,765	225,776	292,725
Financed by:				
Share capital	23	194,175	194,175	194,175
Accumulated loss		(82,500)	(169,426)	(96,768)
		111,675	24,749	97,407
Non-current liabilities				
Loan from immediate holding company	24	144,090	201,027	195,009
Obligations under finance leases	25	—	—	309
		144,090	201,027	195,318
		255,765	225,776	292,725

(c) Galaxy balance sheet

	Note	As at 31 December 2002 HK$'000	2003 HK$'000	2004 HK$'000
Non-current assets				
Property, plant and equipment	13	69	18,717	108,750
Intangible assets	14	—	136	1,859
Investments in subsidiaries	16	—	26,375	52,140
Restricted bank deposits	17	251,822	252,975	253,572
		251,891	298,203	416,321
Current assets				
Inventories		—	—	2,556
Amounts due from related parties	18	2,109	572	42,424
Debtors and prepayments	19	1,750	751	5,390
Cash and bank balances		15	19,675	808,490
		3,874	20,998	858,860
Current liabilities				
Amounts due to related parties	20	—	12,010	82,010
Creditors and accruals	21	—	8,298	825,088
Short-term borrowings	22	—	73,087	75,000
Current portion of obligations under finance leases	25	—	—	218
		—	93,395	982,316
Net current assets/(liabilities)		3,874	(72,397)	(123,456)
		255,765	225,806	292,865
Financed by:				
Share capital	23	194,175	194,175	194,175
Accumulated loss		(82,500)	(169,396)	(96,628)
		111,675	24,779	97,547
Non-current liabilities				
Loan from immediate holding company	24	144,090	201,027	195,009
Obligations under finance leases	25	—	—	309
		144,090	201,027	195,318
		255,765	225,806	292,865

(d) Consolidated cash flow statement

	Note	30 November 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000
Cash flows from operating activities				
Cash generated from/(used in) operations	27(a)	(87,885)	(61,197)	892,772
Interest paid		(304)	(4,519)	(7,738)
Interest element of finance lease rental payments		—	—	(24)
Net cash from/(used in) operating activities		(88,189)	(65,716)	885,010
Cash flows from investing activities				
Purchases of property, plant and equipment		(74)	(18,495)	(89,982)
Purchases of intangible assets		—	(153)	(2,024)
Acquisition of a subsidiary	27(b)	—	(268,000)	—
Increase in restricted bank deposits		(251,822)	(1,153)	(597)
Interest received		1,835	1,153	597
Net cash used in investing activities		(250,061)	(286,648)	(92,006)
Cash flows from financing activities	27(c)			
Loan from/(repayment to) immediate holding company		144,090	56,937	(6,018)
Issue of new shares		194,175	—	—
New borrowings		—	315,087	1,913
Capital element of finance lease payments		—	—	(84)
Net cash (used in)/from financing activities		338,265	372,024	(4,189)
Net increase in cash and bank balances		15	19,660	788,815
Cash and bank balances at beginning of the year/period		—	15	19,675
Cash and bank balances at end of the year/period		15	19,675	808,490

(e) Consolidated statement of changes in equity

	Share capital *HK$'000*	Accumulated loss *HK$'000*	Total *HK$'000*
At 30 November 2001 (date of incorporation)	—	—	—
Issue of new shares	194,175	—	194,175
Loss for the period	—	(82,500)	(82,500)
At 31 December 2002	194,175	(82,500)	111,675
Loss for the year	—	(86,926)	(86,926)
At 31 December 2003	194,175	(169,426)	24,749
Profit for the year	—	72,658	72,658
At 31 December 2004	194,175	(96,768)	97,407

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate information

Galaxy was incorporated in Macau on 30 November 2001 with limited liability. The address of the registered office of Galaxy is Avenida da Praia Grande, No 409, Edificio China Law, 25 andar, Macau.

As at 31 December 2004, Galaxy was a wholly owned subsidiary of Galaxy Resorts Limited, incorporated in Macau. The directors of Galaxy regard Goldshine Assets Limited, a company controlled by Dr. Lui, as being the ultimate holding company at 31 December 2002, and Modern Wealthy Limited, a company controlled by Dr. Lui, as being the ultimate holding company at 31 December 2003 and 2004.

On 3 February 2005, Galaxy Resorts Limited and its shareholders underwent a group reorganisation and as a result, Galaxy Resorts Limited ceased to be the shareholder of Galaxy. Galaxy then became a 55.55% owned subsidiary of City Lion Profits Corporation, incorporated in the British Virgin Islands, which is wholly owned by The Lui Family KWIH Trust.

2. Principal activities

The current principal activities of Galaxy and the Galaxy Group are to operate in casino games of chance or games of other forms and other related activities. The Government of the Macau Special Administrative Region (the "Government") has granted, pursuant to a concession agreement dated 26 June 2002 (the "Concession Agreement"), to Galaxy the licence to carry out casino gaming operations in Macau for a period of twenty years. Under the Concession Agreement, the casinos, and the equipment and utensils used for gaming business, including those used outside the casinos, shall be transferred automatically to the Government without compensation upon the concession expiry date, 26 June 2022.

The Galaxy Group is currently developing a five star hotel, casino and entertainment complex, Galaxy StarWorld Hotel, in Macau which is expected to commence operation in 2006. Another resort, casino and entertainment facilities at Cotai in Macau are also under construction and expected to commence operation in 2008.

The Galaxy Group commenced the gaming operations on 4 July 2004 at its first city club casino. The details of the arrangement are set out in note 4 below.

No segmental information is presented since the Galaxy Group only has one business segment, the gaming operation, and operates in one location, Macau, during the Relevant Periods.

3. Principal accounting policies

The Financial Information has been prepared under the historical cost convention and in conformity with Hong Kong Financial Reporting Standards.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The Galaxy Group has not adopted these new HKFRSs early in the financial statements for the year ended 31 December 2004. Based on an assessment of the impact of these new HKFRSs, the major difference between these new HKFRSs and the current accounting policies of the Galaxy Group is the accounting treatment for leasehold land. Under the current accounting policy, the leasehold land in Macau has been included under property, plant and equipment and stated at cost without amortisation during the construction period. Under Hong Kong Accounting Standard 17 ("HKAS 17") "Leases", leasehold land will no longer be accounted for as property, plant and equipment but it will be accounted for as prepayment of lease. This prepayment will be stated at cost and amortised on a straight-line basis over the lease term as an expense under HKAS 17. This new accounting treatment will reduce the net assets and profits of the Galaxy Group.

The principal accounting policies adopted in the preparation of the Financial Information are set out below:

(a) *Basis of consolidation*

The Financial Information included the financial statements of Galaxy and its subsidiaries made up to 31 December 2004. Subsidiaries are companies in which Galaxy, directly or indirectly has the power to exercise control governing the financial and operating policies of the company.

Results attributable to subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the date on which control is transferred to the Galaxy Group or to the date that control ceases, as applicable.

All significant inter-company transactions and balances between group companies are eliminated on consolidation.

(b) *Subsidiaries*

Subsidiaries are companies in which Galaxy Group, directly or indirectly has the power to exercise control governing the financial and operating policies of the company.

In Galaxy's balance sheet, investments in subsidiaries are carried at costs less provision. Provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. The results of subsidiaries are accounted for by Galaxy on the basis of dividend income.

(c) *Property, plant and equipment*

All property, plant and equipment are stated at historical cost less accumulated depreciation and provision for impairment in value other than temporary in nature.

No depreciation is provided on assets under construction until it is completed and is ready for use. Other assets are depreciated, using the straight-line method, to write off their cost over their estimated useful lives, as follows:

Leasehold improvements	3 years
Furniture and fixtures	5 years
Office and computer equipment	3 to 10 years
Gaming equipment	3 to 5 years

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the Galaxy Group. The carrying amounts of assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profits and losses on disposal are determined as the difference between the net disposal proceeds and the carrying amounts of the relevant assets and are dealt with in the profit and loss statement.

(d) *Intangible assets*

Costs incurred to acquire and bring to use the specific computer software licences are capitalised and are amortised over their estimated useful lives of three years. Cost associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(e) *Investments*

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

(f) *Inventories*

Inventories represent playing cards and are stated at the lower of cost and net realisable value.

(g) *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.

(h) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation. Deferred taxation assets relating to carry forward tax losses 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, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(i) *Pension obligations*

The Galaxy Group pays contributions to publicly or privately administered pension insurance plans on a voluntary basis. The Galaxy Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee expenses when they are due. Prepaid contributions are recognised as an asset to the extent that cash refund or a reduction in the future payments available.

(j) *Revenue recognition*

Revenue from the gaming operations, is recognised when the relevant services have been rendered and is measured at the Galaxy Group's entitlement of economic inflows from the business. Administrative fee is recognised when the services have been rendered. Interest income is recognised on a time-proportion basis using the effective interest method.

(k) *Assets under leases*

Leases that substantially transfer to the Galaxy Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in current or long-term liabilities, as appropriate. The finance charges are charged to the profit and loss statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessors, are charged to the profit and loss statement on a straight-line basis over the period of the leases.

(l) *Borrowing costs*

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed as incurred.

(m) *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 and, net of bank overdrafts.

(n) *Foreign currency translations*

The financial statements are presented in Hong Kong dollars ("HK$"), which is the functional and presentation currency of the Galaxy Group.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rate of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss statement.

4. Revenues from gaming operations

The Galaxy Group currently operates its first city club casino located at Waldo Hotel (the "Galaxy Casino at Waldo Hotel") for which the Galaxy Group has entered into agreements (the "Agreements"), with two shareholders of Galaxy Resorts Limited, Hugo Legend Asia Corporation Limited and Wealth Access Holding Limited (collectively the "Service Providers"). Under the Agreements, the Service Providers undertake for the provision of a steady flow of customers to the Galaxy Casino at Waldo Hotel and in return, their entitlements are determined by reference to various rates on net gaming wins. The Service Providers also agree to meet certain operating expenses related to gaming activities at the Galaxy Casino at Waldo Hotel out of their entitlements. They have authorised Waldo Entertainment Limited to execute the Agreements on their behalf. The operating results of the Galaxy Casino at Waldo Hotel are summarised as follows:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Net gaming wins	—	—	2,994,559
Interest income	—	—	143
	—	—	2,994,702
Operating expenses			
Special gaming tax and funds to the Government	—	—	(1,170,618)
Commission and allowances paid to promoters	—	—	(1,173,608)
Depreciation and amortisation *(note 6)*	—	—	(3,513)
Administrative and others	—	—	(155,685)
	—	—	(2,503,424)
Contribution from gaming operations	—	—	491,278
Net entitlements of the Service Providers	—	—	(367,501)
Revenues from gaming operations	—	—	123,777

5. Other revenues

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Administrative fee *(note 28c)*	—	—	2,479
Interest income	1,835	1,153	597
Others	—	—	567
	1,835	1,153	3,643

6. Operating profit/(loss)

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Operating profit/(loss) is stated after charging the following:			
Amortisation of intangible assets	—	17	301
Amount recovered from the Service Providers *(note 4)*	—	—	(218)
Included in administrative expenses	—	17	83
Depreciation of property, plant and equipment	5	303	4,143
Amount recovered from the Service Providers *(note 4)*	—	—	(3,295)
	5	303	848
Operating leases of land and buildings	167	513	15,802
Amount recovered from the Service Providers *(note 4)*	—	—	(15,099)
	167	513	703
Auditors' remuneration	39	39	639

7. Employee benefit expenses, including Directors' emoluments

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	582	2,087	128,507
Pension cost — defined contribution	—	—	1,778
Social security funds	—	—	302
Other staff benefits	—	336	8,209
	582	2,423	138,796
Amounts recovered from the Service Providers *(note 4)*	—	—	(117,990)
	582	2,423	20,806

8. Emoluments of Directors and five highest paid individuals

(a) *Directors' emoluments*

Details of the emoluments paid to the Directors of Galaxy are as follows:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Fees	—	—	1,203
Salaries and allowances	—	834	—
	—	834	1,203

The emoluments of the Directors of Galaxy fall within the following bands:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
Emoluments bands			
Nil to HK$1,000,000	—	1	2
	—	1	2

None of the Directors has waived the right to receive their emoluments.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Galaxy Group include one (2003: one; 2002: nil) Director, whose emoluments are reflected in note (a) above. The emoluments of the remaining four (2003: four; 2002: five) individuals are as follows:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	469	828	4,495
Other staff benefits	—	—	1
	469	828	4,496

8. Emoluments of Directors and five highest paid individuals (continued)

The emoluments of the five individuals of the Galaxy Group fall within the following bands:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
Emoluments bands			
Nil to HK$1,000,000	5	4	2
HK$1,000,001 to HK$1,500,000	—	—	2
	5	4	4

9. Finance costs

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Interest expenses			
Bank loans and overdrafts	304	4,519	7,738
Finance lease obligation payable within five years	—	—	24
Amount capitalised under fixed assets	—	(456)	(3,583)
	304	4,063	4,179

10. Income tax

No provision for Macau Complementary tax has been made since Galaxy has been exempted from Macau Complementary tax in respect of income generated from gaming operations for the years between 2004 and 2008. The tax charge on the profit/(loss) before income tax differs from the theoretical amount that would arise using the tax rate applicable to Macau companies as follows:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before income tax	(82,500)	(86,926)	72,658
Tax charge/(credit) at the rate of 15.75%	(12,994)	(13,691)	11,444
Tax exempted	12,994	13,691	(11,444)
Income tax	—	—	—

11. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of Galaxy to the extent of HK$72,768,000 (2003: loss of HK$86,896,000; 2002: loss of HK$82,500,000).

12. Earnings per share

Taking into consideration the different classes of the issued shares of Galaxy during the periods and the purposes of this report, it is not meaningful to present the earnings per share for the Relevant Periods.

13. Property, plant and equipment

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Office and computer equipment *HK$'000*	Gaming equipment *HK$'000*	Assets under construction *HK$'000*	Total *HK$'000*
Galaxy Group						
Cost						
Additions	—	11	63	—	—	74
At 31 December 2002	—	11	63	—	—	74
Acquisition of a subsidiary *(note 27(b))*	—	—	—	—	268,000	268,000
Additions	1,452	247	517	—	16,735	18,951
At 31 December 2003	1,452	258	580	—	284,735	287,025
Additions	934	513	11,477	32,155	49,097	94,176
At 31 December 2004	2,386	771	12,057	32,155	333,832	381,201
Accumulated depreciation						
Charge for the period	—	(1)	(4)	—	—	(5)
At 31 December 2002	—	(1)	(4)	—	—	(5)
Charge for the year	(236)	(22)	(45)	—	—	(303)
At 31 December 2003	(236)	(23)	(49)	—	—	(308)
Charge for the year	(615)	(78)	(1,195)	(2,255)	—	(4,143)
At 31 December 2004	(851)	(101)	(1,244)	(2,255)	—	(4,451)
Net book amount						
At 31 December 2002	—	10	59	—	—	69
At 31 December 2003	1,216	235	531	—	284,735	286,717
At 31 December 2004	1,535	670	10,813	29,900	333,832	376,750

During the year, borrowing costs of HK$3,583,000 (2003: HK$456,000; 2002: nil) arising on financing specifically entered into for the construction of a building have been capitalised and are included in assets under construction. A capitalisation rate of 1.48% (2003: 1.08%; 2002: nil) was used, representing the borrowing cost of the loan used to finance the project.

The net book amount of gaming equipment held under finance leases amounts to HK$637,000 (2003 and 2002: nil).

13. Property, plant and equipment (continued)

Assets under construction include a piece of leasehold land in Macau of HK$268,000,000 for which the lease will expire in June 2017. The land has been pledged against the mortgage loan granted to the Galaxy Group (note 22).

	Leasehold improvements	Furniture and fixtures	Office and computer equipment	Gaming equipment	Assets under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Galaxy						
Cost						
Additions	—	11	63	—	—	74
At 31 December 2002	—	11	63	—	—	74
Additions	1,452	247	517	—	16,735	18,951
At 31 December 2003	1,452	258	580	—	16,735	19,025
Additions	934	513	11,477	32,155	49,097	94,176
At 31 December 2004	2,386	771	12,057	32,155	65,832	113,201
Accumulated depreciation						
Charge for the period	—	(1)	(4)	—	—	(5)
At 31 December 2002	—	(1)	(4)	—	—	(5)
Charge for the year	(236)	(22)	(45)	—	—	(303)
At 31 December 2003	(236)	(23)	(49)	—	—	(308)
Charge for the year	(615)	(78)	(1,195)	(2,255)	—	(4,143)
At 31 December 2004	(851)	(101)	(1,244)	(2,255)	—	(4,451)
Net book amount						
At 31 December 2002	—	10	59	—	—	69
At 31 December 2003	1,216	235	531	—	16,735	18,717
At 31 December 2004	1,535	670	10,813	29,900	65,832	108,750

During the year, borrowing costs of HK$3,583,000 (2003: HK$456,000; 2002: nil) arising on financing specifically entered into for the construction of a building have been capitalised and are included in assets under construction. A capitalisation rate of 1.48% (2003: 1.08%; 2002: nil) was used, representing the borrowing cost of the loan used to finance the project.

The net book amount of gaming equipment held under finance leases amounts to HK$637,000 (2003 and 2002: nil).

14. Intangible assets

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group and Galaxy			
Computer software			
Opening net book amount	—	—	136
Additions	—	153	2,024
Amortisation charge	—	(17)	(301)
Closing net book amount	—	136	1,859
Cost	—	153	2,177
Accumulated amortisation	—	(17)	(318)
Net book amount	—	136	1,859

15. Other investments

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group			
Unlisted equity securities, at cost	—	—	—
Advance receivable	—	—	26,000
	—	—	26,000

Other investments represent 20% (2003 and 2002: nil) equity interest in and advance to Fast Profit Investments Limited, incorporated in the British Virgin Islands, whose principal activity is investment holding and has not yet commenced operations. The interest was subsequently reduced to 10% in March 2005. The advance receivable is unsecured, interest free and has no fixed terms of repayment.

16. Investments in subsidiaries

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy			
Unlisted equity securities, at cost	—	—	—
Loans and amounts receivable	—	36,266	61,865
Amount payable	—	(9,891)	(9,725)
	—	26,375	52,140

The loans and amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

17. Restricted bank deposits

The deposits have been pledged to secure banking facilities extended to the Galaxy Group. The banking facilities comprise a guarantee amounting to HK$485 million for the period up to 31 March 2007 and then reduced to HK$291 million for the period from 1 April 2007 to the earlier of 90 days after the expiry of the Concession Agreement or 31 March 2022, which is in favour of the Macau Government against the legal and contractual liabilities of the Galaxy Group under the Concession Agreement and two revolving term loans amounting to HK$75 million.

18. Amounts due from related parties

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group			
Director			
Mr Fan Siu Pang	2,109	572	572
Immediate holding company			
Galaxy Resorts Limited	—	345	—
Related company *(note b)*			
Waldo Entertainment Limited	—	—	41,852
	2,109	917	42,424
Galaxy			
Director			
Mr Fan Siu Pang	2,109	572	572
Related company *(note b)*			
Waldo Entertainment Limited	—	—	41,852
	2,109	572	42,424

(a) All amounts receivable are unsecured, interest free and have no fixed terms of repayment.

(b) Wealth Access Holdings Limited, a shareholder of Galaxy Resorts Limited, holds a 99% equity interest in Waldo Entertainment Limited.

19. Debtors and prepayments

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group and Galaxy			
Other debtors	—	116	3,955
Prepayments	1,750	635	1,435
	1,750	751	5,390

20. Amounts due to related parties

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group and Galaxy			
Director			
Mr Lui Yiu Tung, Francis	—	6,800	—
Shareholder of Wealth Access Holdings Limited			
Mr Cheng Kwee	—	—	64,418
Related companies			
Golden Island Limited *(note b)*	—	3,755	—
California Productions Company Limited *(note b)*	—	1,455	—
Waldo Hotel Limited *(note c)*	—	—	17,592
	—	12,010	82,010

(a) All the amounts payable are unsecured, interest free and have no fixed terms of repayment.

(b) Mr Lui Lawrence Yiunam, a Director of Galaxy, holds a 99% equity interest in Golden Island Limited and a 90% equity interest in California Productions Company Limited.

(c) Waldo Hotel Limited is a subsidiary of Wealth Access Holdings Limited, a shareholder of Galaxy Resorts Limited.

21. Creditors and accruals

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group and Galaxy			
Chips issued	—	—	528,298
Accounts payable	—	—	125,204
Other creditors	—	—	157,495
Accrued expenses	—	8,298	14,091
	—	8,298	825,088

All accounts payable are aged within 6 months.

22. Short-term borrowings

	2002	2003	2004
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group			
Short-term bank loans, secured	—	315,087	317,000
Galaxy			
Short-term bank loans, secured	—	73,087	75,000

Short-term bank loans of the Galaxy Group include a mortgage loan amounting to HK$242,000,000 (2003: HK$242,000,000; 2002: nil), which is secured by a first charge over a piece of leasehold land in Macau (note 13).

23. Share capital

	MOP'000	*HK$'000*
Authorised, issued and fully paid up		
60,000 Class A shares of MOP1,000 each	60,000	58,252
120,000 Class B shares of MOP1,000 each	120,000	116,505
20,000 Class C shares of MOP1,000 each	20,000	19,418
At 31 December 2002, 2003 and 2004	200,000	194,175

Galaxy was incorporated on 30 November 2001 with an authorised share capital of MOP1,000,000 divided into 1,000 shares of MOP1,000 each. On the same date, 1,000 shares of MOP1,000 each were issued at par for cash. On 14 March 2002, Galaxy increased its authorised share capital to MOP200,000,000 by the creation of 199,000 shares of MOP1,000 each and issued 199,000 shares of MOP1,000 each at par for cash. On 25 June 2002, Galaxy reorganised its share capital, under which the shares were redesignated into three classes of shares, comprising 60,000 Class A shares, 120,000 Class B shares and 20,000 Class C shares of MOP1,000 each.

The Class A and Class C shareholders are entitled to 0.00000000000000000001% each of the distributable profits while the Class B shareholders are entitled to 99.999999999999999998% of the distributable profits. Other than this, all the shares issued are ranked *pari passu*.

On 3 February 2005, Galaxy underwent a reorganisation of its share capital, details of which are given under section III below.

24. Loan from immediate holding company

	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Galaxy Group and Galaxy			
Galaxy Resorts Limited	144,090	201,027	195,009

The loan payable is unsecured, interest free and has no fixed terms of repayment. Galaxy Resorts Limited does not have the intention to demand repayment of this loan within the near future. Accordingly, the Directors consider it appropriate to classify this loan as a non-current liability.

On 3 February 2005, Galaxy increased its paid up share capital by the issue of new shares and the loan was fully settled out of the funds from this new issue.

25. Obligations under finance leases

	2002 HK$'000	2003 HK$'000	2004 HK$'000
Galaxy Group and Galaxy			
Obligations payable within five years	—	—	527
Current portion included under current liabilities	—	—	(218)
	—	—	309
The finance lease obligations are payable in the following years:			
Minimum payments			
Within one year	—	—	280
In the second year	—	—	258
In the third to fifth year	—	—	129
	—	—	667
Present value			
Within one year	—	—	218
In the second year	—	—	206
In the third to fifth year	—	—	103
	—	—	527

26. Commitments

(a) *Capital commitments for property, plant and equipment*

	2002 HK$'000	2003 HK$'000	2004 HK$'000
Contracted but not provided for	—	—	129,000
Authorised but not contracted for	4,272,000	4,255,000	4,025,000

The Galaxy Group is obliged to invest at least HK$4.3 billion in various development projects in Macau by 2009 under the Concession Agreement.

(b) *Commitments under operating leases*

The Galaxy Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 HK$'000	2003 HK$'000	2004 HK$'000
Land and buildings			
Within one year	—	106	31,597
Between two to five years	—	690	1,032
	—	796	32,629
Amount recoverable from the Service Providers *(Note 4)*	—	—	(30,000)
	—	796	2,629
Equipment			
Within one year	—	—	449
Between two to five years	—	—	1,123
	—	—	1,572

27. Notes to consolidated cash flow statement

(a) *Cash generated from/(used in) operations*

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) for the year/period	(82,500)	(86,926)	72,658
Depreciation	5	303	848
Amortisation	—	17	83
Interest income	(1,835)	(1,153)	(597)
Interest expenses	304	4,063	4,179
Operating profit before working capital changes	(84,026)	(83,696)	77,171
Increase in inventories	—	—	(2,556)
(Increase)/decrease in amounts due from related parties	(2,109)	1,192	(63,994)
(Increase)/decrease in debtors and prepayments	(1,750)	999	(4,639)
Increase in amounts due to related parties	—	12,010	70,000
Increase in creditors and accruals	—	8,298	816,790
Cash generated from/(used in) operations	(87,885)	(61,197)	892,772

(b) *Acquisition of a subsidiary*

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Asset acquired:			
Leasehold land	—	268,000	—
Cash consideration	—	(268,000)	—

27. Notes to consolidated cash flow statement (continued)

(c) *Analysis of changes in financing*

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Share capital			
At beginning of the year/period	—	194,175	194,175
Cash from financing activities	194,175	—	—
At end of the year/period	194,175	194,175	194,175
Loan from immediate holding company			
At beginning of the year/period	—	144,090	201,027
Cash from/(used in) financing activities	144,090	56,937	(6,018)
At end of the year/period	144,090	201,027	195,009
Short-term borrowings			
At beginning of the year/period	—	—	315,087
Cash from financing activities	—	315,087	1,913
At end of the year/period	—	315,087	317,000
Finance lease obligations			
At beginning of the year/period	—	—	—
Inception of finance leases	—	—	611
Cash used in financing activities	—	—	(84)
At end of the year/period	—	—	527

28. Related party transactions

Other than those disclosed in notes 4, 18, 20 and 24, the following related party transactions took place:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Consultancy services fee *(note a)*			
Mr Fan Siu Pang	55,000	—	—
Guarantee service fee *(note b)*			
Mr Lui Yiu Tung, Francis	—	6,800	—
Administrative fee income *(note c)*			
Waldo Entertainment Limited	—	—	2,479
Service fee *(note d)*			
Golden Island Limited	7,581	10,039	5,674
California Productions Company Limited	—	4,791	9,745
Rental expense *(note e)*			
High Status Company Limited	167	220	—

(a) The Director of Galaxy provided consultancy services on the acquisition and usage planning of the Cotai project at a mutually agreed fee.

(b) The Director of Galaxy provided a personal guarantee to a bank as part of the securities against the banking facilities granted to the Galaxy Group, on which the service fee was charged to the Galaxy Group at a mutually agreed rate.

(c) Wealth Access Holdings Limited, a 10.14% shareholder of Galaxy Resorts Limited, holds a 99% equity interest in Waldo Entertainment Limited which agreed to pay an annual administrative fee of HK$5 million to the Galaxy Group for the provision of general and administrative services including but not limited to legal, accounting, human resources, government relations and procurement services.

(d) These related companies (note 20b) provide professional, technical and administrative support services to the Galaxy Group at fees in accordance with the terms of the service agreements.

(e) The Galaxy Group leased an office from the related company at an agreed rental in accordance with the rental agreement.

29. Contingent liabilities

Galaxy has given guarantees for its subsidiaries in respect of loan facilities amounting to HK$272 million as at 31 December 2004 (2003: HK$272 million; 2002: nil), of which HK$242 million (2003: HK$242 million; 2002: nil) was utilised.

III. SUBSEQUENT EVENTS

On 3 February 2005, Galaxy underwent a reorganisation of its share capital, under which (i) the existing 60,000 Class A shares were transformed into Galaxy B shares; (ii) the existing 20,000 Class C shares were transformed into Galaxy A shares; and (iii) the authorised share capital was increased from MOP200,000,000 to MOP951,900,000 by the creation of an additional 751,900 new shares of MOP1,000 each, comprising 75,190 Galaxy A shares and 676,710 Galaxy B shares. On the same date, the 751,900 new shares were issued for cash at par for repayment of the loan from Galaxy Resorts Limited (note 24) and future expansion with 25% payable on 3 February 2005 and the balance before 31 March 2005. The existing share capital of Galaxy after completion of the above reorganisation and new issue is as follows:

	MOP'000	*HK$'000*
95,190 Galaxy A shares of MOP1,000 each	95,190	92,418
856,710 Galaxy B shares of MOP1,000 each	856,710	831,757
	951,900	924,175

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Galaxy or its subsidiaries in respect of any period subsequent to 31 December 2004. In addition, no dividend or distribution has been declared, made or paid by Galaxy or its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Galaxy Group's audited consolidated financial statements, including the notes thereto included elsewhere in this Circular. Galaxy Group's audited consolidated financial statements were prepared in accordance with existing HKFRS applicable as of 31 December 2004.

Overview

Galaxy holds one of only three gaming concessions granted by the Macau government to operate casinos in Macau, and, while a limited number of sub-concessions have been granted, the Macau government is precluded from granting more than three gaming concessions until 2009.

Galaxy Group's main line of business is the resort, hospitality, and gaming business. Macau has a thriving gaming industry as a result of its unique position being the only legalised gaming destination in China and the high visitation from neighbouring regions such as Hong Kong, Taiwan, and Mainland China. Growth in the gaming industry is mainly attributable to the influx of tourists from the Mainland especially with the relaxation of visa restrictions from Mainland China. Galaxy Group expects this trend will continue and will contribute to the continued growth in the gaming revenue. With the increase in the number of visitors to Macau, the supply of casinos and gaming tables will also increase. Notwithstanding that Galaxy Group faces keen competition in Macau, Galaxy Group believes it can meet the competition by developing new projects and continue upgrading its existing facilities. Galaxy Group's revenue is currently derived from one business segment, i.e. the gaming operations, and one geographic market, i.e. Macau. Galaxy Group expects that there will be additional business segments such as hospitality and commercial property leasing when the Galaxy StarWorld Hotel commences its operation in 2006.

Galaxy Casino at Waldo Hotel commenced operations on 4 July 2004, and accordingly Galaxy Group has only limited historical results of operations that may not be indicative of future operating results. In 2006, Galaxy Group will open a premium resort hotel and casino complex called Galaxy StarWorld Hotel, and a city club casino at Rio Hotel. Both of them are located in the heart of Macau's central business and tourist district. Galaxy Group will also open another city club casino at Cotai in 2006 to complement the 3 facilities on Macau Island. In 2008, Galaxy will open the first phase of a mega resort complex called Galaxy Cotai Mega Resort located at Cotai.

Results of Operations

	Note	30 November 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000
Revenues from gaming operations	1	—	—	123,777
Other revenues	2	1,835	1,153	3,643
Administrative expenses	3	(84,031)	(84,016)	(49,381)
Other operating expenses	4	—	—	(1,202)
Operating profit/(loss)	5	(82,196)	(82,863)	76,837
Finance costs	6	(304)	(4,063)	(4,179)
Profit/(loss) before income tax		(82,500)	(86,926)	72,658
Income tax		—	—	—
Profit/(loss) for the year/period	7	(82,500)	(86,926)	72,658

Comparison of the year ended 31 December 2004 to the year ended 31 December 2003

Galaxy Group was in a pre-operation stage from the award of the Concession on 26 June 2002, until commencement of operations at Galaxy Casino at Waldo Hotel. It did not capitalize any pre-operating expenses. Galaxy Group's revenue is currently derived from one business segment, i.e. the gaming operations, and one geographic market, i.e. Macau.

1. ***Revenues from gaming operations***

Galaxy Group commenced gaming operations on 4 July 2004 at its first city club casino located at Waldo Hotel and all revenues from gaming operations in 2004 were generated from Galaxy Casino at Waldo Hotel. Galaxy Group derives revenues from table gaming, electronic gaming, and gratuities from casino customers. Galaxy has entered into agreements with service providers who are responsible for marketing, promotion, coordinating the activities of Galaxy Casino at Waldo Hotel's VIP promoters, and arranging player complimentary amenities. Galaxy Group's ultimate revenues from gaming operations have been netted off all casino operating expenses and the entitlements of the service providers. Revenues from gaming operations were HK$123.8 million in 2004.

	Note	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000
Net gaming wins	a	—	2,994,559
Interest income		—	143
		—	2,994,702
Operating expenses			
Special gaming tax and funds to the Government	b	—	(1,170,618)
Commission and allowances	c	—	(1,173,608)
Depreciation and amortisation	d	—	(3,513)
Administrative and others	e	—	(155,685)
		—	(2,503,424)
Contribution from gaming operations	f	—	491,278
Net entitlements of the Service Providers	g	—	(367,501)
Revenues from gaming operations		—	123,777

a. *Net gaming wins*

In 2004, the majority of the total net gaming wins were generated from table gaming revenues from VIP players, while gaming win from mass players and slot machines made up the balance of the total net gaming wins.

b. *Special gaming tax and funds to the Government*

Under the Concession, Galaxy is subject to certain taxes including special gaming taxes of 35%, levies of 1.6% for promoting education and charity and 2.4% for urban construction and tourism promotion. In addition to taxes, Galaxy is required to pay a premium to the Macau government annually which is composed of a fixed portion of MOP30 million (HK$29.1 million) and a variable portion. The variable portion of the premium payable by Galaxy is calculated based on the number of gaming tables and slot machines operated by Galaxy. The total special gaming tax and funds paid to the Macau government paid by Galaxy in respect of Galaxy Casino at Waldo Hotel is HK$1,170.6 million for 2004. There are no comparable data for 2003 since the Galaxy Group was at its pre-operation stage in 2003.

c. *Commission and allowances*

Substantially all Galaxy Casino at Waldo Hotel's VIP players are recruited by VIP promoters and their collaborators. Most VIP players in Macau rely on these promoters and their collaborators to make travel and other arrangements for them to play at a particular casino, accompany them to the casino and provide around-the-clock services both inside and outside the casino. Galaxy has agreed to pay certain promoters commission and allowances in return for them introducing and bringing players to its casinos. Under these arrangements, Galaxy and the promoters also share in agreed percentages wins/losses from players brought to the casino by the promoters. Commissions and allowances were HK$1,173.6 million in 2004. There are no comparable data for 2003 since Galaxy Group was at its pre-operation stage in 2003.

d. *Depreciation and amortisation*

Depreciation and amortisation for the gaming operations is in relation to the gaming assets (such as tables and slot machines used inside the casino) acquired by Galaxy for its operation of the Galaxy Casino at Waldo Hotel. The depreciation and amortisation for the gaming operations was HK$3.5 million in 2004. Galaxy Group expects that the amount will rise significantly upon the commencement of operations at the two additional city clubs and Galaxy StarWorld. There are no comparable data for 2003 since Galaxy Group was at its pre-operation stage in 2003.

e. *Administrative and other expenses*

Administrative and other expenses of HK$155.7 million for the year ended 31 December 2004 included HK$118 million employee benefit expenses, HK$19.1 million rental and utilities expenses, HK$13.2 million consumable items at the casino, HK$1.7 million travel and entertainment expenses, and HK$3.7 million of expenses in security, flower and plants, repair and maintenance, and others. There are no comparable data for 2003 since Galaxy Group was at its pre-operation stage in 2003.

f. *Contribution from gaming operations*

Total net gaming wins and interest income were HK$2,994.7 million and total operating expenses for the gaming operations were HK$2,503.4 million in 2004, resulting in a contribution from gaming operations for Galaxy Casino at Waldo Hotel of HK$491.3 million for the year. There are no comparable data for 2003 since Galaxy Group was at its pre-operation stage in 2003.

g. *Net entitlements of the Service Providers*

Net entitlements of the Service Providers were HK$367.5 million in 2004. On 1 July 2004, Galaxy entered into an agreement which is for a term equal to the life of the Concession with Hugo Legend (the ultimate beneficial owner of which is Mr. Suen Suk Hing, an Independent Third Party who acquired it from Pedro Ho, a director of Galaxy, on 12 April 2005) and Wealth Access (the ultimate beneficial owners of which are Mr. Yeung Chi Hang and Mr. Cheng Kwee, each of whom is an Independent Third Party)

who have undertaken to provide a steady flow of customers for Galaxy Casino at Waldo Hotel. In return, their entitlements will be determined by reference to various rates on net gaming wins of the Galaxy Casino at Waldo Hotel. Further details of the 1 July 2004 agreement are disclosed in the section headed "Existing Casino" in the part of this Circular headed "Description of the Galaxy Group". After taking into account the net entitlements of the Service Providers, the revenue from gaming operations of the Galaxy Casino at Waldo Hotel was HK$123.8 million for the year ended 31 December 2004. There are no comparable data for 2003 since Galaxy Group was at its pre-operation stage in 2003. Galaxy Group expects that the revenues from gaming operations will rise significantly when Galaxy Group opens up two additional city clubs, which is expected to happen in the first quarter of 2006, and with the scheduled openings of Galaxy StarWorld in mid 2006 and Galaxy Cotai Mega Resort in 2008.

2. *Other revenue*

Other revenues increased by HK$2.4 million, or 200%, from HK$1.2 million in 2003 to HK$3.6 million in 2004. The increase was due primarily to : (i) an administrative fee of HK$2.4 million received from Waldo Entertainment Limited for general and administrative support services provided by Galaxy Group's corporate office; (ii) HK$0.6 million received from advertisement sponsors in relation to the grand opening of Galaxy Casino at Waldo Hotel and others. Upon opening of Galaxy StarWorld, scheduled for mid 2006, Galaxy Group expects to recognise additional categories of revenues from hotel accommodation, food and beverage and recreational amenities.

3. *Administrative expenses*

Administrative expenses decreased by HK$34.6 million from HK$84 million in 2003 to HK$49.4 million in 2004. The decrease was primarily due to (i) a reduction in professional fee of HK$61.3 million associated with the start up stage of the resort project development; (ii) a decrease of HK$1.0 million in bank charges was a result of a reduction in commission charge on the bank guarantee provided by Liu Chong Hing Bank Ltd to the Macau Government; (iii) an increase of HK$19.4 million in salaries and employee benefit expenses as a result of an increase in staff in connection with the commencement of operations of the Galaxy Casino at Waldo Hotel and the development of other casino/hotel projects; (iv) an increase of HK$3.6 million in business and promotion expenses in connection with the commencement of the Galaxy Casino at Waldo Hotel; (v) an increase of HK$3.1 million in travel and entertainment expenses as a result of the increase in the number of employees and the increase in business activities.

4. *Other operating expenses*

Other operating expenses increased by HK$1.2 million from nil in 2003 to HK$1.2 million in 2004 as a result of various charitable donations made in 2004.

5. *Operating profit/(loss)*

As a result of the factors discussed above, Galaxy Group realized an operating profit of HK$76.8 million in 2004, compared to an operating loss of HK$82.9 million in 2003.

6. *Finance charges*

Galaxy Group's finance charges consist primarily of interest expense on bank loans. In 2004, finance charges were HK$4.2 million, an increase of HK$0.1 million from HK$4.1 million in 2003. Galaxy expects that bank interest will increase in the future periods as a result of other financing activities.

7. *Profit/(loss) attributable to shareholders*

As a result of the factors discussed above, Galaxy Group's profit attributable to shareholders was HK$72.7 million in 2004, turned around from a loss of HK$86.9 million in 2003.

Comparison of the year ended 31 December 2003 to the period from 30 November 2001 to 31 December 2002

Other revenue

Other revenues decreased by HK$0.6 million from HK$1.8 million in 2002 to HK$1.2 million in 2003. The decrease was due primarily to a decrease of interest income resulting from a lower interest rate on deposits in banks.

Administrative expenses

Administrative expenses remained constant at HK$84 million in both 2002 and 2003. Changes in the components were summarized as follow: (i) a reduction of HK$6.1 million in legal and professional fees as a result of decrease of fees paid in connection to the granting of the gaming concession in Macau; (ii) an increase of HK$2.7 million in business promotion expenses as a result of increase of public relation activities in Macau; (iii) an increase of HK$1.8 million in travel and entertainment expenses as a result of increase of traveling in connection to promoting the business activities; (iv) a decrease of HK$0.9 million in bank charges resulting from a decrease in commission rate on the performance bond provide by a Hong Kong bank to Macau Government; (v) an increase of HK$0.8 million in salaries and related benefits as a result of the employment of more employees in connection with the increase in business activities; (vi) an increase of HK$0.8 million in rent and utilities expenses due to the addition of 1 more office in Macau; (vii) an increase of HK$0.3 million in depreciation and amortisation charges resulting from the addition of fixed assets in 2003.

Operating loss

As a result of the factors discussed above and the fact that Galaxy Group was at a pre-operation stage for both 2002 and 2003, Galaxy realised an operating loss of HK$82.9 million in 2003, compared to an operating loss of HK$82.2 million in 2002.

Finance charges

Galaxy Group's finance charges in 2003 was HK$4.1 million, an increase of HK$3.8 million from HK$0.3 million in 2002. The increase in 2003 was a result of increase in borrowing associating with the development of casino/hotel projects. Galaxy expects that bank charges and interest will increase in future periods as a result of other financing activities.

Loss attributable to shareholders

As a result of the factors discussed above, Galaxy Group's loss attributable to shareholders was HK$86.9 million in 2003, an increase of HK$4.4 million from a loss of HK$82.5 million in 2002. The funding raised the loan from Galaxy Resorts Limited.

Liquidity and Capital Resources

Galaxy increased its registered and issued capital by HK$730 million in February 2005 from HK$194.2 million to HK$924.2 million to provide additional funding for future expansion. The increased capital was fully paid in cash.

Galaxy Group finances its operation with internally generated cashflow, banking facilities, and loans from related companies such as the previous ultimate holding company, Galaxy Resorts Limited, and the previous intermediate holding company, Bluewater Entertainment and Hospitality Enterprises Limited. Loans from these related companies were unsecured, interest free and have no fixed terms of repayment. The funding raised from the reorganization of Galaxy's share capital of HK$730 million as detailed on page 336 was applied to the repayment of loan from Galaxy Resorts Limited of HK$195 million plus subsequent drawndown of HK$17.5 million as at 30 April 2005. The loan from Bluewater Entertainment and Hospitality Enterprises Limited as at 30 April 2005 of approximately HK$15.3 million was drawn down between January 2005 to April 2005. Both the loan from Galaxy Resorts Limited and from Bluewater Entertainment and Hospitality Enterprises Limited will not be continued after Completion since they have already been fully settled through cash generated internally and cash received from issue of further capital by Galaxy in February 2005.

As at 31 December 2004, Galaxy Group had total banking facilities of about HK$377 million of which the drawn down portion of the banking facilities was HK$317 million. Interest rates on the loans were at rates ranging from 0.5% above fixed deposit rate, and 0.9% to 2.5% above HIBOR. In 2003, Galaxy Group had total banking facilities of about HK$347 million of which the drawn down portion of the banking facilities was HK$315 million. Interest rates on the loans were at rates ranging from 0.5% above fixed deposit rate, and 0.9% to 1.25% above HIBOR. In 2002, Galaxy Group had no bank facilities or outstanding bank loan. All bank facilities are in HK$.

As of 31 December 2004, Galaxy Group's primary source of liquidity was cash of about HK$808 million, denominated principally in HK$ and Macau Patacas.

To support Galaxy's obligations under the Concession, a Hong Kong bank has issued a guarantee to the Macau government in the amount of MOP500 million (HK$485 million) through 31 March 2007. After 31 March 2007, the amount of the guarantee will be MOP300 million (HK$291 million) through the earlier of 90 days after the termination of the Concession or 31 March 2022. Galaxy also has two revolving term loan facilities with the same Hong Kong bank in the amounts of

HK$50 million and HK$25 million, of which an aggregate of HK$75 million was drawn on 31 December 2004. The guarantees and the revolving term loan facilities are secured by Galaxy's indemnity in favour of the bank for the full amount of the guarantees and a charge over Galaxy's HK$250 million deposit with the bank.

To finance the HK$268 million purchase price of a portion of the StarWorld site, a subsidiary of Galaxy has obtained a term loan of HK$242 million which remained outstanding on 31 December 2004. The term loan is secured by guarantees from Galaxy and Francis Lui for the full amount of the facilities (the guarantee of Francis Lui is expected to be replaced after Completion by a guarantee of KWCM) and a first mortgage over the land concession purchased for the Galaxy StarWorld site.

Galaxy Group's working capital is substantially influenced by the amount of its gaming chips outstanding, which accounted for over 50% of the total amount of HK$825 million of accounts payable at 31 December 2004, and the amount of cash Galaxy keeps available to redeem gaming chips purchased and kept by players or promoters. Galaxy Group's primary cash requirements are to finance capital expenditures and working capital requirements.

Net current assets/(liabilities)

	As at 31 December		
	2002	**2003**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Inventories	—	—	2,556
Amounts due from related parties	2,109	917	42,424
Debtors and prepayments	1,750	751	5,390
Cash and bank balances	15	19,675	808,490
	3,874	21,343	858,860
Current liabilities			
Amounts due to related parties	—	12,010	82,010
Creditors and accruals	—	8,298	825,088
Short-term borrowings	—	315,087	317,000
Current portion of obligations under finance leases	—	—	218
	—	335,395	1,224,316
Net current assets/(liabilities)	3,874	(314,052)	(365,456)

As at 31 December 2004, Galaxy Group had net current liabilities of HK$365.5 million. Current assets were mainly comprised of cash and bank balance of HK$808.5 million, amount due from related parties of HK$42.4 million, debtors and prepayments of HK$5.4 million and playing cards inventory of HK$2.6 million. Cash balances increased from less than HK$1 million in 2002 to HK$19.7 million in 2003 and HK$808.5 million in 2004, mainly reflecting an increase in each period's net cash in-flow from financing activities, primarily an increase in bank loans to finance capital expenditure and short-term working capital purposes, and net cash in-flow from operating activities in 2004. Amount due from related parties decreased from HK$2.1 million in 2002 to HK$1 million in 2003 as a result of repayment made in 2003 towards Galaxy Group's liabilities due to an ex-Director who advanced money on behalf of Galaxy Group to pay for some of Galaxy Group's operating expenses in 2002. Amount due from related parties increased from HK$1 million in 2003 to HK$42.4 million in 2004 as a result of receivables due from a related company, Waldo Entertainment Limited, arose from the execution of agreements on behalf of the Service Providers as described in note 4 of the Accountants' Report. Waldo Entertainment Limited maintained ongoing balances with Galaxy.

Current liabilities were mainly comprised of creditors and accruals of HK$825.1 million, amount due to related parties of HK$82 million, short term bank borrowings of HK$317 million, and current portion of obligations under finance leases of HK$0.2 million. In 2002, there were no amounts due to related parties. In 2003, amount due to related parties were HK$12 million consisting HK$6.8 million fee paid to a Director who provided personal guarantee to a bank loan taken out by a subsidiary of Galaxy, HK$5.2 million commission fee paid to 2 companies majority owned by a Director in connection with the procurement of professional services in areas including but not limiting to legal/accounting, public relation/personnel, credit evaluation and supporting services such as interior design and translation on behalf of Galaxy Group. Galaxy Group has since ceased to procure such services from these 2 companies. Amounts due to related parties were HK$82 million in 2004 consisting of HK$64.4 million due to a shareholder of related company, Mr. Cheng Kwee, who is one of the promoters of the Galaxy Casino at Waldo Hotel. The amount payable mainly represents the commission and allowances payable which are recovered from the Service Providers as stated in note 4 to the Accountants' Report. HK$17.6 million was due to Waldo Hotel Limited, a company controlled by a shareholder of Galaxy, who is the sub-leasee and the amount payable mainly represents the rental expenses and food and beverages which are recovered from the Service Providers as stated in note 4 to the Accountants' Report.

Capital Expenditures

Galaxy Group operates in a capital-intensive industry that requires a substantial amount of capital expenditures, including but not limited to those relating to the development of hotel and entertainment facilities and purchases of gaming equipment.

Galaxy is obliged under the Concession to invest at least MOP8.8 billion (HK$8.5 billion) in development projects in Macau by 2009 and to develop and open two resort, hotel and casino projects in Macau by 2006 and a convention center by December 2006. Pursuant to a supplement to the Concession, Galaxy is also required to develop two "city club" casinos in Macau. Under the Sub-Concession entered into in December 2002, Venetian Macau S.A., as the sub-concessionaire,

is now responsible for MOP4.4 billion (HK$4.3 billion) of Galaxy's original investment obligations under the Concession and the obligations to construct and develop one of the two required resort, hotel and casino projects, the convention center and one of the two city club casinos.

Galaxy Group believes that the MOP0.3 billion (approximately HK$0.3 billion) development costs incurred up to 31 December 2004 will apply towards the fulfilment of Galaxy's total investment obligation under the Concession. Galaxy's remaining investment obligations in Macau under the Concession are approximately MOP4.1 billion (approximately HK$4 billion). Galaxy plans to satisfy its remaining investment obligations by developing and/or investing in Galaxy StarWorld, Galaxy Cotai Mega Resort (Phase 1) and two additional city clubs — Galaxy Casino at Cotai City Club and Galaxy Casino at Rio Hotel, which together are expected to cost approximately MOP5.9 billion (HK$5.7 billion). Galaxy Group expects to complete Galaxy StarWorld by mid 2006, Galaxy Cotai Mega Resort (Phase 1) by first quarter of 2008 and the two city clubs by first quarter of 2006. The development of Galaxy StarWorld should satisfy Galaxy's obligation to develop a resort, hotel and casino project and the development of Galaxy Casino at Waldo Hotel should have satisfied the requirement to develop a city club casino. Galaxy Group expects its overall investment in development projects in Macau to exceed its investment obligations under the Concession.

Going forward, Galaxy Group expects its capital expenditures to increase substantially as it continues to expand its entertainment facilities. Galaxy Group's actual and estimated capital expenditures (excluding finance costs) are summarised in the following table:

	Incurred up to 31/12/2004 *(HK$'Million)*	**2005–2006** *(HK$'Million)*	**2007–2009** *(HK$'Million)*	**Total** *(HK$'Million)*
Galaxy StarWorld	317	1,483	31	1,831
Galaxy Cotai Mega Resort (Phase I)	13	1,344	2,728	4,085
Others (Galaxy Casino at Waldo Hotel, Galaxy Casino at Cotai City Club, Galaxy Casino at Rio Hotel and Corporate Office)	49	157	NIL	206

Galaxy Group expects to fund these expenditures through a mix of internally generated funds, equity and loans from shareholders, cash on hand, and borrowings.

Contractual Obligations

The table below sets out the aggregate contractual obligations of the Galaxy Group outstanding at 31 December 2004.

		Payment due by period			
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 year
			(HK$'Million)		
Contractual Obligations					
Short-term loans	317	317	—	—	—
Long-term loans (including current portion thereof and the notes)	—	—	—	—	—
Capital leases	0.5	0.2	0.2	0.1	—
Operating leases	4.2	2.1	1.9	0.2	—
Other	0.1	0.1	—	—	—
Total	321.8	319.4	2.1	0.3	—

The financing of the remaining cost of Galaxy StarWorld and the development costs of Galaxy Cotai Mega Resort and Galaxy Casino at Cotai City Club is expected to be raised through a combination of debt financing, equity financing and internal cashflows. Other than Galaxy Group's obligations pursuant to the Concession, as of 31 December 2004, Galaxy Group did not have any material off-balance sheet liabilities.

Share Capital

Galaxy was incorporated on 30 November 2001 with an authorised share capital of MOP1,000,000 divided into 1,000 shares of MOP1,000 each. On the same date, 1,000 shares of MOP1,000 each were issued at par for cash. On 14 March 2002, the share capital of Galaxy was increased to an authorised, issued, subscribed, and paid up capital of MOP200,000,000 divided into 200,000 ordinary shares with a par value of MOP1,000 each. On 25 June 2002, Galaxy reorganised its share capital, under which the shares were redesignated into three classes of shares, comprising 60,000 Class A shares, 120,000 Class B shares and 20,000 Class C shares of MOP1,000 each. Class A and Class C shares were entitled to 0.00000000000000001% of the distributable profits of Galaxy. Class B shares were entitled to 99.99999999999999998% of the distributable profits. The rights of the shareholders on the dissolution or the liquidation of Galaxy were as follows;

(a) Class A shareholders would not receive any amount or value regarding the distribution of the liquidation assets, nor the reimbursement of the amount of the respective invested capital actually paid up.

(b) Class C shareholders would be entitled only to the reimbursement of the amount of the respective invested capital actually paid up.

(c) Class B shareholders would be entitled to the reimbursement of the amount of the respective invested capital actually paid up, as well as to the remaining liquidation assets, and these quantities or values should be distributed among these shareholders according to the proportion of the shares held by Class B shareholders.

On 3 February 2005, Galaxy underwent a reorganization of its share capital, under which (i) the existing 60,000 Class A shares were transformed into Galaxy B shares; (ii) the existing 20,000 Class C shares were transformed into Galaxy A shares; the existing Class B shares were maintained as Galaxy B shares and (iii) the authorised share capital was increased from MOP200 million (HK$194.2 million) to MOP951.9 million (HK$924.2 million) by the creation of 751,900 new shares of MOP1,000 (HK$970.9) each, comprising 75,190 Class A shares and 676,710 Class B shares. On the same date, the 751,900 new shares were issued for cash at par with 25% payable on 3 February 2005 and the balance before 31 March 2005. All shares are now fully paid up.

Trend of the business of the Galaxy Group since 31 December 2004 (date of latest audited financial statements)

Since 31 December 2004, the latest audited financial statements of the Galaxy Group being made up, Galaxy Group's business at Galaxy Casino at Waldo Hotel has continued to make a positive contribution to Galaxy Group's bottom line. The number of VIP gaming tables at the casino has been increased from 40 to 43, whereas that for mass gaming tables has been reduced from 23 to 20, with total number of gaming tables maintained at 63.

Progress of the construction works at Galaxy StarWorld has been in accordance with schedule and on budget, with a target completion date of mid 2006. Detailed designs of the Cotai Mega Resort project have been prepared on schedule.

Preparation work for the Galaxy Casinos at the two city clubs has been on schedule.

Tourist visits to Macau were on a rising trend for the first 3 months of 2005, reaching approximately 17,378,000 for the cumulative 12 months ended 31 March 2005 (per figures released by the Macau Tourist Bureau). Such trend is expected to provide a solid base for the growth of the gaming resort business in Macau.

BUSINESS AND FINANCIAL PROSPECTS

The statistics for the first few months of 2005 showed that the Macau gaming market continues to grow at a rate that is higher than Atlanta and the Las Vegas Strip and continues to reflect that the market is still at the expansion stage of development. Galaxy Group has been monitoring the market situation closely and reviewing its business plan on a regular basis. After detailed analysis of the market data and Galaxy Group's financial and business prospects, Galaxy Group remains confident in the business strategy being implemented, whilst the development roll-out program is on schedule to meet market demand. Debt fund raising exercises for Galaxy are already being planned and may take place shortly.

Business Prospects

Galaxy Group intends to continue its strategy of building up its VIP market share whilst establishing its base for the mass market through the Galaxy StarWorld project and the Galaxy Mega Cotai Resort with its "one-stop" entertainment experience.

Galaxy Group's first city club, the Galaxy Casino at Waldo Hotel, was launched on 4 July last year. The casino was well received and has become a popular venue for VIP gaming patrons. The establishment has achieved the following main objectives of Galaxy Group:

— to have an operating casino and Galaxy's name in the market at the shortest time possible;

— to sign on resourceful promoters and to entrench Galaxy Group's position in the VIP market; and

— to secure a meaningful share of the VIP market to create a robust source of cashflow.

Galaxy Group intends to carry on this effective strategy and build on the momentum by adding more city club casinos to the chain. Nevertheless, Galaxy is not aggressively soliciting these opportunities and is reviewing each proposal according to their respective merit. Presently two more city clubs contracts have been agreed and signed, namely, the city club at Rio Hotel and a purpose built complex in Cotai. The two city club additions, which will increase Galaxy Group's capacity by about 226 tables (including 66 VIP tables and 160 mass tables) and 350 slot machines, are scheduled to open in the first quarter 2006. Nevertheless, additional resources have been channeled to these projects to facilitate an earlier opening date.

Galaxy StarWorld and Galaxy Cotai Mega Resort will be Galaxy Group's flagship for the mass market in downtown Macau Peninsula and Cotai, respectively. These projects are progressing according to schedule and each is expected to be a sizeable contributor to Galaxy Group's revenue, as well as enhancing Galaxy Group's competitiveness, when they commence business.

Financial Prospects

Until Galaxy Group's mass market facilities, i.e. Galaxy StarWorld and Galaxy Cotai Mega Resort, commence business, Galaxy Group will be entirely relying on the city clubs, which are specialized in the VIP market. Traditionally, the VIP market is relatively slower during the first quarter due to the calendar year end and Chinese New Year. Coupled with the increase in expenses attributed to the various new projects, net profit for the first half of 2005 may fall behind the net profit for the second half of 2004. Assuming revenue continues to track the trend for the previous year, the profitability is expected to be maintained, especially as business is traditionally likely to be relatively better in the second half of the year. A substantial increase in Galaxy Group's revenue is expected in 2006 with two additional city clubs in operation and when StarWorld opens for business.

Galaxy Group will continue to work towards establishing its mass market hospitality entertainment and gaming business by providing at Galaxy StarWorld and Galaxy Cotai Mega Resort, the "one-stop at Galaxy" experience whereby hotel and casino guests will be able to enjoy state-of-the-art dining, shopping, leisure and entertainment facilities all within the same complex.

Principal Accounting Policies

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. Galaxy Group has not adopted these new HKFRSs early in the financial statements for the year ended 31 December 2004. Based on an assessment of the impact of these new HKFRSs, the major difference between these new HKFRSs and the current accounting policies of Galaxy is the accounting treatment for leasehold land. Under the current accounting policy, the leasehold land in Macau has been included under property, plant and equipment and stated at cost without amortisation during the construction period. Under Hong Kong Accounting Standard 17 ("HKAS 17") "Leases", leasehold land will no longer be accounted for as property, plant and equipment but it will be accounted for as prepayment of lease. This prepayment will be stated at cost and amortised on a straight-line basis over the lease term as an expense under HKAS 17. This new accounting treatment will reduce the net assets and profits of Galaxy.

The statutory financial statements of Galaxy Group are prepared under accounting principles generally accepted in Macau. However, Galaxy Group has also prepared consolidated financial statements in conformity with HKFRS for the purpose of this circular. Certain of Galaxy Group's accounting policies, including policies on revenue recognition, depreciation, the annual review of assets for impairment, capitalisation of construction and design costs and other policies relating to the costs associated with development projects, require management judgment on assumptions appropriate to financial estimates.

Judgments are based on historical experience, terms of existing contracts, industry trends and information available from outside sources, as appropriate. However, judgments are inherently uncertain, and therefore actual results could differ from Galaxy Group's estimates.

Revenue recognition. In accordance with gaming industry practice, Galaxy Group recognises gaming revenues as the net win from gaming activities, which is the difference between gaming wins and losses. Table game net win represents the difference between table game wins and losses. The table games historical win percentage is reasonably predictable over time, but may vary considerably during shorter periods. Gaming revenues are net of accruals for anticipated payouts of table games. Anticipated jackpot payments are reflected as current liabilities on Galaxy Group's balance sheet. Net slot win represents all amounts played in the slot machines reduced by both the winnings paid out and all amounts deposited into slot machines to ensure there are a sufficient number of coins to pay out the winnings.

Capital expenditure. During the period of the development and construction of Galaxy StarWorld and Galaxy Cotai Mega Resort, direct costs such as those expected to be incurred for the design, construction and development of the hotels and casinos, including interest, furniture, fixtures and equipment and professional charges, will be capitalised in accordance with HKFRS. Accordingly, the amounts of property and equipment will increase significantly. Depreciation

expenses related to this capital expenditure will not be charged until the related assets are available for use. Accordingly, upon completion of construction of Galaxy StarWorld and Galaxy Cotai Mega Resort, depreciation charges based on the estimated useful life of the corresponding asset will have a significant impact on Galaxy Group's results of operations and thus those of the Enlarged KWCM Group.

Amortisation of land held pursuant to long-term leases. Under revised HKFRS, with effect from 1 January 2005 onwards, Galaxy is required to amortise the acquisition cost of the Galaxy StarWorld site on a straight-line basis over 14 years because it is leasehold land, and the value of the site must be tested annually for impairment. The cost of the Galaxy Cotai Mega Resort site will also need to be amortised following its acquisition. Accordingly, amortisation of land will have a significant impact on Galaxy Group's results of operations and thus those of the Enlarged KWCM Group.

Qualitative and Quantitative Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as inflation, interest rates and foreign currency exchange rates.

Foreign Currency Exchange Risk. Because the Hong Kong dollar is directly, and the Macau Pataca and RMB are indirectly, linked to the value of the U.S. dollar, Galaxy Group does not expect fluctuations in the values of these currencies to have a material impact on its operations or on Galaxy Group's debt obligations. RMB's peg to the U.S. dollar, however, may change. See "Risk Factors-Risks relating to Macau." Galaxy Group does not hedge its foreign exchange risk.

Interest Rate Risk. Galaxy Group is exposed to interest rate risk under its bank facilities, which are floating rate loans tied to HIBOR. Based on Galaxy Group's HK$317 million of outstanding debt under these facilities at 31 December 2004, a hypothetical 100 basis point increase in HIBOR would result in an annual interest expense increase of approximately HK$3.2 million. Galaxy Group has not entered into interest rate hedges.

Inflation. Absent changes in competitive and economic conditions or in specific prices affecting the Macau gaming industry, Galaxy Group does not expect that inflation will have a significant impact on its operations. Changes in specific prices, such as fuel and transportation prices, relative to the general rate of inflation may have a material adverse effect on the gaming and hotel industry generally.

Regulation and taxes. Galaxy is subject to extensive regulation by the Macau government. Changes in applicable laws or regulations could have a significant impact on Galaxy's operations. For instance, Galaxy may face increased competition if additional concessions or sub-concessions are granted for the operation of gaming in Macau. In addition, Galaxy pays a premium, a levy and gaming taxes pursuant to the Concession and Macau law, and Galaxy is exempted from corporate taxation on gaming revenues until 31 December 2008. Galaxy cannot be sure that it will be able to reach acceptable agreements with the Macau government when the premium, the levies and Galaxy's exemption from taxation on gaming revenues come up for review. Any increase to the premium, the levies or the gaming tax, or any change to or loss of Galaxy's exemption from

corporate taxation on gaming revenues, could have a material adverse impact on Galaxy's business, cash flows, financial condition, results of operations and prospects. See "Risk Factors — Risks relating to Macau."

Related party transactions

	Note	30 November 2001 to 31 December 2002 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2004 HK$'000
Consultancy services fee				
Ex-Director	a	55,000	—	—
Guarantee service fee				
Director	b	—	6,800	—
Administrative fee income				
Company controlled by a shareholder	c	—	—	2,479
Service fee				
Company controlled by a director	d	7,581	10,039	5,674
Company controlled by a director	d	—	4,791	9,745
Rental expense				
Company controlled by a director	e	167	220	—

(a) The ex-director of Galaxy has provided consultancy service on the acquisition and usage planning of the Cotai project at a mutually agreed fee. This was a "one-off" transaction and it will not continue after Completion.

(b) The Director of Galaxy has provided a personal guarantee to a bank as part of the securities against the banking facilities granted to Galaxy, on which the service fee was charged to Galaxy at a mutually agreed rate. This was a "one-off" fee and it will not be repeated after Completion.

(c) A company controlled by a shareholder of Galaxy Resorts Limited, which agreed to pay an annual administrative fee of HK$5 million to Galaxy for the provision of administrative services. This transaction will continue after completion but will not be a connected transaction of KWIH or KWCM on Completion.

(d) These related companies provide professional, technical and administrative support services to Galaxy at fees in accordance with the terms of the service agreements. The service agreements were terminated in 2005 and will not continue after Completion.

(e) Galaxy leased an office from the related company at an agreed rental in accordance with the rental agreement. This was a "one-off" transaction and the lease was terminated in 2003 and will not continue after Completion.

Charges on assets

As at 31 December 2004, the balance of restricted bank deposits was HK$253.6 million. The deposits have been pledged to secure banking facilities extended to Galaxy. The banking facilities comprise a guarantee amounting to HK$485 million for the period up to 31 March 2007 and then reduced to HK$291 million for the period from 1 April 2007 to the earlier of 90 days after the expiry of the Concession Agreement or 31 March 2022 which is in favour of the Government against the legal and contractual liabilities of Galaxy under the Concession Agreement and two revolving term loans amounting to HK$75 million.

Galaxy Group has also mortgaged a piece of leasehold land in Macau of HK$268 million to secure a short-term bank loan amounting to HK$242 million as at 31 December 2004.

Gearing ratio

Gearing ratio is defined as the ratio of total loans outstanding less cash and bank balances to total assets. As at 31 December 2004, Galaxy Group had HK$808.5 million cash and bank balances and total loans of HK$317 million. As at 31 December 2003, Galaxy's gearing ratio was 55%. As at 31 December 2002, Galaxy Group had no outstanding loan.

Treasury Policy

Galaxy Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong dollars or in Macau Patacas, keeping a minimum exposure to foreign exchange risks. All of Galaxy Group's borrowings are in Hong Kong dollars. Galaxy Group has not engaged in the use of any derivative products.

Dividend Policy

Declaration of dividends will be subject to the discretion of the Directors, depending on Galaxy Group's profitability, financial conditions, cash requirements and availability and other relevant factors. Furthermore, in accordance with the Commercial Code of Macau and its articles of association, Galaxy Group has to set aside 10% of its profit of each year as legal reserve until the balance of such reserve equals to 25% of Galaxy Group's capital. This will restrict the ability of Galaxy Group in paying dividends to its holding company to the extent of the amount set aside for the legal reserve. As at 31 December 2004, Galaxy Group had an accumulated loss of HK$96.8 million which needs to be offset before any dividends can be declared.

Property interest held by the Galaxy Group

The Galaxy Group's property interests as at 31 March 2005 have been valued by an independent valuer. The text of the letter, valuation summary and valuation certificates in connection with the aforesaid property interests are set out in Appendix X of this circular.

The statement below shows the reconciliation of property interests from the audited consolidated financial statements as at 31 December 2004 to the unaudited consolidated management accounts as at 31 March 2005 (the effective date of the valuation):

	HK$'000
Net book value as at 31 December 2004	333,832
Movement for the three months ended 31 March 2005	
Additions	117,540
Net book value as at 31 March 2005	451,372
Valuation surplus	1,148,628
Valuation as at 31 March 2005 per Appendix X	1,600,000

The net book value as at 31 March 2005 also includes the development costs for preliminary design and site formation amounting to HK$44,211,000 incurred for Cotai Mega Resort for which the legal title has not yet been obtained. Galaxy has the right to develop the land at Cotai granted under the Concession even though the legal title has not been obtained. Under the accounting standard, any directly attributable costs of bringing the asset to working condition for its intended use can be capitalised. Hence the directly attributable costs in relation to the site at Cotai are capitalised as property, plant and equipment under "assets under construction" in the financial statements of Galaxy.

Galaxy confirmed that Galaxy has, in respect of Cotai Mega Resort property, not entered into any agreement, oral or written, and is still in preliminary discussions with the Macau Government in finalising the master layout plan, negotiating the land concession for the development and ascertaining the permitted gross floor area of each category of usage for the calculation of the land premium payable on the land concession. It is therefore premature to carry out a meaningful valuation for the Cotai Maga Resort property. Galaxy has confirmed with Macau lawyers, Sa Carneiro & Pinheiro Torres, there is no property interest.

Further details of the Cotai Mega Resort Property are set out in the section headed "Galaxy Cotai Mega Resort" under "Description of the Galaxy Group" in this Circular.

Save for construction costs incurred since 31 March 2005 (the effective date of the valuation), there are no other change in the property interest of the Galaxy Group.

No Material Adverse Change

Save as disclosed in note 15 and section III of the Accountants' Report in this appendix, Galaxy Group and KWCM Directors confirm that there has been no material change in the financial or operating position or prospects of Galaxy Group since 31 December 2004 (being the date to which the latest financial statements of Galaxy Group were made up).

UNAUDITED PRO FORMA FINANCIAL INFORMATION

I. Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the KWCM Group prepared to demonstrate the effect of the Acquisition on the consolidated balance sheet of the KWCM Group as if the Acquisition had been completed as at 31 December 2004. The unaudited pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the KWCM Group as at 31 December 2004, as set out in the Annual Report of KWCM, adjusted only to reflect the effects of the Acquisition.

This unaudited pro forma consolidated balance sheet of the Enlarged KWCM Group has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged KWCM Group at any future date.

	As at 31 December 2004				
	KWCM Group	**Pro forma adjustments**			**Enlarged KWCM Group**
	HK$'000	*HK$'000 (Note 1)*	*HK$'000 (Note 2)*	*HK$'000 (Note 3)*	*HK$'000*
Non-current assets					
Property, plant and equipment	787,028		376,750	1,280,077 (a)	2,443,855
Intangible assets	—		1,859	16,784,933 (b)	16,786,792
Investments in subsidiaries	—	18,423,198		(18,423,198) (e)	—
Jointly controlled entities	382,136				382,136
Associated companies	18,650				18,650
Other non-current assets	272,834		279,572		552,406
	1,460,648				20,183,839
Current assets					
Inventories	93,175		2,556		95,731
Debtors and prepayments	547,604		5,390		552,994
Amounts due from related companies	—		42,424		42,424
Tax recoverable	1,938				1,938
Other investments	4,217				4,217
Cash and bank balances	170,952		808,490	534,991 (c)	1,514,433
	817,886				2,211,737

	As at 31 December 2004				
	KWCM Group	Pro forma adjustments			Enlarged KWCM Group
	HK$'000	*HK$'000 (Note 1)*	*HK$'000 (Note 2)*	*HK$'000 (Note 3)*	*HK$'000*
Current liabilities					
Creditors and accruals	(341,995)	(18,500)	(825,088)		(1,185,583)
Amounts due to related companies	—		(82,010)		(82,010)
Current portion of long-term liabilities	(10,000)		(218)		(10,218)
Short-term borrowings	—		(317,000)		(317,000)
Taxation payable	(1,396)				(1,396)
	(353,391)				(1,596,207)
Net current assets	464,495				615,530
Total assets less current liabilities	1,925,143				20,799,369
Long-term liabilities	(311,580)	(3,681,040)	(195,318)	195,009 (c)	(3,992,929)
Other non-current liabilities	(14,020)				(14,020)
Minority interests	(154,010)			(487,217) (d)	(641,227)
Net assets	1,445,533				16,151,193
Share capital	129,648	184,052	194,175	(194,175) (e)	313,700
Reserves	1,315,885	14,539,606	(96,768)	78,770 (e)	15,837,493
Shareholders' funds	1,445,533				16,151,193

II. Unaudited pro forma consolidated profit and loss statement

The following is the unaudited pro forma consolidated profit and loss statement of the KWCM Group prepared to demonstrate the effect of the Acquisition in the consolidated profit and loss statement of the KWCM Group as if the Acquisition had been completed on 1 January 2004. The unaudited pro forma consolidated profit and loss statement was prepared based on the audited consolidated profit and loss statement of the KWCM Group for the year ended 31 December 2004, as set out in the Annual Report of KWCM, adjusted only to reflect the effects of the Acquisition.

This unaudited pro forma consolidated profit and loss statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Enlarged KWCM Group for any future financial periods.

	Year ended 31 December 2004			
	KWCM Group	**Pro forma adjustments**		**Enlarged KWCM Group**
	HK$'000	*HK$'000 (Note 4)*	*HK$'000 (Note 5)*	*HK$'000*
Turnover	1,299,143	123,777		1,422,920
Cost of sales	(1,248,459)			(1,248,459)
Gross profit	50,684			174,461
Other revenues	21,355	3,643		24,998
Other operating income	27,218			27,218
Administrative expenses	(54,376)	(49,381)		(103,757)
Other operating expenses	(15,084)	(1,202)	(907,294) (a)	(923,580)
Operating profit/(loss)	29,797			(800,660)
Finance costs	(3,864)	(4,179)	(171,723) (b)	(179,766)
Share of profits less losses of				
Jointly controlled entities	14,622			14,622
Associated companies	3,371			3,371
Profit/(loss) before taxation	43,926			(962,433)
Taxation charge	(3,861)			(3,861)
Profit/(loss) after taxation	40,065			(966,294)
Minority interests	(6,642)		17,527 (c)	10,885
Profit/(loss) attributable to shareholders	33,423			(955,409)

III. Unaudited pro forma consolidated cash flow statement

The following is the unaudited pro forma consolidated cash flow statement of the KWCM Group prepared to demonstrate the effect of the Acquisition on the consolidated cash flow statement of the KWCM Group as if the Acquisition had been completed on 1 January 2004. The unaudited pro forma consolidated cash flow statement was prepared based on the audited consolidated cash flow statement of the KWCM Group for the year ended 31 December 2004, as set out in the Annual Report of KWCM, adjusted only to reflect the effects of the Acquisition.

This unaudited pro forma consolidated cash flow statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Enlarged KWCM Group for any future financial periods.

	Year ended 31 December 2004			
	KWCM Group	**Pro forma adjustments**		**Enlarged KWCM Group**
	HK$'000	*HK$'000 (Note 6)*	*HK$'000 (Note 7)*	*HK$'000*
Cash flows from operating activities				
Cash generated from operations	21,229	892,772		914,001
Hong Kong profits tax refunded	6,731			6,731
Mainland China income tax paid	(1,996)			(1,996)
Interest paid	(3,864)	(7,738)	(171,723)	(183,325)
Interest element of finance lease rental payments	—	(24)		(24)
Net cash from operating activities	22,100			735,387
Cash flows from investing activities				
Purchase of plant and equipment	(68,894)	(89,982)		(158,876)
Purchase of intangible assets	—	(2,024)		(2,024)
Proceeds from sale of plant and equipment	5,883			5,883
Increase in investments in jointly controlled entities	(95,883)			(95,883)
Advances to jointly controlled entities	(37,376)			(37,376)
Deferred expenditure	(4,145)			(4,145)
Increase in restricted bank deposits	—	(597)		(597)
Decrease in deferred receivable	1,440			1,440
Acquisition of long-term investments	(51,864)			(51,864)
Decrease in long-term investments	1,402			1,402
Acquisition of listed investments	(18,456)			(18,456)
Proceeds from disposal of listed investments	15,563			15,563
Repayment from a fellow subsidiary	70,000			70,000

	Year ended 31 December 2004			
	KWCM Group	Pro forma adjustments		Enlarged KWCM Group
	HK$'000	*HK$'000 (Note 6)*	*HK$'000 (Note 7)*	*HK$'000*
Interest received	3,296	597		3,893
Dividends from jointly controlled entities	3,223			3,223
Net cash used in investing activities	(175,811)			(267,817)
Cash flows from financing activities				
Issue of new shares	13,842			13,842
Repayment of loan from immediate holding company	—	(6,018)		(6,018)
Draw down of short-term bank loans	—	1,913		1,913
Repayment of short-term bank loans	(90,000)			(90,000)
Draw down of long-term bank loans	271,580			271,580
Repayment of long-term bank loans	(160,800)			(160,800)
Capital element of finance lease payments	—	(84)		(84)
Dividends paid to shareholders	(17,205)			(17,205)
Dividends paid to minority interests	(851)			(851)
Net cash from financing activities	16,566			12,377
(Decrease)/increase in cash and bank balances	(137,145)			479,947
Changes in exchange rates	1,743			1,743
Cash and bank balances at beginning of year	306,354	19,675		326,029
Cash and bank balances at end of year	170,952			807,719

IV. Unaudited pro forma adjusted consolidated net tangible assets

The following is the statement of unaudited pro forma adjusted consolidated net tangible assets of the Enlarged KWCM Group prepared to demonstrate the effect of the Acquisition on the net tangible assets of the KWCM Group as if the Acquisition had been completed as at 31 December 2004. The unaudited pro forma adjusted consolidated net tangible assets were prepared based on the unaudited pro forma consolidated balance sheet of the Enlarged KWCM Group as at 31 December 2004, as set out on pages 345 to 346.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share of the Enlarged KWCM Group have been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged KWCM Group at any future date.

Unaudited pro forma consolidated net assets of the Enlarged KWCM Group as at 31 December 2004 *HK$'000*	**Less: Pro forma total consolidated intangible assets of the Enlarged KWCM Group after Acquisition** *HK$'000 (Note 8)*	**Unaudited pro forma adjusted consolidated net tangible liabilities of the Enlarged KWCM Group** *HK$'000*	**Consolidated net tangible assets per KWCM Share before Acquisition** *HK$ (Note 9)*	**Unaudited pro forma adjusted consolidated net tangible liabilities per KWCM Share after Acquisition** *HK$ (Note 10)*
16,151,193	16,786,792	(635,599)	1.11	(0.20)

V. Notes to the unaudited pro forma financial information

1 The adjustment reflects the Acquisition at the Purchase Price of HK$18,405,198,023, which will be satisfied by the allotment and issue of 1,840,519,798 Consideration KWCM Shares credited as fully paid and the issue to the Vendors of HK$3,681,039,603 principal amount of FRNs, of which HK$1,137 million will be settled by cash out of the placing of 146,000,000 KWCM Shares on 21 April 2005, together with the estimated cost of HK$18.5 million incurred for the Acquisition. The Consideration KWCM Shares are recorded at the agreed issue price of HK$8.00 per share for the purpose of preparation of the unaudited pro forma consolidated balance sheet. However, the existing and new HKFRS requires the Consideration KWCM Shares be recorded in the financial statements at their fair values at the Completion date of the Acquisition. The accounting treatment for goodwill is further discussed in note 11 below.

2 The adjustment reflects the assets and liabilities of the Galaxy Group as at 31 December 2004, as set out in the accountants' report on page 303 of the Circular.

3 The adjustment represents the elimination of the investment in Galaxy as follows:

(a) revaluation surplus of HK$1,280,077,000 to the property for Galaxy Starworld, held by the Galaxy Group based on the net book value of HK$319,923,000 at 31 December 2004 and a professional valuation of HK$1,600 million as of 31 March 2005, as set out in the property valuation report on pages 506 to 519;

(b) recognition of the right to operate casinos in Macau as intangible assets of HK$16,784,933,000, the fair value of which has been assessed with reference to the purchase consideration of Galaxy amounting to HK$18,800 million and the fair value of the remaining identifiable assets and liabilities of the Galaxy Group amounting to approximately HK$2,015 million;

(c) issue of 751,900 new shares of Galaxy on 3 February 2005 for cash at par, totalling HK$730,000,000 (as set in section III of the accountants' report on page 325), of which HK$195,009,000 was applied to repay the loan from Galaxy Resorts Limited;

(d) recognition of the minority interest, being all the Galaxy A shares and 2.1% of the Galaxy B Shares not acquired by KWCM; and

(e) elimination of inter company balances.

The existing and new HKFRS requires all the identifiable assets, including the right to operate casino in Macau, and liabilities of the Galaxy Group and the KWCM Consideration Shares be assessed at their fair values at the Completion date of the Acquisition. The accounting treatment for goodwill is further discussed in note 11.

4 The adjustment reflects the results of the Galaxy Group for the year ended 31 December 2004, based on the accountants' report set out on page 302. Since Galaxy commenced operations in July 2004, the results for the year therefore do not reflect a full year operation of the Galaxy Group.

5 The adjustment reflects the effects of the Acquisition as follows:

(a) the full year effect of the amortisation of HK$907,294,000 of the intangible assets as mentioned in note 3(b) above over the estimated useful lives of the remaining concession period of 18.5 years, using the straight line basis, in accordance with the existing and new HKFRS;

(b) the interest payable for the first twelve months under the FRNs of approximately HK$2,544 million according to the terms set out on page 568 based on the assumption that the proceeds of approximately HK$1,137 million from the placing of 146,000,000 KWCM Shares on 21 April 2005 will be applied towards partial satisfaction of the Purchase Price at Completion; and

(c) the minority interest not acquired by KWCM, being 2.1% of the Galaxy B Shares, amounting to HK$17,527,000.

As explained in note 11, all identifiable intangible assets, the right to operate casinos in Macau and the computer software, of the Galaxy Group will be reassessed at the fair values at the Completion date of the Acquisition in conjunction with the fair value of the Consideration KWCM Shares. Any changes in the fair values will affect the amount of the amortisation charge.

The FRNs are redeemable at any time at the sole discretion of KWCM. Should KWCM exercise the right to early redeem any of the FRNs, the amount of interest payable under the FRNs may reduce.

6 The adjustment reflects the cash flows of the Galaxy Group for the year ended 31 December 2004, based on the accountants' report set out on page 305. Since Galaxy commenced operations in July 2004, the cash flows for the year therefore do not reflect a full year operations of the Galaxy Group.

7 The adjustment reflects the interest payment under the FRNs of approximately HK$2,544 million as mentioned in note 5(b) above.

8 The total intangible assets of the Enlarged KWCM Group included the intangible assets of the Galaxy Group, being computer software with net book value of HK$1,859,000 based on the accountants' report set out on page 317, and the intangible assets arising from the Acquisition, representing the right to operate the casino in Macau amounting to HK$16,784,933,000 as set out in note 3(b) above.

9 The consolidated net tangible assets per KWCM Share before Acquisition is calculated based on the net tangible assets of HK$1,445,533,000, according to the audited balance sheet of the KWCM Group as at 31 December 2004, and the 1,296,475,563 KWCM Shares in issue as at that date.

10 The unaudited pro forma adjusted consolidated net tangible liabilities per KWCM Share after Acquisition is calculated based on the unaudited pro forma adjusted consolidated net tangible liabilities of HK$635,599,000 set out in section IV above and on the basis of 3,136,995,361 KWCM Shares, being the 1,296,475,563 KWCM Shares in issue as at 31 December 2004 together with the 1,840,519,798 Consideration KWCM Shares to be issued under the Acquisition.

11 The existing and new HKFRS requires the Consideration KWCM Shares be recorded in the financial statements at their fair values at the Completion date of the Acquisition and all the fair values of identifiable assets and liabilities (including intangible assets and contingent liabilities) be assessed at the Completion date of the Acquisition. Hence, any changes in their fair values will be assessed at the Completion date of the Acquisition and any changes in their fair values from those stated in notes 1 and 3 above will affect the unaudited pro forma consolidated balance sheet while those in note 5 above will affect the consolidated profit and loss statement. The difference between the cost of the Acquisition and the net attributable fair value of the identifiable assets, including the right to operate casinos in Macau, and liabilities so recognised will be accounted for as goodwill, or negative goodwill, if any, as the case may be. If the fair value of the

Consideration KWCM Shares increased, the cost of the Acquisition would also increase, thereby resulting in goodwill (assuming that the fair values of the assets and liabilities of the Galaxy Group remained the same as state in note 3(b) above). If the fair value of the Consideration KWCM Shares decreased, the cost of the Acquisition would also decrease, thereby resulting in a negative goodwill.

Any goodwill arising from the Acquisition will be recognised as an asset at cost, subject to annual impairment review in subsequent years and any impairment will have to be recognised as an expense in the profit and loss statement in the year it arises. If the net fair value of all identifiable assets and liabilities (including intangible assets and contingent liabilities) exceeds the cost of Acquisition, the net fair value will have to be reassessed and any excess remaining will be credited to the profit and loss statement as "other revenues" in the year of the Acquisition after reassessment. As set out in the unaudited pro forma financial information, there is no goodwill arising from the Acquisition.

12 The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The KWCM Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004 on which the above unaudited pro forma financial information has been prepared. The KWCM Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position. Accordingly, these new HKFRSs might have a significant impact on the above unaudited pro forma financial information.

The following is a letter, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
K. Wah Construction Materials Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of K Wah Construction Materials Limited ("KWCM") and its subsidiary companies (the "KWCM Group") set out on pages 345 to 353 of the circular of KWCM dated 30 June 2005 (the "Circular") in connection with the possible acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. ("Galaxy") (the "Acquisition"). The unaudited pro forma financial information has been prepared by the Directors of KWCM, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information in respect of the KWCM Group.

Responsibilities of Directors and Reporting Accountants

It is the responsibility solely of the Directors of KWCM to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the historical financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of KWCM.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 350 to 353 for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the KWCM Group immediately after the Acquisition, including Galaxy and its subsidiaries (together the "Enlarged KWCM Group") at any future date, or the financial results and cash flows of the Enlarged KWCM Group for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors of KWCM on the basis stated;

(b) such basis is consistent with the accounting policies of the KWCM Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION

I. Unaudited pro forma consolidated balance sheet

The following is the unaudited pro forma consolidated balance sheet of the Remaining KWIH Group prepared to demonstrate the effect of the Acquisition and the Disposal on the consolidated balance sheet of the KWIH Group as if the Acquisition and Disposal had been completed as at 31 December 2004. The unaudited pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the KWIH Group as at 31 December 2004, as set out in the accountants' report on KWIH on page 243, adjusted only to reflect the effect of the Acquisition and the Disposal.

This unaudited pro forma consolidated balance sheet has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Remaining KWIH Group at any future date.

	As at 31 December 2004					
	KWIH Group	**Pro forma adjustments**				**Remaining KWIH Group**
	HK$'000	*HK$'000 (Note 1)*	*HK$'000 (Note 2)*	*HK$'000 (Note 3)*	*HK$'000 (Note 4)*	*HK$'000*
Non-current assets						
Property, plant and equipment	1,115,426	376,750	1,280,077(b)	(2,443,855)	42,429	370,827
Intangible assets	—	1,859	16,784,933(c)	(16,786,792)		—
Jointly controlled entities	440,476			(382,136)		58,340
Associated companies	18,650			(18,650)	4,389,894	4,389,894
Other non-current assets	304,898	279,572		(552,406)		32,064
	1,879,450					4,851,125
Current assets						
Development properties	4,561,850					4,561,850
Inventories	93,175	2,556		(95,731)		—
Debtors and prepayments	665,360	5,390		(552,994)		117,756
Amounts due from related companies	—	42,424		(42,424)		—
Tax recoverable	4,384			(1,938)		2,446
Other investments	44,547			(4,217)		40,330
Cash and bank balances	781,306	808,490	534,991(d)	(1,514,433)		610,354
	6,150,622					5,332,736

	As at 31 December 2004					
	KWIH Group	Pro forma adjustments				Remaining KWIH Group
	HK$'000	*HK$'000 (Note 1)*	*HK$'000 (Note 2)*	*HK$'000 (Note 3)*	*HK$'000 (Note 4)*	*HK$'000*
Current liabilities						
Creditors and accruals	(510,432)	(825,088)	(18,500)(a)	1,185,583		(168,437)
Amounts due to related companies	—	(82,010)		82,010		—
Current portion of long-term liabilities	(808,409)	(218)		10,218		(798,409)
Short-term borrowings	(36,133)	(317,000)		317,000		(36,133)
Taxation payable	(39,779)			1,396		(38,383)
	(1,394,753)					(1,041,362)
Net current assets	4,755,869					4,291,374
Total assets less current liabilities	6,635,319					9,142,499
Long-term liabilities	(2,675,209)	(195,318)	(3,486,031)(a, d)	3,992,929		(2,363,629)
Other non-current liabilities	(81,610)			14,020		(67,590)
Minority interests	(1,147,265)		(487,217)(e)	641,227	496,780	(496,475)
Net assets	2,731,235					6,214,805
Share capital	201,564	194,175	(10,123)(a, d)	(313,700)	129,648	201,564
Reserves	2,529,671	(96,768)	14,618,376 (a)	(15,837,493)	4,799,455	6,013,241
Shareholders' funds	2,731,235					6,214,805

II. UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS STATEMENT

The following is the unaudited pro forma consolidated profit and loss statement of the Remaining KWIH Group prepared to demonstrate the effect of the Acquisition and the Disposal on the consolidated profit and loss statement of the KWIH Group as if the Acquisition and Disposal had been completed on 1 January 2004. The unaudited pro forma consolidated profit and loss statement was prepared based on the audited consolidated profit and loss statement of the KWIH Group for the year ended 31 December 2004, as set out in the accountants' report on KWIH on page 242, adjusted only to reflect the effects of the Acquisition and the Disposal.

This unaudited pro forma consolidated profit and loss statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Remaining KWIH Group for any future financial periods.

	For the year ended 31 December 2004					
	KWIH Group	Pro forma adjustments				Remaining KWIH Group
	HK$'000	*HK$'000 (Note 5)*	*HK$'000 (Note 6)*	*HK$'000 (Note 7)*	*HK$'000 (Note 8)*	*HK$'000*
Turnover	1,730,538	123,777		(1,422,920)		431,395
Cost of sales	(1,548,383)			1,248,459		(299,924)
Gross profit	182,155					131,471
Other revenues	17,164	3,643		(24,998)		(4,191)
Other operating income	56,281			(27,218)		29,063
Administrative expenses	(136,755)	(49,381)		103,757		(82,379)
Profit on deemed disposal of the Enlarged KWCM Group					3,483,570 (b)	3,483,570
Other operating expenses	(49,893)	(1,202)	(907,294)(a)	923,580		(34,809)
Operating profit	68,952					3,522,725
Finance costs	(13,425)	(4,179)	(171,723)(b)	179,766		(9,561)
Share of profits less losses of						
Jointly controlled entities	238,976			(14,622)		224,354
Associated companies	3,371			(3,371)	(261,589)(a)	(261,589)
Profit before taxation	297,874					3,475,929
Taxation charge	(42,434)			3,861	(1,049)(a)	(39,622)
Profit after taxation	255,440					3,436,307
Minority interests	(21,117)		17,527(c)	(10,885)	11,329 (b)	(3,146)
Profit attributable to shareholders	234,323					3,433,161

III. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

The following is the unaudited pro forma consolidated cash flow statement of the Remaining KWIH Group prepared to demonstrate the effect of the Acquisition and the Disposal on the consolidated cash flow statement of the KWIH Group as if the Acquisition and Disposal had been completed on 1 January 2004. The unaudited pro forma consolidated cash flow statement was prepared based on the consolidated audited cash flow statement of the KWIH Group for the year ended 31 December 2004, as set out in the accountants' report on KWIH on pages 245 to 246, adjusted only to reflect the effects of the Acquisition and the Disposal.

This unaudited pro forma consolidated cash flow statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Remaining KWIH Group for any future financial periods.

	For the year ended 31 December 2004					
	KWIH Group	**Pro forma adjustments**				**Remaining KWIH Group**
	HK$'000	*HK$'000 (Note 9)*	*HK$'000 (Note 10)*	*HK$'000 (Note 11)*	*HK$'000 (Note 12)*	*HK$'000*
Cash flows from operating activities						
Cash used in operations	(1,773,049)	892,772		(914,001)		(1,794,278)
Net tax paid	(2,514)			(4,735)		(7,249)
Interest paid	(56,241)	(7,762)	(171,723)	183,349		(52,377)
Net cash used in operating activities	(1,831,804)					(1,853,904)
Cash flows from investing activities						
Purchase of property, plant and equipment	(71,365)	(89,982)		158,876		(2,471)
Purchase of intangible assets	—	(2,024)		2,024		—
Deferred expenditure	(4,145)			4,145		—
Increase in restricted bank deposits	—	(597)		597		—
Payments from jointly controlled entities	392,636			37,376		430,012
Acquisition of long-term investments	(51,864)			51,864		—
Decrease in long-term investments	1,402			(1,402)		—
Proceeds from sale of property, plant and equipment	5,905			(5,883)		22
Decrease in deferred receivable	1,440			(1,440)		—
Increase in investments in jointly controlled entities	(100,290)			95,883		(4,407)
Purchase of listed investments	(18,456)			18,456		—
Proceeds from disposal of listed investments	15,563			(15,563)		—
Repayment from a fellow subsidiary	—			(70,000)	70,000	—

	For the year ended 31 December 2004					
	KWIH Group	Pro forma adjustments				Remaining KWIH Group
	HK$'000	*HK$'000 (Note 9)*	*HK$'000 (Note 10)*	*HK$'000 (Note 11)*	*HK$'000 (Note 12)*	*HK$'000*
Proceeds from disposal of unlisted investment	44,404					44,404
Interest received	10,436	597		(3,893)		7,140
Dividends received from listed investments	1,807					1,807
Dividends received from associated companies	—				12,764	12,764
Dividends received from jointly controlled entities	3,223			(3,223)		—
Net cash from investing activities	230,696					489,271
Cash flows from financing activities						
Issue of new shares	4,940					4,940
Issue costs for convertible bonds	(16,348)					(16,348)
Repayment by KWIH Group to KWCM Group	—				(70,000)	(70,000)
Repayment of loan from immediate holding company	—	(6,018)		6,018		—
Net increase in loans from minority shareholders	36,328			(13,842)		22,486
New long-term loans	2,299,816			(271,580)		2,028,236
Repayment of long-term loans	(274,460)			160,800		(113,660)
Capital element of finance lease payments	—	(84)		84		—
Decrease in short-term loans repayable after three months from date of advance	(140,851)	1,913		88,087		(50,851)
Dividends paid to shareholders	(40,757)			17,205	(17,205)	(40,757)
Dividends paid to minority interests	(5,292)			851	4,441	—
Net cash from financing activities	1,863,376					1,764,046
Increase in cash and bank balances	262,268					399,413
Cash and bank balances at beginning of year	517,065	19,675		(326,029)		210,711
Changes in exchange rates	1,973			(1,743)		230
Cash and bank balances at end of year	781,306					610,354

IV. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

1 The adjustment reflects the assets and liabilities of the Galaxy Group as at 31 December 2004, as set out in the accountants' report on page 303 of the Circular.

2 The adjustment represents the elimination of the investment in Galaxy as follows:

(a) allotment and issue of 1,840,519,798 Consideration KWCM Shares credited as fully paid and the issue to the Vendors of HK$3,681,039,603 principal amount of FRNs, of which HK$1,137 million will be settled by cash out of the net proceeds of placing of 146,000,000 KWCM Shares on 21 April 2005, together with the estimated cost incurred of HK$18.5 million for the Acquisition;

(b) the revaluation surplus of HK$1,280,077,000 to the property for Galaxy StarWorld, held by the Galaxy Group based on the net book value of HK$319,923,000 at 31 December 2004 and a professional valuation of HK$1,600 million as of 31 March 2005, as set out in the property valuation report on pages 506 to 519;

(c) recognition of the right to operate casinos in Macau as intangible assets of HK$16,784,933,000, the fair value of which has been assessed with reference to the purchase consideration of Galaxy amounting to HK$18,800 million and the fair value of the remaining identifiable assets and liabilities of the Galaxy Group amounting to approximately HK$2,015 million;

(d) issue of 751,900 new shares of Galaxy on 3 February 2005 at par for cash, totalling HK$730,000,000 (as set in section III of the accountants' report on page 325, of which HK$195,009,000 was applied to repay the loan from Galaxy Resorts Limited); and

(e) recognition of the minority interest, being all the Galaxy A shares and 2.1% of the Galaxy B Shares not acquired by KWCM and its share of net assets of the Galaxy Group.

The 1,840,519,798 Consideration KWCM Shares are recorded at the agreed issue price of HK$8.00 per share for the purpose of preparation of the unaudited pro forma consolidated balance sheet. The existing and new HKFRS requires all the identifiable assets, including the right to operate casinos in Macau, and liabilities of the Galaxy Group be assessed at their fair values at the Completion date of the Acquisition. The accounting treatment for goodwill is further discussed in note 13 below.

3 The adjustment reflects the effect of the Disposal and therefore not consolidating the Enlarged KWCM Group, based on the unaudited pro forma financial information of the KWCM Group on pages 345 to 346.

4 The adjustment reflects the reversal of historical consolidation adjustment of HK$42,429,000 in relation to the KWCM Group and the dilution effect of the interest in KWCM following the issuing of the Consideration KWCM Shares upon Completion of

the Acquisition, with the interest in KWCM being classified as investment in associated companies and carried at the share of net assets of the Enlarged KWCM Group. As explained in note 13 below, any changes in the fair value of the Consideration KWCM Shares for accounting purposes and the identifiable assets and liabilities of the Galaxy Group will affect the consolidated net assets of the Enlarged KWCM Group and therefore the consolidated net assets of the Remaining KWIH Group.

5 The adjustment reflects the results of the Galaxy Group for the year ended 31 December 2004, based on the accountants' report set out on page 347. Since Galaxy commenced operations in July 2004, the results for the year therefore do not reflect a full year operation of the Galaxy Group.

6 The adjustment reflects the effects of the Acquisition as follows:

(a) the full year effect of the amortisation of HK$907,294,000 of the intangible assets as mentioned in note 2 above over the estimated useful lives of the remaining concession period of 18.5 years, using the straight line basis, in accordance with the existing and new HKFRS;

(b) the interest payable for the first twelve months under the FRNs of approximately HK$2,544 million according to the terms set out on page 568 based on the assumption that the net proceeds of approximately HK$1,137 million from the placing of 146,000,000 KWCM Shares on 21 April 2005 will be applied towards partial satisfaction of the Purchase Price at Completion; and

(c) the minority interest not acquired by KWCM, being 2.1% of the Galaxy B Shares, amounting to HK$17,527,000.

As explained in note 13 below, all identifiable intangible assets, the right to operate casinos in Macau and the computer software, of the Galaxy Group will be reassessed at the fair values at the Completion date of the Acquisition in conjunction with the fair value of the Consideration KWCM Shares. Any changes in the fair values will affect the amount of the amortisation charge.

The FRNs are redeemable at any time at the sole discretion of KWCM. Should KWCM exercise the right to early redeem any of the FRNs, the amount of interest payable under the FRNs may reduce.

7 The adjustment reflects the effect of the Disposal and therefore not consolidating the Enlarged KWCM Group, based on the unaudited pro forma financial information of the Enlarged KWCM Group on page 358, as a result of the dilution effect of the interest in KWCM following the issuing of the Consideration KWCM Shares upon Completion of the Acquisition.

8 The adjustment reflects the effects of the disposal as follows:

(a) the results of the Enlarged KWCM Group being classified under share of profits less losses of associated companies and the share of taxation charge in the profit and loss statement of the Remaining KWIH Group; and

(b) the profit arising from the deemed disposal amounting to HK$3,483,570,000, from the dilution of the interest in the Enlarged KWCM Group, representing the increase in the share of net asset after the Acquisition and the reversal of minority interest in KWCM.

As explained in note 6 above, any changes in the amortisation of the intangible assets of the Galaxy Group will affect the share of results of the Enlarged KWCM Group. Any changes in the consolidated net assets of the Enlarged KWCM Group, as explained in note 13 below, will affect this profit arising from the deemed disposal.

9 The adjustment reflects the cash flows of the Galaxy Group for the year ended 31 December 2004, based on the accountants' report set out on page 305. Since Galaxy commenced operations in July 2004, the cash flows for the year therefore do not reflect a full year operation of the Galaxy Group.

10 The adjustment reflects the interest payment under the FRNs of approximately HK$2,544 million as mentioned in note 6 above.

11 The adjustment reflects the effect of the Disposal and therefore not consolidating the Enlarged KWCM Group, based on the unaudited pro forma financial information of the Enlarged KWCM Group on pages 348 to 349, as a result of the dilution effect of the interest in KWCM following the issuing of the Consideration KWCM Shares upon Completion of the Acquisition.

12 The adjustment reflects the consolidation adjustments as a result of not consolidating the Enlarged KWCM Group.

13 The existing and new HKFRS requires the Consideration KWCM Shares be recorded in the financial statements at their fair values at the Completion date of the Acquisition and all the fair values of identifiable assets and liabilities (including intangible assets and contingent liabilities) be assessed at the Completion date of the Acquisition. Hence, any changes in their fair values will be assessed at the Completion date of the Acquisition and any changes in their fair values from those stated in notes 2 and 6 above will affect the unaudited pro forma consolidated balance sheet while those in note 8 above will affect the consolidated profit and loss statement. The difference between the cost of the Acquisition and the net attributable fair value of the identifiable assets, including the right to operate casinos in Macau, and liabilities so recognised will be accounted for as goodwill, or negative goodwill, if any, as the case may be. If the fair value of the Consideration KWCM Shares increased, the cost of the Acquisition would also increase, thereby resulting in goodwill (assuming that the fair values of the assets and liabilities of

the Galaxy Group remained the same as state in note 2(c) above). If the fair value of the Consideration KWCM Shares decreased, the cost of the Acquisition would also decrease, thereby resulting in a negative goodwill.

Any goodwill arising from the Acquisition will be recognised as an asset at cost, subject to annual impairment review in the subsequent years and any impairment will have to be recognised as an expense in the profit and loss statement in the year it arises. If the net fair value of all identifiable assets and liabilities (including intangible assets and contingent liabilities) exceeds the costs of Acquisition, the net fair value will have to be reassessed and any excess remaining will be credited to the profit and loss statement as "other revenues" in the year of the Acquisition after reassessment. As set out in the unaudited pro forma financial information, there is no goodwill arising from the Acquisition.

14 The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005. The KWIH Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004 on which the above unaudited pro forma financial information has been prepared. The KWIH Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position. Accordingly, these new HKFRSs might have a significant impact on the above unaudited pro forma financial information.

The following is a letter, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

30 June 2005

The Directors
K. Wah International Holdings Limited
29th Floor, K Wah Centre
191 Java Road
North Point
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of K. Wah International Holdings Limited ("KWIH") and its subsidiary companies (the "KWIH Group") set out on pages 356 to 364 of the circular of KWIH dated 30 June 2005 (the "Circular"), in connection with the possible acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. ("Galaxy") (the "Acquisition") by K. Wah Construction Materials Limited ("KWCM") and the resulting deemed disposal of 38.6% interest in KWCM (the "Disposal"). The unaudited pro forma financial information has been prepared by the Directors of KWIH, for illustrative purposes only, to provide information about how the Acquisition and the Disposal might have affected the relevant financial information in respect of the KWIH Group.

Responsibilities of Directors and Reporting Accountants

It is the responsibility solely of the Directors of KWIH to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the historical financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of KWIH.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 361 to 364 for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the KWIH Group immediately after the Disposal, excluding KWCM and its subsidiaries (the "Remaining KWIH Group") at any future date, or the financial results and cash flows of the Remaining KWIH Group for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors of KWIH on the basis stated;

(b) such basis is consistent with the accounting policies of the KWIH Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following are the texts of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular received from Chesterton International Property Consultants Pte Ltd and Chesterton Petty Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group referred to in it.

International Property Consultants

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16/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Tel 2840 1177
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Chesterton International Property Consultants Pte Ltd

5 Temasek Boulevard #07-02 Suntec Tower Five
Singapore 038985
Tel: (65) 6221 8288 Fax: (65) 6225 7537
http://www.chesterton.sg
Business Reg No. 198404370K

The Directors
K. Wah International Holdings Limited
29/F K. Wah Centre
191 Java Road
North Point
Hong Kong

Date: 30 June 2005

Dear Sirs,

RE: PORTFOLIO VALUATION FOR K. WAH INTERNATIONAL HOLDINGS LIMITED
1) 15 APARTMENT UNITS AT 180A BENCOOLEN STREET
2) 66 OFFICE UNITS AND 80 CARPARK LOTS AT 171 CHIN SWEE ROAD

We refer to your instruction for us to carry out a valuation of the above property interests held by the group comprised of K. Wah International Holdings Limited ("KWIH") and its subsidiaries excluding K. Wah Construction Materials Limited and its subsidiaries (the "Remaining KWIH Group") in Singapore, details of which are set out in the attached valuation certificates. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the individual property interests as at 31 March 2005 (the "date of valuation").

Our valuation is made on the basis of Market Value which is defined by the Singapore Institute of Surveyors and Valuers to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

We have applied the definition of Market Value to each property interest independently. We have therefore ignored the potential effect of selling the portfolio at one time.

We have valued the property interests by making reference to comparable sales evidences as available in the market, and by the income method where appropriate.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit of any deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have caused searches to be made at the Singapore Land Authority, however, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which might not appear on the copies handed to us.

We have relied to a considerable extent on information given by you, in particular in respect of matters such as interests attributable to the Remaining KWIH Group, statutory notices, easements, tenancies, development scheme, site and floor areas and floor plans. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are based on the information we obtained from the relevant public authorities.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects.

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded.

The exchange rate adopted in our valuation is S$1 = HK$4.6 and there has been no significant fluctuation in that exchange rate between the date of valuation and the date of this letter.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by The Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

We enclose herewith a summary of valuation and our valuation certificates.

Yours faithfully,

For and on behalf of
Chesterton Petty Limited
AInwick C H Chan
MRICS MHKIS RPS(GP)
Executive Director

For and on behalf of
Chesterton International Property Consultants Pte Ltd
Chng Shih Hian
Senior Executive Director
Valuation & Advisory Services

Note: Mr Chng Shih Hian is a Licensed Appraiser (Land & Buildings) accredited by The Inland Revenue Authority of Singapore (IRAS) & a Member of Singapore Institute of Surveyors & Valuers. He has over 15 years valuation experience in Singapore and in the region.

SUMMARY OF VALUATION

	Property interest held by the Remaining KWIH Group for Investment in Singapore	Capital value in the existing state as at 31 March 2005
1.	15 apartment units 180A Bencoolen Street Singapore	S$9,100,000 (approximately HK$41,860,000)
2.	66 office units and 80 carpark lots 171 Chin Swee Road Singapore	S$25,671,000 (approximately HK$118,086,600) S$1,400,000 (approximately HK$6,440,000)
		S$36,171,000 (equivalent to approximately HK$166,386,600)

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
1.	15 apartment units located in a 19-storey residential block within a mixed development at 180A Bencoolen Street, Singapore 189647, known as The Bencoolen.	The tenure of the subject properties is leasehold for 99 years with effect from 24 June 1995. The total strata floor area of the 15 residential units is about 1,280 square metres (13,778 square feet). The breakdown in strata floor areas is: **Unit Nos** / **Strata Floor Area (sq. m.)** #05-07: 97 #06-06: 82 #07-05: 82 #07-06: 82 #08-05: 82 #08-06: 82 #09-05: 89 #09-06: 89 #11-06: 82 #13-05: 89 #13-06: 89 #14-06: 82 #17-06: 89 #19-05: 82 #19-06: 82 Total: 1,280 The units are 2-bedroom apartments except for unit #05-07, which is a 3-bedroom apartment. The age of the properties is about 6 years. The properties are held for investment.	The properties are tenanted as at the date of inspection on 28 March 2005. There were no changes to the situations of the properties from the date of inspection on 28 March 2005 to 31 March 2005. Details of the occupancy status of the properties are described in Schedule I hereto. The total gross rental for the tenanted units is S$37,700 (equivalent to approximately HK$173,420) per month.	The aggregate market value of the units is S$9,100,000 (approximately HK$41,860,000)

Notes:

1. The registered owner of the properties is Top Ridge Management Limited.

2. Top Ridge Management Limited is a wholly-owned subsidiary of KWIH.

3. The properties are zoned "Commercial and Residential" in the 2003 Master Plan.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
2.	66 office units and 80 carpark lots located within a 12-storey commercial building at 171 Chin Swee Road Singapore 169877, known as San Centre.	The tenure of the subject properties is leasehold for 99 years with effect from 2 June 1969. The age of the properties is about 30 to 35 years and the properties were refurbished about 14 years ago. The properties are held for investment. The total strata floor area of the 66 office units is about 5,747 square metres (61,860 square feet). The strata floor area of the carpark lots is about 2,311 square metres (24,875 square feet). The breakdown in strata floor areas of the office units (in sq.m.) is: #01-01 32 #01-02 92 #02-01 122 #02-02 188 #02-03 62 #02-04 46 #02-05 69 #02-06 60 #02-07 58 #02-08 59 #02-09 171 #02-10 76 #02-11 76 #02-12 76 #02-13 79 #02-14 47 #03-01 191 #03-02 132 #03-03 58 #03-04 59 #03-05 152 #03-06 76 #03-07 76 #03-08 76 #03-09 79	The office units are variously owner-occupied, tenanted or vacant. The total floor area of the owner-occupied office units is 124 sq.m. Details of the occupancy status of the properties are described in Schedule II hereto.	The aggregate market value of the 66 office units is S$25,671,000 (approximately HK$118,086,600) The aggregate market value of the 80 carpark lots is S$1,400,000 (approximately HK$6,440,000)

Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
	#03-10	47	
	#04-01	191	
	#04-02	132	
	#04-03	58	
	#04-04	59	
	#09-01	134	
	#09-02	131	
	#09-03	58	
	#09-04	59	
	#09-05	131	
	#09-06	59	
	#09-07	59	
	#09-08	59	
	#09-09	72	
	#10-01	134	
	#10-02	131	
	#10-03	58	
	#10-04	59	
	#10-05	131	
	#10-06	59	
	#10-07	59	
	#10-08	59	
	#10-09	72	
	#11-01	134	
	#11-02	131	
	#11-03	58	
	#11-04	59	
	#11-05	131	
	#11-06	59	
	#11-07	59	
	#11-08	59	
	#11-09	72	
	#12-01	134	
	#12-02	131	
	#12-03	58	
	#12-04	59	
	#12-05	131	
	#12-06	59	
	#12-07	59	
	#12-08	59	
	#12-09	72	

Notes:

1. The registered owner of the properties is Chinapex Company Limited.

2. Chinapex Company Limited is a wholly-owned subsidiary of KWIH.

3. The properties are zoned as "Commercial" in the 2003 Master Plan.

Schedule I

TOP RIDGE MANAGEMENT LIMITED
180A BENCOOLEN STREET

TENANCY REPORT
AS AT MARCH 2005

UNIT NO	NAME OF TENANT	OCCUPANT NAME	AREA	NET (S$)	MAINT FEE (S$)	FURN & FTG (S$)	SEASON CARPARK (S$)	MAID SERVICE (S$)	GROSS (S$)	RENTAL DEPOSIT (S$)	PERIOD OF TENANCY
#05-07	Carrier International Corporation	Ms Chang Shu Ling	1,044	1,750	300	1,150			3,200	6,400	20.03.04–28.06.05
#06-06	Akebono Corporation Asia Pte Ltd	Mr Kiyoshi Igarashi	883	1,700	250	750			2,700	5,400	25.06.03–24.06.05
#07-05	DHL Express (Singapore) Pte Ltd	Mr Wade Britt	883	1,500	250	850		250	2,850	5,700	01.11.03–31.10.05
#07-06	Robm Electroncis Asia Pte Ltd	Mr Kenichi Hisamoto	883	1,560	250	690	100		2,600	5,200	07.06.04–15.06.05
#08-05	Kokusai Electric Asia Pacific Co Ltd	Mr Higashida Masanobu	883	1,680	250	970			2,900	5,800	18.01.05 17.01-07
#08-06	**Vacant with wef 4 Dec 2004**		883								
#09-05	Hitachi Semiconductor Singapore Pte Ltd	Mr Fujiki Daisuke	958	1,350	250	1,300			2,900	5,800	01.11.04–31.10-06
#09-06	NYK Line (Asia) Pte Ltd	Mr Keiichi Saeki	958	1,640	250	1,010		250	3,150	6,300	01.12.03–30.11-05
#11-06	Hitachi Ksaei Shoji Co Ltd	Mr Yoshiike Hiroyuki	883	1,700	250	750			2,700	5,400	13.09.03–12.09.05
#13-05	Macquarie Corporate Tele P L	Mr Mark Alistair	958	1,900	250	750			2,900	5,800	09.03.04–08.09.05
#13-06	Siemens Pte Ltd	Mr Willam Rosburg	958	1,800	250	950			3,000	6,000	09.10.04-08.10-06
#14-06	**Vacant with effect from 4 Feb 2005**		883								
#17-06	Toagosei Asia Pte Ltd	Mr Hiromi Eguchi	958	1,800	250	750	100		2,900	5,800	20.03.04–19.03-06
#19-05	Yamaha Motor Asia Pte Ltd	Mr Tetsuo Kondo	883	1,400	250	1,250	100		3,000	6,000	22.11.03–21.11-05
#19-06	Hitachi Semiconductor Singapore Pte Ltd	Mr Uchida Norihiro	883	1,450	250	1,200			2,900	5,800	19.10.04–18.10.05
		Total	**13,781**	**21,230**	**3,300**	**12,370**	**300**	**500**	**37,700**	**75,400**	
		(Approximately HK$)		**97,658**	**15,180**	**56,902**	**1,380**	**2,300**	**173,420**	**346,840**	

Schedule II

CHINAPEX COMPANY LIMITED

TENANCY REPORT— SAN CENTRE

AS AT MARCH 2005

		FLOOR AREA			MONTHLY BILLING INCL GST						
UNIT NO	NAME OF TENANT	M^2	FT^2	PSF	NET *(S$)*	M/FEE *(S$)*	GROSS *(S$)*	GST *(S$)*	TOTAL *(S$)*	RENTAL DEPOSIT *(S$)*	PERIOD OF TENANCY
#01-01	Owner — Occupied	32	345								
#01-02	Owner — Occupied	92	990								
#02-01	E & D Int'l logistics Services P L	122	1,313	2.00	1,741.75	884.25	2,626.00	131.30	2,757.30	7,878.00	01/11/04–31/01/2006
#02-02	**** Vacant **** wef 1 Oct 2000	188	2,024								
#02-03	**** Vacant **** wef 1 Oct 2004	62	667								
#02-04	TCP Asia Pacific	46	495	2.00	659.25	330.75	990.00	49.50	1,039.50	1,980.00	01/02/05–31/01/2007
#02-05	**** Vacant **** wef 1 May 2002	69	743								
#02-06	**** Vacant **** wef 1 Mar 2003	59	635								
#02-07	**** Vacant **** wef 1 Mar 2003	59	635								
#02-08	**** Vacant **** wef 1 July 2003	59	635								
#02-09	**** Vacant **** wef 1 Dec 2001	171	1,841								
#02-10	**** Vacant **** wef 1 Dec 2001	76	818								
#02-11	**** Vacant **** wef 1 July 2003	76	818								
#02-12	**** Vacant **** wef 1 July 2003	76	818								
#02-13	**** Vacant **** wef 1 Mar 2002	79	850								
#02-14	Pla Matals (Singapore) Pte Ltd	47	506	2.50	927.50	337.50	1,265.00	63.25	1,328.25	3,795.00	20/05/04–19/05/2006
#02-04	**2 months deposit**										
#03-01	M + R forwarding Pte Ltd	191	2,056	2.00	2,728.25	1,383.75	4,112.00	205.60	4,317.60	8,224.00	15/10/04–14/10/2006
#03-02	P.C.A.S Private Limited	132	1,421	2.40	2,458.65	951.75	3,410.40	170.52	3,580.92	10,231.20	22/10/04–21/10/2005
#03-03	Tekken Corporation	58	624	2.20	954.30	418.50	1,372.80	68.64	1,441.44	4,118.40	01/07/04–30/06/2005
#03-04	**** Vacant **** wef 11 Nov 2003	59	635								
#03-05	Swiber Offshore Pte Ltd	152	1,636	2.10	2,335.35	1,100.25	3,435.60	171.78	3,607.38	6,871.20	15/12/04–14/12/2006
#03-06	**** Vacant **** wef 16 Sep 2004	76	818								
#03-07	Global Alliance Recruitment Pte Ltd	76	818	2.10	1,164.30	553.50	1,717.80	85.89	1,803.69	5,153.40	01/03/05–28/02/2007
#03-08	Global Utility Development Co Ltd	76	818	2.50	1,532.50	512.50	2,045.00	102.25	2,147.25	4,090.00	15/09/04–14/09/2005
#03-09	Ensign Freight Pte Ltd	79	850	2.50	1,593.75	531.25	2,125.00	106.25	2,231.25	6,375.00	08/01/05–07/01/2006
#03-10	ie IDEAS Pte Ltd	47	506	2.50	927.50	337.50	1,265.00	63.25	1,328.25	3,795.00	01/01/04–31/12/2005
#04-01	Rohlig International (s) Pte Ltd	191	2,056	2.40	3,550.65	1,383.75	4,934.40	246.72	5,181.12	14,803.20	01/08/04–31/07/2006
#04-02	Coastline Maritime Pte Ltd	132	1,421	2.50	2,600.75	951.75	3,552.50	177.63	3,730.13	10,657.50	01/07/04–30/06/2006
#04-03	Compass Holdings Pte Ltd	58	624	2.00	829.50	418.50	1,248.00	62.40	1,310.40	2,496.00	01/09/04–31/08/2006
#04-04	Logic China Investment & Trading Services Pte Ltd	59	635	2.50	1,162.25	425.25	1,587.50	79.38	1,666.88	4,762.50	22/1/05–21/01/2006
#03-01	**2 months deposit**										
#03-05	**2 months deposit**										
#03-08	**2 months deposit**										
#04-03	**2 months deposit**										
#09-01/04	**** Vacant **** wef 1 Oct 2004	382	4,112								
#09-05	Educational Resources Pte Ltd	131	1,410	2.50	2,573.25	951.75	3,525.00	176.25	3,701.25	10,575.00	15/11/04–14/11/2005
#09-06	**** Vacant **** wef 1 Jan 2005	59	635								
#09-07	PM Advisory & Associates	59	635	2.50	1,193.75	393.75	1,587.50	79.38	1,666.88	3,175.00	01/01/05–30/06/2005
#09-08	Multi Sources Pte Ltd	59	635	2.50	1,162.25	425.25	1,587.50	79.38	1,666.88	3,175.00	01/12/04–30/11/2006
#09-09	Lee & Tan Advocates & Solicitor	72	775	2.50	1,417.75	519.75	1,937.50	96.88	2,034.38	5,812.50	01/09/04–31/08/2006
#10-01	Taisei Corporation	134	1,443	2.60	2,851.80	900.00	3,751.80	187.59	3,939.39	11,255.40	01/07/03–30/06/2005
#10-02/03	VLK Traders (s) Pte Ltd	189	2,034	2.70	4,324.55	1,167.25	5,491.80	274.59	5,766.39	16,475.40	01/07/02–30/06/2005
#10-04	**** Vacant **** wef 15 Oct 2004	59	635								
#10-05	Sanko Progress Corporation	131	1,410	3.00	3,419.25	810.75	4,230.00	211.50	4,441.50	12,690.00	01/01/05–30/06/2005

		FLOOR AREA			MONTHLY BILLING INCL GST						
UNIT NO	NAME OF TENANT	M^2	FT^2	PSF	NET *(S$)*	M/FEE *(S$)*	GROSS *(S$)*	GST *(S$)*	TOTAL *(S$)*	RENTAL DEPOSIT *(S$)*	PERIOD OF TENANCY
#10-06	Philip Loh Hai Fee	59	635	2.50	1,193.75	393.75	1,587.50	79.38	1,666.88	4,762.50	01/07/04–31/07/2005
#10-07	Espansione Sales Pte Ltd	59	635	2.50	1,225.25	362.25	1,587.50	79.38	1,666.88	4,762.50	01/04/04–31/03/2006
#10-08/09	Rockwood Specialities (Singapore) Pte Ltd	131	1,410	2.50	2,580.00	945.00	3,525.00	176.25	3,701.25	10,575.00	01/12/04–30/11/2006
Note:	**#09-07 — 2 mths rental deposit** **#09-08 — 2 mths rental deposit**										
#11-01/02	Brunel International S E A Pte Ltd	265	2,853	2.50	5,280.75	1,851.75	7,132.50	356.63	7,489.13	21,397.50	01/04/05–31/03/2006
#11-03	Shoei Universal Corporation	58	624	2.50	1,141.50	418.50	1,560.00	78.00	1,638.00	4,680.00	01/04/05–31/03/2007
#11-04	Andritz Singapore Pte Ltd	59	635	2.80	1,384.25	393.75	1,778.00	88.90	1,866.90	5,334.00	01/04/04–31/03/2006
#11-05	Blair International Singapore P L	131	1,410	2.40	2,432.25	951.75	3,384.00	169.20	3,553.20	10,152.00	01/03/05–28/02/2008
#11-06	Zhong Yang Resources Pte Ltd	59	635	2.40	1,098.75	425.25	1,524.00	76.20	1,600.20	3,048.00	01/11/04–31/10/2006 2 mths
#11-07	**Vacant wef 16 April 2005**	**59**	**635**								
#11-08	**Vacant wef 1 June 2005**	59	635								
#11-09	Genoyer SA	72	775	2.45	1,379.00	519.75	1,898.75	94.94	1,993.69	5,696.25	22/12/04–21/12/2005
#12-01/04	Fuji Electric FA Singapore Private Ltd	382	4,112	2.40	7,306.30	2,562.50	9,868.80	493.44	10,362.24	29,606.40	01/04/04–31/03/2006
#12-05	Draka NK Cables (Asia) Pte Ltd	131	1,410	2.40	2,432.25	951.75	3,384.00	169.20	3,553.20	10,152.00	01/12/04–30/11/2006
#12-06	Lee Ah Lek practising under A.L. Lee & Co	59	635	2.50	1,162.25	425.25	1,587.50	79.38	1,666.88	4,762.50	01/04/05–31/03/2006
#12-07	Trifleet Leasing (Asia) Pte Ltd	59	635	2.65	1,257.50	425.25	1,682.75	84.14	1,766.89	5,048.25	01/09/04–31/08/2005
#12-08/09	Ching Chiak Yong (Ching & Co)	131	1,410	2.50	2,580.00	945.00	3,525.00	176.25	3,701.25	10,575.00	01/07/04–30/06/2006
	#11-06 — 2 months deposit **#11-07 — 2 months deposit**										
	Total	**5,747**	**61,860**		**74,562.65**	**27,260.75**	**101,823.40**	**5,091.17**	**106,914.57**	**288,940.60**	
	(Approximately HK$)				**342,988**	**125,399**	**468,388**	**23,419**	**491,807**	**1,329,127**	

The following are the texts of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from CB Richard Ellis Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group referred to in it.

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The Directors
K. Wah International Holdings Limited
29/F K. Wah Centre
191 Java Road
North Point
Hong Kong

Date: 30 June 2005

Dear Sirs,

RE: PORTFOLIO VALUATION FOR K. WAH INTERNATIONAL HOLDINGS LIMITED

We refer to your instruction for us to carry out a valuation of the property interests held by the group comprised of K. Wah International Holdings Limited ("KWIH") and its subsidiaries excluding K. Wah Construction Materials Limited and its subsidiaries (the "Remaining KWIH Group") in Hong Kong and Japan, details of which are set out in the attached valuation certificates. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the individual property interests as at 31 March 2005 (the "date of valuation").

In valuing the property interests of the Remaining KWIH Group, we have complied with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities (the "Exchange Listing Rules") issued by the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors ("HKIS").

Our valuation is made on the basis of Market Value which is defined by the HKIS to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

We have applied the definition of Market Value to each property interest independently. We have therefore ignored the potential effect of selling the portfolio at one time.

In valuing the property interests in Group I, which are held by the Remaining KWIH Group for sale, we have valued the property interests by making reference to comparable sales evidences as available in the market.

In valuing the property interests in Group II, which are held by the Remaining KWIH Group for development, we have valued the land by direct comparison approach and taking into account the construction cost and associated cost incurred.

The property interest in Group III, which is rented by the Remaining KWIH Group in Japan, has no commercial value mainly due to the short term nature of the tenancy, prohibition against assignment or the lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit of any deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have caused search to be made at the Land Registry, however, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which might not appear on the copies handed to us.

We have relied to a considerable extent on information given by you, in particular in respect of matters such as interests attributable to the Remaining KWIH Group, statutory notices, easements, tenancies, development scheme, site and floor areas, floor plans and other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificates are based on our measurements taken from plans and therefore are only approximations.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects.

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded.

The property interest in Japan has been valued in Japan Yen ("JPY") and such valuation has been translated in to Hong Kong Dollars at the rate of exchange prevailing at the date of valuation at JPY1.0 to HK$0.07254 and there has been no significant fluctuation in that exchange rate between the date of valuation and the date of this letter.

We enclose herewith a summary of values and our valuation certificates.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Harry C. W. Chan *MHKIS MRICS RPS(GP)*
Director
Valuation & Advisory Services

Note: Mr. Harry Chan is a Registered Professional Surveyor (General Practice), a member of the Hong Kong Institute of Surveyors and a member of Royal Institution of Chartered Surveyors. He has over 13 years valuation experience in Hong Kong and about 5 years valuation experience in Japan.

CB Richard Ellis Limited has about 20 years experience in valuing properties in Japan.

SUMMARY OF VALUES

	Property	Capital value in the existing state as at 31 March 2005
Group I — Property interests held by the Remaining KWIH Group for sale		
1.	Unit B, 41/F, Private Car Parking Spaces No. 25 on 2nd Floor, Nos. 83, 84 and 94 on 5th Floor and Motor Cycle Parking Spaces Nos. M1 to M7 on 2nd Floor The Palace, No. 83 Broadcast Drive Kowloon Tong, Kowloon, Hong Kong	HK$26,690,000
2.	178 Carparking Spaces on Ground Floor, 2nd Floor, 3rd Floor and 5th Floor and 18 Motorcycle Parking Spaces on Ground Floor, 2nd Floor, 3rd Floor and 5th Floor La Costa, No. 8 Po Tai Street Ma On Shan, Shatin, New Territories Hong Kong	HK$40,160,000
3.	Car Parking Spaces No. 3 on Ground Floor, Nos. 2 to 5 on 1st Floor and two Motorcycle Parking Spaces on 1st Floor and 2nd Floor, Le Cachet No. 69 Sing Woo Road Happy Valley, Hong Kong	HK$2,160,000
4.	Private Car Parking Spaces No. 2 on Ground Floor, Nos. 41 to 48 on 5th Floor and Motor Cycle Parking Spaces M1 to M5 on Ground Floor, The Montebello No. 155 Argyle Street, Kowloon Hong Kong	HK$2,720,000
	Subtotal of Group I:	**HK$71,730,000**

	Property	Capital value in the existing state as at 31 March 2005
Group II — Property interests held by the Remaining KWIH Group for development		
5.	Development Site in Sha Tin Area 39 Tung Lo Wan Hill Road Sha Tin, New Territories (Sha Tin Town Lot No. 510) Hong Kong	HK$1,313,000,000
6.	Two Parcels of Land in Tung Lo Wan Hill and Reserved Areas of Mantex Villa Tung Lo Wan Hill Shatin, New Territories Hong Kong	HK$28,000,000
	Subtotal of Group II:	**HK$1,341,000,000**
Group III — Property interests rented by the Remaining KWIH Group		
7.	2nd Floor Jimbochou NK Building 2-7-3 Kanda-Jimbochou, Chiyoda-ku Tokyo Japan	No commercial value
	Subtotal of Group III:	**No commercial value**
	Grand Total:	**HK$1,412,730,000**

VALUATION CERTIFICATE

Group I — Property interests held by the Remaining KWIH Group for sale

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
1.	Unit B, 41st Floor, Private Car Parking Spaces No. 25 on 2nd Floor, Nos. 83, 84 and 94 on 5th Floor and Motor Cycle Parking Spaces Nos. M1 to M7 on 2nd Floor, The Palace, No. 83 Broadcast Drive, Kowloon Tong, Kowloon 228/23616 equal undivided share of and in New Kowloon Inland Lot No. 6276	The property comprises a residential unit, four carparking spaces and seven motorcycle parking spaces in a 37-storey luxury residential development. The development comprises a 33-storey apartment tower above a 4-storey club house/ carpark podium and was completed in 2002. The gross floor area of the residential unit of the property is about 213.68 square metres (2,300 square feet). The saleable area of the residential unit is 166.30 square metres (1,790 square feet). The property is held under the Conditions of Sale No. 12531 for a term of 50 years commencing on 20 April 1999. The annual Government rent is 3% of the rateable value.	The property is currently vacant.	HK$26,690,000

Notes:

1. The registered owner of the property is Netrich Limited under Conditions of Sale No. 12531 of the NKIL 6276.

2. Netrich Limited is a wholly-owned subsidiary of KWIH.

3. The property is situated in an area designated as "Residential (Group C)" uses under the current Kowloon Tong Outline Zoning Plan No. S/K18/11.

4. The property is subject to a Deed of Mutual Covenant incorporating Management Agreement registered in the Land Registry under Memorial No. UB8909813 dated 15 March 2003.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
2.	178 Carparking Spaces on Ground Floor, 2nd Floor, 3rd Floor and 5th Floor and 18 Motor Cycle Parking Spaces on Ground Floor, 2nd Floor, 3rd Floor and 5th Floor, La Costa, No. 8 Po Tai Street, Shatin, New Territories. 1780/40264 plus certain equal undivided share of and in Sha Tin Town Lot No. 483	The property comprises 178 carparking spaces and 18 motorcycle parking spaces in a 4-storey carpark complex within a residential development. The subject development comprises two 32-storey residential blocks and a 4-storey carpark complex and was completed in 2004. The property is held under New Grant No. 13105 commencing from 19 February 2001 for 50 years. The annual Government rent is 3% of rateable value.	The property is currently vacant and is for carparking use.	HK$40,160,000

Notes:

1. The registered owner of the property is Perfect Development Limited under New Grant No. 13105 of the STTL No. 483.

2. Perfect Development Limited is a wholly-owned subsidiary of KWIH.

3. The detail of 178 carparking spaces and 18 motorcycle parking spaces of the property is listed below:

Parking	Floor	Parking Spaces Nos.	Total Number of Spaces
Private Carpark	G/F	2, 11, 13, 15, 19, 37-54, 57-58, 60-62, 64-75	40
	2/F	1-12, 14-16, 20-22, 24-25, 30-59, 61-62, 64-65, 67-68, 71-84	69
	3/F	1-4, 6, 9, 15, 21, 24-25, 38, 40-47, 49-59, 61-69, 74-94	60
	5/F	1-2, 44, 47, 87, 91-94	9
Motorcycle	G/F	M1-M15	15
	2/F	M1	1
	3/F	M1	1
	5/F	M1	1

4. The property is subject to a Deed of Mutual Covenant incorporating Management Agreement registered in the Land Registry under Memorial No. ST1362591 dated 27 March 2004.

5. The property is situated in an area designated as "Residential (Group B)2" uses under the current Ma On Shan Outline Zoning Plan No. S/MOS/10.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
3.	Car Parking Spaces No. 3 on Ground Floor, Nos. 2 to 5 on 1st Floor and two Motorcycle Parking Spaces on 1st Floor and 2nd Floor, Le Cachet, No. 69 Sing Woo Road, Happy Valley, Hong Kong. 34/4444 equal undivided share of and in the Remaining Portion of Section A of Inland Lot Nos. 2644 and 2645, Remaining Portion of 2644, 2645, 2646, 2647, 2649, 2650 and 2651 and Inland Lot No. 2648	The property comprises five carparking spaces and two motorcycle parking spaces within a 31-storey residential development. The development comprises a 4-storey club house/carpark podium above which a 27-storey residential tower is erected. The development was completed in 2001. The property is held under Government Lease for a term of 75 years commencing from 1 August 1928 and renewable for another 75 years. The annual government rent for the property is in total $3740.	The property is currently vacant.	HK$2,160,000

Notes:

1. The registered owner of the property is Bright City Development Limited under Memorial No. UB7674605 dated 7 January 1999.

2. Bright City Development Limited is a wholly-owned subsidiary of KWIH.

3. The property is subject to a Deed of Mutual Covenant and Management Agreement and a Sub-Deed of Mutual Covenant registered in the Land Registry under respectively Memorial No. UB8405743 and UB8406593 both dated 19 May 2001.

4. The property is situated in an area designated as "Residential (Group A)" uses under the current Wong Nai Chung Outline Zoning Plan No. S/H7/11.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
4.	Private Car Parking Spaces No. 2 on Ground Floor, Nos. 41 to 48 on 5th Floor and Motor Cycle Parking Spaces M1 to M5 on Ground Floor, The Montebello, No. 155 Argyle Street, Kowloon. 100/6318 equal and undivided share of and in Section A of Kowloon Inland Lot No. 4022	The property comprises 9 carparking spaces and 5 motorcycle parking spaces within a 28-storey residential development. The development comprises a 5-storey club house/carparking podium above which a 23-storey residential tower was erected and was completed in 2001. The property is held under Conditions of Sale No. 3807 for a term of 75 years commencing from 20 June 1938 and renewable for another 75 years. The annual Government rent for the subject lot is $123.91.	The property is currently vacant.	HK$2,720,000

Notes:

1. The registered owner of the property is Hero Plaza Limited under Memorial No. UB8480354 dated 15 August 2001.

2. Hero Plaza Limited is a wholly-owned subsidiary of KWIH.

3. The property is subject to a Deed of Mutual Covenant incorporating Management Agreement registered in the Land Registry under Memorial No. UB8472790 dated 31 July 2001.

4. The property is situated in an area designated as "Residential (Group B)" uses under the current Ma Tau Kok Outline Zoning Plan No. S/K20/11.

VALUATION CERTIFICATE

Group II — Property interests held by the Remaining KWIH Group for development

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
5.	Development Site in Sha Tin Area 39, Tung Lo Wan Hill Road, Shatin, New Territories. Sha Tin Town Lot No. 510	The property comprises a development site having a site area of about 10,626 square metres (114,378 square feet). The subject is for a proposed development comprising three 11-storey residential towers erected on a 3-storey club house/carparking podium plus one-storey carpark basement and 8 garden houses. The gross floor area of the proposed development is about 24,227 square metres (260,777 square feet). The carpark podium will accommodate a total of 114 carparking spaces (excluding carparking spaces in the houses). The proposed development is scheduled for completion in the first quarter of 2007. The property is held under New Grant No. 13187 for a term of 50 years commencing from 25 May 2004. The annual Government rent is 3% of the rateable value.	The property was undergoing site formation work during our recent site inspection.	HK$1,313,000,000

Notes:

1. The registered owner of the property is Orient Profit Limited under New Grant No. 13187 of the STTL 510.

2. Orient Profit Limited is a wholly-owned subsidiary of KWIH.

3. The property lies within a zone designated as "Residential (Group B)" uses under the current Sha Tin Outline Zoning Plan No. S/ST/18.

4. According to the Particulars and Conditions of Sale of New Grant No. 13187, the use and development of the property are governed by, inter alia, the following major terms and conditions:

User	:	Private residential purposes
Total Gross Floor Area	:	Not exceed 24,227 square metres
Building Height	:	Not exceed 82 metres above Hong Kong Principal Datum
Open Space	:	Not less than 940 square metres
Residential Parking Spaces	:	One space for every residential unit
Building Covenant	:	To be completed on or before 31 December 2008
Formation of Green Area	:	a) Lay and form those portions of future public roads shown coloured green on the plan annexed to the said Conditions of Sales; b) Provide, and construct such bridges, tunnels, over-passes, under-passes, culverts, viaducts, flyovers, pavements, roads as may require; and c) Provide and construct within the Green Area a lay-by for the loading and unloading of motor vehicles.

5. As advised by KWIH, the estimated construction cost budget for the development is about HK$339 million. The construction cost incurred up to the date of valuation is about HK$6,000,000.

6. The capital value of the development after completion is estimated as HK$2,051,000,000 by making reference to comparable sales evidences as available in the relevant market (direct comparison approach).

7. The property is subject to a Debenture Incorporating a Building Mortgage in favour of the Hongkong and Shanghai Banking Corporation Limited under Memorial No. ST1374560 dated 21 June 2004.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
6.	Two Parcels of Land in Tung Lo Wan Hill, and Reserved Areas of Mantex Villa, Tung Lo Wan Hill, Sha Tin, New Territories Section A of Sub-section 1 of Section B of Lot No. 628, The Remaining Portion of Sub-section 1 of Section B of Lot No. 628, The Remaining Portion of Section A of Lot No. 667, Sub-section 4 of Section A of Lot No. 667 and The Remaining Portion of Lot No. 668 in Demarcation District No. 179 22/220 equal undivided share of and in Section A and Sub-section 1 of Section B of Lot No. 611, Section A and Section B of Lot No. 612 and Sub-section 5 of Section A of Lot No. 667 in Demarcation District No. 179	The property comprises two parcels of land situated on a hillslope and the reserved areas of a residential development. The total site area of the property is approximately 3,528.4 square metres (37,980 square feet). The two parcels of land of the property is held under New Grant Nos. 4391, 6283 and 6284 commencing from 1 July 1973 for the further term of 24 years less the last three days and has been extended by the New Territories Lease (Extension) Ordinance 1988 to 30 June 2047 whereas the reserved areas of the property are held under New Grant No. 3376, 3377 and 6283 commencing from 1 July 1973 for the further term of 24 years less the last three days and has been extended by the New Territories Lease (Extension) Ordinance 1988 to 30 June 2047. The annual Government rent for the lots is 3% of the rateable value.	A portion of the property is currently occupied by a swimming pool, open area, driveway and landings of a residential development whereas the remaining portion is vacant.	HK$28,000,000

Notes:

1. The registered owner of the Property registered in the Land Registry is New Fine Limited under Memorial No. 05033000520011 dated 28 February 2005.

2. New Fine Limited is a wholly-owned subsidiary of KWIH.

3. The reserved areas of the property are subject to a Deed of Mutual Covenant under Memorial No. ST660978 dated 30 December 1989.

4. The property lies within a zone designated as "Residential (Group B)" uses under the current Sha Tin Outline Zoning Plan No. S/ST/18.

5. One of the subject lots of the property which is currently occupied by a swimming pool is subject to a Deed of Grant of Rights under Memorial No. ST500581 dated 26 October 1989.

VALUATION CERTIFICATE

Group III — Property interests rented by the Remaining KWIH Group

	Property	Description and tenure	Details of occupancy	Capital value in the existing state as at 31 March 2005
7.	2nd Floor Jimbochou NK Building 2-7-3 Kanda-Jimbochou Chiyoda-ku Tokyo Japan	The property comprises an office unit on 2nd Floor of a 10-storey office/retail building. The gross floor area of the property is about 215.73 square metres (2,322 square feet) and the saleable area is about 184.38 square metres (1,985 square feet). The property is leased by Asahi Kohatsu Corporation for a term of two years commencing from 15 July 2001 renewable for another term of two years at a monthly rent of JPY747,318 exclusive of management fee and charges. No Government Rent is payable to the government under the land system in Japan.	The property is currently occupied by the Remaining KWIH Group for office uses.	No commercial value

Notes:

1. The registered owner of the property is Foundation Noma Bunka Zaidan.

2. We are advised that the registered owner of the property is a third party independent of the Remaining KWIH Group.

3. Asahi Kohatsu Corporation is a 75% owned subsidiary of KWIH.

4. The property is situated in Urbanization Promotion area of City Planning Area designated as Commercial Zone.

The following are the texts of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group referred to in it.

The Directors
K. Wah International Holdings Limited
29th Floor
K. Wah Centre
No. 191 Java Road
North Point
Hong Kong

Valuation Department
DL: (852) 2801 6100
F: (852) 2530 0756

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Date: 30 June 2005

Dear Sirs,

RE: VALUATION OF VARIOUS PROPERTIES IN HONG KONG

In accordance with your instructions to value the property interests owned by the group comprised of K. Wah International Holdings Limited ("KWIH") and its subsidiaries excluding K. Wah Construction Materials Limited and its subsidiaries (the "Remaining KWIH Group") in Hong Kong, we confirm that we have made relevant enquires and obtained such information as we consider necessary for the purpose of providing you with our opinion of the open market values of the property interests as at **31 March 2005** ("the Valuation Date").

Our valuations are our opinion of the open market value of each of the properties concerned which we would define as intended to mean "the best price at which the sale of an interest in a property would be expected to have been completed unconditionally for cash consideration on the Valuation Date, assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the effect of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property, and no allowance is made for the properties to be sold to a single party and/or as a portfolio or portfolios.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our Valuations are prepared in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of Listing Rules published by the Stock Exchange of Hong Kong.

Property interests are held and partly occupied by the Remaining KWIH Group, partly leased or vacant. The property interests that are vacant/occupied by the Remaining KWIH Group are valued on an open market basis assuming sale with the benefit of immediate vacant possession. The tenanted properties are valued by capitalization of the rental income with allowance made for outgoings and, in appropriate cases, provisions for reversionary income potential.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless a non-conformity has been stated, defined and considered in valuation certificates. Moreover, it is assumed that the utilisation of the land and improvements is within the boundary of the site held by the owner or permitted to be occupied by the owner. In addition, no encroachment or trespass exits, unless noted in the valuation certificates.

All documents disclosed in certificates, if any, are for reference only and no responsibility is assumed for any legal matter concerning the legal title to the property interests set out in the certificates.

We have carried out title searches in respect of the properties in the relevant Land Registry in Hong Kong but have not verified the original title documents or ascertained the existence of any lease amendments which may not appear on the copies handed to us. All documents and leases have been used as reference only and all dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore only approximations. No on-site measurements have been taken.

Having examined all relevant documentation, we have relied to a considerable extent on the information provided by the Remaining KWIH Group and have accepted advice given by you to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings,

rentals, and site and floor areas. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on information contained in the document provided to us by the Remaining KWIH Group and are therefore approximate. We have had no reason to doubt the truth and accuracy of information provided to us by the Remaining KWIH Group. We have also been advised by the Remaining KWIH Group that no material facts have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have inspected the exterior and, where possible the interior of the properties. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report that the properties are free from rot, infestation or any other defects. No tests were carried out on any of the building services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We enclose herewith our summary of values and valuation certificates.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*	**Franco P L Liu** *BSc(Hons), MHKIS*
Associate Director	*Associate Director*
Valuation and Consultancy	*Valuation and Consultancy*

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong.

SUMMARY OF VALUES

Property Interests held by the Remaining KWIH Group for Investment Purposes

No.	Property	Open Market Value as at 31 March 2005 *(HK$)*
1.	The whole of the 28th to 30th Floors K. Wah Centre No. 191 Java Road North Point, Hong Kong	$127,570,000
2.	Skyline Commercial Centre No. 77 Wing Lok Street Sheung Wan, Hong Kong	$128,400,000
3.	The whole of the 1st to 3rd, 8th, 18th, 20th to 23rd and 26th to 28th and Penthouse Kingsfield Centre No. 18 Shell Street North Point, Hong Kong	$43,000,000
	Grand Total	**$298,970,000**

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particular of Occupancy	Capital Value in existing state as at 31 March 2005
1.	The whole of the 28th to 30th Floors, K. Wah Centre, No. 191 Java Road North Point, Hong Kong 6,300/88,800th parts or shares of and in Inland Lot No. 7359	The subject property comprises the whole of 28/F to 30/F in a 28-storey commercial building completed in 1991. The G/F to 1/F of K. Wah Centre are devoted to commercial use, car parking spaces are provided on 2/F to 4/F and the upper floors are office units. The total gross floor area of the property is approximately 35,000 sq.ft. (3,251.61 sq.m.). The breakdown gross floor area of constituent floors are as follows: **Floor** — **Gross Floor Area** (*sq.ft.* / *sq.m.*) 28/F — 13,200 / 1,226.32 29/F — 13,200 / 1,226.32 30F — 8,600 / 798.97 Total — 35,000 / 3,251.61 The property is held under a Government Lease for a term of 75 years from 3 December 1956 and is renewable for a further term of 75 years. The current Government Rent payable for the whole lot is in total HK$1,836 per annum.	Units 2802 to 2804 (in total approximately 311.78 sq.m.) are leased for a term of 2 years from 5 January 2004 to 4 January 2006 at a monthly rental of HK$40,272 (exclusives of management fee and Government rates), whilst the remaining areas of the property are occupied by the Remaining KWIH Group.	HK$127,570,000

Notes:

(i) The registered owner of the property is K. Wah Stones Company Limited (a wholly-owned subsidiary of KWIH) under Memorial No. UB5362427 dated 1 July 1992.

(ii) The following encumbrances are found registered against the property upon our recent title searches:

(a) Occupation Permit (No. H128/91) vide Memorial No. UB5269505 dated 27 November 1991;

(b) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. UB5362428 dated 6 July 1992; and

(c) Certified Copy of Certificate of Incorporation on Change of Name in favour of K. Wah Management Services Limited vide Memorial No. UB8220607 dated 10 August 2000.

(iii) The subject property falls within an area zoned "Commercial" under the North Point (HPA 8) Outline Zoning Plan No. S/H8/19 dated 1 February 2005.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particular of Occupancy	Capital Value in existing state as at 31 March 2005
2.	Skyline Commercial Centre, No. 77 Wing Lok Street, Sheung Wan Hong Kong The Remaining Portion of Marine Lot Nos. 127, 165, 166 and 167	The subject property comprises a 25-storey commercial/office building, known as Skyline Commercial Centre, erected on a site with a registered site area of approximately 256.88 sq.m. (2,765 sq.ft.). The building was completed in about 1997. Ground floor is designed for retail purpose whilst the upper floors are office units. The total gross floor area of the property is approximately 36,377 sq.ft. (3,379.54 sq.m.). The property is held under various Government leases which are subject to a common term of 981 years commencing on 26 December 1860. The current Government Rent payable for the subject property is in total HK$54,441 per annum.	A total gross floor area of approximately 32,909 sq.ft. (3,057.35 sq.m.) of the property is subject to various tenancies with the latest expiry date on 5 April 2007 at a total monthly rental of HK$393,698.20 (exclusive of management fee & Government Rates). The remaining areas of the property are vacant.	HK$128,400,000

Notes:

(i) The registered owner of the property is Origin World Limited (a wholly-owned subsidiary of KWIH) under Memorial No. UB6045799 dated 30 May 1997.

(ii) The subject property is subject to a Mortgage in favour of Fortis Bank Asia HK for all sums of money including general banking facilities vide Memorial No. UB8183747 dated 25 August 2000.

(iii) The subject property falls within an area zoned "Commercial/Residential" under the Sai Ying Pun and Sheung Wan (HPA 3) Outline Zoning Plan No. S/H3/20 dated 16 December 2003.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particular of Occupancy	Capital Value in existing state as at 31 March 2005
3.	The whole of the 1st Floor and Flat Roof, 2nd to 3rd Floors, 8th Floor, 18th Floor, 20th to 23rd Floors and 26th to 28th Floors and Penthouse, Kingsfield Centre, No. 18 Shell Street, North Point, Hong Kong 549/1,106th parts or shares of and in The Remaining Portion and The Remaining Portion of Sub-Section 1 of Section Y of Inland Lot No. 2273	The subject property comprises the whole of 1–3/F, 8/F, 18/F, 20–23/F and 26–28/F and Penthouse in a 27-storey commercial building completed in 1995. G/F of Kingsfield Centre is devoted to commercial use and the upper floors are office units. The total gross floor area of the property is approximately 20,161 sq.ft. (1,873.02 sq.m.). The property is held under a government lease for a term of 75 years from 25 August 1919 and is renewable for a further term of 75 years.	A total gross floor area of approximately 16,876 sq.ft. (1,567.83 sq.m.) of the property is subject to various tenancies with the latest expiry date on 9 January 2007 at a total monthly rental of HK$141,394 (exclusive of rates & management fees). The remaining areas of the property are vacant.	HK$43,000,000

Notes:

(i) The registered owner of the property is Lucky Way Investment Limited (a wholly-owned subsidiary of KWIH) under Memorial No. UB5059627 dated 8 October 1991.

(ii) The following encumbrances are found registered against the subject property upon our recent title searches:

(a) Statutory Declaration of Philip K.H. Wong vide Memorial No. UB5936767 dated 3 March 1994; and

(b) Occupation Permit (No.H31/95) vide Memorial No. UB6296530 dated 16 May 1995.

(iii) The subject property falls within an area zoned "Commercial/Residential" under the North Point (HPA 8) Outline Zoning Plan No. S/H8/19 dated 1 February 2005.

The following are the texts of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Knight Frank Hong Kong Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group referred to in it.

Knight Frank
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29/F Office Tower
Convention Plaza, 1 Harbour Road
Wanchai, Hong Kong
+852 2810 8123
+852 2845 0649 fax

www.knightfrank.com

The Directors
K. Wah International Holdings Limited
29th Floor, K. Wah Centre
No. 191 Java Road
North Point
Hong Kong

Date: 30 June 2005

Dear Sirs,

In accordance with your instructions for us to value the property interests held by the group comprised of K. Wah International Holdings Limited ("KWIH") and its subsidiaries excluding K. Wah Construction Materials Limited and its subsidiaries (the "Remaining KWIH Group") situated in the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 31st March, 2005.

Our valuation of each of the property interests is our opinion of its open market value which we would define as meaning "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the owners sell the property interests on the open market in their existing state without the benefit of deferred term contract, leaseback, joint venture, management agreement or any similar arrangements which would serve to increase the value of the property interests.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

In valuing the property interests in the PRC, based on the advice from your legal adviser on PRC laws, Guangdong Jun He Zheng Tong Law Firm, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid except stated herein otherwise. Based on the advice from your legal adviser on PRC laws, Guangdong Jun He Zheng Tong Law Firm, we have also assumed that the grantees or users of the properties have free and uninterrupted right to occupy, use, transfer, lease or assign the property interests for the whole of the unexpired term as granted. We have relied on the advice given by the Remaining KWIH Group and its legal adviser on PRC laws, Guangdong Jun He Zheng Tong Law Firm, regarding the titles to each of the property interests in the PRC and the interests of the Remaining KWIH Group in such properties.

In valuing the property interests in Group I which are held by the Remaining KWIH Group for investment, we have valued them by the investment method whereby the current rents passing are capitalized for the residue of their term of tenancies, with reversionary interests to vacant possession deferred for the same period.

In valuing the property interests in Group II which are held by the Remaining KWIH Group for development, we have valued them by the direct comparison approach by making reference to comparable market transactions in the locality.

We have relied to a considerable extent on the information provided by the Remaining KWIH Group and its legal adviser on PRC laws and have accepted advice given to us by the Remaining KWIH Group on such matters as planning approvals, statutory notices, easements, identification of the properties, tenure, particulars of occupancy, and site and floor areas. We have not conducted title search for the property interests but have relied on the information given to us by the Remaining KWIH Group and the Remaining KWIH Group's legal adviser, Guangdong Jun Ru Zheng Tong Law Firm, on the PRC laws in respect of the Remaining KWIH Group's property interests in the PRC. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

Dimension, measurements and areas included in the valuation certificates are based on the information provided by you to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed by you to us are correct. We have no reason to doubt the truth and accuracy of the information provided to us by the Remaining KWIH Group which is material to the valuations. We were also advised by you that no material fact has been omitted from the information supplied.

We have inspected the exterior and, where possible the interior of each of the properties valued. During the course of our inspection, we did not notice any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We have prepared this report in accordance with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by The Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Hong Kong dollars. The exchange rate adopted in our valuation is HK$1 = RMB1.06, which was the approximate exchange rate prevailing as at the date of valuation and there has been no significant fluctuation in such exchange rate between that date and the date of this letter.

We enclose herewith our summary of values and valuation certificates.

Yours faithfully,
For and on behalf of
KNIGHT FRANK HONG KONG LIMITED
C. K. Lau
MHKIS MRICS RPS(GP)
Executive Director

Note: Mr. C.K. Lau, who is a professional member of the Hong Kong Institute of Surveyors, a professional member of the Royal Institution of Chartered Surveyors and a Registered Professional Surveyor in General Practice, has over 12 years of post-qualification experience in valuing properties in Hong Kong and the PRC.

SUMMARY OF VALUES

	Property	Capital value in existing state as at 31st March, 2005 *HK$*
Group I — Property interests held by the Remaining KWIH Group in the PRC for investment		
1.	The commercial spaces on Levels 1 and 2, Shopping Arcade Phase I, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	$53,000,000
2.	Shop No. 23 on Level 1, Shopping Arcade Phase III, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	$1,100,000
3.	Duplex Unit No. 1907 (now known as Unit No. 2107), Block 4, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	$1,050,000
4.	Car Parking Space No. 42 in Basement of Block 1, Car Parking Space Nos. 246, 253, 260, 261, 262, 269, 270, 271, 273, 273A, 275, 276, 280, 281, 282, 283 and 286 in Basement of Block 7, Car Parking Space Nos. 222 and 223 in Basement of Block 8 and Car Parking Space Nos. 125 and 126 in Basement of Block 10, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	$3,300,000

	Property	Capital value in existing state as at 31st March, 2005 *HK$*
5.	Unit 2302 on Level 23, North Tower, World Trade Centre, Nos. 371–375 Huan Shi Road East, Dong Shan District, Guangzhou, Guangdong Province, the PRC	$1,700,000
	Sub-total:	**$60,150,000**

	Property	Capital value in existing state as at 31st March, 2005 *HK$*
Group II — Property interests held by the Remaining KWIH Group for development		
6.	A piece of land located at Dong Jing Cun, Xinhua Zhen, Hua Du City, Guangzhou, Guangdong Province, the PRC	$430,000,000
7.	A piece of land located at the northern side of Ying Bin Da Du, Qing Bu Cun, Xinhua Zhen, Hua Du City, Guangzhou, Guangdong Province, the PRC	$340,000,000
	Sub-total:	**$770,000,000**
	Grand-total:	**$830,150,000**

VALUATION CERTIFICATE

Group I — Property interests held by the Remaining KWIH Group in the PRC for investment

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
1.	The commercial spaces on Levels 1 and 2, Shopping Arcade Phase I, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	The property comprises all the retail spaces of a 2-storey commercial podium on which a 16-storey office building and a 15-storey residential building are erected. The buildings were completed in about 1996. The gross floor areas of the property are approximately as follows: Level 1 : 1,611.82 sq.m. (17,349 sq.ft.) Level 2 : 1,915.37 sq.m. (20,617 sq.ft.) Total : 3,527.19 sq.m. (37,966 sq.ft.) The land use rights of the property have been granted for a term of 40 years from 27th April, 1993.	Except for a portion having an area of approximately 1,486.8 sq.m. which is subject to two tenancies with the latest one expiring in August 2011 at a total rent of RMB98,466 per month exclusive of management fees, the remainder of the property is occupied by the Remaining KWIH Group as an office.	HK$53,000,000

Notes:

1. Pursuant to the Realty Title Certificate Nos. 1493095 and 1493096 issued by Guangzhou Municipal Building and Land Administrative Bureau on 30th December, 2002, the ownership of the property is vested in Kingrand Limited (興弘有限公司), a wholly-owned subsidiary of KWIH.

2. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property is vested in Kingrand Limited.

   (ii) Kingrand Limited is entitled to occupy, use, lease or transfer the property.

   (iii) The property is mortgaged to Nanyang Commercial Bank Ltd. Guangzhou Branch.

   (iv) The tenancy agreements and the supplemental agreements entered into between Kingrand Limited and the tenants are valid.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the KWIH Remaining Group and the aforesaid legal opinion are as follows:

   Realty Title Certificate Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
2.	Shop No. 23 on Level 1, Shopping Arcade Phase III, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	The property comprises a shop unit on Level 1 of the Shopping Arcade of Phase III of Park View Place, which accommodates a level of shops on Level 1. On top of the shopping arcade are three 17-storey residential blocks. The property was completed in about 2001. The gross floor area of the property is approximately 83.92 sq.m. (903 sq.ft.). The land use rights of the property have been granted for a term of 50 years from 13th January, 1993.	The property is subject to a tenancy for a term commencing on 1st November, 2004 and expiring on 14th May, 2007 at a rent of RMB8,812 per month exclusive of management fee and other outgoings. The rent will be increased by 5% each year starting from the 2nd year of the lease term.	HK$1,100,000

Notes:

1. Pursuant to a Real Estate Ownership Proof Certificate dated 6th May, 2003, the ownership of the property is held by Guangzhou Yue Hua Real Estate Development Co., Ltd. (廣州市越華房地產開發有限公司) ("Guangzhou Yue Hua"), a wholly-owned subsidiary of KWIH.

2. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property to Guangzhou Yue Hua is valid under the Real Estate Ownership Proof Certificate registered on 6th May, 2003.

   (ii) Guangzhou Yue Hua is entitled to occupy, use, lease or transfer the property.

   (iii) The property is not subject to any mortgages or other encumbrances.

   (iv) The tenancy agreement and the supplemental agreement entered into between Guangzhou Yue Hua and the tenant are valid.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

   A Real Estate Ownership Proof Certificate Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
3.	Duplex Unit No. 1907 (now known as Unit No. 2107), Block 4, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	The property comprises a duplex residential unit on Levels 21 and 22 of a 20-storey plus a Basement (there being no Levels 4 and 14) residential building completed in about 1999. The gross floor area of the property is approximately 169 sq.m. (1,819 sq.ft.). The land use rights of the property have been granted for a term of 70 years from 12th March, 1996.	The property is vacant.	HK$1,050,000

Notes:

1. Pursuant to a Real Estate Ownership Proof Certificate dated 29th September, 2002, the ownership of the property is held by Guangzhou Yue Hua Real Estate Development Co., Ltd. (廣州市越華房地產開發有限公司) ("Guangzhou Yue Hua"), a wholly-owned subsidiary of KWIH.

2. The opinion of the KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property to Guangzhou Yue Hua is valid under the Real Estate Ownership Proof Certificate registered on 29th September, 2002.

   (ii) Guangzhou Yue Hua is entitled to occupy, use, lease or transfer the property.

   (iii) The property is not subject to any mortgages or other encumbrances.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

   A Real Estate Ownership Proof Certificate Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
4.	Car Parking Space No. 42 in Basement of Block 1, Car Parking Space Nos. 246, 253, 260, 261, 262, 269, 270, 271, 273, 273A, 275, 276, 280, 281, 282, 283 and 286 in Basement of Block 7, Car Parking Space Nos. 222 and 223 in Basement of Block 8 and Car Parking Space Nos. 125 and 126 in Basement of Block 10, Park View Place, No. 148 Dong Feng Road West, Yue Xiu District, Guangzhou, Guangdong Province, the PRC	The property comprises 22 carparking spaces in the Basement of a mixed commercial/residential development known as Park View Place, which accommodates 11 residential blocks and an office block. The property was completed in about 2001. The land use rights of the property have been granted for terms of 40 years from 13th January, 1993 and 27th April, 1993 respectively.	The property is subject to various tenancies (expiring between 2006 and 2011) at a total rent of RMB2,000 per month.	HK$3,300,000

Notes:

1. Pursuant to two Real Estate Ownership Proof Certificates dated 6th November, 1997 and 6th May, 2003 respectively, the ownership of the property is held by Guangzhou Yue Hua Real Estate Development Co., Ltd. (廣州市越華房地產開發有限公司) ("Guangzhou Yue Hua"), a wholly-owned subsidiary of KWIH.

2. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property to Guangzhou Yue Hua is valid under the Real Estate Ownership Proof Certificates registered on 6th November, 1997 and 6th May, 2003 respectively.

   (ii) Guangzhou Yue Hua is entitled to occupy, use, lease or transfer the property.

   (iii) The property is not subject to any mortgages or other encumbrances.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

   Two Real Estate Ownership Proof Certificates Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
5.	Unit 2302 on Level 23, North Tower, World Trade Centre, Nos. 371–375 Huan Shi Road East, Dong Shan District, Guangzhou, Guangdong Province, the PRC	The property comprises an office unit on Level 23 of a 34-storey plus a basement commercial building completed in about 1992. The gross floor area of the property is approximately 225.14 sq.m. (2,423 sq.ft.). The land use rights of the property have been granted for a term 50 years from 21st July, 1991.	The property is subject to a tenancy for a term of 4 years from 1st April, 2003 at a rent of RMB14,634 per month exclusive of management fee and other outgoings.	HK$1,700,000

Notes:

1. Pursuant to the Realty Title Certificate No. 0762597 issued by Guangzhou Municipal Building and Land Administrative Bureau on 8th December, 2000, the ownership of the property is vested in K. Wah Management Services Ltd. (嘉華企業管理有限公司), a wholly-owned subsidiary of KWIH.

2. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property is vested in K. Wah Management Services Ltd.

   (ii) K. Wah Management Services Ltd. is in possession of a proper legal title to the property and is entitled to occupy, use, lease or transfer the property.

   (iii) The property is not subject to any mortgages or other encumbrances.

   (iv) The tenancy agreement and the supplemental agreement entered into between K. Wan Management Services Ltd and the tenant are valid.

3. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

   Realty Title Certificate Yes

VALUATION CERTIFICATE

Group II — Property interests held by the Remaining KWIH Group for development

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
6.	A piece of land located at Dong Jing Cun, Xinhua Zhen, Hua Du City, Guangzhou, Guangdong Province, the PRC	The property comprises three adjacent lots with a total site area of approximately 637,346 sq.m. (6,860,329 sq.ft.). The land use rights of the property have been granted for various (see notes 1 to 3 below) terms expiring on between 13th March, 2034 and 21st December, 2068.	The property is vacant.	HK$430,000,000

Notes:

1. Pursuant to the State-owned Land Use Certificate No. (2004) 720172 issued by Guangzhou Municipal Building and Land Administrative Bureau on 30th April, 2004, the land use rights of Lot No. 0121030, comprising an area of 322,955.9 sq.m., is held by Guangzhou Hui Cheng Real Estate Development Co., Ltd. (廣州匯城房地產開發有限公司) ("Hui Cheng"), a wholly-owned subsidiary of KWIH, for residential use. The land use term for commercial uses is to be expired on 21st December, 2038 whilst that for residential use is to be expired on 21st December, 2068.

2. Pursuant to the State-owned Land Use Certificate No. (2004) 720173 issued by Guangzhou Municipal Building and Land Administrative Bureau on 30th April, 2004, the land use rights of Lot No. 0121031, comprising an area of 197,334.1 sq.m. is held by Hui Cheng for residential use. The land use term for commercial uses is to be expired on 13th March, 2034 whilst that for residential use is to be expired on 13th March, 2064.

3. Pursuant to the State-owned Land Use Certificate No. (1997) 11029346 issued by the People's Government of Hua Du City on 8th August, 1997, the land use rights of Lot No. 121008, comprising an area of 117,056 sq.m., is held by Hui Cheng for commercial and residential uses for a term commencing on 8th August, 1997 and expiring on 8th August, 2067.

4. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property is vested in Hui Cheng.

   (ii) The land premium of the property was paid in full.

   (iii) Hui Cheng is entitled to transfer, lease or mortgage the property subject to PRC laws.

   (iv) The property is not subject to any mortgages or other encumbrances.

5. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

   State-owned Land Use Certificate: Yes

6. The property is held for future development and is planned to be developed into a residential development. Detailed proposal has not been prepared yet.

   As advised by the Remaining KWIH Group, there are not any material conditions imposed which affect the development of the property, or which relate to construction of roadways, pathways, drainage, sewage and other facilities or services for public use.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st March, 2005
7.	A piece of land located at the northern side of Ying Bin Da Du, Qing Bu Cun, Xinhua Zhen, Hua Du City, Guangzhou, Guangdong Province, the PRC	The property comprises a piece of land with an area of approximately 106,310 sq.m. (1,144,310 sq.ft.). The land use rights of the property have been granted for terms expiring in December 2039 and December 2069 for commercial uses and residential use respectively.	The property is vacant	HK$340,000,000

Notes:

1. Pursuant to the State-owned Land Use Certificate No. (2005) 721028 issued by Guangzhou Municipal Building and Land Administrative Bureau on 5th April, 2005, the land use rights of Lot No. 0119102, comprising an area of 106,310 sq.m., is held by K. Wah Hua Du Investment Co., Ltd. (廣州市嘉華花都置業有限公司) ("Hua Du"), a wholly-owned subsidiary of KWIH, for commercial and residential uses. The land use term for commercial use is to be expired on 30th December, 2039 whilst that for residential use is to be expired on 30th December, 2069.

2. Pursuant to a Transfer Contract for Grant of Land Use Rights entered into between Guangzhou Hua Du Eastern District Real Estate Development Company (廣州市花都區東區房地產開發公司) ("vendor") and Hua Du ("purchaser") on 29th December, 2004, the vendor has agreed to transfer the property to the purchaser at a consideration of RMB43,422,500.

3. Pursuant to the Reply No. (2004) 21 issued by Hua Du District Office of Guangzhou City Planning Bureau on 30th December, 2004, the planning design of the property is, inter-alia, as follows:

   (i) Site area : 126,849 sq.m.

   (ii) Usage : Commercial and finance, cultural and entertainment, and residential

   (iii) Plot ratio : not exceeding 3 for residential
   not exceeding 4.5 for commercial

   (iv) Green area : not less than 35%

4. The opinion of the Remaining KWIH Group's legal adviser on the PRC laws states, inter-alia, that:

   (i) The ownership of the property is vested in Hua Du.

   (ii) Hua Du is entitled to transfer, lease or mortgage the property subject to PRC laws.

   (iii) The property is not subject to any mortgages or other encumbrances.

   (iv) A land premium of RMB38,309,125, equivalent to 88.22% of the total premium, was paid.

5. The status of the title and grant of major approvals and licences in accordance with the information provided by the Remaining KWIH Group and the aforesaid legal opinion are as follows:

State-owned Land Use Certificate	Yes
Certificate for Construction and Land Usage Planning	Yes

6. The property is held for future development and is planned to be developed into a development with a mix of office, hotel and residential uses. Detailed proposal has not been prepared yet. According to the Transfer Contract for Grant of Land Use Rights as mentioned in Note (2) above, the Remaining KWIH Group is required to commence construction work for an office block/hotel at the end of 2005.

   We are also advised by the Remaining KWIH Group that there are not any material conditions imposed which affect the development of the property, or which relate to construction of roadways, pathways, drainage, sewage and other facilities or services for public use.

The following is the text of a letter, summary of value and valuation certificate received from Colliers International (Hong Kong) Limited, prepared for the purpose of incorporation in this circular, in connection with its valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group in the PRC referred to in it.

Colliers International (Hong Kong) Limited
Suite 5701 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
高力國際物業顧問(香港)有限公司
香港灣仔港灣道18號
中環廣場5701室

Tel 852 2828 9888
Direct 852 2822 0533
Fax 852 2107 6015
Email Patrick.lee@colliers.com

The Board of Directors
K. Wah International Holdings Limited
29/F., K. Wah Centre
191 Java Road
North Point
Hong Kong

Date: 30 June 2005

Dear Sirs,

In accordance with your instructions to value the property interest held by the group comprised of K. Wah International Holdings Limited ("KWIH") and its subsidiaries excluding K. Wah Construction Materials Limited and its subsidiaries (the "Remaining KWIH Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 March 2005 (the "date of valuation").

Our valuation of the property interest represents the market value which we would define as "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

In valuing the property interest, we have adopted direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Our valuation has been made on the assumption that the owners sell the relevant property interest on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In our valuation, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors in January 2005 and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by The Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information provided by the Remaining KWIH Group and have accepted advice given by the Remaining KWIH Group to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, lettings, rental income and revenue, joint venture agreements, development plans, construction costs estimates, site and floor areas, and the identification of the property interest in which the Remaining KWIH Group has valid interests. Dimensions, measurements and areas included in the valuation certificates are based on information contained in copies of documents provided to us.

We have been provided with extracts from title documents relating to the property interest. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. We have relied on the advice given by the Remaining KWIH Group's PRC legal adviser, Zhong Lun Law Firm, concerning the validity of the Remaining KWIH Group's titles to the property interest in the PRC.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the property but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar property interests in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and where possible, the interior of the property interest. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Remaining KWIH Group. We were also advised by the Remaining KWIH Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. The exchange rate used in valuing the property interest in the PRC on 31 March 2005 was HK$1 = RMB1.06. There has been no significant fluctuation in exchange rate between that date of valuation and the date of this letter.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
Colliers International (Hong Kong) Ltd
Patrick Lee Che Keung
BSc., MRICS, MHKIS, RPS(GP)
Associate Director

Note: Patrick Lee Che Keung is a Chartered Surveyor who has 12 years of property valuation experience in Hong Kong and has 10 years' experience in the valuation of properties in the PRC and the Asia-Pacific region.

SUMMARY OF VALUES

Property	Market Value in existing state as at 31 March 2005 *HK$*	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005 *HK$*
Property Interest held by the Remaining KWIH Group in the PRC for Investment			
Shanghai K. Wah Centre No. 1010 Huaihai Zhong Road Xuhui District Shanghai The PRC	1,977,000,000	35.75%	706,777,500
		Total:	**706,777,500**

VALUATION CERTIFICATE

Property Interest held by the Remaining KWIH Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005 *HK$*
Shanghai K.Wah Centre No. 1010 Huaihai Zhong Road Xuhui District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 10,854 sq.m.. The property consists of a 37-storey office tower, a 4-storey commercial building, a 3-storey club house building, 2 floors of underground parking space and equipment space, which has a total gross floor area of approximately 85,260 sq.m. The office main building was completed in December 2004. Upon completion, the approximate gross floor area and proposed usage of the property are as follows:	A portion of the main office building is vacant and the remaining portion of the office building is subject to various tenancies mainly for a term of 2–3 years with the latest expiry date in May 2010 at a total rent of RMB2,750,093. The commercial building and the club house building are completed in or about June 2005.	1,977,000,000 (Interest attributable to the Remaining KWIH Group as at 31 March 2005: HK$706,777,500)

Item	Approximate Gross Floor Area *(sq.m.)*
Main Office Building (37 storey)	65,640
Commercial Building (4 storey)	4,049
Club House Building (3 Storey)	3,691
Underground Space (2 storey)	11,880
Total	85,260

The property is held for investment.

Notes:

(i) Pursuant to a Realty Title Certificate, Hu Fang Di Xu Zi (2004) No.020283 dated 3 June 2004, issued by the Housing and Land Resources Administrative Bureau of Shanghai, the land use rights with a site area of approximately 10,854 sq.m. are held by 上海嘉滙達房地產開發經營有限公司 (Shanghai Jia Hui Da Real Estate Development Co. Limited.) ("Shanghai Jia Hui Da") for a term commencing from 2 November 1994 and expiring on 19 May 2047 for comprehensive uses.

(ii) We have been provided with the legal opinion on the property interests by the Remaining KWIH Group's PRC legal adviser, which contains, inter alia, the following:

(a) The land use rights of the property are legally held by Shanghai Jia Hui Da, in which Chely Well Limited, SVA Electron Co., Ltd. (上海廣電電子股份有限公司) and Shanghai Xu Fang (Group) Co., Ltd. (上海徐房(集團)有限公司) has 55%, 30% and 15% equity interest respectively and they share the profit and loss at the same ratio, and the land premiums have been fully settled by Shanghai Jia Hui Da.

(b) The land use rights of the property can be freely transferred, mortgaged and let by Shanghai Jia Hui Da.

(c) The land use rights of the property and the construction works erected thereon are subject to a mortgage in favour of DBS Bank Shanghai Branch for a term commencing from 21 June 2004 and expiring on 21 December 2005 for 2 loans of HK$350,000,000 and HK$250,000,000 respectively.

(d) On 28 February 2003, a renewed Business Licence was granted to Shanghai Jia Hui Da to develop and trade the property.

(iii) In valuing the 2 buildings (commercial building and club house building) of this property interest which are completed in or about June 2005, we have considered the construction cost to be incurred as at the date of valuation. For the units of the main office building, which are currently leased, we have valued them on the basis of their capitalisation of net rental income.

(iv) KWIH owns 65% of the issued share capital of Chely Well Limited.

The following is the text of a letter, summary of value and valuation certificates, prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interest of the Remaining KWIH Group.

The Board of Directors
K. WAH INTERNATIONAL HOLDINGS LIMITED
29/F., K. Wah Centre,
191 Java Road, North Point,
Hong Kong

Valuation Department
DL: (852) 2801 6100
F: (852) 2530 0756

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Date: 30 June 2005

Dear Sirs,

PROPERTY: 36 CAR PARKING SPACES ON BASEMENT LEVELS 1–2, PALACE COURT, NO. 1068 HUAIHAI ZHONG ROAD, XUHUI DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA

We refer to your instructions for us to value the captioned property interest held by Shanghai Jia Hui Da Real Estate Development Co. Ltd. (上海嘉滙達房地產開發經營有限公司) ("Shanghai Jia Hui Da") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2005 (the "Date of Valuation").

We confirm that we are not aware of any conflict of interest preventing us from providing you with an independent valuation of the property.

Our valuation is made in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards ("the Red Book") published in February 2003, which is effective from 1 May 2003, Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

Our valuation has been made on the basis of Market Value, the definition of which is set out at Practice Statement 3.2 and which is defined as follows:

> *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

The estimated amount is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation has been made on the assumption that the property interest is sold on the (open) market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the property interest.

In arriving at our opinion of the Market Value of the property, we have valued it by the comparison method assuming sale with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

Unless otherwise stated, based on the advice of your legal advisers Zhong Lun Law Firm (the "PRC Legal Advisers") we have assumed that the owner of the property interest has enforceable title to the property interest, and has free and uninterrupted rights to use the property for the whole of the unexpired term granted subject to payment of annual land use fee and that all requisite land use rights grant premium / purchase consideration payable have been fully settled. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the (open) market without paying any additional premium or other onerous payment.

Other special assumptions of the property, if any, have been stated in the footnotes of the valuation certificate for the property.

We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied on the advice given by you and the PRC Legal Advisers on PRC laws, regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgment in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

We have relied on the advice given by you regarding the title to the property interest in the PRC. For the purpose of our valuation, based on the advice of the PRC Legal Advisers we have assumed that the owner has enforceable title to the property interest. In our valuation, we have exercised our professional judgment in arriving at the valuation but you are urged to consider our valuation assumptions with caution.

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the building services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly in respect of planning approvals or statutory notices, easements, tenures, development proposals, site and floor areas and in the identification of the property in which you have valid interest. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, no allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the property has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.

Unless otherwise stated, the property value is denominated in RENMINBI. The exchange rate used in our valuation is RMB8.277 to US$1.000 and HK$1.000 to RMB1.060 which was prevailing as at the Date of Valuation. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We enclose herewith the summary of value and the valuation certificate.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*
Associate Director
Valuation and Consultancy

Franco P L Liu *BSc(Hons), MHKIS*
Associate Director
Valuation and Consultancy

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong and 9 years and 5 years property valuation experience respectively in the PRC.

SUMMARY OF VALUE

Property	Market Value in existing state as at 31 March 2005	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005
Property Interest held by the Remaining KWIH Group in the PRC for Investment			
36 Car Parking Spaces on Basement Levels 1–2, Palace Court, No. 1068 Huaihai Zhong Road, Xuhui District, Shanghai, the People's Republic of China	RMB8,500,000 (approximately HK$8,018,868)	35.75%	RMB3,038,750 (approximately HK$2,866,745)
		Total:	**RMB3,038,750 (approximately HK$2,866,745)**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
36 Car Parking Spaces on Basement Levels 1–2, Palace Court, No. 1068 Huaihai Zhong Road, Xuhui District, Shanghai, the People's Republic of China	Palace Court is a 32-storey residential building above a 2-storey car parking basement with two entrances provided known as Block I and Block II. It is of reinforced concrete construction and was completed in March 1997. The Property under consideration comprises 36 car parking spaces on Basement Levels 1–2. As advised by KWIH, the total gross floor area of the property is of approximately 1,693.80 sq.m..(47.05 sq.m. per space) According to the Certificate for Real Estate Ownership reference No. (1997) 000840, the land use rights of the property have been granted for a term commencing on 2 November 1994 and expiring 19 October 2063. The property is held for investment. The planning or zoning use is residential.	The property is currently vacant.	RMB8,500,000 (approximately HK$8,018,868)

Notes:

1. Pursuant to the Certificate for Real Estate Ownership reference No. (1997) 000840 dated 1 April 1997 issued by Shanghai Municipal Building and Land Administration Bureau, the building ownership of the Property which situated at Palace Court, Blocks I and II, No.1068 Huaihai Zhong Road with a total gross floor area of approximately 34,144.77 sq.m., in which the gross floor area of the basement of approximately 5,081 sq.m. is vested in Shanghai Jia Hui Da and the land use rights of the Property with a site area of approximately 2,840 sq.m. have been granted for a land use term commencing on 2 November 1994 and expiring 19 October 2063 for residential uses.

2. The PRC Legal Advisers have stated in their legal opinion, amongst other things, to the following:

   (i) The property (i.e. 36 car parking spaces located on Nos. 4, 5, 10, 11, 50, 52 on Basement Level 1 and Nos. 4, 5, 9, 10, 11, 14–18, 20, 21, 23, 24, 26, 28, 29, 33, 34, 36, 41, 42, 44, 48, 50–55 on Basement Level 2) with a total gross floor area of 1,693.80 sq.m. is held in the name of Shanghai Jia Hui Da under the Certificate for Real Estate Ownership reference No. (1997) 000840 dated 1 April 1997;

   (ii) Shanghai Jia Hui Da may assign, lease the property during the land use rights term;

   (iii) Shanghai Jia Hui Da is a joint venture company with the registered capital injected by SVA Electron Co., Ltd. (上海廣電電子股份有限公司), Shanghai Xu Fang (Group) Co., Ltd. (上海徐房(集團)有限公司) and Chely Well Limited in the ratio of 30%, 15% and 55% respectively. Profit sharing is in accordance with the equity holding stake.

   (iv) The (renewed) Business Licence was issued to 上海嘉滙達 on 28th February, 2003.

3. As advised by KWIH, Chely Well Limited is 65% owned by KWIH.

4. The status of the title and grant of major approvals and licences in accordance with the information provided to us are as follows:

Certificate for Real Estate Ownership	Yes

The following are the texts of a letter, summary of value and valuation certificate prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interest of the Remaining KWIH Group.

savills
第一太平戴維斯

The Board of Directors
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Hong Kong

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savills.com

Date: 30 June 2005

Dear Sirs,

PROPERTY: "SHANGHAI WESTWOOD" COMPRISING OF TWO PIECES OF SITES OF APPROXIMATELY 107,864 SQ.M. AND 41,236 SQ.M. RESPECTIVELY, SITUATED AT QIU 19 AND QIU 20, LOT NO. 701, GUANGZHONG ROAD, ZHABEI DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA

We refer to your instructions for us to value the captioned property interest held by Shanghai Guoguang Real Estate Development Co., Ltd. (上海國廣房地產經營有限公司) in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2005 (the "Date of Valuation").

We confirm that we are not aware of any conflict of interest preventing us from providing you with an independent valuation of the property.

Our valuation is made in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards ("the Red Book") published in February 2003, which is effective from 1 May 2003, Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

Our valuation has been instructed on the basis of Market Value, the definition of which is set out at Practice Statement 3.2 and defined as follows:

> *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

The estimated amount is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation has been made on the assumption that the property interest is sold on the (open) market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the property interest.

Unless otherwise stated, we have valued the property interests by the comparison method on the assumption that the property can be sold with the benefit of vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In valuing the property interests which are currently held by you under or for future development in the PRC, we have valued them by the direct comparison approach by making reference to comparable market transactions in the locality.

Unless otherwise stated, based on the advice of your legal advisers Zhong Lun Law Firm (the "PRC Legal Advisers") we have assumed that the owner of the property interest has enforceable title to the property interest, and has free and uninterrupted rights to use the property for the whole of the unexpired term granted subject to payment of annual land use fee and that all requisite land use rights grant premium / purchase consideration payable have been fully settled. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the (open) market without paying any additional premium or other onerous payment.

Other special assumptions of the property, if any, have been stated in the footnotes of the valuation certificate for the property.

We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied on the advice given by you and the PRC Legal Advisers on PRC laws, regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgment in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

We have relied on the advice given by you regarding the title to the property interest in the PRC. For the purpose of our valuation, based on the advice of the PRC Legal Advisers we have assumed that the owner has enforceable title to the property interest. In our valuation, we have exercised our professional judgment in arriving at the valuation but you are urged to consider our valuation assumptions with caution.

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the building services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly in respect of planning approvals or statutory notices, easements, tenures, development proposals, site and floor areas and in the identification of the property in which you have valid interest. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, no allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the property has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.

Unless otherwise stated, the property value is denominated in RENMINBI. The exchange rate used in our valuation is RMB8.277 to US$1.000 and HK$1.000 to RMB1.060 which were prevailing as at the Date of Valuation. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We enclose herewith the summary of value and the valuation certificate.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*	**Franco P L Liu** *BSc(Hons), MHKIS*
Associate Director	*Associate Director*
Valuation and Consultancy	*Valuation and Consultancy*

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong and 9 years and 5 years property valuation experience respectively in the PRC.

SUMMARY OF VALUE

Property	Market Value in existing state as at 31 March 2005	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005
Property Interest held by the Remaining KWIH Group in the PRC for Development			
"Shanghai Westwood" comprising of two pieces of sites, situated at Qin 19 and Qiu 20, Lot No. 701 Guangzhong Road, Zhabei District, Shanghai, the People's Republic of China	RMB1,802,000,000 (approximately HK$1,700,000,000)	100%	RMB1,802,000,000 (approximately HK$1,700,000,000)
		Total:	**RMB1,802,000,000 (approximately HK$1,700,000,000)**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
"Shanghai Westwood" comprising of two pieces of sites, situated at Qiu 19 and Qiu 20, Lot No. 701 Guangzhong Road, Zhabei District, Shanghai, the People's Republic of China	The property comprises two pieces of irregular-shaped contiguous sites with the site areas of approximately 107,864 sq.m. and 41,236 sq.m. respectively, situated at the northeast and northwest corner of Guangzhong Road and a planned (to be constructed) road namely Pingxingguan Road. As advised, the property is held for development and is being developed into a residential development named "Shanghai Westwood" in three phases with a total gross floor area of approximately 466,129.48 sq.m. ("The Development"). Phase I started its construction works in September 2004 and is scheduled for completion in July 2006. Upon full completion, Phase I will provide a total of eight blocks of residential buildings known as Block Nos. 1–8 respectively, rising from 18 to 28-storey above a single basement together with a 2-storey retail building, a 2-storey club house and a utility building with a total gross floor area of 178,268.86 sq.m.	Superstructure construction works of Block Nos. 1, 3, 6 and 8 and retail building are under way whilst the piling works of Block Nos. 2, 4, 5 and 7 and club house are currently in progress. The sites for Phase II and Phase III are currently vacant pending development.	RMB1,802,000,000 (approximately HK$1,700,000,000)

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
	According to the area schedule provided to us, the respective uses and the gross floor areas of Phase I are planned as follows:	—	—

Portion	Approximate Gross Floor Area *(sq.m.)*
Above ground	
Residential	135,072.48
Retail	1,557.00
Club house	3,413.00
Utility building	1,442.00
Sub-total	**141,484.48**
Underground	
Basement	36,784.38
Total:	**178,268.86**

As advised by KWIH, Phase I will provide approximately 742 covered car parking spaces on basement level and 83 open car parking spaces on the ground.

As advised, Phase II has a development potential of the gross floor area of approximately 118,413.46 sq.m. for residential uses and the gross floor area of approximately 878.00 sq.m. for retail uses respectively. Phase II will also provide 644 covered car parking spaces on basement level and 71 open car parking spaces on the ground. According to the construction work schedule provided to us, Phase II construction work will start in February 2006 and is scheduled for completion in February 2008.

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
	According to the area schedule provided to us, the respective uses and the gross floor areas of Phase II are planned as follows:	—	—

Portion	Approximate Gross Floor Area *(sq.m.)*
Above ground	
Residential	118,413.46
Retail	878.00
Club house	—
Utility building	—
Sub-total	**119,291.46**
Underground	
Basement	15,361.24
Total:	**134,652.70**

As advised, Phase III has a development potential of the gross floor area of approximately 117,049.22 sq.m. for residential uses, and will also provide 1,087 covered car parking spaces on basement level and 121 open car parking spaces on the ground. According to the construction work schedule provided to us, Phase III construction work will start in August 2007 and is scheduled for completion in August 2009.

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
	According to area schedule provided to us, the respective uses and the gross floor areas of Phase III are planned as follows:	—	—

Portion	Approximate Gross Floor Area *(sq.m.)*
Above ground	
Residential	117,049.22
Retail	—
Club house	—
Utility building	—
Sub-total	**117,049.22**
Underground	
Basement	36,158.70
Total:	**153,207.92**

As advised, the residential buildings will be of reinforced concrete construction. The main entrance of Phase I will be situated onto a planned road namely Pingxingguan Road.

In addition, the Development will also provide community facilities including landscaped areas, manmade lake and a club house to be facility with indoor and out door swimming pool, tennis court and gym, etc.

Pursuant to two Certificates for Real Estate Ownership reference No. (2003) 002846 and No. (2003) 002851, both dated 10 March 2003, the property has been granted with a land use term of 70 years commencing from 29 January 2003 to 28 January 2073 for residential uses.

Notes:

1. Pursuant to the two Certificates for Real Estate Ownership Nos. (2003) 002846 and (2003) 002851, both dated 10 March 2003 issued by Shanghai Municipal Building and Land Resources Administration Bureau, the land use rights of (Qiu 19) and (Qiu 20) Lot No. 701, Guangzhong Road with the total site areas of 107,864.00 sq.m. and 41,236.00 sq.m. respectively have been granted to Shanghai Guoguang Real Estate Development Co., Ltd. (上海國廣房地產經營有限公司) for residential uses for a land use term of 70 years commencing from 29 January 2003 to 28 January 2073.

2. The PRC Legal Advisers have stated in their legal opinion, amongst other things, to the following:

   (i) The property comprises two site areas of part of 107,864.00 sq.m. and 41,236.00 sq.m. respectively and are held in the name of Shanghai Guoguang Real Estate Development Co., Ltd. (上海國廣房地產經營有限公司) ("Shanghai Guoguang") under two Certificates for Real Estate Ownership reference Nos. (2003) 002846 and (2003) 002851, both dated 10 March 2003.

   (ii) Shanghai Guoguang has the right to transfer the land use rights and construction in progress of the property, provided that the total amount of investment of development had been completed over 25% and prior consent from the relevant Government departments is obtained.

   (iii) Shanghai Guoguang has the right to mortgage the land use rights and construction in progress of the property.

   (iv) Shanghai Guoguang has the right to pre-sale and pre-lease the uncompleted buildings provided that presale permit is legally obtained.

   (v) Shanghai Guoguang is a wholly foreign owned corporation established by K.Wah (China) Investment Co., Ltd. in accordance with the laws of the PRC.

3. As advised by KWIH, K.Wah (China) Investment Co., Ltd. is 100% owned by KWIH.

4. As advised by KWIH, the estimated total construction cost of Phase I is approximately RMB544,208,539 and the construction costs expended in/on Phase I as at 31 March 2005 were approximately RMB 62,158,080. The estimated total construction cost for Phases II and III are RMB476,621,302 and RMB360,895,967 respectively. In the course of our valuation, we have taken into account the said construction costs.

5. The status of the title and grant of major approvals and licences in accordance with the information provided to us, is as follows:

Certificates for Real Estate Ownership	Yes
Master Layout Plan	Yes
Area Schedule	Yes

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interest of the Remaining KWIH Group.

savills
第一太平戴維斯

The Board of Directors
K. WAH INTERNATIONAL HOLDINGS LIMITED
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EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Date: 30 June 2005

Dear Sirs,

PROPERTY: A PIECE OF SITE OF APPROXIMATELY 28,496 SQ.M., SITUATED AT PLOT PHASE III OF YANJIAZHAI ROAD, JINGAN DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA

We refer to your instructions for us to value the captioned property interest held by Shanghai Jia Shen Real Estate Development Co., Ltd. (上海嘉申房地產開發經營有限公司) ("Shanghai Jia Shen") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2005 (the "Date of Valuation").

We confirm that we are not aware of any conflict of interest preventing us from providing you with an independent valuation of the property.

Our valuation is made in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards ("the Red Book") published in February 2003, which is effective from 1 May 2003, Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

You have instructed us to value the property on the basis of Market Value, the definition of which is set out at Practice Statement 3.2 and defined as follows:

> *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

The estimated amount is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation has been made on the assumption that the property interest is sold on the (open) market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the property interest.

Unless otherwise stated, we have valued the property interests by the comparison method on the assumption that the property can be sold with the benefit of vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In valuing the property interests which are currently held by you under or for future development in the PRC, we have valued them by the direct comparison approach by making reference to comparable market transactions in the locality.

Unless otherwise stated, based on the advice of your legal adviser Zhong Lun Law Firm (the "PRC Legal Advisers") we have assumed that the owner of the property interest has enforceable title to the property interest, and has free and uninterrupted rights to use the property for the whole of the unexpired term granted subject to payment of annual land use fee and that all requisite land use rights grant premium/purchase consideration payable have been fully settled. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the (open) market without paying any additional premium or other onerous payment.

Other special assumptions of the property, if any, have been stated in the footnotes of the valuation certificate for the property.

We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied on the advice given by you and the PRC Legal Advisers on PRC laws, regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgment in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

We have relied on the advice given by you regarding the title to the property interest in the PRC. For the purpose of our valuation, based on the advice of the PRC Legal Advisers we have assumed that the owner has enforceable title to the property interest. In our valuation, we have exercised our professional judgment in arriving at the valuation but you are urged to consider our valuation assumptions with caution.

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly in respect of planning approvals or statutory notices, easements, tenures, development proposals, site and floor areas and in the identification of the property in which you have a valid interest. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, no allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the property has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.

Unless otherwise stated, the property value is denominated in RENMINBI. The exchange rate used in our valuation is RMB8.277 to US$1.000 and HK$1.000 to RMB1.060 which were prevailing as at the Date of Valuation. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We enclose herewith the summary of value and the valuation certificate.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*	**Franco P L Liu** *BSc(Hons), MHKIS*
Associate Director	*Associate Director*
Valuation and Consultancy	*Valuation and Consultancy*

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong and 9 years and 5 years property valuation experience respectively in the PRC.

SUMMARY OF VALUE

Property	Market Value in existing state as at 31 March 2005	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005
Property Interest held by the Remaining KWIH Group in the PRC for Development			
Plot Phase III of Yanjiazhai, Jingan District, Shanghai, the People's Republic of China	RMB857,000,000 (approximately HK$808,490,566)	99%	RMB848,430,000 (approximately HK$800,405,660)
		Total:	**RMB848,430,000 (approximately HK$800,405,660)**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
Plot Phase III of Yanjiazhai, Jingan District, Shanghai, the People's Republic of China	The property comprises a residential development (the "Development") to be constructed on an irregular-shaped site with the total site area of 28,496 sq.m., situated to the south of a planned road which is next to the south of Wanhangdu Road and to the east of Zhenning Road. As advised, the whole development is scheduled to be completed in December 2007. Upon full completion, the Development will provide a block of 2-storey townhouses with four contiguous townhouse units provided, six blocks of 12-storey to 30-storey high-rise residential buildings above 2-storey car parking basement known as T1–T3 and T5–T7 respectively, together with a 2-storey clubhouse and utility buildings with a total gross floor area of approximately 123,850.89 sq.m.. According to the area schedules provided to us, the respective uses and the gross floor areas of the Development are planned as follows:	Currently erected on the site are mainly low-rise old style residential buildings pending demolition. As instructed, we have valued the property as a site on a vacant possession basis and have assumed the site formation works for residential development have been completed.	RMB857,000,000 (approximately HK$808,490,566)

Portion	Approximate Gross Floor Area *(sq.m.)*
Above ground	
Apartment	93,022.68
Townhouse	681.18
Retail	700.00
Club House	1,902.03
Market	3,000.00
Tennis/Recreation	523.00
Sub-total	**99,828.89**
Underground	
Basement	24,022.00
Total:	**123,850.89**

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
	According to the area schedule provided to us, the approximate gross floor areas and residential unit numbers of the apartment and townhouse portion are planned as follows:	—	—

Block No.	Levels	Unit Nos	Approximate Gross Floor Area *(sq.m.)*
Apartment			
T1	30	54	13,332.13
T2	30	52	17,478.81
T3	30	107	26,467.10
T5	14–16	64	17,644.94
T6	12–18	58	11,360.22
T7	13–18	50	6,739.48
Sub-total:		**385**	**93,022.68**
Townhouse	2	4	681.18
Grand-total:		**389**	**93,703.86**

In addition, the Development will also provide community facilities including tennis court, landscape areas and a clubhouse facility with indoor and outdoor swimming pools and gym, etc. The residential buildings will be of reinforced concrete construction. As advised, the Development will provide approximately 480 car parking spaces on the basement. Pursuant to the Grant Contract for State-owned Land Use Rights reference No. (2002) 048, the land use rights of the property have been granted for a term of 70 years.

Notes:

1. Pursuant to the Grant Contract for State-owned Land Use Rights reference No. (2002) 048 dated 28 August 2002, entered into between Shanghai Municipal Jingan District Building and Land Administration Bureau (Party A) and K.Wah (China) Investment Co., Ltd. (嘉華(中國)投資有限公司) (99%), Shanghai Shen Cheng Real Estate Development Corporation (上海申城房地產開發實業總公司) (1%) (Party B), Party A has granted the land use rights of Plot Phase III of Yanjiazhai, Jingan District, Shanghai with a total site area of 28,496 sq.m. in its existing state to Party B at a land use rights grant premium of RMB2,691,360 for a land use term of 70 years. The salient conditions contained in the above Contract and the attached Land Use Regulations regarding the development of the property are summarised as follows:

(i)	Permitted land use	:	Residential
(ii)	Land use term	:	70 years
(iii)	Plot Ratio	:	Not exceeding 40,000 sq.m. per hectare (total gross floor area shall not exceed 113,984 sq.m.)
(iv)	Greenery ratio	:	Not less than 35% of the site area

2. Pursuant to the Supplementary Contract in respect of Grant Contract for State-owned Land Use Rights reference No. (2002) 048 dated 28 August 2002, entered into between Shanghai Jing-An District People Government (上海市靜安區人民政府) (Party A) and K.Wah (China) Investment Co., Ltd. (嘉華(中國)投資有限公司) (99%), Shanghai Shen Cheng Real Estate Development Corporation (上海申城房地產開發實業總公司) (1%) (Party B), some salient conditions of which are adjusted as follows:

   (i) The permitted plot ratio should not exceed 4. Should the actual plot ratio exceed 4 subject to the approval by the relevant government authorities, Party B should pay the cost of provisions of public utilities at a unit rate of RMB 320 per sq.m. on gross floor area as well as the land use rights grant premium for the increased gross floor area.

   (ii) According to the planning conditions of the Plot, the Plot shall be in-site equipped with a transformer station of 110 KV with a site area of not less than 2,000 sq.m.. As per the request by Party B, the transformer station shall be moved outside the Plot to a distance not less than 100 metres to the red-line of the site. The compensation fee of RMB 18,000,000 for said move shall be borne by Party B.

3. Pursuant to the Appointment Contract for the Demolition and Resettlement Works and Provisions of Public Utilities dated 28 August 2002 and entered into between Shanghai Jing-An District People Government (上海市靜安區人民政府) (Party A) and K.Wah (China) Investment Co., Ltd. (嘉華(中國)投資有限公司), Shanghai Shen Cheng Real Estate Development Corporation (上海申城房地產開發實業總公司) (Party B), Party B has appointed Party A to carry out the demolition and resettlement works and provision of public utilities of the Plot Phase III of Yanjiazhai. The total site area is 28,496 sq.m. and the total gross floor area is 113,984 sq.m.. The total cost for demolition and resettlement works and provision of public utilities is RMB343,773,353.

4. The PRC Legal Advisers have stated in their legal opinion, amongst other things, the following:

   (i) Shanghai Jia Shen has fully settled all the land use rights grant premium in accordance with the requirements set out in the Grant Contract for State-owned Land Use Rights.

   (ii) Shanghai Jia Shen should have no legal impediment in obtaining relevant Certificate for Real Estate Ownership once the relevant Land Use Rights Grant Premium and the cost of Demolition and Resettlement Works and Provisions of Public Utilities have been fully settled.

   (iii) Shanghai Jia Shen has the right to transfer the land use rights of the property, provided that a valid Certificate for Real Estate Ownership is obtained, over 25% of the total amount of investment of development is completed, relevant title documentation is obtained under its name, and prior consent from the relevant Government departments is obtained.

(iv) Shanghai Jia Shen is a joint venture company established in accordance with the laws of the PRC, which is a 99% owned subsidiary company of K.Wah (China) Investment Co., Ltd. Profit sharing is in accordance with the equity holding stake.

(v) The business licence was issued to Shanghai Jia Shan on 26 March 2003.

5. As advised by KWIH, K.Wah (China) Investment Co., Ltd. is 100% owned by KWIH.

6. The status of the title and grant of major approvals and licenses, in accordance with the information provided to us, is as follows:

Grant Contract for State-owned Land Use Rights	Yes
Supplementary Contract in respect of Grant Contract for State-owned Land Use Rights	Yes
Appointment Contract for the Demolition and Resettlement Works and Provisions of Public Utilities	Yes
Certificate for Real Estate Ownership	No
Master Layout Plan	Yes

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interests of the Remaining KWIH Group.

savills
第一太平戴維斯

The Board of Directors
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The People's Republic of China

Valuation Department
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23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Date: 30 June 2005

Dear Sirs,

PROPERTY: RETAIL PORTION (NOS. 3 AND 5, LANE 458, WANHANGDU ROAD AND NOS. 446, 450, 456, 442 WANHANGDU ROAD) AND 30 CAR PARKING SPACES ON BASEMENT LEVEL 1 (NOS.1–20, 23, 27, 34, 37, 40, 41 AND 51–54, NO. 436 WANHANGDU ROAD) OF CHEZ MOI, JINGAN DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA

We refer to your instructions for us to value the captioned property interest held by Shanghai Jiagangcheng Real Estate Development Co., Ltd. (上海嘉港城房地產開發經營有限公司) ("Shanghai Jiagangcheng") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2005 (the "Date of Valuation").

We confirm that we are not aware of any conflict of interest preventing us from providing you with an independent valuation of the property.

Our valuation is made in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards ("the Red Book") published in February 2003, which is effective from 1 May 2003, Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

Our valuation has been made on the basis of Market Value, the definition of which is set out at Practice Statement 3.2 and which is defined as follows:

> *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

The estimated amount is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation has been made on the assumption that the property interest is sold on the (open) market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the property interest.

In arriving at our opinion of the Market Value of the property, we have valued it by the comparison method assuming sale with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market.

Unless otherwise stated, based on the advice of your legal advisers Zhong Lun Law Firm (the "PRC Legal Advisers") we have assumed that the owner of the property interest has enforceable title to the property interest, and has free and uninterrupted rights to use the property for the whole of the unexpired term granted subject to payment of annual land use fee and that all requisite land use rights grant premium / purchase consideration payable have been fully settled. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the (open) market without paying any additional premium or other onerous payment.

Other special assumptions of the property, if any, have been stated in the footnotes of the valuation certificate for the property.

We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied on the advice given by you and the PRC Legal Advisers on PRC laws, regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgment in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

We have relied on the advice given by you regarding the title to the property interest in the PRC. For the purpose of our valuation, based on the advice of the PRC Legal Advisers we have assumed that the owner has enforceable title to the property interest. In our valuation, we have exercised our professional judgment in arriving at the valuation but you are urged to consider our valuation assumptions with caution.

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the building services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly respect of planning approvals or statutory notices, easements, tenures, occupancy, tenancy, site and floor areas and in the identification of the property in which you have valid interest. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, no allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the property has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.

Unless otherwise stated, the property value is denominated in RENMINBI. The exchange rate used in our valuation is RMB8.277 to US$1.000 and HK$1.000 to RMB1.060 which were prevailing as at the Date of Valuation. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We enclose herewith the summary of value and the valuation certificate.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*
Associate Director
Valuation and Consultancy

Franco P L Liu *BSc(Hons), MHKIS*
Associate Director
Valuation and Consultancy

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong and 9 years and 5 years property valuation experience respectively in the PRC.

SUMMARY OF VALUES

Property	Market Value in existing state as at 31 March 2005	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005
Property Interest held by the Remaining KWIH Group in the PRC for Investment			
Retail Portion (Nos. 3 and 5, Lane 458, Wanhangdu Road and Nos. 446, 450, 456, 442 Wanhangdu Road) and 30 Car Parking Spaces on Basement Level 1 (Nos. 1–20, 23, 27, 34, 37, 40, 41 and 51–54, No. 436 Wanhangdu Road) of Chez Moi, Jingan District, Shanghai, the People's Republic of China	RMB39,650,000 (approximately HK$37,405,660)	95%	RMB37,667,500 (approximately HK$35,535,377)
		Total:	**RMB37,667,500 (approximately HK$35,535,377)**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
Retail Portion (Nos. 3 and 5, Lane 458, Wanhangdu Road and Nos. 446, 450, 456, 442 Wanhangdu Road) and 30 Car Parking Spaces on Basement Level 1 (Nos.1–20, 23, 27, 34, 37, 40, 41 and 51–54, No. 436 Wanhangdu Road) of Chez Moi, Jingan District, Shanghai, the People's Republic of China	Chez Moi comprises two blocks of 20 to 33-storey residential buildings known as Nos. 1–6 (without No.4) above a single-storey car parking basement and a 2-storey retail building. It is of reinforced concrete construction and was completed in March 2001. The Property under consideration comprises Retail portion (Nos. 3 and 5, Lane 458, Wanhangdu Road and Nos. 446, 450, 456, 442 Wanhangdu Road) and 30 Car Parking Spaces on Basement Level 1 (Nos.1–20, 23, 27, 34, 37, 40, 41 and 51–54, No. 436 Wanhangdu Road No. 436 Wanhangdu Road). According to the Certificate for Real Estate Ownership, the gross floor area of the constituent units of the retail portion is as follows: **Block No. / Units / sq.m.** No. 3 Level 1 240.64 No. 5 Level 1 131.12 No. 446 Level 1 132.10 No. 450 Level 1 132.61 No. 456 Level 1 165.77 No. 442 101 190.37 No. 442 201 139.90 No. 442 202 383.72 No. 442 203 228.12 **Total 1,744.35** According to the Certificate for Real Estate Ownership reference No. (2001) 002201, the land use rights of the property have been granted for a land use term of 70 years commencing on 26 August 1997, expiring 25 August 2067. The planning or zoning use is residential.	According to the information provided to us, about 954.1 sq.m. of the retail portion were, as at the Valuation Date subject to various tenancy agreements at a total monthly rent of approximately RMB63,000 (including management fees). Such tenancies are mainly for terms of 3–5 years commencing between 1 March 2002 and 1 March 2004. The remainder of the property is owner occupied/or vacant. The 30 car parking spaces are currently in vacant possession.	RMB39,650,000 (approximately HK$37,405,660)

Notes:

1. Pursuant to the Certificate for Real Estate Ownership reference No. (2001) 002201 dated 28 March 2001 issued by Shanghai Housing and Land Administration Bureau, the ownership of the Property which situated at Nos. 1–3 and 5–6, Lane 458, Wanhangdu Road and Nos. 436, 442, 446, 450, 456 Wanhangdu Road with

a total gross floor area of approximately 88,967.83 sq.m., is vested in the name of Shanghai Jiagangcheng ("上海嘉港城") and the land use rights of the Property with a site area of approximately 15,857.00 sq.m. have been granted for a land use term of 70 years commencing on 26 August 1997 and expiring 25 August 2067 for residential uses.

The subject property is within the said 88,967.83 sq.m..

2. The PRC Legal Advisers have stated in their legal opinion, amongst other things:

   (i) The property is held in the name of 上海嘉港城 under the Certificate for Real Estate Ownership reference No. (2001) 002201 dated 28 March 2001.

   (ii) Shanghai Jiagangcheng assign, lease the property during the land use rights term.

   (iii) Shanghai Jiagangcheng is a joint venture company with the registered capital injected by Colour Day International Ltd (香港彩虹日國際有限公司) and Shanghai Shen Cheng Real Estate Development Corporation (上海申城房地產開發實業總公司) in the ratio of 95% and 5% respectively. Profit sharing is in accordance with the equity holding stake.

   (iv) The (renewed) Business Licence was issued to Shanghai Jiagangcheng on 25 February 2003.

3. As advised by KWIH, Colour Day International Ltd is 100% owned by KWIH.

4. The status of the title and grant of major approvals and licences in accordance with the information provided to us are as follows:

Certificate for Real Estate Ownership	Yes

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from Savills (Hong Kong) Limited, independent property valuers, in connection with their valuation as at 31 March 2005 of the property interest of the Remaining KWIH Group.

savills
第一太平戴維斯

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EA LICENCE: C-002450
T: (852) 2842 4400
savills.com

Date: 30 June 2005

Dear Sirs,

PROPERTY : TWO PIECES OF SITES SITUATED AT LOT NOS. A AND B, NO. 68 JIANGUO WEST ROAD, XUHUI DISTRICT, SHANGHAI, THE PEOPLE'S REPUBLIC OF CHINA

We refer to your instructions for us to value the captioned property interest held by Shanghai Jia Zhao Real Estate Development Co., Ltd. (上海嘉兆房地產開發經營有限公司) in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2005 (the "Date of Valuation").

We confirm that we are not aware of any conflict of interest preventing us from providing you with an independent valuation of the property.

Our valuation is made in accordance with the Practice Statements of the Royal Institution of Chartered Surveyors' (RICS) Appraisal and Valuation Standards ("the Red Book") published in February 2003, which is effective from 1 May 2003, Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Royal Institution of Chartered Surveyors (Hong Kong Branch) and The Hong Kong Institute of Surveyors.

Our valuation has been made on the basis of Market Value, the definition of which is set out at Practice Statement 3.2 and defined as follows:

> *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller, in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

The estimated amount is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation has been made on the assumption that the property interest is sold on the (open) market in its existing state without the effect of deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which might serve to affect the value of the property interest.

Unless otherwise stated, we have valued the property interests by the comparison method on the assumption that the property can be sold with the benefit of vacant possession. Comparison based on prices realized on actual sales or offerings of comparable properties is made. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In valuing the property interests which are currently held by you under or for future development in the PRC, we have valued them by the direct comparison approach by making reference to comparable market transactions in the locality.

Unless otherwise stated, based on the advice of your legal advisers Longan Law Firm (the "PRC Legal Advisers") we have assumed that the owner of the property interest has enforceable title to the property interest, and has free and uninterrupted rights to use the property for the whole of the unexpired term granted subject to payment of annual land use fee and that all requisite land use rights grant premium/purchase consideration payable have been fully settled. Furthermore, we have valued it on the assumption that it is freely disposable and transferable to third parties on the (open) market without paying any additional premium or other onerous payment.

Other special assumptions of the property, if any, have been stated in the footnotes of the valuation certificate for the property.

We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied on the advice given by you and the PRC Legal Advisers on PRC laws, regarding the title to the property interests. In our valuation, we have taken into account the legal opinion of the PRC Legal Advisers, and we have assumed that the owner of the property interests has enforceable title thereto. While we have exercised our professional judgment in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

We have relied on the advice given by you regarding the title to the property interest in the PRC. For the purpose of our valuation, based on the advice of the PRC Legal Advisers we have assumed that the owner has enforceable title to the property interest. In our valuation, we have exercised our professional judgment in arriving at the valuation but you are urged to consider our valuation assumptions with caution.

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the building services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by you, particularly in respect of planning approvals or statutory notices, easements, tenures, development proposals, site and floor areas and in the identification of the property in which you have a valid interest. All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, no allowance has been made in our valuation for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the property has not suffered any land contamination in the past, nor is it likely to become so contaminated in the foreseeable future. We have not carried out any soil tests or made any other investigations in this respect, and we cannot assess the likelihood of any such contamination.

Unless otherwise stated, the property value is denominated in RENMINBI. The exchange rate used in our valuation is RMB8.277 to US$1.000 and HK$1.000 to RMB1.060 which were prevailing as at the Date of Valuation. There has been no significant fluctuation in exchange rate between the Date of Valuation and the date of this letter.

Finally, in accordance with the recommendations of the RICS, we would state that this report is provided solely for the purpose stated above. It is for the use only of the party to whom it is addressed, and no responsibility is accepted to any third party for the whole or any part of its contents. Any such parties rely upon this report at their own risk. Neither the whole nor any part of this report or any reference to it may be included now, or at any time in the future, in any published document, circular or statement, nor published, referred to or used in any way without our written approval of the form and context in which it may appear.

We enclose herewith the summary of value and the valuation certificate.

Yours faithfully,
For and on behalf of
Savills (Hong Kong) Limited

Gilbert C H Chan *BSc, MHKIS, RPS(GP)*	**Franco P L Liu** *BSc(Hons), MHKIS*
Associate Director	*Associate Director*
Valuation and Consultancy	*Valuation and Consultancy*

Note: Both Mr Gilbert Chan and Mr Franco Liu are chartered surveyors with over 12 years and 9 years property valuation experience respectively in Hong Kong and 9 years and 5 years property valuation experience respectively in the PRC.

SUMMARY OF VALUE

Property	Market Value in existing state as at 31 March 2005	Interest attributable to the Remaining KWIH Group	Market Value attributable to the Remaining KWIH Group as at 31 March 2005
Property Interest held by the Remaining KWIH Group in the PRC for Development			
Lot Nos. A and B, No. 68 Jianguo West Road, Xuhui District, Shanghai, the People's Republic of China	RMB1,301,000,000 (approximately HK$1,227,358,491)	100%	RMB1,301,000,000 (approximately HK$1,227,358,491)
		Total:	**RMB1,301,000,000 (approximately HK$1,227,358,491)**

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
Lot Nos. A and B, No. 68 Jianguo West Road, Xuhui District, Shanghai, the People's Republic of China	The property comprises a residential development (the "Development") to be constructed on two pieces of irregular-shaped contiguous sites with the total site area of approximately 38,389.00 sq.m. known as Lot Nos. A and B, No. 68 Jianguo West Road respectively and situated at the northwest and northeast corner of Jianguo West Road and Jiashan Road. As advised, the Development is scheduled to be completed in October 2007. Upon full completion, the Development will provide a block of 31-storey serviced apartment building, three blocks of 13 to 32-storey residential buildings known as TA1-TA7, two blocks of 13 to 28-storey residential buildings known as TB1-TB5 above a basement and together with a 2-storey clubhouse, retail buildings and utility buildings with a total gross floor area of approximately 183,597.20 sq.m..	Currently erected on the site are mainly low-rise old styles residential buildings pending for demolition. As instructed, we have valued the property as a site on a vacant possession basis and have assumed the site formation works for residential development would have been completed.	RMB1,301,000,000 (approximately HK$1,227,358,491)

Property	Description and tenure	Particulars of occupancy	Market Value in existing status as at 31 March 2005
	According to the area schedule provided to us, the approximate gross floor areas of the Development are planned as follows:	—	—

Portion	Approximate Gross Floor Area *(sq.m.)*
Above Ground	
Apartment	86,257.00
Serviced Apartment	35,778.00
Retail of Serviced Apartment	5,519.00
Club House	2,946.00
Retail	5,668.20
Utility Building	3,429.00
Sub-total:	**139,597.20**
Under Ground	
Basement	44,000.00
Total:	**183,597.20**

The residential buildings will be of reinforced concrete construction. The main entrances of the Development are situated on the Jianguo West Road and Jiashan Road. As advised, the Development will provide approximately 950 carparking spaces in the basement.

Notes:

1. Pursuant to two Certificates for Real Estate Ownership (the "Certificates") reference No. (2004) 010218 and No. (2002) 004664, dated 4 March 2004 and 22 May 2002 issued by Shanghai Municipal Building and Land Resources Administration Bureau, the land use rights of Lot Nos. A and B No. 68 Jianguo West Road with the total site areas of 26,686 sq.m. and 11,203 sq.m. respectively have been granted to Shanghai Jia Zhao Real Estate Development Co., Ltd. (上海嘉兆房地產開發經營有限公司) for residential uses for a land use term commencing from 11 September 2001 to 21 January 2065.

2. Pursuant to the Planning Permit for Construction Land reference No. (2005) 00050114E00010, dated 10 January 2005 issued by Shanghai Municipal Planning Administration Bureau, the total site area of No. 68 Jianguo West Road is approximately 38,389 sq.m. owned by Shanghai Jia Zhao Real Estate Development Co., Ltd. (上海嘉兆房地產開發經營有限公司) ("Shanghai Jia Zhao").

3. Regarding the inconsistency of the site area of the property as stipulated in two Certificates for Real Estate Ownership reference No. (2004) 010218 and No. (2002) 004664 (37,889 sq.m.) and the site area as stipulated in the Planning Permit for Construction Land reference No. (2005) 00050114E00010 (38,389 sq.m.), we have been instructed by KWIH to prepare our valuation based on the site area of 38,389 sq.m. as

stipulated in the Planning Permit for Construction Land. In the course of our valuation, we have assumed that any additional land premium payable for the additional site area obtained have been settled in full and upon transfer of the property, no additional land use rights grant premium or onerous charges of substantial amount will be levied by related government authority.

4. The PRC Legal Advisers have stated in their legal opinion, amongst other things, to the following:

   (i) The property comprises a site area of approximately 38,389 sq.m. and is held in the name of Shanghai Jia Zhao under two Certificates for Real Estate Ownership reference No. (2004) 010218 and No. (2002) 004664, dated 4 March 2004 and 22 May 2002 respectively.

   (ii) Shanghai Jia Zhao has the right to develop the property.

   (iii) Shanghai Jia Zhao has the right to transfer the land use rights of the property, provided that a valid Certificate for Real Estate Ownership is obtained, over 25% of the total amount of investment of development is completed, relevant title document is obtained under its name, and prior consent from relevant Government departments is obtained.

   (iv) According to the Co-operation Contract and the Co-operation Memorandum of Shanghai Jia Zhao, Minter Limited has actual 100% equity interest of Shanghai Jia Zhao.

   (v) The (renewed) Business Licence was issued to Shanghai Jia Zhao on 11th March 2004.

5. As advised by KWIH, Minter Limited is 100% owned by KWIH.

6. The status of the title and grant of major approvals and licenses, in accordance with the information provided to us, is as follows:

Certificates for Real Estate Ownership	Yes
Planning Permit for Construction Land	Yes
Master Layout Plan	Yes
Area Schedule	Yes

The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this circular received from Vigers Appraisal & Consulting Limited, an independent property valuer, in connection with its valuation as at 31 March 2005 of property interests of the KWCM Group.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants
10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

The Directors
K. Wah Construction Materials Limited and
K. Wah International Holdings Limited
29/F, K. Wah Centre,
191 Java Road, North Point,
Hong Kong

Date: 30 June 2005

Dear Sirs,

In accordance with your instructions for us to value of the property interests exhibited to us as held and leased by K. Wah Construction Materials Limited ("KWCM") and its subsidiaries (together referred to as the "KWCM Group") and K. Wah International Holdings Limited (the "KWIH") and its subsidiaries (together referred to as the "KWIH Group") in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), the Macau Special Administrative Region of the People's Republic of China ("Macau") and the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 31 March 2005.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interests in Group I, which are held by the KWCM Group and the KWIH Group in Hong Kong, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

In valuing the property interest in Group II, we have adopted direct comparison approach and made reference to the standard land prices in Shanghai and the sales comparables in the locality.

The property interests in Groups III to V have no commercial value as transfer, short-term lease or subletting are prohibited or otherwise due to a lack of substantial profit rent.

Our valuation has been made on the assumption that the owner sells the properties on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

We have caused searches to be made in the respective land registries for the properties in Hong Kong and in the Conservatória Do Registro Predial, (the land registry in Macau) for the properties in Macau. However, without exception, we have not provided with the original copies of these title search documents to verify the correctness of the information or to ascertain any subsequent amendment, if any, which may not appear on the copies handed to us.

In undertaking our valuation for property interests in Group II and V, we have relied on the legal opinion provided by the KWCM Group's and the KWIH Group's PRC legal adviser, Commerce & Finance Law Offices ("the PRC Legal Opinion").

In respect of the properties, we have been provided with some copies but not full title documents in relation to the respective properties. The extent to which we have not inspected the title document(s) has been set out in the valuation certificates attached in this report. For the purposes of these valuations, we have accepted your advice that the KWCM Group and the KWIH Group have the lawful rights to occupy these properties and the use of these properties will not contravene to the lawful use conferred upon these properties.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property interests are free from defect.

We have relied to a considerable extent on information provided by you and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property in which the KWCM Group and the KWIH Group have a valid interest. All documents and leases have been used for reference only. All dimensions measurements and areas are approximations.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have had no reason to doubt the truth and accuracy of the information provided to us by the KWCM Group. We were also advised by the KWCM Group and the KWIH Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view.

In valuing the property interests, we have complied with all the requirements contained in the Practice Note 12 and Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the "Hong Kong Guidance Notes on the Valuation of Property Assets" published by the Hong Kong Institute of Surveyors. The valuations have been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuations.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. The exchange rates used in valuing the property interests in Groups II, IV and V are the rates prevailing as at the date of valuation, the details of which are summarized as follows:

Country/Region	Currency	Exchange rates as at 31 March 2005
The PRC	RMB	HK$1.00 = RMB1.06
Macau	MOP	HK$1.00 = MOP1.03

We enclose herewith a summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Gilbert, K. M. Yuen
Registered Professional Surveyor
MRICS, MHKIS
Director

Note: Gilbert K. M. Yuen, Chartered Surveyor, MRICS, MHKIS, has over 15 years' experience in undertaking valuations of properties in Hong Kong. He has also had about 12 years' and 3 years' experiences in valuations of properties in PRC and Macau respectively.

SUMMARY OF VALUATION

Group I — Property interests owned by the KWCM Group and the KWIH Group in Hong Kong

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and the KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
1.	Shop Nos. A, B, C and D on Ground Floor, Grammy Centre, No. 238 Yee Kuk Street, Kowloon, Hong Kong	investment	HK$42,000,000	KWCM Group	100%	HK$42,000,000
				KWIH Group	65.74%	HK$27,610,800
2.	No. 18 Yu On Street, Tai Po, New Territories, Hong Kong	owner occupation	HK$227,000,000	KWCM Group	100%	HK$227,000,000
				KWIH Group	65.74%	HK$149,229,800
3.	Tai Po Town Lot No. 51, New Territories, Hong Kong	owner occupation	HK$25,000,000	KWCM Group	100%	HK$25,000,000
				KWIH Group	65.74%	HK$16,435,000
4.	Lot Nos. 25, 143, 149, 151, 152, 153, the Remaining Portion of 155, the Remaining Portion of 157, the Remaining Portion of 158 and 328 in Demarcation District, No. 77 Ping Che, New Territories, Hong Kong	investment	HK$23,500,000	KWCM Group	100%	HK$23,500,000
				KWIH Group	65.74%	HK$15,448,900
5.	Lot No. 232 in Demarcation District No. 86 Lin Ma Hang Road, Sha Tau Kok, New Territories, Hong Kong	owner occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
		Sub-total	**HK$317,500,000**	**KWCM Group**	**100%**	**HK$317,500,000**
				KWIH Group	**65.74%**	**HK$208,724,500**

* According to the information provided by the KWCM Group and the KWIH Group, KWCM is 65.74% held by KWIH as at 31 March 2005

SUMMARY OF VALUATION

Group II — Property interest held by the KWCM Group and the KWIH Group in the PRC

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
6.	A parcel of land located at Lot No. 21 in 2004, Qingpu District, Shanghai, the PRC	owner occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
		Sub-total	**No commercial value**			**No commercial value**

Group III — Property interests leased by the KWCM Group and the KWIH Group in Hong Kong

7.	The whole 4th Floor and 5th Floor, carparking spaces nos. 13, 13A, 14, 15, 18, 19 on 2nd Floor and 23, 24, 25, 26, 27, 27A, 32, 33, 35, 36 and 37 on 3rd Floor, Spectrum Tower, No. 53 Hung To Road, Kwun Tong, Kowloon, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
8.	Lot No. 154 in Demarcation District No.77, Ping Che, Fanling, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
9.	Portion of Lot No. 65 in Demarcation District No. 77, Ping Che, Fanling, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value

* According to the information provided by the KWCM Group and the KWIH Group, KWCM is 65.74% held by KWIH as at 31 March 2005

SUMMARY OF VALUATION

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
10.	A land parcel at Demarcation District No. 77, Ping Che, Fanling, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
11.	Lot No. 21 and the Remaining Portion of Lot Nos. 20 and 23 in Demarcation District No. 88, Off Man Kam To Road, Ta Kwu Ling, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
12.	A land parcel at Ho Yeung Street, Area 40, Tuen Mun, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
13.	A land parcel of Man Kam To Road in Demarcation District No. 88, Off Man Kam To Road, Ta Kwu Ling, New Territories, Hong Kong	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
		Sub-total	**Nil**			**Nil**

* According to the information provided by the KWCM Group and the KWIH Group, KWCM is 65.74% held by KWIH as at 31 March 2005

SUMMARY OF VALUATION

Group IV — Property interests leased by the KWCM Group and the KWIH Group in Macau

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
14.	Units J and K on 17th Floor, Centro Comercial De Grupo Brilhantismo, 398 Alameda Dr. Carlos D'Assumpção, Macau	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
15.	Unit R on 19th Floor, Centro Comercial De Grupo Brilhantismo, 398 Alameda Dr. Carlos D'Assumpção, Macau	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
		Sub-total	**Nil**			**Nil**

Group V — Property interests leased by the KWCM Group and the KWIH Group in the PRC

16.	Guangangsidui, (also known as No. 2658 (A) Longwu Road) Longhua Town, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
17.	A parcel of land together with buildings and structures erected thereon, Guangang Village, Huajing Town, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value

* According to the information provided by the KWCM Group and the KWIH Group, KWCM is 65.74% held by KWIH as at 31 March 2005

SUMMARY OF VALUATION

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
18.	No. 2 Xinchen Road, Beicai Town, Pudong New District, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
19.	No. 21 Luding Road, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
20.	No. 200 Qiujiang Pier Road, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
21.	The West portion of Hutai Road, Shanghai, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
22.	The South portion of Mahanhe Daweiqiao, Nanjing, Jiangsu Province, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
23.	Caochangdi, Airport Road, Chaoyang District, Beijing, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value

* According to the information provided by the KWCM Group and the KWIH Group, the KWCM Group is 65.74% held by the KWIH Group as at 31 March 2005

SUMMARY OF VALUATION

	Property	Purpose for which the property is held	Market Value in existing state as at 31 March 2005	Interest attributable to the KWCM Group and KWIH Group*		Market Value attributable to the KWCM Group and the KWIH Group as at 31 March 2005
24.	A parcel of land at Oi Ling Ding Island, Zhuhai, Guangdong Province, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
25.	A parcel of land located in the Tongfuyue Industrial Zone, Longhua Town, Baoan District, Shenzhen, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
26.	A parcel of land located in the Hepingtongfuyue Industrial Zone, Fuyong Town, Baoan District, Shenzhen, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
27.	A parcel of land in Minzhu Village, Bio-technology Park, Shajing Town, Baoan District, Shenzhen, the PRC	rented for own occupation	No commercial value	KWCM Group	N/A	No commercial value
				KWIH Group	N/A	No commercial value
		Sub-total	**Nil**			**Nil**
		Grant-total	**HK$317,500,000**	**KWCM Group**	**100%**	**HK$317,500,000**
				KWIH Group	**65.74%**	**HK$208,724,500**

* According to the information provided by the KWCM Group and the KWIH Group, the KWCM Group is 65.74% held by the KWIH Group as at 31 March 2005

VALUATION CERTIFICATE

Group I — Property interests owned by the KWCM Group and the KWIH Group in Hong Kong

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
1.	Shop Nos. A, B, C and D on Ground Floor, Grammy Centre, No. 238 Yee Kuk Street, Kowloon, Hong Kong 1500/11000th shares of and in New Kowloon Inland Lot No. 5988	The property comprises the whole retail shop space on the ground floor of a development, namely, Grammy Centre. The development was built in 1987. Erected above ground floor are two 14-storey residential towers. The property has a total saleable floor area of approximately 1,085.32 sq.m. (11,970 sq.ft.) The property is held from Government under Conditions of Sale No. 11785 for a term expiring on 30 June 1977 and has been extended until 30 June 2047 by virtue of the New Territories Lease (Extension) Ordinance. The Government rent is equivalent to 3% of the rateable value for the time being of the subject property per annum.	The property is leased and occupied as a home for the aged. The lease term is for five years and four months commencing from 1 December 2004 until 30 November 2007. The current rent is HK$160,000 per month exclusive of rates and management fees. The property is held for investment.	HK$42,000,000 **Interest attributable to the KWCM Group** 100% **Market Value attributable to the KWCM Group as at 31 March 2005** HK$42,000,000 **Interest attributable to the KWIH Group** 65.74% **Market Value attributable to the KWIH Group as at 31 March 2005** HK$ 27,610,800

Notes:

1. According to the record in the Land Registry, the current registered owner of the property is K. Wah Construction Materials (HK) Limited, which is a wholly owned subsidiary of KWCM and KWCM is 65.74% held by KWIH as at 31 March 2005.

2. According to the Cheung Sha Wan Outline Zoning Plan, the property lies within the zoning of "Residential (Group A)".

3. The tenant is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
2.	No. 18 Yu On Street, Tai Po, New Territories, Hong Kong Tai Po Town Lot No. 102	The property comprises a parcel of land with a registered site area of about 10,750 sq.m. (115,713 sq.ft.), which is partly formed and partly reclaimed with marine access. A concrete batching plant and cement storage and distribution facilities are erected on the property. The plant comprises a guard house, administrative offices, warehouse for sand and aggregate, transformer rooms, 4 cement silos, batching plant, cement handling facilities, berthing places, a single storey storage building and carparking spaces. The property is held from Government under New Grant No. 12400 for a term of commencing from 10 May 1989 to 30 June 2047. The Government rent is equivalent to 3% of the rateable value for the time being of the subject property per annum.	As at the date of valuation, the property was occupied by the KWCM Group and the KWIH Group as concrete batching plant, cement storage and distribution facilities and warehouses. The property is held for owner occupation.	HK$227,000,000 **Interest attributable to the KWCM Group** 100% **Market Value attributable to the KWCM Group as at 31 March 2005** HK$227,000,000 **Interest attributable to the KWIH Group** 65.74% **Market Value attributable to the KWIH Group as at 31 March 2005** HK$ 149,229,800

Notes:

1. According to the record in the Land Registry, the current registered owner of the property is Lightway Limited, which is a wholly owned subsidiary of KWCM and KWCM is 65.74% held by KWIH as at 31 March 2005.

2. The property is subject to a mortgage in favour of Standard Chartered Bank.

3. The property is not covered by any statutory Outline Zoning Plan.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
3.	Tai Po Town Lot No. 51, New Territories, Hong Kong	The property comprises a parcel of land with a registered site area of about 1,805 sq.m. (19,429 sq.ft.) or thereabouts, including an area for the erection of a slipway, with marine access. The land is granted for the uses of repairing, servicing and maintenance of motor-boats. Covered and open-sided structures of about 136.5 sq.m. (1,469.29 sq.ft.) together with some other temporary structures are erected on the land. The property is held from Government under New Grant No. 12154 for a term commencing from 24 January 1986 to 30 June 2047. The Government rent is equivalent to 3% of the rateable value for the time being of the subject property per annum.	As at the date of valuation, the property was occupied by the KWCM Group and the KWIH Group as a godown. The property is held for owner occupation.	HK$25,000,000 **Interest attributable to the KWCM Group** 100% **Market Value attributable to the KWCM Group as at 31 March 2005** HK$25,000,000 **Interest attributable to the KWIH Group** 65.74% **Market Value attributable to the KWIH Group as at 31 March 2005** HK$ 16,435,000

Notes:

1. According to the record in the Land Registry, the current registered owner of the property is Eternal Profits International Limited, which is a wholly owned subsidiary of KWCM and KWCM is 65.74% held by KWIH as at 31 March 2005.

2. The property is not covered by any statutory Outline Zoning Plan.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
4.	Lot Nos. 25, 143, 149, 151, 152, 153, the Remaining Portion of 155, the Remaining Portion of 157, the Remaining Portion of 158 and 328 in Demarcation District, No. 77 Ping Che, New Territories, Hong Kong	The property comprises 10 parcels of agricultural land located at Ping Che. Except Lot No. 25, which is a separate lot, the remaining 9 parcels of agricultural land of the property are adjoining to others with various temporary structures erected thereon. The property has a total site area of 15,689.11 sq.m. (168,877.6 sq.ft.) The property is held under Block Government Lease for a term originally expired on 30 June 1997 and has been extended to 30 June 2047. The Government rent is equivalent to 3% of the rateable value for the time being of the subject property per annum.	Lot Nos. 149, 151, 152, 153, the Remaining Portion of 155, the Remaining Portion of 157, the Remaining Portion of 158 and 328 of the property and Property No. 8 are subject to a tenancy agreement for a term of 4 years commencing from 9 August 2004 to 8 August 2008 at a monthly rental of HK$152,000 inclusive of Government rent and rates, waiver fee and property tax. Lot No. 143 of the property is owner-occupied. Lot No. 25 of the property is vacant. The property is held for investment.	HK$23,500,000 **Interest attributable to the KWCM Group** 100% **Market Value attributable to the KWCM Group as at 31 March 2005** HK$23,500,000 **Interest attributable to the KWIH Group** 65.74% **Market Value attributable to the KWIH Group as at 31 March 2005** HK$ 15,448,900

Notes:

1. According to the record in the Land Registry, the current registered owner of the property is Doran (Hong Kong) Limited, which is a wholly owned subsidiary of KWCM and KWCM is 65.74% held by KWIH as at 31 March 2005.

2. A Temporary Waiver has been granted to Lot Nos. 149, 151, 152, 153, the Remaining Portion of 155, the Remaining Portion of 157 and the Remaining Portion of 158 in D.D. 77 on 23 March 1987 to permit buildings on these lots to be used for manufacturing concrete products.

3. During the subsistence of the Temporary Waiver, the structures erected thereon at the commencement date of the Temporary Waiver i.e. 1 October 1985, shall be allowed. For this purpose, the total roofed-over area at the date of commencement shall be deemed to be 3,105 sq.m. and the maximum height of any structure erected or to be erected on the premises shall not exceed 7.62 metres and such structure shall contain not more than one storey. Notwithstanding this storey restriction, it is further provided that 2-storey structure or structures may be permitted on the premises provided that the total roofed-over area of such 2-storey structure or structures shall not exceed 575 sq.m.

4. The property was covered by Ping Che and Ta Kwu Ling Outline Zoning Plan No. S/NE-TKL/8 dated 26 March 2004. The subject lots are zoned as follows:

Lot Nos. in DD 77	**Zoning**
25	Agriculture
143	Agriculture/Industrial (Group D)
149	Industrial (Group D)
151	Industrial (Group D)
152	Industrial (Group D)
153	Industrial (Group D)
the Remaining Portion of 155	Agriculture/Industrial (Group D)
the Remaining Portion of 157	Industrial (Group D)
the Remaining Portion of 158	Industrial (Group D)
328	Agriculture

5. The lessee, Join Chance Development Limited, is an independent third party, which is not connected with, and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
5.	Lot No. 232 in Demarcation District No. 86 Lin Ma Hang Road, Sha Tau Kok, New Territories, Hong Kong	The property comprises a parcel of land with a site area of approximately 2,784 sq.m. (29,967 sq.ft.) together with an aggregate distribution terminal erected thereon. The terminal (which is a removable structure (i.e. containers)) comprises a store, an office, a toilet and a conveyor system connecting with Shenzhen City, the PRC. The property is held from the Government under New Grant No. 11843. The original lease term expired on 30 June 1997 and has been extended to 30 June 2047. The Government rent is equivalent to 3% of the rateable value for the time being of the subject property per annum.	The property at present is occupied by the KWCM Group and the KWIH Group as an aggregates distribution terminal. The property is held for owner occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Land Registry, the current registered owner of the property is Construction Materials Ltd., which is a wholly-owned subsidiary of KWCM and KWCM is 65.74% held by KWIH as at 31 March 2005.

2. The property is not covered by any statutory Outline Zoning Plan.

3. According to the Particulars and Conditions of the New Grant No. 11843 concerning the user, alienation and cessation of user are as follow:

   (a) The property is subject to a use clause which restricts the property or any part thereof or any building or buildings or other structures erected or to be erected thereon shall not be used for any purpose other than for the importation, storage and distribution of stone aggregate from the PRC.

   (b) The KWCM Group and the KWIH Group shall not assign, mortgage, charge, demise, underlet, part with the possession or otherwise dispose of the property or any part thereof or any interest therein or any building or part of any building thereon, or enter into any agreement so to do as the property was granted by the Government for the particular purposes at nil premium.

(c) The government is entitled to re-enter upon and take back possession of the property or part thereof and all buildings erected without notice and without compensation, if the property or any part thereof or any building or part of any building thereon has ceased to be used for the purposes specified in the Particulars and Conditions for the Grant.

4. The property is valued as no commercial value as at the date of valuation because it is held by the KWCM Group and the KWIH Group under restrictive terms as stated in Note 3 and no profit rent has been generated.

VALUATION CERTIFICATE

Group II — Property interest held by the KWCM Group and the KWIH Group in the PRC

	Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 March 2005
6.	A parcel of land located at Lot No. 21 in 2004, Qingpu District, Shanghai, the PRC	The property comprises a parcel of land with a site area of approximately 17,006 sq.m. (183,052.58 sq.ft.) Various temporary structures were erected thereon. According to a State-owned Land Use Right Grant Contracts, the land use right of the property has been granted for a term of 50 years commencing from the date the State-owned Land Use Right Certificate is issued.	The property as at the date of valuation was occupied by the KWCM Group and the KWIH Group for storage and ancillary purposes. The property is held for owner occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to a State-owned Land Use Right Grant Contact (Document No. Qingfangdi (2004) Churanghetong No. 21) entered into between the Housing and Land Management Bureau of Qingpu District ("Party A") and Shanghai K. Wah Qingsong Concrete Company Limited (上海嘉華青松混凝土有限公司) ("Party B"), the land use right of the property with a site area of approximately 17,006 sq.m. (183,052.58 sq.ft.) has been granted from Party A to Party B for a term of 50 years for industrial use commencing from the date the State-owned Land Use Right Certificate is issued at a consideration of US$340,120.

2. According to the information stated in the State-owned Land Use Right Grant Contract and its supplementary Contract (Document No. Qingfangdi (2004) Churanghetong No. 21), the development condition of the land with a site area of approximately 17,006 sq.m. (183,052.58 sq.ft.) are as follow:

Usage	**Industrial**
Land Use Right Term	50 years
Site Coverage	Less than or equal to 40%
Plot Ratio	Less than or equal to 1.0
Greening percentage	Not less than 20%

3. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   (a) The land use right of the property has been transferred from the Housing and Land Management Bureau of Qingpu District; and

   (b) The property owner is entitled to transfer, lease and mortgage it once all land premiums and other costs of ancillary utility services have been settled in full and the relevant title certificates have been obtained.

4. According to the information provided by the KWCM Group and the KWIH Group, the State-owned Land Use Right Certificate of the property is being applied for. We assigned no commercial value to the property because the property cannot yet be transferred, leased or mortgaged in the open market.

   However, if the relevant title certificates have been obtained and the property is entitled to be leased, mortgaged or transferred in the open market, the market value of the property as at 100% interest in existing state as at the date of valuation is RMB6,400,000 (equivalent to HK$6,038,000)

VALUATION CERTIFICATE

Group III — Property interests leased by the KWCM Group and the KWIH Group in Hong Kong

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
7.	The whole 4th Floor and 5th Floor, carparking spaces nos. 13, 13A, 14, 15, 18, 19 on 2nd Floor and 23, 24, 25, 26, 27, 27A, 32, 33, 35, 36 and 37 on 3rd Floor, Spectrum Tower, No. 53 Hung To Road, Kwun Tong, Kowloon, Hong Kong	The property comprises the whole 4th and 5th Floor and 17 carparking spaces on the 2nd Floor and the 3rd Floor of a 23-storey industrial/office building completed in 1997. The property has a total gross floor area of approximately 15,752 sq.ft. (1,463.40 sq.m.)	The whole 4th Floor and 5th Floor and carparking spaces nos. 23, 24, 25, 26 and 27 on 3rd Floor of the property are leased to Gosgold Limited by an independent third party for a term of two years commencing from 1 July 2004 to 30 June 2006 at a monthly rent of HK$96,310.80 exclusive of government rates, government rents, management fee and air-conditioning charges. The property at present is occupied by the KWCM Group for office and carparking uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Urban Land Registry, the current registered owner of the property is the New Hung Property Limited.

2. According to three licenses, the carparking spaces Nos. 13, 13A, 14, 15, 18 and 19 on 2nd Floor and 27A, 32, 33, 35, 36 and 37 on 3rd Floor are licensed to Gosgold Limited by an independent third party, New Hung Property Limited, at a total monthly licence fee of HK$24,750.

3. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

4. The property is currently covered by Kwun Tong South Outline Zoning Plan No. S/K14S/11 The subject lots are zoned as Other Specified Uses.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
8.	Lot No. 154 in Demarcation District No. 77, Ping Che, Fanling, New Territories, Hong Kong	The property comprises a parcel of agricultural land with a site area of approximately 3,920 sq.ft. (364.18 sq.m.)	The property is leased to Doran (Hong Kong) Limited by independent third parties for a term of seven years commencing from 1 January 2005 to 31 December 2011. Detailed information of the tenancy is disclosed in Note 3. The property and Lot Nos. 149, 151, 152, 153, the Remaining Portion of 155, the Remaining Portion of 157, the Remaining Portion of 158 and 328 of Property No. 4 was subject to a tenancy agreement for a term of 4 years commencing from 9 August 2004 to 8 August 2008 at a monthly rental of HK$152,000 inclusive of Government rent and rates, waiver fee and property tax. The property at present is occupied by the KWCM Group and the KWIH Group for storage. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Urban Land Registry, the current registered owners of the property are Pang Yu Shing Tso, Pang Yu Pun Tso, Pang Yu Tsun Tso, Pang Yan Tin (Manager), Pang Wah (Manager), Pang Wai Man Kent (Manager) and Thomas Lam Cheung Pang (Manager).

2. The property is leased by Pang Yu Shing Tso, Pang Yu Pun (or Pan) Tso and Pang Yu Tsun Tso (the "lessors") to Doran (Hong Kong) Limited (the "tenant") for a term of seven years commencing from 1 January 2005 to 31 December 2011 at a monthly rent of HK$7,056 for the period from 1 January 2005 to 31 December 2006 and for the period from 1 January 2006 to 31 December 2011, the rent will be at the then open market rent applicable on 31 December 2006 having regard to prevailing market rentals of similar premises in the same locality. Such market rent is to be mutually agreed between the lessors and the tenant hereto or failing agreement thereon three months before 31 December 2006, the amount of such market rent shall be determined by a single arbitrator acting as an arbitrator and not as an expert nominated by the

President/Chairman for the time being of the Hong Kong Institution of Surveyors on the application of the lessors and tenant jointly and such arbitrators' decision shall be final and binding on the parties hereto. In case the determination by the such arbitrator shall be more than HK$7,620.50 per month then the rent of the period from 1 January 2006 to 31 December 2011 shall be taken as HK$7,620.50 per month and that in case the determination shall be less than HK$6,491.50 per month, then the rent of the period from 1 January 2006 to 31 December 2011 shall be taken as HK$6,491.50 per month.

3. The property is covered by Ping Che and Ta Kwu Ling Outline Zoning Plan No. S/NE-TKL/9. The subject lots are zoned as "Agriculture/Industrial (Group D)".

4. The lessors are independent third parties, which are not connected with and are independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

5. The sub-lessee, Join Chance Development Limited, is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

6. Due to the short term lease of the sub-lease agreement and because according to the tenancy agreement entered into between the lessors and the KWCM Group and the KWIH Group, the rental will be reviewed by reference to open market rent three month before 31 December 2006. Thus, we opine that no profit rent was generated from the sub-lease of the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
9.	Portion of Lot No. 65 in Demarcation District No. 77, Ping Che, Fanling, New Territories, Hong Kong	The property comprises a parcel of agricultural land with a site area of approximately 4,000 sq.ft. (371.61 sq.m.)	The property is leased to Doran (Hong Kong) Limited by an independent third party for a term of two years commencing from 1 September 2004 to 31 August 2006 at a monthly rent of HK$2,800 inclusive of Land Tax, Government Rates, Government Rent and Property Tax. The property at present is occupied by the KWCM Group for pipe storage and distribution. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Urban Land Registry, the current registered owner of the property is the lessor, Man Moon Fung.

2. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

3. The tenant has a right to renew the lease until 31 August 2008 by sending notice to the owner one month before 31 August 2006 at the same term and conditions of the tenancy.

4. The tenant has a right of pre-emption when the owner has an intention to sell the property during the subsistence of the lease.

5. The property is covered by Ping Che and Ta Kwu Ling Outline Zoning Plan No. S/NE-TKL/9. The subject lots are zoned as "Agriculture".

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
10.	A land parcel at Demarcation District No. 77, Ping Che, Fanling, New Territories, Hong Kong	The property comprises a parcel of land with a site area of approximately 496 sq.m. (5,338 sq.ft.) The property is held under a short term tenancy STT No. 000000604 from the Government.	The property is leased to Construction Materials Limited for a term of three years commencing from 1 October 1985. The present rent is HK$6,330 quarterly. The property at present is occupied by the KWCM Group and the KWIH Group for open storage and piling of concrete pipes and associated concrete products uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The property is Government land.

2. Under the short term tenancy agreement STT No. 000000604 dated 19 November 1986, the property is leased for the purposes of open storage and stock piling of concrete pipes and associated concrete products.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
11.	Lot No. 21 and the Remaining Portion of Lot Nos. 20 and 23 in Demarcation District No. 88, Off Man Kam To Road, Ta Kwu Ling, New Territories, Hong Kong	The property comprises a parcel of land with a site area of approximately 8,843.9 sq.m. (95,195.74 sq.ft.)	The property is leased to Construction Materials Limited for a term of ten years commencing from 15 September 2001 to 14 September 2011. We are advised that the rent from 15 September 2004 to 14 September 2005 is HK$160,000 per month. For rent for the remaining term referred to Note 3.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value
			The property at present is occupied by the KWCM Group and the KWIH Group as concrete production plant, offices and workshop.	**Interest attributable to the KWIH Group** N/A
			The property is rented for own occupation.	**Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Urban Land Registry, the current registered owner of the property is the lessor, Liu Ching Leung.

2. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

3. For the period from 15 September 2005 to 14 September 2011, the monthly rent (the Rent) is calculated as follows:

$$\text{Rent}_{n-1} \text{ X Annual Adjustment}_n$$

and the Annual Adjustment$_n$ is:

$$\left\{0.5 \text{ X } \frac{\text{CCPI Year}_{n \text{ September}}}{\text{CCPI Year}_{n-1 \text{ September}}} + 0.5 \text{ X } \frac{\text{GVCW Year}_n}{\text{GVCW Year}_{n-1}}\right\}$$

Note:

(i) Annual Adjustment of each year is subject to the limit of not greater than 1.095 and not less than 1.000.

(ii) $Year_n$ applies to the year 2005, 2006, 2007, 2008, 2009, 2010 or 2011.

(iii) $Year_{n-1}$ applies to the corresponding year of 2004, 2005, 2006, 2007, 2008, 2009 or 2010.

4. The property was covered by Fu Tei Au and Sha Ling Outline Zoning Plan No. S/NE-FTA/7. The subject lots are zoned as "Open Storage".

5. Pursuant to a supplementary agreement to short term waiver No. 883 dated 25 July 2002 issued by the Government of Hong Kong to the lessor, Liu Ching Leung, the property can be converted to building purposes provided that no building or part thereof on the property may be used for any purpose other than (i) a concrete production plant and (ii) open storage of machinery and equipment.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
12.	A land parcel at Ho Yeung Street, Area 40, Tuen Mun, New Territories, Hong Kong	The property comprises a parcel of land with a site area of approximately 6,750 sq.m. (72,657 sq.ft.) The property is held under a short term tenancy No. 1033 from the Government	The property is leased to Sky Dragon Investments Limited for a term of three years commencing from 29 September 2000 and thereafter quarterly until such time as the tenancy is terminated. The present rent is HK$1,425,000 per quarter. The property at present is occupied by the KWCM Group and the KWIH Group as a concrete batching and manufacturing plant. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The property is Government land.

2. Pursuant to the short term tenancy No. 1033, the property is permitted for the uses of concrete production and open storage of sand and aggregates or any of the said users.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
13.	A land parcel of Man Kam To Road in Demarcation District No. 88, Off Man Kam To Road, Ta Kwu Ling, New Territories, Hong Kong	The property comprises a parcel of land with a site area of approximately 1,700 sq.m. (18,298.80 sq.ft.) The property is held under short term tenancy STT No. 000000641 from the Government	The property is leased to Construction Materials Limited of a term commencing from 13 June 1986. The present rent is HK$21,680 per quarter. The property at present is occupied by the KWCM Group and the KWIH Group as a concrete batching and manufacturing plant. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The property is Government land.

2. According to the short term tenancy STT No. 000000641, the permitted uses of the property as follows:

   (i) a concrete/asphalt batching plant;

   (ii) manufacturing of concrete products; and

   (iii) open storage of machinery and equipment.

VALUATION CERTIFICATE

Group IV — Property interests leased by the KWCM Group and the KWIH Group in Macau

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
14.	Units J and K on 17th Floor, Centro Comercial De Grupo Brilhantismo, 398 Alameda Dr. Carlos D'Assumpção, Macau	The property comprises 2 units on the 17th Floor of a 21-storey office building completed in 1990s. The property has a total gross floor area of approximately 2,570 sq.ft. (238.76 sq.m.)	The property is leased to K. Wah Construction Materials (Macau) Limited by an independent third party for a term of two years commencing from 1 November 2004 to 31 October 2006 at a monthly rent of HK$7,196 exclusive of management fees. The property at present is occupied by the KWCM Group and the KWIH Group as an office. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Conservatória Do Registo Predial of Macau, the current registered owner of the property is the lessor, Sociedade De Fomento Predial Man Tat, Limitada.

2. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
15.	Unit R on 19th Floor, Centro Comercial De Grupo Brilhantismo, 398 Alameda Dr. Carlos D'Assumpção, Macau	The property comprises a unit on the 17th Floor of a 21-storey office building completed in 1990s. The property has a total gross floor area of approximately 653 sq.ft. (60.67 sq.m.)	The property is leased to K. Wah (Macao Commercial Offshore) Company Limited by an independent third party for a term of two years commencing from 1 April 2004 to 31 March 2006 at a monthly rent of HK$1,959 exclusive of management fee. The property at present is occupied by the KWCM Group and the KWIH Group as an office. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to the record in the Conservatória Do Registo Predial of Macau, the current registered owner of the property is Tse Hui Hsien Jean.

2. The tenancy agreement was entered into between Sociedade De Fomento Predial Guang Chang, LDA ("the original lessor") and K. Wah (Macao Commercial Offshore) Company Limited, according to a statement issued by the original lessor and the new lessor, Tse Hui Hsien Jean, the property has been transferred from the original lessor to the new lessor, all terms stated in the tenancy agreement are still valid and legally binding between Tse Hui Hsien Jean and K. Wah (Macao Commercial Offshore) Company Limited.

3. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

4. The property is subject to a mortgage in favour of Banco Weng Hang S.A. vide memorial no. 56290 C.

VALUATION CERTIFICATE

Group V — Property interests leased by the KWCM Group and the KWIH Group in the PRC

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
16.	Guangangsidui, (also known as No. 2658 (A) Longwu Road) Longhua Town, Shanghai, The PRC	The property comprises a parcel of land together with the whole of a 2-storey office building, a simple structural concrete batching factory and various structures completed in or about 1995. The property has a site area of approximately 4,993 sq.m. (53,744.65 sq.ft.) and the office building has a gross floor area of approximately 200 sq.m. (2,152.8 sq.ft.) According to our inspection and information provided by the KWCM Group, the KWCM Group has erected one level on the original building with a gross floor area of approximately 571 sq.m. and various structures erected thereon.	The office building of the property is leased to Shanghai Ganghui Concrete Co. Ltd. by an independent third party for a term of fifteen years commencing from 16 July 1995 to 15 July 2010 at an annual rent of RMB637,800 for the period from 16 July 1995 to 15 July 1997 and the rent will be increased by 5% annually since 16 July 1997. According to the information provided by the KWCM Group and the KWIH Group, the land parcel of the property with a site area of approximately 4,993 sq.m. (53,744.65 sq.ft.) has been leased to the KWCM Group and the KWIH Group by the lessor. The property at present is occupied by the KWCM Group and the KWIH Group for concrete batching and ancillary office. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. According to the tenancy agreement, the KWCM Group and the KWIH Group has leased the Level 1 and 2 of the property with a total gross floor area of approximately 200 sq.m.. According to a Planning Permit issued by Shanghai Xuhui District Planning Committee dated 1 November 1995 (Document No. Xujitou (1995) No. 143), the Level 3 of the property with a gross floor area of approximately 571 sq.m. has been permitted to be built on the property.

3. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   (a) The content of the tenancy agreement entered into between the lessor, Shanghai Xuhui District Construction Materials Company (上海徐滙區建築材料公司) and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties;

   (b) Due to that the lessor, Shanghai Xuhui District Construction Materials Company (上海徐滙區建築材料公司) cannot provide the relevant title certificates for the property, the current registered owner of the property cannot be confirmed; and

   (c) Since the lessor cannot provide the Real Estate Ownership Certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the tenant might not be able to enjoy the right to use the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
17.	A parcel of land together with buildings and structures erected thereon, Guangang Village, Huajing Town, Shanghai, the PRC	The property comprises a parcel of land with a site area of approximately 3,300 sq.m. (35,521.20 sq.ft.)	The property is leased to Shanghai Ganghui Concrete Co., Ltd. by an independent third party for a term of three years commencing from 1 October 2003 to 30 September 2006 at an annual rent of RMB200,000. The property at present is a clear site. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, *inter alia*, the following information:

   According to a Collective Land for Construction Certificate, the lessor, Shanghai Guangang Enterprise Company Limited (上海關港實業有限公司) is the current registered owner of the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
18.	No. 2 Xinchen Road, Beicai Town, Pudong New District, Shanghai, the PRC	The property comprises a parcel of land together with fourteen 1 to 3-storey buildings erected thereon. The buildings were completed from 1994 to 1995. The property has a site area and total gross floor area of approximately 12,955 sq.m. (139,447.62 sq.ft.) and 1,461.04 sq.m. (15,726.63 sq.ft.) respectively.	The property is leased to Shanghai Beicai Concrete Co., Ltd. by an independent third party for a term commencing from 11 July 2000 to 17 May 2018 at an annual rent of RMB582,990 for the period from 11 July 2000 to 30 April 2002, RMB617,969.4 for the period from 1 May 2002 to 30 April 2005 and RMB654,892.08 from 1 May 2005. The property at present is occupied by the KWCM Group and the KWIH Group for office, staff quarter, canteen, laboratory and ancillary uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   (a) The tenancy agreement entered into between the lessor, Shanghai Beicai Enterprise Company (上海北蔡實業總公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties; and

   (b) According to a Real Estate Ownership Certificate (Document No. Hufangdipuzi (1999) No. 043033), the lessor, Shanghai Beicai Enterprise Company (上海北蔡實業總公司), is the current registered owner of the property, and is entitled to lease the property to the KWCM Group and the KWIH Group;

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
19.	No. 21 Luding Road, Shanghai, the PRC	The property comprises a parcel of land and various structures erected thereon. The property has a site area of approximately 11,333.22 sq.m. (121,990.78 sq.ft.)	The property is leased to Shanghai Jiajian Concrete Co., Ltd. by the lessor for a term of twenty years commencing from 23 June 1998 to 22 June 2018 at an annual rent of RMB765,000 and the rent will be increased by 2% annually. The property at present is occupied by the KWCM Group and the KWIH Group for godown, office and ancillary uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes: We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

(a) The tenancy agreement entered into between the lessor, Shanghai Diyishizheng Project Company Limited (上海第一市政公程有限公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties;

(b) The lessor, Shanghai Diyishizheng Project Company Limited (上海第一市政公程有限公司), is the current registered owner of the property; and

(c) The nature of the land of the property is not clearly stated in the State-owned Land Use Right Certificate. Thus, if in case of dispute, the KWCM Group and the KWIH Group may not continue her enjoyment on the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
20.	No. 200 Qiujiang Pier Road, Shanghai, the PRC	The property comprises a parcel of land together with various buildings erected thereon. The buildings were completed in or about 2002. The property has a site area and a gross floor area of approximately 8,666.58 sq.m. (93,287.07 sq.ft.) and 913 sq.m. (9,827.53 sq.ft.) respectively.	The property is leased to Shanghai Jia Shen Concrete Co., Ltd. by an independent third party for a term of ten years commencing from 31 March 2002 to 30 March 2012 at an annual rent of RMB800,000 for the period from 31 March 2002 to 30 March 2005 and the rent will be increased by 2% since 31 March 2005. The property at present is occupied by the KWCM Group and the KWIH Group for office, godown and ancillary uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, *inter alia*, the following information:

   (a) The tenancy agreement entered into between the lessor, Shanghai City Yangpu District Gongxiao Co-operation Society Factory Service Department (上海市楊浦區供銷合作社工廠服務部), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties;

   (b) Due to that the lessor, Shanghai City Yangpu District Gongxiao Co-operation Society Factory Service Department (上海市楊浦區供銷合作社工廠服務部) cannot provide the relevant title certificates for the property, the current registered owner of the property cannot be confirmed; and

   (c) Since the lessor cannot provide the Real Estate Ownership Certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the tenant might not be able to enjoy the right to use the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
21.	The West portion of Hutai Road, Shanghai, the PRC	The property comprises a parcel of land together with various structures erected thereon. The property has a site area of approximately 8,000.04 sq.m. (86,112.43 sq.ft.)	The property is leased to Shanghai Xin Cai Concrete Co., Ltd. by the lessor for a term of ten years commencing from 2004 to 2014 at an annual rent of RMB470,400.	No commercial value **Interest attributable to the KWCM Group** N/A
			The property at present is occupied by the KWCM Group and the KWIH Group for office and ancillary uses.	**Market Value attributable to the KWCM Group as at 31 March 2005**
			The property is rented for own occupation.	No commercial value **Interest attributable to the KWIH Group** N/A
				Market Value attributable to the KWIH Group as at 31 March 2005
				No commercial value

Notes:

1. The lessor is not a connected person of the KWCM Group and the KWIH Group.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   According to a Collective Land for Construction Certificate (Document No.: Hujitizhazi No. 0389), the lessor, Shanghai Tangnan Enterprise Company (上海塘南實業公司), is the current registered owner of the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
22.	The South portion of Mahanhe Daweiqiao, Nanjing, Jiangsu Province, The PRC	The property comprises a parcel of land together with a single-storey and a two-storey building erected thereon completed in or about 2003. The property has a total site area of approximately 7,433.37 sq.m. (80,012.79 sq.ft.) and has a total gross floor area of approximately 450 sq.m. (4,843.8 sq.ft.)	The property is leased to Nanjing K. Wah Concrete Co., Ltd. by an independent third party. A portion of land with a site area of approximately 5,066.62 sq.m. (54,537.10 sq.ft.) and the building with a gross floor area of approximately 450 sq.m. (4,843.8 sq.ft.) is leased for a term of twelve years commencing from 17 July 2002 to 16 July 2014 at an annual rent of RMB80,000 and the rent will be increased by 6% annually from 17 July 2007. The remaining portion of land with a site area of approximately 2,366.64 sq.m. (25,474.51 sq.ft.) is leased for a term commencing from 30 May 2003 to 16 July 2014 at an annual rent of RMB50,000 and the rent will be increased by 4% annually from 1 June 2008. The property at present is occupied by the KWCM Group and the KWIH Group for office, godown, canteen and ancillary uses. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   (a) The tenancy agreement entered into between the lessor, Nanjing City Zhendalianyun Company (南京市振大聯運公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties;

   (b) Due to that the lessor, Nanjing City Zhendalianyun Company (南京市振大聯運公司) cannot provide the relevant title certificates for the property, the current registered owner of the property cannot be confirmed; and

   (c) Since the landlord cannot provide the Real Estate Ownership Certificate, it is uncertain to confirm that the owner of the land use right and/or the building ownership of the property is the landlord. If there is any dispute over the building ownership and/or the land use right of the property, the tenant might not be able to enjoy the right to use the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
23.	Caochangdi, Airport Road, Chaoyang District, Beijing, the PRC	The property comprises two parcels of land together with a 4-storey office building and a single-storey building erected thereon, the buildings are completed in or about 1979. The property has a site area and total gross floor area of approximately 12,900 sq.m. (138,855.60 sq.ft.) and 2,153 sq.m. (23,174.89 sq.ft.) respectively.	The property is leased to Beijing K. Wah Gao Qiang Concrete Co., Ltd. by an independent third party for a term of twenty years. According to the information provided by the KWCM Group, the term of the tenancy was commenced from 18 January 2003 to 18 January 2023. Detail information of the tenancies are summarized in Note 2. The property at present is occupied by the KWCM Group and the KWIH Group for office, godown and ancillary purposes. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. Information on the tenancies is summarized as follows:

The leased portion of the property	Lease Term	Rental
The land parcel A with a site area of approximately 10,000 sq.m. (107,640 sq.ft.)	18 January 2003 to 18 January 2023	Annual rent of RMB400,000 for the period from 18 January 2003 to 18 January 2023 and the rent will be increased by 2% annually
The land parcel B with a site area of approximately 2,900 sq.m. (31,215.60 sq.ft.)	18 January 2003 to 18 January 2023	Total rent of RMB2,000,000
Building portion with a total gross floor area of approximately 2,153 sq.m. (23,174.89 sq.ft.)	18 January 2003 to 18 January 2023	Annual rent of RMB600,000

3. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

(a) The tenancy agreements entered into between the lessor, Beijing Gaoqiang Concrete Company Limited (北京市高強混凝土有限公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties;

(b) Due to that the lessor, Beijing Gaoqiang Concrete Company Limited (北京市高強混凝土有限公司) cannot provide the relevant title certificates for the land parcel of the property, the current registered owner of the property cannot be confirmed; and

(c) Since the lessor cannot provide the Real Estate Ownership Certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the tenant might not be able to enjoy the right to use the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
24.	A parcel of land at Oi Ling Ding Island, Zhuhai, Guangdong Province, the PRC	The property comprises a parcel of land together with various single-storey buildings and structures erected thereon. According to the information provided by the KWCM Group, the buildings have been completed for more than 50 years. The property has s site area of approximately 765,000 sq.m. (8,234,460 sq.ft.)	The property is leased to K. Wah Stones (Zhu Hai) Company Limited by an independent third party for a term commencing from 1 July 2002 to 26 April 2006 at an annual rent of RMB1,200,000 exclusive of all operating expenses. The property at present is occupied by the KWCM Group and the KWIH Group for mining use. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. According to a tenancy agreement entered into between Guangdong Province Military District Zhuhai Office (廣東省軍區珠海辦事處) (Party A) and K. Wah Stone (Zhu Hai) Company Limited (Party B) dated 20 September 2002, the property has been leased by Party A to Party B for a term commencing from 1 July 2002 to 26 April 2006 at an annual rent of RMB1,200,000.

   Pursuant to a supplementary agreement entered into amongst Guangdong Province Military District Zhuhai Office (廣東省軍區珠海辦事處) (Party A), Guangdong Province Military Rear Unit (廣東省軍區後勤部戰勤處) (Party B) and K. Wah Stone (Zhu Hai) Company Limited (Party C) dated 26 October 2004, the lessor of the property has been changed from Party A to Party B due to repeal of Party A, however, all terms stated in the tenancy agreement are still valid and legally effective until the expiration of the tenancy on 26 April 2006.

2. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

3. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, *inter alia*, the following information:

   (a) Due to that the lessor, Guangdong Province Military Rear Unit (廣東省軍區後勤部戰勤處) cannot provide the relevant title certificates for the property, the current registered owner of the property cannot be confirmed; and

   (b) Since the lessor cannot provide the relevant title certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the KWCM Group and the KWIH Group might not be able to enjoy the right to use the property.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
25.	A parcel of land located on the Tongfuyue Industrial Zone, Longhua Town, Baoan District, Shenzhen, the PRC	The property comprises a parcel of land with a site area of approximately 23,000 sq.m. (247,572 sq.ft.) According to the information provided by the KWCM Group and site inspection, four 1 to 2-storey buildings and various structures erected on the property with a total gross floor area of approximately 3,153 sq.m. (33,938.89 sq.ft.) The buildings were completed from 1999 to 2004.	The property is leased to K. Wah Construction Products (Shenzhen) Co., Ltd. by an independent third party for a term of 50 years commencing from 10 February 1999 to 9 February 2049 at an annual rent of RMB414,000 for the period from 10 February 1999 to 9 February 2004 and the rent will be increased by RMB414,000 for every 5 years from 10 February 2004. The property at present is occupied by the KWCM Group and the KWIH Group as office, production workshop, research and manufacturing workshop and laboratory. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, *inter alia*, the following information:

   (a) The tenancy agreement entered into between the lessor, Shenzhen City Dalang New Economic Development Company Limited (深圳市大浪新經濟發展有限公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties. However, according to the Contract Law, the lease term of a tenancy agreement should be limited to 20 years. The exceeded period would not be legally protected;

   (b) Due to that the lessor, Shenzhen City Dalang New Economic Development Company Limited (深圳市大浪新經濟發展有限公司) cannot provide the relevant title certificates for the property, the current registered owner of the property cannot be confirmed; and

(c) Since the lessor cannot provide the relevant title certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the KWCM Group and the KWIH Group might not be able to enjoy the right to use the property.

3. The property is valued as no commercial value because the property cannot be sub-let and no profit rent is generated.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
26.	A parcel of land located in the Hepingtongfuyue Industrial Zone, Fuyong Town, Baoan District, Shenzhen, the PRC	The property comprises a parcel of land with a site area of approximately 12,000 sq.m. (129,168 sq.ft.) According to the information provided by the KWCM Group and site inspection, four 1 to 2-storey buildings and various structures are erected on the property with a total gross floor area of approximately 1,680 sq.m. (18,083.52 sq.ft.) The buildings were completed in or about 1998.	The property is leased to K. Wah Construction Products (Shenzhen) Co., Ltd. by an independent third party for a term of 50 years commencing from 1 August 1998 to 31 July 2048 an annual rent of RMB360,000 (HK$ eqv. 339,623) for the period from 1 August 1998 to 31 July 2003 and the rent will be increased by 10% per 5 years since 1 August 2003. The property at present is occupied by the KWCM Group and the KWIH Group as office, production workshop, research and manufacturing workshop and laboratory. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, *inter alia*, the following information:

   (a) The tenancy agreement entered into between the lessor, Shenzhen City Fuyong Town Fuhetongfuyue Industrial Company Limited (深圳市福永鎮福和同富裕工業有限公司), and the KWCM Group and KWIH Group is valid, effective and legally binding on both parties. However, according to the Contract Law, the lease term of a tenancy agreement should be limited to 20 years. The exceeded period would not be legally protected;

   (b) Due to that the lessor, Shenzhen City Fuyong Town Fuhetongfuyue Industrial Company Limited (深圳市福永鎮福和同富裕工業有限公司) cannot provide the relevant title certificates, the current registered owner of the property cannot be confirmed; and

(c) Since the lessor cannot provide the relevant title certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the KWCM Group and the KWIH Group might not be able to enjoy the right to use the property.

3. The property is valued as no commercial value because the property cannot be sub-let and no profit rent is generated.

VALUATION CERTIFICATE

	Property	Description	Particulars of occupancy	Market Value in existing state as at 31 March 2005
27.	A parcel of land in Minzhu Village, Bio-technology Park, Shajing Town, Baoan District, Shenzhen, the PRC	The property comprises a parcel of land with a site area of approximately 50,000 sq.m. (538,200 sq.ft.) According to the information provided by the KWCM Group and inspection, four 1 to 3-storey buildings and various structures are erected on the property with a total gross floor area of approximately 4,980 sq.m. (53,604.72 sq.ft.) The buildings are completed in or about 2003.	The property is leased to K. Wah Construction Products (Shenzhen) Co., Ltd. by an independent third party for a term with an expiry date on 31 October 2032. Detail information of the tenancy is summarized in Note 2. The property at present is occupied by the KWCM Group and the KWIH Group as an office, production workshop, research and manufacturing workshop, laboratory and canteen. The property is rented for own occupation.	No commercial value **Interest attributable to the KWCM Group** N/A **Market Value attributable to the KWCM Group as at 31 March 2005** No commercial value **Interest attributable to the KWIH Group** N/A **Market Value attributable to the KWIH Group as at 31 March 2005** No commercial value

Notes:

1. The lessor is an independent third party, which is not connected with and is independent of, any of the directors of the KWCM Group and the KWIH Group, or any of their respective associates.

2. The information of the tenancy of the property is summarized as follow:

Leased portion of the property	Site Area *(sq.m.)*	Lease Term	Annual Rent
Phase I	30,000	1 November 2002–31 October 2032	RMB738,000 for the period from 1 November 2002 to 31 October 2007 and the rent will be increased by RMB73,800 per 5 years since 1 November 2007
Phase II	20,000	1 October 2003–31 October 2032	RMB492,000 for the period from 1 October 2003 to 30 September 2008 and the rent will be increased by RMB49,200 per 5 years since 1 October 2008.
Total	50,000		Annual Rent as at the date of valuation is RMB1,230,000

3. According to an authorization letter issued by Shenzhen Baoan District Shajing Town Democratic Village Committee (Party A) to Shenzhen Baoan District Shajing Town Democratic Economic Development Company (Party B) dated 5 September 2002, Party A has authorized Party B to lease the property to K. Wah Construction Products (Shenzhen) Co., Ltd. for a term of 30 years.

4. We have been provided with a PRC legal opinion on the title to the property issued by the PRC legal adviser, Commerce & Finance Law Offices, which contains, inter alia, the following information:

   (a) The tenancy agreement entered into between the lessor, Shenzhen City Baoan District Shajing Town Minzhu Economic Development Company (深圳市寶安區沙井鎮民主經濟發展公司), and the KWCM Group and the KWIH Group is valid, effective and legally binding on both parties. However, according to the Contract Law, the lease term of a tenancy agreement must not exceed 20 years. A period in excess of 20 years would not be legally protected;

   (b) Due to that the lessor, Shenzhen City Baoan District Shajing Town Minzhu Economic Development Company (深圳市寶安區沙井鎮民主經濟發展公司) cannot provide the relevant title certificates, the current registered owner of the property cannot be confirmed; and

   (c) Since the lessor cannot provide the Real Estate Ownership Certificate, we cannot confirm that the owner of the land use right and/or the building ownership of the property is the lessor. If there is any dispute over the building ownership and/or the land use right of the property, the tenant might not be able to enjoy the right to use the property.

5. The property is valued as no commercial value because the property cannot be sub-let and no profit rent is generated.

The following is the text of a letter, summary of values and valuation certificate received from Chesterton Petty Limited, for inclusion in this Circular, in connection with its valuation as at 31 March 2005 of the property interests of the Galaxy Group.

International Property Consultants

Chesterton Petty Ltd
16/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

30 June 2005

The Directors
Galaxy Casino, S.A.
19th Floor
Dynasty Plaza
411–417 Alameda Dr Carlos D'Assumpcao
Macau

The Directors
K. Wah International Holdings Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

The Directors
K. Wah Construction Materials Limited
29th Floor, K. Wah Centre
191 Java Road
North Point
Hong Kong

Dear Sirs

VALUATION OF VARIOUS PROPERTY INTERESTS IN MACAU

In accordance with your instructions for us to value the property interests held by Galaxy Casino, S.A. (hereinafter known as the "Company") or its subsidiaries (together referred to as the "Group") in Macau, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of these property interests as at 31 March 2005.

Our valuation is our opinion of the market value of the property which we would define as intended to mean "the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

We have valued the property interest in Group I with the Comparison Method by reference to sales evidence as available on the market and information provided by the Group including development proposals, development programme, construction costs and other relevant information. The property interests in Group II have no commercial value mainly due to their short term nature or the prohibition or restriction against sub-letting or lack of substantial profit rent.

We have not been provided with any title documents relating to the property interests in Groups I and II but we have caused land searches on the title of the property interest in Group I at the Conservatoria do Registo Predial (the land registry of Macau). We have not, however, inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. In the course of our valuation, we have assumed that the owner of the property interest in Group I has enforceable title and has free and uninterrupted rights to use, occupy, assign or transfer the property interest.

We have relied to a very considerable extent on information given by the Group and have accepted advice given to us by the Group on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, development proposals, development programme and costs, site and floor areas. We have not verified the truth and accuracy of the information and we have relied on the confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information to reach an informed view. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and leases provided to us and are therefore only approximations.

We have inspected the exterior of properties in Groups I and II valued and, where possible, we have also inspected the interior of the properties of Group II. However, no on site investigations to determine the suitability of the ground conditions and services etc for the proposed development for the property of Group I and structural survey for the properties in Group II have been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties in Group II are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

This report is prepared pursuant to Chapter 5 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in accordance with the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
Chartered Estate Surveyor
MSc FRICS FHKIS MCIArb RPS(GP)
Executive Director

* *Mr Charles C K Chan, chartered estate surveyor, MSc., F.R.I.C.S., F.H.K.I.S., M.C.I.Arb., R.P.S.(G.P.), has been a qualified valuer with Chesterton Petty Limited since June 1987 and has about 20 years experience in the valuation of properties in Hong Kong and has about 15 years experience in the valuation of properties in Macau.*

SUMMARY OF VALUES

	Property	Capital value in existing states as at 31 March 2005
Group I — Property interest held by the Group in Macau for development		
1.	Lote 3 (A2/I), Zona dos Novos, Aterros do Porto Exterior, Macau	HK$1,600,000,000
	Sub-total:	**HK$1,600,000,000**
Group II — Property interests rented by the Group in Macau for occupation		
2.	Various Commercial Portions in Waldo Hotel, Lote J-Quarteirao 6, Avenida da Amizade, Aterros do Porto Exterior, Macau	No commercial value
3.	Units A, B, C, D and E on 19th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	No commercial value
4.	Units I, J, K and L on 15th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	No commercial value
5.	Units M, N, O, P and Q on 11th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	No commercial value
6.	Unit L on 15th Floor, Bloco 3 (Ruby Court), Magnificent Court, 168 Rua de Berlim, Macau	No commercial value
7.	Unit M on 15th Floor, Bloco 3 (Ruby Court), Magnificent Court, 168 Rua de Berlim, Macau	No commercial value
8.	Unit S on 5th Floor, Bloco 4, Edificio Tai Keng Yuen (Vista Magnifica Court), 1333–1443 Avenida Dr Sun Yat Sen, 10-52 Avenida Sir Anders Ljungstedt, 396–506 Cidade de Braga, 9-51 Alameda Dr Carlos de Assumpcao, Macau	No commercial value
9.	Unit G on 21st Floor, Magnolia Court, 181A–255 Avenida dos Jardins do Oceano, Taipa, Macau	No commercial value
	Sub-total:	**No commercial value**
	Grand total:	**HK$1,600,000,000**

VALUATION CERTIFICATE

Group I — Property interest held by the Group in Macau for development

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
1.	Lote 3 (A2/I), Zona dos Novos, Aterros do Porto Exterior, Macau	The property comprises a rectangular level site with a registered area of approximately 2,916 sq m (31,388 sq ft). The property is planned to be developed by the construction of a 33-storey (excluding 2 refuge floors) with "five-star" commercial/hotel development built over 3 basement carpark levels. The proposed development will accommodate 560 hotel modules, a casino and other gaming related facilities. Upon completion, the development is planned to provide a total gross floor area of approximately 94,678 sq m (1,019,114 sq ft) inclusive of electrical and mechanical areas. In addition, the proposed development will also comprise 288 carparking spaces and 45 motor vehicle parking spaces in the basement levels. The proposed development is scheduled to be completed in mid-2006. The property is held on a lease from the Government of Macau for a term of 25 years from 29 June 1992 renewable for successive periods of 10 years up to 19 December 2049 at a current annual rent of MOP87,480.	The property is currently under construction.	HK$1,600,000,000

Notes:

1. The registered owner of the property is Sociedade de Investimento Hoteleiros Majesty (Internacional) Ltd., a wholly owned subsidiary of the Company.

2. The property is subject to a mortgage in favour of Hang Seng Bank Limited.

3. A portion of a podium of the proposed development will deck over Rua Cidade de Sintra (a public road) and the public garden on the northwest of the property. In addition, we note that the proposed development deviates from the development conditions stipulated in the existing land grant in terms of the number of

storey, gross floor areas and the type of development etc. In the course of our valuation, we have assumed that the Macau Government will permit the proposed development via a modification of the existing land grant and subject to payment of premium for such modification.

4. As advised by the Company, we are given to understand that the Macau Government will charge a premium of approximately MOP45,000,000 (approximately HK$44,000,000) for the development rights of the adjoining public road and garden as well as for the modification of the existing land grant to permit the proposed development. In the absence contrary evidence, we have assumed that this is the amount of premium to be charged by the Macau Government and have allowed for the said premium in our valuation.

5. In accordance with the information provided by the Group, the total estimated construction cost for the proposed development is approximately MOP1,300,000,000 (approximately HK$1,262,000,000). The estimated outstanding construction cost of completing the proposed development as in March 2005 was approximately MOP1,168,000,000 (approximately HK$1,134,000,000).

6. The capital value of the proposed development assuming it is completed as at 31 March 2005 is approximately HK$3,600,000,000, which is estimated by the Comparison Method and with reference to sales evidence as available in the market.

VALUATION CERTIFICATE

Group II — Property interests rented by the Group in Macau for occupation

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
2.	Various Commercial Portions in Waldo Hotel, Lote J-Quarteirao 6, Avenida da Amizade, Aterros do Porto Exterior, Macau	Waldo Hotel is a 20-storey (including 3 basement levels) hotel premises refurbished from a commercial building in 2004. The property comprises various portions in the commercial podium of the hotel premises with a total floor area of approximately 3,500 sq m (37,674 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 1 January 2004 at a monthly rent of HK$2,500,000 inclusive of management fees and other utility charges. The said tenancy has an option for the tenant to renew for a further term of 3 years. The rent is subject to review every 3 years at an increment of 15%.	The property is occupied by the Group for casino operations.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
3.	Units A, B, C, D and E on 19th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	Dynasty Plaza is a 23-storey office building (including a mezzanine floor) surmounting a level of basement carpark completed in about 1995. The property comprises 5 office units on the 19th Floor of the building with a total registered floor area of approximately 469.06 sq m (5,049 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 16 May 2003 at a monthly rent of HK$41,823.8 inclusive of management fees and air-conditioning charges.	The property is occupied by the Group as an office.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
4.	Units I, J, K and L on 15th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	Dynasty Plaza is a 23-storey office building (including a mezzanine floor) surmounting a level of basement carpark completed in about 1995. The property comprises 4 office units on the 15th Floor of the building with a total registered floor area of approximately 387.23 sq m (4,168 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 1 August 2004 at a monthly rent of HK$35,730 inclusive of management fees and air-conditioning charges. The said tenancy has an option for the tenant to renew for a further term of 2 years at a revised monthly rent at HK$41,685.	The property is occupied by the Group as an office.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
5.	Units M, N, O, P and Q on 11th Floor, Dynasty Plaza, 392–438 Avenida Sir Anders Ljungstedt, 397–501 Rua Cidade de Sintra, 393–437 Alameda Dr Carlos de Assumpcao, Macau	Dynasty Plaza is a 23-storey office building (including a mezzanine floor) surmounting a level of basement carpark completed in about 1995. The property comprises 5 office units on the 11th Floor of the building with a total registered floor area of approximately 471.89 sq m (5,079 sq ft). The property is rented by the Group under a tenancy agreement for a term from 10 December 2004 to 9 December 2006 at a monthly rent of HK$45,712.8 inclusive of management fees and air-conditioning charges. The said tenancy has an option for the tenant to renew for a further term of 2 years at a revised monthly rent at HK$50,284.	The property is occupied by the Group as an office.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
6.	Unit L on 15th Floor, Bloco 3 (Ruby Court), Magnificent Court, 168 Rua de Berlim, Macau	Magnificent Court comprises four 13-storey residential buildings surmounting a 3-storey commercial/ carparking podium completed in about 2000. The property comprises a flat unit on the 15th Floor in Block 3 of the development with a registered floor area of approximately 87.21 sq m (939 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 26 August 2004 at a monthly rent of HK$7,000 inclusive of management fees.	The property is occupied by the Group as staff quarters.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
7.	Unit M on 15th Floor, Bloco 3 (Ruby Court), Magnificent Court, 168 Rua de Berlim, Macau	Magnificent Court comprises four 13-storey residential buildings surmounting a 3-storey commercial/ carparking podium completed in about 2000. The property comprises a flat unit on the 15th Floor in Block 3 of the development with a registered floor area of approximately 87.21 sq m (939 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 26 August 2004 at a monthly rent of HK$7,000 inclusive of management fees.	The property is occupied by the Group as staff quarters.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
8.	Unit S on 5th Floor, Bloco 4, Edificio Tai Keng Yuen (Vista Magnifica Court), 1333–1443 Avenida Dr Sun Yat Sen, 10-52 Avenida Sir Anders Ljungstedt, 396–506 Cidade de Braga, 9-51 Alameda Dr Carlos de Assumpcao, Macau	Edificio Tai Keng Yuen (Vista Magnifica Court) comprises four 13-storey residential buildings surmounting a 3-storey commercial/ recreational podium plus a level of basement carpark completed in 1997. The property comprises a flat unit on the 5th Floor in Block 4 of the development with a registered floor area of approximately 130.58 sq m (1,406 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 22 April 2004 at a monthly rent of HK$13,000 inclusive of management fees.	The property is occupied by the Group as staff quarters.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 31 March 2005
9.	Unit G on 21st Floor, Magnolia Court, 181A–255 Avenida dos Jardins do Oceano, Taipa, Macau	Ocean Gardens is a large-scale upper class private residential development comprising 34 residential apartment buildings and 21 villas with units ranging from 800 to 3,700 sq ft. Magnolia Court is one of the residential buildings of Ocean Gardens located on the western fringe of the development. It is a 19-storey residential building built over a 3-storey commercial/carparking podium completed in 2003. The property comprises a flat unit on the 21st Floor of the building with a registered floor area of approximately 108.75 sq m (1,171 sq ft). The property is rented by the Group under a tenancy agreement for a term of 2 years from 1 January 2005 at a monthly rent of HK$9,000 inclusive of management fees.	The property is occupied by the Group as staff quarters.	No commercial value

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to KWIH. The KWIH Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Circular misleading.

SHARE CAPITAL

The authorised and issued share capital of KWIH as at the Latest Practicable Date were, and immediately following Completion are expected to be, as follows:

Authorised	*HK$*
5,000,000,000 shares of HK$0.10 each	500,000,000
Issued and fully paid	
2,334,283,830 shares of HK$0.10 each	233,428,383

Note: This assumes no KWIH Shares will be issued from the Latest Practicable Date to the date of Completion.

MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the KWIH Directors were not aware of any material adverse change in the financial or trading position of the KWIH Group since 31 December 2004, the date to which the latest audited consolidated financial statements of the KWIH Group were made up.

KWIH BONDS

In March 2004, the KWIH Group issued the KWIH Bonds which are listed on the Luxembourg Stock Exchange and are convertible into KWIH Shares at a conversion price of HK$2.25 per KWIH Share, subject to adjustment in certain circumstances, on or after 23 April 2004 up to the close of business on 8 March 2009. Unless previously redeemed, converted, purchased or cancelled, each KWIH Bond will be redeemable at 91.49% of its principal amount on 23 March 2009 according to relevant terms and conditions of the KWIH Bonds.

At the Latest Practicable Date, an aggregate of HK$710,260,000 of the principal amount of the KWIH Bonds had been converted into 315,671,100 KWIH Shares and the aggregate outstanding principal amount of the KWIH Bonds was about HK$154,000,000, entitling the holders thereof to convert into an aggregate of 68,444,400 KWIH Shares at the then prevailing conversion price.

KWIH SHARE OPTION SCHEME

(a) Summary

The share option scheme of KWIH (the "KWIH Share Option Scheme") was approved and adopted by the KWIH Shareholders at the annual general meeting held on 30 May 2002 (the "Adoption Date"). A summary of the KWIH Share Option Scheme is set out below:

(1) *Purpose*

To attract and retain the best quality personnel for the development of KWIH'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 KWIH by aligning the interests of option holders to the KWIH Shareholders.

(2) *Participants*

(i) any employee of KWIH or any affiliate and any senior executive or director of KWIH or any affiliate; or

(ii) any consultant, agent, representative or adviser of KWIH or any affiliate; or

(iii) any person who provides goods or services to KWIH or any affiliate; or

(iv) any customer or contractor of KWIH or any affiliate; or

(v) any business ally or joint venture partner of KWIH 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 KWIH; or (b) a subsidiary of a holding company of KWIH; or (c) a subsidiary of KWIH; or (d) a controlling shareholder of KWIH; or (e) a company controlled by a controlling shareholder of KWIH; or (f) a company controlled by KWIH; or (g) an associated company of a holding company of KWIH; or (h) an associated company of KWIH.

(3) *Total number of the KWIH Shares available for issue*

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

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

As at the Latest Practicable Date, the total number of the KWIH Shares available for issue under the KWIH Share Option Scheme was 163,905,607, which represented approximately 7.02% of the issued share capital of KWIH on that date.

(4) *Maximum entitlement of each participant*

The total number of the KWIH 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 KWIH Shares in issue.

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

(5) *Option period*

The period within which the KWIH Shares must be taken up under an option shall be determined by the KWIH 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 KWIH Board in its absolute discretion. The KWIH 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 KWIH on acceptance of the option offer. An offer must be accepted within 14 days from the date of offer of the grant (or such longer period as the KWIH Board may specify in writing).

(8) *Basis of determining the subscription price*

The subscription price shall be determined by the KWIH 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 KWIH Shares on the date of grant;

(ii) the average closing prices of the KWIH Shares for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a KWIH Share.

(9) *Remaining life of the KWIH Share Option Scheme*

The life of the KWIH Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 29 May 2012.

(b) Outstanding Share Options

KWIH has in issue the following employee share options pursuant to the KWIH Share Option Scheme. Details of the KWIH Shares comprised in the options held by the KWIH Directors and other relevant parties at the Latest Practicable Date are set out below.

Grantees	Date of grant	Number of KWIH Shares comprised in the options	Exercise price per KWIH Share *(HK$)*	Exercise period
KWIH Directors	20 May 1998	3,100,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec. 1999	3,920,000	0.3600	30 Dec. 2000 – 29 Dec. 2009
	28 Feb. 2003	7,541,000	0.7200	1 Mar. 2004 – 28 Feb. 2013
	29 Dec. 2003	—	1.3000	30 Dec 2003 – 29 Dec. 2013
Employees	20 May 1998	513,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec. 1999	1,120,000	0.3600	30 Dec. 2000 – 29 Dec. 2009
	28 Feb. 2003	3,519,000	0.7200	1 Mar. 2004 – 28 Feb. 2013
	29 Dec. 2003	2,000,000	1.3000	30 Dec. 2003 – 29 Dec. 2013
Others	20 May 1998	—	0.5586	20 May 1999 – 19 May 2008
	30 Dec. 1999	—	0.3600	30 Dec. 2000 – 29 Dec. 2009
	28 Feb. 2003	150,000	0.7200	1 Mar. 2004 – 28 Feb. 2013
	29 Dec. 2003	3,000,000	1.3000	30 Dec. 2003 – 29 Dec. 2013

DISCLOSURE OF INTERESTS

KWIH Directors' interest in securities

At the Latest Practicable Date, the interests and short positions of each KWIH Director in the shares, underlying shares and debentures of KWIH and its associated corporation (within the meaning of Part XV of the SFO), KWCM, and the details of any right to subscribe for shares in KWIH and KWCM, as required to be notified to KWIH 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 were taken or deemed to have under such provisions of the SFO), as required to be entered in the register kept by KWIH referred to under section 352 of the SFO or as otherwise required to be notified to KWIH and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(a) *KWIH Shares*

	Number of Shares					
Name of KWIH Directors	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of Issued Share Capital
Dr. Lui	268,014	7,130,234[1]	38,129,737[2]	1,257,389,151[3]	1,302,917,136	55.82
Francis Lui	391,164	—	—	1,257,389,151[3]	1,257,780,315	53.88
Lennon Lun Tsan Kau	—	—	—	—	—	—
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	100,000	—	—	—	100,000	0.00
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,257,389,151[3]	1,262,028,317	54.06
David Akers-Jones	—	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—
Robin Chan Yau Hing	278,977	—	—	—	278,977	0.01
Charles Cheung Wai Bun	7,239	—	—	—	7,239	0.00
Robert George Nield	—	—	—	—	—	—

(b) *Share Options of KWIH*

Name of holders	Date of grant	Number of KWIH Shares comprised in the options	Exercise price per share *(HK$)*	Exercise period
Dr. Lui	20 May 1998	1,500,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	1,350,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.7200	1 Mar 2004 – 28 Feb 2013
Francis Lui	20 May 1998	1,000,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	1,200,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,868,000	0.7200	1 Mar 2004 – 28 Feb 2013
Lennon Lun Tsan Kau	30 Dec 1999	500,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,054,000	0.7200	1 Mar 2004 – 28 Feb 2013
Eddie Hui Ki On	—	—	—	—
William Lo Chi Chung	—	—	—	—
Paddy Tang Lui Wai Yu	20 May 1998	600,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	870,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,269,000	0.7200	1 Mar 2004 – 28 Feb 2013
David Akers-Jones	28 Feb 2003	150,000	0.7200	1 Mar 2004 – 28 Feb 2013
Michael Leung Man Kin	28 Feb 2003	300,000	0.7200	1 Mar 2004 – 28 Feb 2013
Philip Wong Kin Hang	28 Feb 2003	300,000	0.7200	1 Mar 2004 – 28 Feb 2013
Leo Lee Tung Hai	28 Feb 2003	150,000	0.7200	1 Mar 2004 – 28 Feb 2013
Robin Chan Yau Hing	28 Feb 2003	150,000	0.7200	1 Mar 2004 – 28 Feb 2013
Charles Cheung Wai Bun	28 Feb 2003	300,000	0.7200	1 Mar 2004 – 28 Feb 2013
Robert George Nield	—	—	—	—

(c) *KWCM Shares*

	Number of Shares					
Name of KWIH Directors	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of Issued Share Capital
Dr. Lui	13,385,831	1,468,496[1]	76,880,265[4]	2,066,034,784	2,157,769,376	149.44
Francis Lui	4,472,980	—	436,753,661[5]	2,066,034,784	2,507,261,425	173.65
Lennon Lun Tsan Kau	—	—	—	—	—	—
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	186,000	—	—	—	186,000	0.01
Paddy Tang Lui Wai Yu	4,801,906	—	—	2,066,034,784[3]	2,070,836,690	143.42
David Akers-Jones	—	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—
Robin Chan Yau Hing	65,306	—	—	—	65,306	0.00
Charles Cheung Wai Bun	1,810	—	—	—	1,810	0.00
Robert George Nield	—	—	—	—	—	—

(d) *Share Options of KWCM*

Name of holders	Date of grant	Number of KWCM Shares comprised in the options	Exercise price per share *(HK$)*	Exercise period
Dr. Lui	20 May 1998	1,500,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,800,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.5140	1 Mar 2004 – 28 Feb 2013
Francis Lui	20 May 1998	1,000,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,600,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,870,000	0.5140	1 Mar 2004 – 28 Feb 2013
Lennon Lun Tsan Kau		—	—	—
Eddie Hui Ki On		—	—	—
William Lo Chi Chung		—	—	—

Name of holders	Date of grant	Number of KWCM Shares comprised in the options	Exercise price per share *(HK$)*	Exercise period
Paddy Tang Lui Wai Yu	20 May 1998	600,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,070,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,270,000	0.5140	1 Mar 2004 – 28 Feb 2013
David Akers-Jones	—	—	—	—
Michael Leung Man Kin	20 May 1998	300,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,070,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013
Philip Wong Kin Hang	—	—	—	—
Leo Lee Tung Hai	—	—	—	—
Robin Chan Yau Hing	—	—	—	—
Charles Cheung Wai Bun	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013
Robert George Nield	—	—	—	—

Notes:

(1) Dr. Lui was deemed to be interested in 7,130,234 KWIH Shares and 1,468,496 KWCM Shares respectively through the interests of his spouse.

(2) 35,075,725 KWIH Shares and 3,054,012 KWIH Shares were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were controlled by Dr. Lui.

(3) 1,257,389,151 KWIH Shares representing more than one-third of its issued share capital were held by the discretionary trusts established by Dr. Lui as founder. City Lion which is wholly-owned by the Principal Trust was interested in 1,160,449,206 KWCM Shares. KWIH was interested in 852,775,351 KWCM shares representing about 59.06% of its issued share capital held by a wholly owned subsidiary of KWIH. Further, KWIH was deemed to be interested in 48,864,000 KWCM Shares. In addition, one of the said discretionary trusts was interested in 3,946,227 KWCM Shares. Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, were deemed to be interested in those KWIH Shares held by the trusts and in those KWCM Shares in which KWIH was interested as aforesaid.

(4) 76,880,265 KWCM Shares were held by Best Chance Investments Ltd. which was controlled by Dr. Lui.

(5) 111,138,039, 231,615,731 and 93,999,891 KWCM Shares respectively are to be issued upon Completion to Recurrent Profits, Top Notch and Kentlake, all of which are controlled by Francis Lui.

(6) All personal interests stated above were held by the respective KWIH Directors in the capacity of beneficial owners.

All the interests stated above represent long positions. Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu were deemed to be interested in the issued share capital of every other subsidiary, jointly controlled entity and associated company of KWIH and KWCM.

Save as disclosed above, as at the Latest Practicable Date, none of the KWIH Directors had, under Divisions 7 and 8 of Part V of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of KWIH or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by KWIH pursuant to section 352 of the SFO or any interests which are required to be notified to KWIH and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Substantial shareholders' interest in securities

(a) *KWIH*

Save as disclosed below, so far as is known to the KWIH Directors, there is no person (other than a KWIH Director) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of KWIH which would fall to be disclosed to KWIH under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	Number of Ordinary Shares	% of Issued Share Capital
HSBC International Trustee Limited	1,257,894,151(1)	53.89
Marapro Co., Ltd.	190,228,080(2)	8.15
Symmetry Co., Ltd.	190,228,080(2)	8.15
Polymate Co., Ltd.	190,228,080(3)	8.15
Moore Michael William	253,584,104(4)	10.86
Penta Investment Advisers Ltd.	253,584,104(4)	10.86
Zwannstra John	253,584,104(4)	10.86

Notes:

(1) HSBC International Trustee Limited is the trustee of discretionary trusts which held 1,257,894,151 KWIH Shares.

(2) Marapro Co., Ltd. is a beneficiary and Symmetry Co., Ltd. is a trustee of a trust which was interested in 190,228,080 KWIH Shares.

(3) Polymate Co., Ltd. is the ultimate holding company of certain companies interested in 190,228,080 KWIH Shares.

(4) Penta Investment Advisers Ltd. was interested in 253,584,104 KWIH Shares in the capacity of investment manager. Moore Michael William and Zwannstra John each controlled more than one-third of the issued share capital of Penta Investment Advisers Ltd.

(5) All the interests stated above represent long positions.

There was duplication of interests of:

(i) 1,257,389,151 KWIH Shares among Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu. These shares were also interested by HSBC International Trustee Limited and of these shares, 190,228,080 KWIH Shares were also interested by Marapro Co., Ltd., Symmetry Co., Ltd. and Polymate Co., Ltd.; and

(ii) 253,584,104 KWIH Shares among Moore Michael William, Penta Investment Advisers Ltd. and Zwannstra John.

(b) *Other members of the KWIH Group*

Save as disclosed below, so far as is known to the KWIH Directors, there is no person (other than a KWIH Director) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the KWIH Group:

Name of subsidiary	Name of owner of shares or equity interest (as the case my be)	Effective % of equity interest held
Asahi Kohatsu Corporation	Ogawa Yosuhiko	22%
Beijing Shoujia Stones Co., Ltd.	Beijing Shougang Limestone Mine Company 北京首鋼石灰石礦	45%
Chely Well Limited	Tidefull Investment Limited	28%
China Union (HK) Limited	Ogawa Yosuhiko	22%
E-cost Enterprises Limited	Ke Guo Bin	22.22%
Guangzhou Jiafang Concrete Co., Ltd.	Guangzhou Hongtu Enterprise Company 廣州宏圖實業公司	20%
	Guangzhou Land Development Integrated Services Company 廣州市土地開發綜合服務公司	10%
	Guangzhou Real Estate Enterprise Company 廣州市房地產實業總公司	10%
Jia Hui Da Real Estate Development Co., Ltd. Shanghai	SVA Electron Co. Ltd 上海廣電電子股份有限公司	30%
	Shanghai Xu Fang (Group) Co., Ltd. 上海徐房(集團)有限公司	15%
Kunshan Jialong Property Development Co., Ltd.	Beijing Long Yang Enterprise Development Company Limited 北京龍陽企業發展公司	15%
KWP Quarry Co. Limited	Pioneer Quarries (Hong Kong) Limited	36.5%
Oi Ling Ding Precast Concrete Products Limited Zhu Hai	Zhuhai Hengsheng Construction Materials Company 珠海市恆升建材公司	25%
Shanghai Ganghui Concrete Co., Ltd.	Shanghai Xufang Construction Enterprise Company 上海徐房建築實業公司	40%
Shanghai Jiafu Concrete Co., Ltd	Shanghai Fusheng Zhejiang Construction Materials Company Limited 上海富盛浙工建材有限公司	45%
Shanghai Jiajian Concrete Co., Ltd.	Shanghai Diyishizheng Project Company Limited 上海市第一市政工程有限公司	39%
Top Hit Technology Limited	Hong Kong-Dal Limited	20%
	Digital Ventures Limited	10%

COMPETING INTEREST OF KWIH DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, Dr. Lui (who is also a controlling shareholder (as defined under the Listing Rules) of KWIH), Francis Lui and Ms. Paddy Tang Lui Wai Yu ("Relevant Directors"), through a family trust directly or indirectly, have 100% shareholding interest in a holding company which in turn is interested in a number of independently managed companies (the majority of which are wholly-owned) engaged in the business of property investment, trading and development in Hong Kong, which are likely to compete, either directly or indirectly, with the KWIH Group's business of property investment and development in Hong Kong ("Competing Business"). The Relevant Directors are directors of such holding company. In addition, Francis Lui and Ms. Paddy Tang Lui Wai Yu are directors of the majority of the independently managed companies which carry on the Competing Business.

Nevertheless, the KWIH Board has 13 members and comprises professionals from various disciplines, including property, business management, legal, banking, finance, auditing and accounting. In addition to the Relevant Directors, there are 10 members of the KWIH Board which comprises three executive directors, two non-executive directors and five independent non-executive directors and all of them are not family members of the Relevant Directors and their associates. As the KWIH Board is independent of the boards of the Competing Business in that the operations and decision-making of the KWIH Board are entirely separate and independent of the boards of the Competing Business, the KWIH Group is therefore capable of carrying on its business independently of, and at arm's length from, the Competing Business.

Given that the Competing Business is more focused on property investment and trading in Hong Kong while the KWIH Group is more focused on property development both in Hong Kong and Mainland China as well as investment holding in KWCM and that the size of the Competing Business is significantly smaller than that of the KWIH Group compared on a total assets basis, there is unlikely to be any significant competition between the Competing Business and the business of the KWIH Group. The Competing Business's property trading activities and its property portfolio are considered not in line with KWIH's current investment strategies and interests and therefore are not included in the KWIH Group's business. The KWIH Group has a diversified and well-managed property portfolio and is able to maintain its competitiveness to safeguard its interests in property investment and development in Hong Kong. The Relevant Directors do not currently have any intention to seek to inject the Competing Business into the KWIH Group.

KWIH is capable of carrying on its business independently through a well-balanced corporate governance system. Regular meetings of the KWIH Board (including the independent non-executive directors) are held to review the KWIH Group's latest performance and development as well as any investment opportunities. The Relevant Directors, in performing their duties as directors of KWIH, have always acted and will continue to act in the best interest of KWIH and the KWIH Shareholders as a whole. The Relevant Directors are fully aware of their fiduciary duties and will avoid any conflict of interest. The Relevant Directors will abstain from voting on matters where there is any potential conflict of interest, if and when necessary. As a result, the KWIH Group considers that its interest regarding the business of property investment and development in Hong Kong is adequately safeguarded.

SERVICE CONTRACTS

At the Latest Practicable Date, none of the KWIH Directors had entered into any service contract with any member of the KWIH Group which will not expire and is not terminable by the relevant member of the KWIH Group within one year without payment of any compensation, other than statutory compensation.

LITIGATION

At the Latest Practicable Date, no member of the KWIH Group was engaged in any litigation or claim of material importance to the KWIH Group and no litigation or claim of material importance to the KWIH Group is known to the KWIH Directors to be pending or threatened against any member of the KWIH Group.

MATERIAL CONTRACTS

No contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the KWIH Group within the two years immediately preceding the date of this Circular and which are or may be material except for the following:

(1) a trust deed dated 23 March 2004 among KWIH, K. Wah International Finance Limited ("KWIFL"), a wholly-owned subsidiary of KWIH, and The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), governing the terms of the HK$864,260,000 0.50% guaranteed convertible bonds due 2009 issued by KWIFL, convertible into fully paid ordinary shares in, and unconditionally and irrevocably guaranteed by, KWIH;

(2) the Acquisition Agreement;

(3) the Supplemental Agreements;

(4) a placing agreement dated 21 April 2005 among Sutimar Enterprises Limited ("Sutimar"), a wholly owned subsidiary of KWIH, KWCM, KWIH and UBS AG, pursuant to which Sutimar agreed to place 146 million KWCM Shares to third party placees at the price of HK$8 per KWCM Share;

(5) a subscription agreement dated 21 April 2005 between Sutimar and KWCM, pursuant to which Sutimar agreed to subscribe for 146 million KWCM Shares at the price of HK$8 per KWCM Share; and

(6) a deed of amendment dated 31 May 2005 among KWIFL, KWIH, HSBC and HSBC Private Bank (Jersey) Limited amending the trust deed described in (1) above by deletion of a term effectively requiring KWIH to own, directly or indirectly, at least 30% of the issued share capital of KWCM.

Your attention is also drawn to the sections headed "Material Contracts" in Appendices XII and XIII.

GENERAL

(a) The registered office of KWIH is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and the principal place of business of KWIH in Hong Kong is at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

(b) The principal share registrars and transfer office of KWIH is Butterfield Fund Services (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda and the branch share registrars and transfer office of KWIH is Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of KWIH is Mr. Seaman Kwok Siu Man, who holds a bachelor's degree of arts in accountancy and a post-graduate diploma in laws and is a fellow of The Institute of Chartered Secretaries and Administrators and The Institute of Financial Accountants in the United Kingdom and The Hong Kong Institute of Company Secretaries, and the qualified accountant of KWIH is Mr. Ken Wong Chun Keung, a fellow of the Association of Chartered Certified Accountants in the United Kingdom, an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Certified General Accountants Association in Canada.

RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to KWCM. The KWCM Directors collectively and individually accept full responsibility for the accuracy of the information (other than that in relation to KWIH and the KWIH Group) contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Circular misleading.

SHARE CAPITAL

The authorised and issued share capital of KWCM as at the Latest Practicable Date were, and immediately following Completion are expected to be, as follows:

Authorised		*HK$*
3,888,000,000	shares of HK$0.10 each	388,800,000.00
3,000,000,000	shares of HK$0.10 each to be created at the KWCM EGM	300,000,000.00
6,888,000,000	KWCM Shares immediately following the KWCM EGM	688,800,000.00
Issued and to be issued as fully paid		
1,443,865,563	shares of HK$0.10 each	144,386,556.30
1,840,519,798	Consideration KWCM Shares to be issued upon Completion *(Note)*	184,051,979.80
3,284,385,361	KWCM Shares in issue immediately following Completion	328,438,536.10

Note: This assumes no KWCM Shares will be issued from the Latest Practicable Date to the date of Completion other than the Consideration KWCM Shares to be issued under the Acquisition Agreement.

MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the KWCM Directors were not aware of any material adverse change in the financial or trading position of the KWCM Group since 31 December 2004, the date to which the latest audited consolidated financial statements of the KWCM Group were made up.

KWCM SHARE OPTION SCHEME

The share option scheme of KWCM ("KWCM Share Option Scheme") was approved and adopted by the KWCM Shareholders at the annual general meeting held on 30 May 2002 ("Adoption Date"). The KWCM Share Option Scheme was also approved by the KWIH Shareholders at the annual general meeting of KWIH held on the Adoption Date. A summary of the KWCM Share Option Scheme is set out below:

(1) Purpose

To attract and retain the best quality personnel for the development of KWCM'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 KWCM by aligning the interests of option holders to KWCM Shareholders.

(2) Participants

(i) any employee of KWCM or any affiliate and any senior executive or director of KWCM or any affiliate; or

(ii) any consultant, agent, representative or adviser of KWCM or any affiliate; or

(iii) any person who provides goods or services to KWCM or any affiliate; or

(iv) any customer or contractor of KWCM or any affiliate; or

(v) any business ally or joint venture partner of KWCM 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 KWCM; or (b) a subsidiary of a holding company of KWCM; or (c) a subsidiary of KWCM; or (d) a controlling shareholder of KWCM; or (e) a company controlled by a controlling shareholder of KWCM; or (f) a company controlled by KWCM; or (g) an associated company of a holding company of KWCM; or (h) an associated company of KWCM.

(3) Total number of KWCM Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of KWCM Shares which may be issued upon exercise of all options to be granted under the KWCM Share Option Scheme and any other schemes of KWCM must not in aggregate exceed 10% of the KWCM Shares in issue as at the Adoption Date, being 121,787,040 KWCM Shares.

Overriding Limit — KWCM may by ordinary resolution of its shareholders and, insofar and for so long as KWIH is the holding company of KWCM, by ordinary resolution of the shareholders of KWIH, refresh the Mandate Limit as referred to in the above paragraph provided KWCM and, insofar and for so long as KWIH is the holding company of KWCM, KWIH shall issue a circular to their respective shareholders before such approval is sought. The overriding limit on the number of KWCM Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the KWCM Share Option Scheme and any other schemes of KWCM must not exceed 30% of the KWCM Shares in issue from time to time.

As at the Latest Practicable Date, the total number of KWCM Shares available for issue under the KWCM Share Option Scheme was 102,583,040 KWCM Shares, which represented approximately 7.1% of the issued share capital of KWCM on that date.

(4) Maximum entitlement of each participant

The total number of KWCM 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 KWCM Shares in issue.

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

(5) Option period

The period within which the KWCM Shares must be taken up under an option shall be determined by the KWCM 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 KWCM Board in its absolute discretion. The KWCM 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 KWCM on acceptance of the option offer. An offer must be accepted within 14 days from the date of offer (or such longer period as the KWCM Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the KWCM 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 KWCM Shares on the date of grant;

(ii) the average closing prices of the KWCM Shares for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a KWCM Share.

(9) The remaining life of the KWCM Share Option Scheme

The life of the KWCM Share Option Scheme is 10 years commencing on the Adoption Date and it will expire on 29 May 2012.

EMPLOYEE OPTIONS OF NON-DIRECTORS

KWCM had in issue the following Employee Options as at the Latest Practicable Date:

Party	Date of grant	Number of Options held	Exercise price *(HK$)*	Exercise period
Employees	20 May 1998	1,132,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	958,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	772,000	0.5140	1 Mar 2004 – 28 Feb 2013
Others	20 May 1998	300,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,070,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013

RESTRICTIONS ON ISSUE

On 21 April 2005, Sutimar Enterprises Limited (a wholly-owned subsidiary of KWIH) placed, through UBS AG, 146,000,000 KWCM Shares to independent investors at HK$8.00 per KWCM Share. On completion of the placing, Sutimar Enterprises Limited subscribed for 146,000,000 new KWCM Shares at a price of HK$8.00 per KWCM Share.

The placing price represented a discount of approximately 6.4% to the closing price of HK$8.55 per KWCM Share as quoted on the Stock Exchange on 20 April 2005 and a discount of approximately 4.9% to the average closing price of approximately HK$8.41 per KWCM Share as

quoted on the Stock Exchange for the 5 trading days immediately before and including 20 April 2005 and approximately 3.3% to the average closing price of approximately HK$8.27 per KWCM Share as quoted on the Stock Exchange for the 10 trading days immediately before and including 20 April 2005.

Each of Sutimar Enterprises Limited and KWIH has undertaken to UBS AG that (except for (i) the sale of the KWCM Shares pursuant to the placing and (ii) any KWCM Shares to be sold by or through UBS AG to restore the public float of KWCM) from the date of the placing up to and including the date of the KWCM EGM, it will not and will procure that none of its nominees, companies controlled by it or trusts associated with it will (a) transfer or dispose of any KWCM Shares or any securities convertible into such KWCM Shares or similar interest or (b) enter into any swap or similar agreement that transfers the ownership of such KWCM Shares, or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above.

KWCM has undertaken to UBS AG that except for (i) the new KWCM Shares to be allotted and issued in the top-up subscription, (ii) any new KWCM Shares to be issued pursuant to the existing Employee Options, (iii) any KWCM Shares granted to KWCM Shareholders in lieu of a dividend, (iv) any new KWCM Shares to be allotted and issued pursuant to the Acquisition Agreement and (v) any new KWCM Shares to be allotted and issued through UBS AG to restore the public float of KWCM from the date of the placing up to and including the date of the KWCM EGM, it will not (a) allot or issue any KWCM Shares or any securities convertible into KWCM Shares or similar interest or (b) agree to enter into or effect any such transaction with the same economic effect as any of the transaction described in (a) above, or (c) announce any intention to enter into or effect any such transaction described in (a) or (b) above.

DISCLOSURE OF INTERESTS

KWCM Directors' interests in securities

At the Latest Practicable Date, the interests and short positions of each KWCM Director in the shares, underlying shares and debentures of KWCM and its associated corporation (within the meaning of Part XV of the SFO), KWIH, and the details of any right to subscribe for shares of KWCM and KWIH, and of the exercise of such rights, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to KWCM and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which such director is taken or deemed to have under such provisions of the SFO), were as follows:

(a) *KWCM Shares*

Name	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of Issued Share Capital
Dr. Lui	13,385,831	1,468,496	76,880,265[1]	2,066,034,784[2]	2,157,769,376	149.44
Francis Lui	4,472,980	—	436,753,661[4]	2,066,034,784[2]	2,507,261,425	173.65
Chan Kai Nang	—	—	—	—	—	—
Joseph Chee Ying Keung	1,350,000	—	—	—	1,350,000	0.09
William Lo Chi Chung	186,000	—	—	—	186,000	0.01
Paddy Tang Lui Wai Yu	4,801,906	—	—	2,066,034,784[2]	2,070,836,690	143.42
Charles Cheung Wai Bun	1,810	—	—	—	1,810	0.00
Moses Cheng Mo Chi	—	—	—	—	—	—
James Ross Ancell	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—

(b) *Share Options of KWCM*

Name	Date of grant	Options held	Exercise Price *(HK$)*	Exercise Period
Dr. Lui	20 May 1998	1,500,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,800,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.5140	1 Mar 2004 – 28 Feb 2013
Francis Lui	20 May 1998	1,000,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,600,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,870,000	0.5140	1 Mar 2004 – 28 Feb 2013

Name	Date of grant	Options held	Exercise Price *(HK$)*	Exercise Period
Chan Kai Nang	28 Feb 2003	110,000	0.5140	1 Mar 2004 – 28 Feb 2013
Joseph Chee Ying Keung	28 Feb 2003	1,000,000	0.5140	1 Mar 2004 – 28 Feb 2013
William Lo Chi Chung	—	—	—	—
Paddy Tang Lui Wai Yu	20 May 1998	600,000	0.5333	20 May 1999 – 19 May 2008
	30 Dec 1999	1,070,000	0.5216	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,270,000	0.5140	1 Mar 2004 – 28 Feb 2013
Charles Cheung Wai Bun	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013
Moses Cheng Mo Chi	28 Feb 2003	300,000	0.5140	1 Mar 2004 – 28 Feb 2013
James Ross Ancell	—	—	—	—
William Yip Shue Lam	—	—	—	—

(c) *KWIH Shares*

Name	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	% of Issued Share Capital
Dr. Lui	268,014	7,130,234	38,129,737[3]	1,257,389,151[2]	1,302,917,136	55.82
Francis Lui	391,164	—	—	1,257,389,151[2]	1,257,780,315	53.88
Chan Kai Nang	—	—	—	—	—	—
Joseph Chee Ying Keung	1,000,000	—	—	—	1,000,000	0.04
William Lo Chi Chung	100,000	—	—	—	100,000	0.00
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,257,389,151[2]	1,262,028,317	54.06
Charles Cheung Wai Bun	7,239	—	—	—	7,239	0.00
Moses Cheng Mo Chi	—	—	—	—	—	—
James Ross Ancell	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—

(d) *Share Options of KWIH*

Name	Date of grant	Options held	Exercise Price *(HK$)*	Exercise Period
Dr. Lui	20 May 1998	1,500,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	1,350,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	2,000,000	0.7200	1 Mar 2004 – 28 Feb 2013
Francis Lui	20 May 1998	1,000,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	1,200,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,868,000	0.7200	1 Mar 2004 – 28 Feb 2013
Chan Kai Nang	—	—	—	—
Joseph Chee Ying Keung	—	—	—	—
William Lo Chi Chung	—	—	—	—
Paddy Tang Lui Wai Yu	20 May 1998	600,000	0.5586	20 May 1999 – 19 May 2008
	30 Dec 1999	870,000	0.3600	30 Dec 2000 – 29 Dec 2009
	28 Feb 2003	1,269,000	0.7200	1 Mar 2004 – 28 Feb 2013
Charles Cheung Wai Bun	28 Feb 2003	300,000	0.7200	1 Mar 2004 – 28 Feb 2013
Moses Cheng Mo Chi	—	—	—	—
James Ross Ancell	—	—	—	—
William Yip Shue Lam	—	—	—	—

Notes:

(1) 76,880,265 KWCM Shares were held by Best Chance Investments Ltd., which was controlled by Dr. Lui.

(2) City Lion which is wholly-owned by the Principal Trust was interested in 1,160,449,206 KWCM Shares to be issued upon Completion. KWIH was interested and deemed to be interested in a total of 901,639,351 KWCM Shares representing more than one-third of its issued share capital held by a wholly-owned subsidiary of KWIH. 1,257,389,151 KWIH Shares representing more than one-third of its issued share capital were held by the discretionary trusts established by Dr. Lui as founder. In addition, one of the said discretionary trusts was interested in 3,946,227 KWCM Shares. Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, are deemed to be interested in those KWIH Shares and those KWCM Shares held by the trusts and in those KWCM Shares in which KWIH was interested as aforesaid.

(3) 35,075,725 and 3,054,012 KWIH Shares were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were controlled by Dr. Lui.

(4) 111,138,039, 231,615,731 and 93,999,891 KWCM Shares were respectively to be issued upon Completion to Recurrent Profits, Top Notch and Kentlake, all of which were controlled by Francis Lui.

All the interests stated above represent long positions. Save as disclosed above, as at the Latest Practicable Date, none of the KWCM Directors had any interests or short positions in the shares, underlying shares and debentures of KWCM or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial shareholders' interests

(a) Interests in KWCM

At the Latest Practicable Date, the interests and short positions of every person (other than a KWCM Director or chief executive of KWCM) in the KWCM Shares which would fall to be disclosed to KWCM under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Long Position	% of Issued Share Capital	Short Position	% of Issued Share Capital
Best Chance Investments Ltd.	76,880,265	5.32	0	0
Brightwealth	325,615,622	22.55	325,615,622	22.55
City Lion	1,160,449,206	80.37	0	0
Davos Investment Holdings Private Limited	325,615,622	22.55	325,615,622	22.55
Future Leader	82,250,410	5.70	0	0
Guoco Group Limited	325,615,622	22.55	325,615,622	22.55
Guoline Capital Assets Limited	325,615,622	22.55	325,615,622	22.55
Guoline Overseas Limited	325,615,622	22.55	325,615,622	22.55
HL Holdings Sdn Bhd	325,615,622	22.55	325,615,622	22.55
Hong Leong Company (Malaysia) Berhad	325,615,622	22.55	325,615,622	22.55
Hong Leong Investment Holdings Pte. Ltd.	325,615,622	22.55	325,615,622	22.55
HSBC International Trustee Limited	2,066,918,784(Note 1)	143.15	0	0
Kentlake	93,999,891	6.51	0	0
Kwek Holdings Pte Ltd	325,615,622	22.55	325,615,622	22.55
Kwek Leng Kee	325,615,622	22.55	325,615,622	22.55
KWCM	901,639,351	62.45	0	0
KWIH	901,639,351	62.45	0	0
Lawrence Lui	161,067,504	11.16	0	0

Name	Long Position	% of Issued Share Capital	Short Position	% of Issued Share Capital
Lim Kok Thay	86,790,000	6.01	0	0
Lucky Oriental Limited	82,250,410	5.70	0	0
Netfinity	161,066,521	11.16	0	0
Pedro Ho	176,250,301	12.21	0	0
Quek Leng Chan	325,615,622	22.55	325,615,622	22.55
Recurrent Profits	111,138,039	7.70	0	0
Top Notch	231,615,731	16.04	0	0
UBS AG	902,403,351(Note 2)	62.50	0	0

Notes:

1. HSBC International Trustee Limited is the trustee of discretionary trusts which hold 2,066,918,784 KWCM Shares.

2. As described in the section headed "Restrictions on Issue" in this Appendix, UBS AG acted as the placing agent on behalf of Sutimar Enterprises Limited (a wholly-owned subsidiary of KWIH) in connection with the top-up placing of 146,000,000 KWCM Shares pursuant to which (i) Sutimar Enterprises Limited and KWIH agreed to certain restrictions in relation to the transfer or disposal of their respective interests in KWCM Shares and (ii) KWCM agreed to certain restrictions in relation to the issue and allotment of KWCM Shares. As a result, each of UBS AG, KWCM, Sutimar Enterprises Limited and KWIH (being parties to the top-up placing arrangements) are deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in any KWCM Shares held by the other parties to such arrangements for so long as such restrictions over the KWCM Shares are in place. Under the terms of the placing agreement, such restrictions over the KWCM Shares expire on the date of the KWCM EGM. Accordingly, as disclosed to KWCM under Part XV of the SFO as at the Latest Practicable Date, UBS AG was deemed to be interested in the 852,775,351 KWCM Shares in which KWIH is interested until the date of the KWCM EGM and apart from such deeming provision, UBS AG held 49,628,000 KWCM Shares (representing 3.44% of the issued share capital of KWCM), of which 42,178,000 KWCM Shares were held on behalf of its clients.

There was duplication of interest of:

(i) 2,066,034,784 KWCM Shares between Dr. Lui, Francis Lui, Ms. Paddy Tang Lui Wai Yu. Among these shares,

   a. 852,775,351 KWCM Shares were also interested by KWIH;

   b. 1,160,449,206 KWCM Shares were also interested by City Lion;

   c. 49,628,000 KWCM Shares were also interested by UBS AG;

(ii) 76,880,265 KWCM Shares between Dr. Lui and Best Chance Investments Ltd.;

(iii) 901,639,351 KWCM Shares between KWCM, KWIH and UBS AG;

(iv) 111,138,039 KWCM Shares between Francis Lui and Recurrent Profits, and 231,615,731 KWCM Shares between Francis Lui and Top Notch;

(v) 161,066,521 KWCM Shares between Lawrence Lui and Netfinity;

(vi) 82,250,410 KWCM Shares between Pedro Ho, Future Leader and Lucky Oriental Limited;

(vii) 93,999,891 KWCM Shares between Francis Lui, Pedro Ho and Kentlake;

(viii) 325,615,622 KWCM Shares (both long and short positions) between Brightwealth, Davos Investment Holdings Private Limited, Guoco Group Limited, Guoline Capital Assets Limited, Guoline Overseas Limited, HL Holdings Sdn Bhd, Hong Leong Company (Malaysia) Berhad, Hong Leong Investment Holdings Pte. Ltd., Kwek Holdings Pte Ltd., Kwek Leng Kee and Quek Leng Chan; and

(ix) 1,257,389,151 KWIH Shares between Dr. Lui, Francis Lui and Ms. Paddy Tang Lui Wai Yu.

(b) Interests in other members of the KWCM Group

At the Latest Practicable Date, the following persons (other than a KWCM Director or chief executive of KWCM) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the KWCM Group:

Name of Subsidiary	Name of registered owner of shares or equity interest (as the case may be)	Effective % of equity interest held
Beijing Shoujia Stones Co., Ltd.	Beijing Shougang Limestone Mine Company 北京首鋼石灰石礦	45%
E-cost Enterprises Limited	Ke Guo Bin	22.22%
Guangzhou Jiafang Concrete Co., Ltd.	Guangzhou Hongtu Enterprise Company 廣州宏圖實業公司	20%
	Guangzhou Land Development Integrated Services Company 廣州市土地開發綜合服務公司	10%
	Guangzhou Real Estate Enterprise Company 廣州市房地產實業總公司	10%
KWP Quarry Co. Limited	Pioneer Quarries (Hong Kong) Limited	36.5%
Oi Ling Ding Precast Concrete Products Limited Zhu Hai	Zhuhai Hengsheng Construction Materials Company 珠海市恒升建材公司	25%
Shanghai Ganghui Concrete Co., Ltd.	Shanghai Xufang Construction Enterprise Company 上海徐房建築實業公司	40%
Shanghai Jiafu Concrete Co., Ltd.	Shanghai Fusheng Zhejiang Construction Materials Company Limited 上海富盛浙工建材有限公司	45%
Shanghai Jiajian Concrete Co., Ltd.	Shanghai Diyishizheng Construction Materials Company Limited 上海市第一市政工程有限公司	39%
Top Hit Technology Limited	Hong Kong-Dal Limited	20%
	Digital Ventures Limited	10%

Save as disclosed in this section, as at the Latest Practicable Date, so far as is known to any KWCM Director, there was no person, other than a KWCM Director or chief executive of KWCM, who had interests or short positions in the shares or underlying shares of KWCM which would fall to be disclosed to KWCM under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 10% or more of the share capital carrying right to vote in all circumstances at general meetings of any other member of the KWCM Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the KWCM Group within the two years preceding the date of this Circular and are or may be material:

(1) the Acquisition Agreement;

(2) the Supplemental Agreements; and

(3) a placing agreement dated 21 April 2005 between Sutimar Enterprises Limited, KWCM, KWIH and UBS AG and a related subscription agreement between Sutimar Enterprises Limited and KWCM also dated 21 April 2005.

KWCM DIRECTORS' SERVICE CONTRACTS

At the Latest Practicable Date, none of the KWCM Directors had entered into any service contracts with any members of the KWCM Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

LITIGATION

At the Latest Practicable Date, no member of the KWCM Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the KWCM Directors to be pending or threatened by or against any member of the KWCM Group.

COMPETING INTERESTS OF KWCM DIRECTORS AND ASSOCIATES

At the Latest Practicable Date, none of the KWCM Directors or their respective associates was interested in any business which competes with or is likely to compete, either directly or indirectly, with the businesses of the KWCM Group or of the Galaxy Group.

GENERAL

(a) The registered office of KWCM is at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

(b) The share registrars and transfer office of KWCM is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The Qualified Accountant of KWCM is Mr. Albert Law Yu Kwan, a fellow member of the Association of International Accountants, a fellow member of the Chartered Institute of Management Accountants and a fellow member of the Registered Institute of Financial Planners, and an associate member of the Hong Kong Institute of Certified Public Accountants. The secretary of KWCM is Ms. Kitty Chan Lai Kit, B.A., an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.

INCORPORATION

Galaxy was incorporated as a company limited by shares in Macau with registration number 15066 at the Macau Commercial and Movable Assets Registry on 30 November 2001. Its registered office is at Avenida da Praia Grande, n° 409, Edificio China Law, 25th° Floor, Macau.

As Galaxy is incorporated in Macau, it operates subject to Macau law and its constitutive documents comprising Articles of Association.

SHARE CAPITAL

On 14 March 2002, Galaxy had an issued share capital of MOP200,000,000 divided into 200,000 ordinary shares of par value MOP1,000 each. On 3 February 2005, Galaxy underwent an internal reorganization whereby the then existing Class A shares were transformed into Galaxy B Shares, and 20,000 Class C shares were transformed into Galaxy A Shares, while maintaining the Class B ordinary shares as Galaxy B Shares, so that the Galaxy shares were represented only by Galaxy A Shares and Galaxy B Shares. At the same time, Galaxy issued a further 75,190 Galaxy A Shares of par value MOP1,000 each to Pedro Ho and 676,710 Galaxy B Shares of par value MOP 1,000 each to the Family Companies, Minority Vendors and Hugo Legend. The net proceeds arising from that issue of further capital was MOP751,900,000 (HK$730,000,000). Out of the proceeds of the issue, MOP230,901,000 (HK$224,175,728) was used for the repayment of loans lent on various dates since 2002 by Galaxy Resorts Limited previously as shareholder's loan. These loans are unsecured, interest free and has no fixed term of repayment. The remainder will be used by Galaxy for the development costs of its projects and for working capital.

The authorised and issued share capital of Galaxy as at the Latest Practicable Date were, and immediately following the Completion will be, as follows:

Authorised		*MOP*
95,190	Galaxy A Shares of MOP1,000 each	95,190,000
856,710	Galaxy B Shares of MOP1,000 each	856,710,000
951,900		951,900,000

Issued and fully paid		
95,190	Galaxy A Shares of MOP1,000 each	95,190,000
856,710	Galaxy B Shares of MOP1,000 each	856,710,000
951,900		951,900,000

There are two classes of shares in Galaxy, namely Galaxy A Shares and Galaxy B Shares. Galaxy A Shares are entitled to 0.000000000000000001% of the distributable profit of Galaxy. Galaxy B Shares are entitled to 99.999999999999999999% of the distributable profit of Galaxy .

Galaxy A Shares and Galaxy B Shares rank pari passu as regards voting rights, redemption and in terms of the shareholders' right upon the creation or issue of further shares by Galaxy.

In the event of a dissolution or liquidation of Galaxy, holders of Galaxy A Shares will be entitled to the reimbursement of the amount of the respective paid share capital but will not receive any amount or value regarding the distribution of the liquidation assets. Holders of Galaxy B Shares will be entitled to the reimbursement of the amount of the respective paid share capital, as well as to the remaining liquidation assets, being these amounts or values distributed among these shareholders according to the proportion of the Galaxy B Shares owned by each of them.

Any variation of the rights of any class of shareholders requires a special resolution of the shareholders holding that class of shares. Where such variation involves the amendments of the articles of association of Galaxy, such variation also requires a shareholder resolution of Galaxy.

Variation of the rights of any class of shares requires approval of the Macau government under Article 15 of the Concession.

At the date of its incorporation, the capital of Galaxy was MOP1,000,000 divided into 1,000 shares of MOP1,000. On 14 March 2002, the capital of Galaxy was increased from MOP1,000,000 to MOP200,000,000 by the issue of 199,000 shares of MOP1,000 each.

On 25 June 2002, Galaxy underwent a reorganisation whereby the capital of Galaxy was divided into 60,000 Class A ordinary shares, 120,000 Class B ordinary shares and 20,000 Class C ordinary shares. Class A and Class C ordinary shares were entitled to 0.00000000000000000001% of the distributable profit of Galaxy. Class B ordinary shares were entitled to 99.999999999999999998% of the distributable profit.

The rights of the shareholders on the dissolution or the liquidation of the company were as follows:

(a) Holders of Class A ordinary shares would not receive any amount or value regarding the distribution of the liquidation assets, nor the reimbursement of the amount of the respective invested capital actually paid up.

(b) Holders of Class C ordinary shares would be entitled only to the reimbursement of the amount of the respective invested capital actually paid up.

(c) Holders of Class B ordinary shares would be entitled to the reimbursement of the amount of the respective invested capital actually paid up, as well as to the remaining liquidation assets, and these quantities or values should be distributed among these shareholders according to the proportion of the shares held by class B ordinary shareholders.

On 3 February 2005, Galaxy underwent an internal reorganisation whereby the then existing Class A shares were transformed into Galaxy B Shares, and 20,000 Class C shares were transformed into Galaxy A Shares, while maintaining the Class B ordinary shares as Galaxy B Shares, so that the Galaxy shares are represented only by Galaxy A Shares and Galaxy B Shares. At the same time, Galaxy issued a further 75,190 Galaxy A Shares of par value MOP1,000 each and 676,710 Galaxy B Shares of par value MOP1,000 each.

After the February 2005 capital restructure, Galaxy A Shares are entitled to 0.00000000000000001% of the distributable profit of Galaxy. Galaxy B Shares are entitled to 99.99999999999999999% of the distributable profit of Galaxy. Further details of the current share capital are disclosed in the section headed "Capital Structure of Galaxy" under "Description of the Galaxy Group" of this Circular.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The aggregate of the directors' emoluments for each of the three financial years immediately preceding the date of this Circular was:

	30 November 2001 to 31 December 2002	**Year ended 31 December 2003**	**Year ended 31 December 2004**
	HK$'000	*HK$'000*	*HK$'000*
Fees	—	—	1,203
Salaries and allowances	—	834	—
	0	834	1,203

No contributions to pension schemes for directors or past directors were made for each of the three financial periods/years ended 31 December 2002, 2003 and 2004.

No bonuses were paid or receivable by the directors of Galaxy for each of the three financial periods/years ended 31 December 2002, 2003 and 2004.

No amount was paid or receivable by directors for each of the three financial periods/years ended 31 December 2002, 2003 and 2004 as an inducement to join or upon joining Galaxy.

No amount of compensation was paid or receivable by directors or past directors for each of the three financial periods/years ended 31 December 2002, 2003 and 2004 for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

No arrangement was made under which a director has waived or agreed to waive any emoluments for each of the three financial periods/years ended 31 December 2002, 2003 and 2004.

The five individuals whose emoluments were the highest in the Galaxy Group include one (2003: one; 2002: nil) Director, whose emoluments are reflected above. The emoluments of the remaining four (2003: four; 2002: five) individuals are as follows:

	30 November 2001 to 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004
	HK$'000	*HK$'000*	*HK$'000*
Salaries and allowances	469	828	4,495
Other staff benefits	—	—	1
	469	828	4,496

No bonuses were paid or receivable by the above five individuals for each of the three financial periods/years ended 31 December 2002, 2003 and 2004.

No amount was paid or receivable by the above 5 individuals for each of the three financial periods/years ended 31 December 2002, 2003 and 2004 as an inducement to join or upon joining Galaxy.

No amount of compensation was paid or receivable by the above five individuals for each of the three financial periods/years ended 31 December 2002, 2003 and 2004 for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

The aggregate of the directors' emoluments for the financial year ended 2005 is estimated to be approximately HK$9.5 million.

INDEMNITIES

In the Acquisition Agreement, City Lion, Netfinity and Recurrent Profits jointly and severally have agreed to indemnify on demand all of KWCM, Canton Treasure and the Galaxy Group and each of them and at all times keep them indemnified on demand from and against any depletion in, or reduction in, the value of their respective assets as a result of which, any amount which any member of the Galaxy Group becomes liable to pay being:

(i) any duty which is or becomes payable by that Group Company by virtue of Section 35 of the Estate Duty Ordinance of Hong Kong under the provisions of Section 43 of the Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction by reason of the death of any person and by reason of the assets of any member of the Galaxy Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any member of the Galaxy Group;

(ii) any amount recovered against any member of the Galaxy Group under the provisions of Section 43(7) of the Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction in respect of any duty payable under Section 43(1)(c) or 43(6) of the Estate Duty or any equivalent legislation of any jurisdiction by reason of the death of any person and by reason of the assets of any member of the Galaxy Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any member of the Galaxy Group;

(iii) any amount of duty which any member of the Galaxy Group is obliged to pay by virtue of Section 43(1)(c) of the Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction in respect of the death of any person in any case where the assets of another company or any of them are deemed for the purpose of Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of any member of the Galaxy Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction but only to the extent to which any member of the Galaxy Group is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of Section 43(7)(a) of the Estate Duty Ordinance of Hong Kong or any equivalent legislation of any jurisdiction;

(iv) the amount of any and all taxation falling on any member of the Galaxy Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before 31 January 2005 whether alone or in conjunction with any other circumstances whenever occurring.

SUMMARY OF THE ARTICLES OF ASSOCIATION OF GALAXY

Set out below is a summary of certain principal provisions of the articles of association of Galaxy.

The articles of association of Galaxy were adopted on 30 November 2001 and were amended on 14 March 2002, 25 June 2002 and 3 February 2005.

Share capital

The articles of association are silent as to the method in which Galaxy may consolidate and divide its share capital into shares of larger or smaller amounts than its existing shares, cancel unissued shares, reduce its share capital or put into effect any other alteration of capital. The articles of association are also silent as to the method in which the rights attaching to different classes of shares may be varied, modified or abrogated. Any such action must comply with Macau law.

Galaxy Shares shall be represented by non-bearer share certificates, that may represent one, five, ten, twenty, fifty, one hundred, two hundred, three hundred, four hundred, five hundred, one thousand, five thousand, ten thousand, twenty thousand or one hundred thousand shares.

Each Galaxy Share corresponds to one vote at the shareholders' general assembly. Only shareholders who have had their shares registered under their name in the Galaxy share registration book at least fifteen days before the date settled for the meeting have the right to vote at such meeting, subject to a resolution being passed at the meeting agreeing to a shorter period. Any person who has the right to vote can be represented in the general assembly by any other person nominated to the chairman of the board in writing. Subject to Macau law or specific provisions in the articles, resolutions are approved by a simple majority of votes of all the shareholders, provided that such majority includes a simple majority of the votes of the holders of the Galaxy B Shares.

Borrowing powers

The board of directors has full power to manage Galaxy's businesses and activities. Within such scope, the board of directors may contract loans or financing of any nature, negotiate with debtors and creditors, in or out of court, and carry out any other credit operations, active or passive, and issue guarantees. In addition, the board of directors has the power to sign, issue, accept, draw, subscribe, endorse and receive bills of exchange, cheques and promissory notes and any other credit titles. The board has the power to sell, exchange, mortgage or by any other form, alienate or encumber any moveable assets or real estate and any rights. The board also has the power to negotiate, make and execute contracts to which Galaxy is a party, of whatever scope or nature, object or form.

Directors

The board of directors shall be composed of seven members. Six directors shall be appointed by a simple majority of the shareholders that hold Galaxy B Shares. One director shall be appointed by a simple majority of the shareholders that hold Galaxy A Shares. Under the articles, directors are not required to hold any qualification shares but under Macau law Galaxy is required to have one "delegate" director who must be a Macau resident and hold 10% of the share capital of Galaxy. The Directors are required to attend meetings of the shareholders' general assembly whenever the chairman of the board summons them for that purpose.

The term of a director's appointment is three years. Upon expiry of the term a director shall remain in his or her position until he or she is replaced. A director may be re-elected upon the expiry of the three year period. No director shall be required to vacate office or be ineligible for appointment, reappointment or re-election as a director by reason only of his having attained a certain age.

The remuneration of directors in relation to their duties must be approved by the majority of the votes of the shareholders, including a majority of the shareholders of the Galaxy B Shares.

Directors' interests

The articles of association do not contain any provisions which disqualify a director from voting on a proposal, arrangement or contract in which he is materially interested.

Nevertheless, under Macau law, a director cannot vote in a matter in relation to which he or she is in conflict of interest with the Company.

Furthermore, any contract entered into between Galaxy and its directors, directly or indirectly, is considered null and void, save when specially authorized by express resolution of the board of directors on the basis of a favourable opinion issued by the Internal Auditor ("Fiscal Unico").

Dividends

The profits of each financial period shall be distributed according to what is decided by a simple majority of the votes of all the shareholders, provided that the majority includes the majority of the votes of shareholders that hold Galaxy B Shares. Provided that at least 10% of such profits shall be retained as a legal reserve until such reserve reaches an amount equal to one quarter of the share capital. The distributable profit for each financial year shall be distributed as follows:

(a) 0.00000000000000000001% shall be distributed among the shareholders of Galaxy A Shares, according to the proportion of Galaxy A Shares owned by each one of them;

(b) 99.999999999999999999% shall be distributed among the shareholders of Galaxy B Shares, according to the proportion of the Galaxy B Shares owned by each one of them.

There are no provisions which impose any time limit after which an entitlement to receive a dividend lapses.

Transfer and ownership of shares

Any transfer or charge of Galaxy Shares is subject to the legal restrictions arising from the legal system concerning the operation of games of chance or other games in casino in Macau. In addition, a transfer of Galaxy Shares is only permitted after both the Company's approval and the Government's authorisation have been obtained. If a transfer is made without the relevant approval or in breach of the legal restrictions referred to above, the transferee may be required to transfer back the relevant shares to the transferor.

There are no restrictions in the articles of association on the ownership of shares of Galaxy, but transfers are subject to the Macau laws concerning the operation of games of chance or other games in casino in Macau.

COMMISSIONS AND SPECIAL TERMS

No commissions, discounts, brokerages or other special terms have been granted within the two years immediately preceding the issue of this Circular in connection with the issue or sale of any capital of any member of the Galaxy Group.

INTELLECTUAL PROPERTY

Galaxy owns the following trade marks:

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
 銀河星際酒店 Galaxy Starworld Hotel	300128367 10 August 2004	10 years from 17 December 2003	Trade Marks Registry, Intellectual Property Department, Government of the HKSAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services, provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing services, handling storage and transport of baggages for travellers, chartering of aircraft, shops and/or vehicles, vehicle and boat rental. Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network, entertainment services in relation to providing electronic games playable over a global computer network, computer and video games, providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music sporting purposes, production and distribution of radio and television programs, production and distribution of films and live entertainment features, cinema and television studio services, motion picture entertainment television entertainment and live entertainment services, art galleries services, publication of music, magazines and periodicals, music and entertainment services provided on line from a computer database, from the internet or other communications network, renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus, ticket procurement services, amusement park, theme park, game centres, provision of amusement and entertainment facilities, club services, night club services, discotheque services, sports betting, bookmaking, clubs, party planning for entertainment purposes, entertainment club services, health club, gymnasium services, provision of information services relating to entertainment, sports, cultural, arts and crafts and social activities. Class 43 — hospitality services, provision of temporary accommodations, hotel, motels, resort and guesthouse services, reservation, booking and provision of information and arranging services for hotels and guesthouses, restaurants, self service restaurants, hot pot restaurants, barbecue restaurants, canteen, snack bar, sashimi and sushi bar, fast food counter, cafe, cafeteria, bar and lounge services, provision of food and drink for dine in, take away and delivery, banqueting services, function rooms, meeting rooms.

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
	300128385 4 August 2004	10 years from 17 December 2003	Trade Marks Registry, Intellectual Property Department, Government of the HKSAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services, provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing services, handling storage and transport of baggages for travellers, chartering of aircraft, shops and/or vehicles, vehicle and boat rental. Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network, entertainment services in relation to providing electronic games playable over a global computer network, computer and video games, providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music sporting purposes, production and distribution of radio and television programs, production and distribution of films and live entertainment features, cinema and television studio services, motion picture entertainment television entertainment and live entertainment services, art galleries services, publication of music, magazines and periodicals, music and entertainment services provided on line from a computer database, from the internet or other communications network, renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus, ticket procurement services, amusement park, theme park, game centres, provision of amusement and entertainment facilities, club services, night club services, discotheque services, sports betting, bookmaking, clubs, party planning for entertainment purposes, entertainment club services, health club, gymnasium services, provision of information services relating to entertainment, sports, cultural, arts and crafts and social activities. Class 43 — hospitality services, provision of temporary accommodations, hotel, motels, resort and guesthouse services, reservation, booking and provision of information and arranging services for hotels and guesthouses, restaurants, self service restaurants, hot pot restaurants, barbecue restaurants, canteen, snack bar, sashimi and sushi bar, fast food counter, cafe, cafeteria, bar and lounge services, provision of food and drink for dine in, take away and delivery, banqueting services, function rooms, meeting rooms.

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
	300128376 10 August 2004	10 years from 17 December 2003	Trade Marks Registry, Intellectual Property Department, Government of the HKSAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services, provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing services, handling storage and transport of baggages for travellers, chartering of aircraft, shops and/or vehicles, vehicle and boat rental. Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network, entertainment services in relation to providing electronic games playable over a global computer network, computer and video games, providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music sporting purposes, production and distribution of radio and television programs, production and distribution of films and live entertainment features, cinema and television studio services, motion picture entertainment television entertainment and live entertainment services, art galleries services, publication of music, magazines and periodicals, music and entertainment services provided on line from a computer database, from the internet or other communications network, renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus, ticket procurement services, amusement park, theme park, game centres, provision of amusement and entertainment facilities, club services, night club services, discotheque services, sports betting, bookmaking, clubs, party planning for entertainment purposes, entertainment club services, health club, gymnasium services, provision of information services relating to entertainment, sports, cultural, arts and crafts and social activities. Class 43 — hospitality services, provision of temporary accommodations, hotel, motels, resort and guesthouse services, reservation, booking and provision of information and arranging services for hotels and guesthouses, restaurants, self service restaurants, hot pot restaurants, barbecue restaurants, canteen, snack bar, sashimi and sushi bar, fast food counter, cafe, cafeteria, bar and lounge services, provision of food and drink for dine in, take away and delivery, banqueting services, function rooms, meeting rooms.
銀河星際酒店 Galaxy Starworld Hotel 銀河星際酒店 Galaxy Starworld Hotel	N/014102 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services (for transportation and travel), provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing/tours services, handling storage and transport of baggages for travellers, chartering of aircraft, warehouses and/or vehicles, vehicle and boat rental. * not including the right to exclusive use of "hotel"

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
銀河星際酒店 Galaxy Starworld Hotel 銀河星際酒店 Galaxy Starworld Hotel	N/014103 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network; entertainment services in relation to providing electronic games playable over a global computer network; computer and video games; providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music or sporting purposes; production and distribution of radio and television programs; production and distribution of films and live entertainment features; cinema and television studio services; motion picture entertainment services; television entertainment services; live entertainment services; art galleries services; publication of music, magazines and periodicals; music and related entertainment services provided on line from a computer database, from the internet or other communications network; renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus; (entertainment) ticket procurement services; amusement park, theme park, game centres; provision of amusement and entertainment facilities; club services; night club related services, discotheque services; sports betting; club bookmaking services; party planning for entertainment purposes; entertainment club services; health club; gymnasium services; provision of information services relating to entertainment, sports, cultural, arts, social activities and leisure. * not including the right to exclusive use of "hotel"
銀河星際酒店 Galaxy Starworld Hotel 銀河星際酒店 Galaxy Starworld Hotel	N/014104 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 42 — hospitality services; provision of temporary accommodations; hotel, motels, resort and guesthouse services; reservation, booking and provision of information services for hotels and guesthouses; restaurants; self service restaurants; hot pot restaurants; barbecue restaurants; canteen; snack bar; sashimi bar; sushi bar; fast food restaurants; cafe; cafeteria; bar and lounge services; provision of food and drink for dine in, take away and delivery; banqueting services; function rooms; meeting rooms. * not including the right to exclusive use of "hotel"
	N/014105 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services (for transportation and travel), provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing/tours services, handling storage and transport of baggages for travellers, chartering of aircraft, warehouses and/or vehicles, vehicle and boat rental. * not including the right to exclusive use of "hotel"

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
	N/014106 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network; entertainment services in relation to providing electronic games playable over a global computer network; computer and video games; providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music or sporting purposes; production and distribution of radio and television programs; production and distribution of films and live entertainment features; cinema and television studio services; motion picture entertainment services; television entertainment services; live entertainment services; art galleries services; publication of music, magazines and periodicals; music and related entertainment services provided on line from a computer database, from the internet or other communications network; renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus; (entertainment) ticket procurement services; amusement park, theme park, game centres; provision of amusement and entertainment facilities; club services; night club related services, discotheque services; sports betting; club bookmaking services; party planning for entertainment purposes; entertainment club services; health club; gymnasium services; provision of information services relating to entertainment, sports, cultural, arts, social activities and leisure. * not including the right to exclusive use of "hotel"
	N/014107 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 42 — hospitality services; provision of temporary accommodations; hotel, motels, resort and guesthouse services; reservation, booking and provision of information services for hotels and guesthouses; restaurants; self service restaurants; hot pot restaurants; barbecue restaurants; canteen; snack bar; sashimi bar; sushi bar; fast food restaurants; cafe; cafeteria; bar and lounge services; provision of food and drink for dine in, take away and delivery; banqueting services; function rooms; meeting rooms. * not including the right to exclusive use of "hotel"
	N/014108 8th October 2004	8th October 2004 – 8th October 2011	Government of the Macau SAR	Class 39 — arranging or operation of cruises and tours, travel reservation, booking agency services for travel, ticketing services (for transportation and travel), provision of transportation information, transport of travellers, escorting of travellers, vehicle rental, car parking services, advisory and consultancy services relating to travel and transportation, sightseeing/tours services, handling storage and transport of baggages for travellers, chartering of aircraft, warehouses and/or vehicles, vehicle and boat rental. * not including the right to exclusive use of "hotel"

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
	N/014109 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 41 — entertainment information services provided on line from a computer database or the Internet or other communication network; entertainment services in relation to providing electronic games playable over a global computer network; computer and video games; providing on line downloadable electronic and computer games and games updates; arranging and organisation of displays, presentations, programmes, events, shows, and exhibitions for cultural music or sporting purposes; production and distribution of radio and television programs; production and distribution of films and live entertainment features; cinema and television studio services; motion picture entertainment services; television entertainment services; live entertainment services; art galleries services; publication of music, magazines and periodicals; music and related entertainment services provided on line from a computer database, from the internet or other communications network; renting of video cameras and video tapes, cinematographic and audio visual equipments and apparatus; (entertainment) ticket procurement services; amusement park, theme park, game centres; provision of amusement and entertainment facilities; club services; night club related services, discotheque services; sports betting; club bookmaking services; party planning for entertainment purposes; entertainment club services; health club; gymnasium services; provision of information services relating to entertainment, sports, cultural, arts, social activities and leisure. * not including the right to exclusive use of "hotel"
	N/014110 8 October 2004	8 October 2004 – 8 October 2011	Government of the Macau SAR	Class 42 — hospitality services; provision of temporary accommodations; hotel, motels, resort and guesthouse services; reservation, booking and provision of information services for hotels and guesthouses; restaurants; self service restaurants; hot pot restaurants; barbecue restaurants; canteen; snack bar; sashimi bar; sushi bar; fast food restaurants; cafe; cafeteria; bar and lounge services; provision of food and drink for dine in, take away and delivery; banqueting services; function rooms; meeting rooms. * not including the right to exclusive use of "hotel"

In addition, Galaxy owns together with Galaxy Resorts Limited, the following trade marks:

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
 Galaxy Resort & Casino 銀河娛樂渡假	N/011679 9 October 2003	9 October 2003 — 9 October 2010	Government of the Macau SAR	Class 35 — services: publicity and business, namely: services of retail shops, in or out of shopping centres, selling a great variety of products, namely souvenirs, novelties, gifts, clothes, accessories to clothes, jewellery, toys, sport articles, stationery, books, videos, CDs, VCDs, DVDs and multimedia in general, fragrances, personal care products, cosmetics, house articles, art, food, beverages, cigars, cigarettes, and accessories to smokers; management; administration; business assistance and consultancy; hotel management business; import and export agencies, office services; publicity; propaganda and marketing; services of publicity agencies, namely communications to the public, declarations or advertisements through any means of communication and regarding any kind of products and services; distribution of prospects or samples; organization of fairs and exhibits for commercial or advertisement purposes; promotion of sales for third parties, auctions; artists agency; employment agencies, commercial information agencies; services of shopping for third parties; public relations.
 Galaxy Resort & Casino 銀河娛樂渡假	N/011680 9 October 2003	9 October 2003 — 9 October 2010	Government of the Macau SAR	Class 39 — services: transport, storage and packaging and travel arrangements ("entreposto"), namely: travel and transport arrangement; tourism agencies; arrangement and sale of tourism travels; reception and assistance to tourists; arranging of cruises; escorting of travellers; tourism visits; travel and transport reservation; provision of information regarding travels and transportation of persons or goods and products by intermediaries and tourism agencies; information regarding costs, schedules, and means of transportation; packaging, storage, wrapping, inspection and delivery of goods and products, vehicles or data and documents, including its conservation and safeguarding; services provided in transportation of persons or goods and products, including furniture, from one place to the other and services necessarily related with such transportation; transport brokerage; services of enterprises that operate train stations, bridges, train lines, maritime or aerial terminals; services related with maritime towing, cargo unloading, operation of maritime ports and docks; rescuing of boats and its cargo; services related with the operation of airports; services related with rental of transport vehicles; rental of warehouses, containers, garages or parking spaces; towing, sheltering and parking terrestrial, aerial and maritime vehicles; deposit/storage; removal services; freight and transportation of cargo brokerage; supply and distribution of water, electricity and energy.

Mark	Trade Mark No and Date	Validity period	Issued by	Class and Specification
Galaxy Resort & Casino 銀河娛樂渡假	N/011681 9 October 2003	9 October 2003 — 9 October 2010	Government of the Macau SAR	Class 41 — services: education and entertainment, namely: services related to and for casinos and games, including games of chance; provision of facilities for casinos and games; services related to and for casinos and games through websites and global computer networks; electronic and on-line games; services related to and for entertainment, leisure and education, namely events, live music, circus, shows, cinema, theatre productions, comedies, multimedia, hall dance, discotheques, contests, lotteries, games of chance, conferences, conventions, symposiums, seminars, events and sports, culture, leisure and education competitions; health clubs; gymnasiums; leisure and education clubs; holiday camps and courses; entertainment services; entertainment parks, centres and arcades; entertainment; sports, leisure, and cultural activities, including its production and organization; audiovisual and multimedia organization and production; gymnasiums; gymnastic academies, rental of sport, education, leisure and cultural equipment and infrastructures, including audio visual and multimedia; professional training and education.
Galaxy Resort & Casino 銀河娛樂渡假	N/011682 9 October 2003	9 October 2003 — 9 October 2010	Government of the Macau SAR	Class 42 — services: various services, namely: hotels and similar; agency for rental of accommodation in hotels and guesthouses; reservation of accommodation; reservation in hotels; reservation in guesthouses; services related with tourism resorts and similar; services of food and beverage; restaurants; bars; cafes; tea saloons and other related; hotel concierge services, safeguarding and security services; catering services; supply of food and beverage; provision of facilities and support to conventions, special events; social receptions, banquets and dinners, namely to gather funds; escorting services; beauty services and saloons and hairdressers; medical and health services and assistance; medical, resting and convalescence clinics; health spas; aromatherapy; Turkish baths; massages; arbitration, all included in class 42.

COMPETING INTEREST OF GALAXY DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND ASSOCIATES

At the Latest Practicable Date, herein none of the directors of Galaxy, KWCM or KWIH or the substantial beneficial shareholders of, Galaxy, KWCM or KWIH or their respective associates was directly or indirectly, interested in any business likely to compete, either directly or indirectly, with the business of Galaxy.

SUPPLIERS AND CUSTOMERS

Payment for service to the Galaxy Group's largest supplier in the year ended 31 December 2004 represented approximately 41% of all payments to suppliers in the year. Payment for service to the Galaxy Group's five largest supplier in the year ended 31 December 2004 represented approximately 91% of all payments to suppliers in the year. The largest supplier was Chan Koon Wah who is the promoter at Galaxy Casino at Waldo Hotel. The KWCM Directors, the KWIH Directors and Galaxy are confident that if necessary they could readily be replaced without disruption to the business or operations of Galaxy based on the prevailing market conditions of

Macau, the terms and conditions of the contracts with the suppliers, the established operational record of Galaxy Casino at Waldo Hotel and the network of gaming promoters and collaborators Galaxy has established.

Galaxy has no reliance on any particular customers or group of customers and its customers come from all walks of life. The percentage of turnover or sales attributable to the group's 5 largest customers combined is below 30%.

No directors, directors' associates or shareholders of Galaxy, KWIH or KWCM (which to the knowledge of the directors of Galaxy, KWCM and KWIH owns more than 5% of the share capital of any of the three companies) has any interest in the suppliers or customers disclosed above.

SERVICE CONTRACTS

At the Latest Practicable Date, none of the directors of Galaxy had entered into or expects to enter into any service contracts with any member of the Galaxy Group, the KWIH Group or KWCM Group which will not expire and is not terminable by the relevant member of the Galaxy Group, the KWIH Group or KWCM Group within one year without payment of any compensation, other than statutory compensation.

LITIGATION

At the Latest Practicable Date, no member of the Galaxy Group was engaged in any litigation, claim or arbitration of material importance. No litigation, claim or arbitration of material importance is known to the KWCM Directors or the KWIH Directors or the directors of Galaxy to be pending or threatened against any member of the Galaxy Group.

MATERIAL CONTRACTS

No contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Galaxy Group within the two years preceding the date of this Circular that are or may be material.

BANKERS

The names and addresses of Galaxy's principal bankers are:

Liu Chong Hing Bank Limited of G/F., New World Tower, 16–18, Queen's Road Central, Hong Kong;

Hang Seng Bank Limited of 83 Des Voeux Road Central, Hong Kong;

Guangdong Development Bank Macau of Avendia da Praia Grande, No. 269 r/c, Macau; and

Banco Comercial De Macao Sarl of Avenida da Praia Grande N572, Macau.

MISCELLANEOUS

(a) There has been no interruption in the business of Galaxy which has had or may have had a significant effect on its financial position in the last 12 months.

(b) The board of directors of Galaxy does not contemplate any change in the nature of the business of Galaxy in the next 12 months.

(c) There are no restrictions affecting the remittance of profits or repatriation of capital into Hong Kong from Macau.

(d) There is no reserve available for distribution to shareholders by Galaxy for the period ending 31 December 2004 because Galaxy had an accumulated loss of HK$96.8 million which needs to be offset before any dividends can be declared.

QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice contained or referred to in this Circular:

Name	Qualification
UBS AG	a corporation licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
Anglo Chinese	a corporation deemed licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
American Appraisal	qualified valuer
PricewaterhouseCoopers	certified public accountants, Hong Kong
Commerzbank	an authorized financial institution registered with the Hong Kong Monetary Authority licensed to carry out types 1, 4 and 6 regulated activities under the SFO
CB Richard Ellis Limited	qualified property valuer
Chesterton Petty Limited	qualified property valuer
Chesterton International Property Consultants Pte Ltd	qualified property valuer
Colliers International (Hong Kong) Ltd.	qualified property valuer
Knight Frank Hong Kong Limited	qualified property valuer
Vigers Appraisal and Consulting Limited	qualified property valuer
Savills (Hong Kong) Limited	qualified property valuer
Guangdong Jun He Zheng Tong Law Firm	licensed lawyer in the PRC
Longan Law Firm	licensed lawyer in the PRC
Zhong Lun Law Firm	licensed lawyer in the PRC
Commerce & Finance Law Offices	licensed lawyer in the PRC
Sa Carneiro & Pinheiro Torres	Advogados & Notarios Privatos (or Lawyers & Private Notaries in English), licensed lawyers in Macau

UBS AG, Anglo Chinese, American Appraisal, PricewaterhouseCoopers, Commerzbank, CB Richard Ellis Limited, Chesterton Petty Limited, Chesterton International Property Consultants Pte Ltd, Colliers International (Hong Kong) Ltd., Knight Frank Hong Kong Limited, Vigers Appraisal and Consulting Limited, Savills (Hong Kong) Limited, Guangdong Jun He Zheng Tong Law Firm, Longan Law Firm, Zhong Lun Law Firm, Commerce & Finance Law Offices and Sa Carneiro & Pinheiro Torres have given and have not withdrawn their respective written consents to the issue of this Circular and with their statements and references to their names included in the form and context in which they are included.

EXPERTS' INTERESTS

As at the Latest Practicable Date, none of the experts named above had any shareholding interest in any member of the KWIH Group, the KWCM Group or the Galaxy Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the KWIH Group, the KWCM Group or the Galaxy Group except for UBS AG which as disclosed to KWCM under Part XV of the SFO as at the Latest Practicable Date had an interest in 49,628,000 KWCM Shares of which 42,178,000 KWCM Shares are held on behalf of its clients. As described in the section headed "Substantial Shareholders' Interests" in Appendix XII of this Circular, UBS AG was deemed, for the purpose of the disclosure requirements in Part XV of the SFO, to be interested in 902,403,351 KWCM Shares being the aggregate of the interest in KWCM Shares held by UBS AG, Sutimar Enterprises Limited and KWIH as disclosed to KWCM under Part XV of the SFO at the Latest Practicable Date. Such aggregation of interest for the purpose of the disclosure requirements in Part XV of the SFO will end on the date of the KWCM EGM.

DIRECTORS' INTERESTS IN ASSETS

Save for the interests of Dr. Lui, Francis Lui and Paddy Lui Wai Yu in the Acquisition as set out in the section headed "Information on the Vendors" in "Description of the Galaxy Group" in this Circular, at the Latest Practicable Date, none of the KWIH Directors or KWCM Directors or directors of Galaxy and experts named in the Circular had any interest in any assets acquired/disposed of by, or leased to (or proposed to be acquired/disposed of by, or leased to), any member of the KWIH Group or the KWCM Group or the Galaxy Group since 31 December 2004.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the interests of Dr. Lui, Francis Lui and Paddy Lui Wai Yu in the Acquisition as set out in the section headed "Information on the Vendors" in "Description of the Galaxy Group" in this Circular, at the Latest Practicable date, none of the KWIH Directors or KWCM Directors or directors of Galaxy had any interest in any contract or arrangement entered into by any member of the KWIH Group and KWCM Group which was significant in relation to the business of the KWIH Group or the KWCM Group or the Galaxy Group.

MISCELLANEOUS

The English text of this Circular shall prevail over the Chinese text.

PARAGRAPH 43.2(C) OF APPENDIX 1B OF THE LISTING RULES

The Listing Division of the Stock Exchange has indicated to KWIH and KWCM that pursuant to Paragraph 43(2)(c) of Appendix 1B of the Listing Rules they are obliged to make available for inspection certain contracts of Galaxy related to the Galaxy Casino at Waldo Hotel, the Galaxy Casino at Rio Hotel and the Galaxy Casino at Cotai City Club (the "City Club Contracts"). KWCM and KWIH are of the opinion that making them available for inspection would be seriously detrimental to Galaxy as such disclosure will constitute a breach of the Concession and may lead to the Macau Government terminating the Concession and have therefore requested a waiver from those obligations. The Listing Division has agreed that the City Club Contracts need not be made available for inspection in the context of the Circular.

A copy of the Concession is available for inspection as referred to in this Appendix.

The Listing Division of the Stock Exchange has indicated to KWIH and KWCM that pursuant to Paragraph 43(2)(c) of Appendix 1B of the Listing Rules they are obliged to make available for inspection the Sub-Concession. Certain parts of the Sub-Concession contain sensitive commercial information. KWCM and KWIH are of the opinion that making such parts of the Sub-Concession available for inspection would be seriously detrimental to Galaxy as such disclosure will constitute a breach of the Concession and may lead to the Macau Government terminating the Concession and have requested a waiver from those obligations. By agreement with the Listing Division, the copy of the Sub-Concession available for inspection has been marked so as to obscure certain commercially sensitive information.

The directors of KWCM, KWIH and Galaxy confirm that in their opinion the material terms of the City Club Contracts and the Sub-Concession are sufficiently disclosed in the Circular and that there are no additional details not disclosed in the Circular in respect of the City Club Contracts and the Sub-Concession which are necessary to enable investors to make an informed assessment of the Acquisition which is the subject of the Circular and accordingly consider that withholding the City Club Contracts and certain details of the Sub-Concession from display is not likely to mislead investors with regard to facts and circumstances, knowledge of which is essential to make an informed assessment of the Acquisition and an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the Enlarged KWCM Group and of its profits and losses and of the rights attaching to the securities of KWCM, KWIH and Galaxy.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Richards Butler at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this Circular up to and including the date of the KWIH SGM and the KWCM EGM whichever is the later and at the KWIH SGM and the KWCM EGM:

1. the memorandum of association and bye-laws of KWIH;

2. the memorandum and articles of association of KWCM;

3. the memorandum and articles of association of Galaxy;

4. the annual report including the audited consolidated financial statements of KWIH for each of the years ended 31 December 2003 and 2004;

5. the annual report including the audited consolidated financial statements of KWCM for each of the years ended 31 December 2003 and 2004;

6. the audited consolidated financial statements of Galaxy for each of the years ended 31 December 2003 and 2004;

7. the Valuation Report on the Galaxy Group and the letters from UBS and PricewaterhouseCoopers set out in Appendix II to this Circular;

8. the Accountants' Report on the KWIH Group set out in Appendix IV to this Circular;

9. the Accountants' Report on Galaxy set out in Appendix V to this Circular;

10. the letter from PricewaterhouseCoopers in respect of the unaudited pro forma financial information on the Enlarged KWCM Group set out in Appendix VI to this Circular;

11. the letter from PricewaterhouseCoopers in respect of the unaudited pro forma financial information on the Remaining KWIH Group set out in Appendix VII to this Circular;

12. the Valuation Reports relating to the property interests of the Remaining KWIH Group set out in Appendix VIII to this Circular;

13. the Valuation Report relating to the property interests of the KWCM Group set out in Appendix IX to this Circular;

14. the Valuation Report relating to the property interests of the Galaxy Group set out in Appendix X to this Circular;

15. the material contracts of the KWIH Group referred to in Appendix XI to this Circular;

16. the material contracts of the KWCM Group referred to in Appendix XII to this Circular;

17. the letters of consent from the experts referred to in the paragraph headed "Qualifications and Consents of Experts" in Appendix XIV to this Circular;

18. the circular dated 25 February 2005 and issued by KWIH relating to the establishment of a joint venture for property development and investment in Mainland China;

19. the Acquisition Agreement and the Supplemental Agreements;

20. the FRNs;

21. the legal opinions referred to in the Valuation Reports set out in Appendices VIII, IX and X to this Circular;

22. legal opinion dated 27 June 2005 by Sa Carneiro & Pinheiro Torres which is the opinion referred to in (viii) of the section headed "Conditions Precedent" in the "Letter from the KWCM Directors" in page 33 of this Circular; in the section headed "Macau's anti-money laundering legal framework" in "The Macau Gaming Industry" in page 28 of this Circular and in the section headed "Property Interest held by the Galaxy Group" in the "Financial Information about Galaxy";

23. undertaking letter dated 14 March 2005 by City Lion, Netfinity and Recurrent Profit to Canton Treasure and KWCM;

24. undertaking letter dated 22 June 2005 from Dr. Lui, HSBC International Trustee Limited and City Lion to the Stock Exchange;

25. Concession Agreement entered into between the government of Macau SAR and Galaxy Casino SA dated 26 June 2002;

26. Supplemental Concession Agreement entered into between the Government of Macau SAR and Galaxy Casino SA dated 19 December 2002;

27. the Venetian Agreement;

28. three promoter agreements dated 30 June 2004 entered into between Galaxy Casino SA and Cheng Kwee, Lee William and Chan Koon Wah respectively;

29. three extension agreements dated 28 December 2004 entered into between Galaxy Casino SA and Cheng Kwee, Lee William and Chan Koon Wah respectively;

30. two extension of business agreements dated 11 July 2004 entered into between Galaxy Casino SA and Cheng Kwee and Chan Koon Wah respectively;

31. three credit agreements dated 30 June 2004 entered into between Galaxy Casino SA and Cheng Kwee, Lee William and Chan Koon Wah respectively;

32. supplemental agreement dated 30 June 2004 entered into between Galaxy Casino SA and Cheng Kwee;

33. tenancy agreement and supplemental agreement both dated 9 March 2005 entered into between Galaxy Casino SA, Waldo Hotel Limited and Waldo Realty Company Limited;

34. the Sub-Concession (redacted version); and

35. the valuation report dated 8 March 2005 by American Appraisal.

The FRNs will be created by an instrument executed by KWCM. They will be in two series, Series A and Series B. The terms of each series will be identical save that no Series B FRN can be repaid unless and until all Series A FRNs have been repaid. The allocation between Series A FRNs and Series B FRNs has yet to be and will only be determined on Completion.

Principal amount: up to HK$3,681,039,603

Repayment: The final date of repayment is 13 months after the date of issue of the FRNs unless previously redeemed.

Status: The obligations under the FRNs will constitute general, unsecured obligations of KWCM and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of KWCM.

Transferability: The FRNs may be transferred with the consent of KWCM.

Interest:

1st month:	0% p.a.
2nd–4th month	6% p.a.
5th–7th month	7% p.a.
8th–10th month	8% p.a.
11th–13th month	9% p.a.

Interest accrued will be payable in arrears on the last day of each monthly interest period.

Redemption: KWCM may redeem the FRNs at face value plus interest accrued and unpaid at any time on giving 3 business days' irrevocable prior written notice.

All net proceeds from equity related fund raising by KWCM or a related entity (but this shall not include the issue of shares under a share option scheme or an obligation existing at the date of the Acquisition Agreement) will be first applied to redeem the FRNs.

No dividend can be declared and/or paid by KWCM before the FRNs are fully redeemed.

KWCM cannot make any loan or other non-trade payment to any related company or person before the FRNs are fully redeemed other than loans or payments in the ordinary and usual course of business of the KWCM Group and/or the Galaxy Group.

Voting: Holders of the FRNs will not be entitled to receive notices of, attend or vote at any meetings (except for creditor's meetings of KWCM) by reason only of being holders of the FRNs.

Listing:	No listing of the FRNs will be sought on the Stock Exchange or any other stock exchange.
Series:	The FRNs will be divided into "Series A" and "Series B". They will have identical terms save that Series A FRNs are to be repaid before Series B FRNs.

K. WAH CONSTRUCTION MATERIALS LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 27)

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of K. Wah Construction Materials Limited will be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong at 2:00 p.m. on Tuesday, 19 July 2005 for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution with or without amendment:

ORDINARY RESOLUTION

"**THAT**:

(A) the authorised share capital of the Company be increased from HK$388,800,000 to HK$688,800,000 by the creation of an additional 3,000,000,000 shares of HK$0.10 each, which new shares shall rank pari passu in all respects with the existing shares in the capital of the Company;

(B) the agreement (the "Agreement") relating to the sale and purchase of shares in Galaxy Casino, S.A. dated 14 March 2005 between City Lion Profits Corp., Netfinity Assets Corporation, Brightwealth Investments Limited, Recurrent Profits Limited, Future Leader Management Limited, Hugo Legend Asia Corporation Limited, Canton Treasure Group Ltd. and the Company as amended by agreements supplemental thereto dated 1 April 2005 and 31 May 2005 (copies of which have been produced to this meeting marked "A1", "A2" and "A3" respectively and initialled by the chairman of the meeting for identification) be and is hereby approved, ratified and confirmed and that the directors of the Company be and are hereby authorised to implement all the transactions referred to in the Agreement and to do all such acts and things and execute all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to the Agreement and the arrangements contemplated thereunder including but not limited to the issue of the Consideration Shares in part satisfaction of the Purchase Price referred to in the Agreement payable by the Company thereunder."

By Order of the Board
K. Wah Construction Materials Limited
Kitty Chan Lai Kit
Secretary

Dated 30 June 2005

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

Notes:

1. A ***BLUE*** form of proxy to be used for the meeting is enclosed. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy will be deemed to be revoked.

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and (on a poll) vote on his behalf. On a poll votes may be given either personally, by duly authorised corporate representative or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.

5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

6. The resolution will be voted on by way of poll.

7. At the date of this notice, the executive directors of the Company are Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. Joseph Chee Ying Keung, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu. The non-executive director is Mr. Moses Cheng Mo Chi, and the independent non-executive directors are Dr. Charles Cheung Wai Bun, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

K. WAH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 173)

Notice of Special General Meeting

NOTICE IS HEREBY GIVEN that a special general meeting of K. Wah International Holdings Limited will be held at Island Shangri-La Hong Kong, Level 39, Atrium Room, Two Pacific Place, Supreme Court Road, Central, Hong Kong at 3:00 p.m. on Tuesday, 19 July 2005 for the purpose of considering and, if thought fit, passing the following resolution which will be proposed with or without amendment as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the agreement (the "Agreement") relating to the sale and purchase of shares in Galaxy Casino, S.A. dated 14 March 2005 between City Lion Profits Corp., Netfinity Assets Corporation, Brightwealth Investments Limited, Recurrent Profits Limited, Future Leader Management Limited, Hugo Legend Asia Corporation Limited, Canton Treasure Group Ltd. and the Company's subsidiary K. Wah Construction Materials Limited as amended by agreements supplemental thereto dated 1 April 2005 and 31 May 2005 (copies of which have been produced to this meeting marked "A1", "A2" and "A3" respectively and initialled by the chairman of the meeting for identification) be and is hereby approved, and the issue of the Consideration Shares by K. Wah Construction Materials Limited under the Agreement be and is hereby approved, both as an acquisition and as a deemed disposal by the Company for the purposes of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited and that the directors of the Company be and are hereby authorised to do all such acts and things and execute all such documents as they shall in their absolute discretion consider necessary or desirable to give effect to and in connection with the Agreement and the arrangements contemplated thereunder."

By Order of the Board
K. Wah International Holdings Limited
Seaman Kwok Siu Man
Secretary

Hong Kong
Dated 30 June 2005

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

Notes:

1. A **WHITE** form of proxy to be used for the meeting is enclosed. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy will be deemed to be revoked.

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. On a poll, votes may be given personally, by duly authorised corporate representative or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

3. The instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the principal place of business in Hong Kong of the Company at 29th Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.

5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.

6. The resolution will be voted on by way of poll.

7. At the date of this notice, the executive directors of the Company are Dr. Lui Che Woo, *MBE, JP, LLD, DSSc* (Chairman), Mr. Francis Lui Yiu Tung (Managing Director), Mr. Lennon Lun Tsan Kau (Deputy Managing Director), Mr. Eddie Hui Ki On, *GBS, CBE, QPM, CPM*, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu, the non-executive directors are Mr. Michael Leung Man Kin, *CBE, JP* and Dr. Philip Wong Kin Hang, *GBS, JP, LLD, DH* and the independent non-executive directors are Sir David Akers-Jones, *KBE, GBM, CMG, Hon. RICS, JP*, Dr. Leo Lee Tung Hai, *GBS, LLD, JP*, Dr. Robin Chan Yau Hing, *GBS, LLD, JP*, Dr. Charles Cheung Wai Bun, *JP* and Mr. Robert George Nield.

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