



K. WAH INTERNATIONAL HOLDINGS LIMITED

嘉華國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 173)

INTERIM RESULTS FOR 2006

The Board of Directors (“Board”) of K. Wah International Holdings Limited (“Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (“Group”) for the six months ended 30th June 2006 (“Period”) as follows:

CONSOLIDATED PROFIT AND LOSS STATEMENT (unaudited)

For the Six Months Ended 30th June 2006

			(Restated)
		2006	2005
	Note	HK\$'000	HK\$'000
Continuing operations			
Turnover	2	129,203	173,669
Cost of sales		<u>(35,376)</u>	<u>(97,441)</u>
Gross profit		93,827	76,228
Other income		28,530	11,942
Administrative expenses		(59,826)	(42,107)
Other operating expenses		(1,413)	(6,159)
Change in fair value of investment properties		<u>537,139</u>	<u>1,742</u>
Operating profit	2 & 3	598,257	41,646
Finance costs		(48,222)	(14,669)
Share of profits less losses of jointly controlled entities		<u>1,843</u>	<u>20,531</u>
Profit before taxation		551,878	47,508
Taxation charge	4	<u>(185,694)</u>	<u>(4,847)</u>
Profit from continuing operations		366,184	42,661
Discontinued operations			
Profit from discontinued operations	2	<u>—</u>	<u>589,580</u>
Profit for the period		<u><u>366,184</u></u>	<u><u>632,241</u></u>

		(Restated)
		2005
	<i>Note</i>	2006
		<i>HK\$'000</i>
		<i>HK\$'000</i>
Attributable to:		
Shareholders of the Company		631,585
Minority interest		656
		<u>366,184</u>
		<u>632,241</u>
Dividends	5	
Interim		23,771
Special interim (in specie)		1,229,143
		<u>24,187</u>
		<u>1,252,914</u>
		<i>HK cents</i>
		<i>HK cents</i>
Earnings per share from continuing operations	6	
Basic		2.03
Diluted		1.92
		<u>4.52</u>
		<u>4.49</u>
Earnings per share from discontinued operations	6	
Basic		25.90
Diluted		24.19
		N/A
		N/A
Earnings per share from operations	6	
Basic		27.93
Diluted		26.30
		<u>4.52</u>
		<u>4.49</u>

CONSOLIDATED BALANCE SHEET (unaudited)

At 30th June 2006

		30th June 2006	31st December 2005
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		54,842	53,974
Investment properties		2,575,022	2,016,387
Leasehold land and land use rights		70,132	70,502
Jointly controlled entities		579,104	577,261
Non-current investments		4,643,130	2,690,556
Other non-current assets		<u>10,923</u>	<u>8,277</u>
		----- 7,933,153	----- 5,416,957
Current assets			
Development properties		4,956,067	4,134,038
Debtors and prepayments	7	75,235	134,545
Tax recoverable		3,718	3,368
Other investments		44,114	39,126
Cash and bank balances		<u>596,165</u>	<u>255,206</u>
		----- 5,675,299	----- 4,566,283
Total assets		<u><u>13,608,452</u></u>	<u><u>9,983,240</u></u>
EQUITY			
Share capital		240,691	237,792
Reserves		<u>7,169,154</u>	<u>5,078,878</u>
Shareholders' funds		7,409,845	5,316,670
Minority interests		<u>619,313</u>	<u>355,968</u>
Total equity		----- 8,029,158	----- 5,672,638
LIABILITIES			
Non-current liabilities			
Borrowings		2,746,004	1,567,857
Deferred tax liabilities		<u>395,115</u>	<u>210,264</u>
		----- 3,141,119	----- 1,778,121
Current liabilities			
Creditors and accruals	8	1,131,470	719,237
Current portion of borrowings		1,277,535	1,807,880
Tax payable		5,140	5,364
Dividends payable		<u>24,030</u>	<u>—</u>
		----- 2,438,175	----- 2,532,481
Total liabilities		----- 5,579,294	----- 4,310,602
Total equity and liabilities		<u><u>13,608,452</u></u>	<u><u>9,983,240</u></u>

NOTES

1. Basis of Preparation

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

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31st December 2005.

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

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

2. Segment Information

A summary of the Group’s business segments is set out as follows. The discontinued operations represented manufacture, sale and distribution of construction materials which the Group ceased to carry on following the deemed disposal and distribution in specie by the Group of its equity interest in GEG in November 2005.

	Continuing operations			Total HK\$'000	
	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000		
Six months ended 30th June 2006					
Turnover	<u>98,465</u>	<u>30,738</u>	<u>—</u>	<u>129,203</u>	
Operating profit	<u>594,513</u>	<u>1,693</u>	<u>2,051</u>	<u>598,257</u>	
Finance costs				(48,222)	
Share of profits less losses of jointly controlled entities	1,843			<u>1,843</u>	
Profit before taxation				<u>551,878</u>	
Taxation charge				<u>(185,694)</u>	
Profit for the period				<u><u>366,184</u></u>	
	Properties HK\$'000	Continuing operations Trading HK\$'000 Unallocated HK\$'000		Total HK\$'000	Discontinued operations HK\$'000
Six months ended 30th June 2005					
Turnover	<u>150,530</u>	<u>23,139</u>	<u>—</u>	<u>173,669</u>	<u>546,158</u>
Operating profit/(loss)	<u>52,692</u>	<u>(161)</u>	<u>(10,885)</u>	41,646	9,298
Finance costs				(14,669)	(5,998)
Share of profits less losses of					
Jointly controlled entities	20,531			20,531	7,945
Associated companies				<u>—</u>	<u>1,492</u>
Profit before taxation				47,508	12,737
Taxation charge				<u>(4,847)</u>	<u>(280)</u>
Profit after taxation				42,661	12,457
Gain on deemed partial disposal of a subsidiary				<u>—</u>	<u>577,123</u>
Profit for the period				<u>42,661</u>	<u>589,580</u>

A summary of geographical segments is set out as follows:

	Continued operations		Discontinued operations	
	Turnover <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating profit <i>HK\$'000</i>
Six months ended 30th June 2006				
Hong Kong	5,821	(14,060)	—	—
Mainland China	84,127	604,735	—	—
Singapore	8,517	5,889	—	—
Japan	30,738	1,693	—	—
	<u>129,203</u>	<u>598,257</u>	<u>—</u>	<u>—</u>
Six months ended 30th June 2005				
Hong Kong	123,441	39,958	242,417	5,900
Mainland China	22,605	1,515	303,741	3,398
Singapore	4,484	334	—	—
Japan	23,139	(161)	—	—
	<u>173,669</u>	<u>41,646</u>	<u>546,158</u>	<u>9,298</u>

3. Operating Profit

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Operating profit is stated after crediting:		
Exchange gain	17,843	3,382
Fair value gain on other investments	4,988	—
Interest income	3,266	3,012
Negative goodwill arising from acquisition of a jointly controlled entity	—	4,317
	<u>25,815</u>	<u>19,982</u>
and after charging:		
Cost of inventories sold	25,815	19,982
Depreciation (net of amount capitalised under properties under development of HK\$701,000 (2005: HK\$357,000))	1,487	947
Amortisation of leasehold land (net of amount capitalised under properties under development of HK\$15,008,000 (2005: HK\$15,625,000))	2,204	2,142
Fair value loss on other investments	—	154
Operating lease rental for land and buildings	2,160	—
Loss on disposal of property, plant and equipment	56	133
	<u>31,662</u>	<u>23,358</u>

4. Taxation Charge

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

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

Share of taxation of jointly controlled entities for the six months ended 30th June 2006 amounting to HK\$1,017,000 (2005: HK\$4,151,000) and was included in the profit and loss statement as share of profits less losses of jointly controlled entities.

5. Dividends

The Board has declared an interim scrip dividends (with a cash option) of HK\$24,187,000 (being HK\$0.01 per share) (2005: interim cash dividends of HK\$0.01 per share, totaling HK\$23,771,000 (excluding the one-off special interim dividends of HK\$0.517 per share)). This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2006.

6. Earnings per Share

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

	Continuing operations		Discontinued operations	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit attributable to shareholders	108,277	46,013	—	585,572
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds, net of tax	<u>1,274</u>	<u>6,907</u>	<u>—</u>	<u>—</u>
Profit for calculation of diluted earnings per share	<u>109,551</u>	<u>52,920</u>	<u>—</u>	<u>585,572</u>
			<i>Number of shares</i>	
			2006	2005
Weighted average number of shares for calculating basic earnings per share			2,394,314,000	2,261,175,000
Effect of dilutive potential ordinary shares:				
Share options			<u>4,991,000</u>	<u>140,370,000</u>
Weighted average number of shares for calculating diluted earnings per share (before convertible bonds)			2,399,305,000	2,401,545,000
Effect of dilutive potential ordinary shares:				
Convertible bonds			<u>39,096,000</u>	<u>19,378,000</u>
Weighted average number of shares for calculating diluted earnings per share			<u>2,438,401,000</u>	<u>2,420,923,000</u>

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

7. Debtors and Prepayments

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

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

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

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Within one month	7,447	14,566
Two to three months	1,085	3,137
Four to six months	4,069	987
Over six months	<u>830</u>	<u>5,066</u>
	<u>13,431</u>	<u>23,756</u>

8. Creditors and Accruals

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

(I) REVIEW AND OUTLOOK

Operating results

Turnover and profit attributable to shareholders for the first six months of 2006 was HK\$129 million and HK\$108 million respectively as compared to HK\$174 million and HK\$46 million (excluding discontinued operations of HK\$586 million) for the same period last year.

During the period, the Group has achieved satisfactory pre-sale of its development properties in Hong Kong and Shanghai. However, under the new accounting standards, the revenue of these pre-sale could not be recognized in the books until the time the properties are completed.

Development properties in Hong Kong

The Group launched its premium residential project The Great Hill in March 2006. The project, which comprises of 114 units of apartment and 8 detached houses, has a total floor area of approximately 300,000 sq. ft. Located in Shatin's mid-level and embraced by beautiful greenery and landscape, The Great Hill yet enjoys the abundant social infrastructure of Shatin and its proximity to the new highway

Route 8 connecting to West Kowloon. The project is uniquely designed to provide top quality luxurious residential properties to users who are looking for space, cosy living, exclusivity and living style. Phase 1 pre-sale was opened in March with all 65 units of apartment sold out in three weeks. Pre-sale proceeds is expected to be recognized as revenue upon completion of the project in 2007. The management is planning to roll-out Phase 2 for the remaining apartment units and the houses in the second half of the year.

The Group's another residential project J Residence has a totally different market positioning. Situated in the heart of Hong Kong Island with MTR across the street, J Residence is conveniently located in Wanchai and is only 5 minutes away from Central, Admiralty and Causeway Bay. People living here will find it handy to go out for work and for fun. The 235,000 sq. ft. project houses 381 apartment units with size ranges from studio flat to 2-bedroom which are designed to target the needs of the unique user group of young urban professionals who are single or double-income-no-kids. The residents' club, which is situated on the top level of the building, comprises of a stylishly designed lounge, cigar bar, outdoor swimming pool and a full-scale gymnasium. J Residence also integrates five 3-storey historical buildings that have been designated by the Antiquities and Monuments Office as preserved monument which makes the project the first of its kind in Hong Kong. Pre-sale of J Residence was a big success where almost all of the units were sold out in two weeks in July 2006. The project is expected to be completed in 2007.

Development and investment properties in Shanghai

Sales of Westwood Phase 1A continues to be satisfactory in wake of the new wave of government policies and measures. Up to 10th September 2006, a total of 594 units representing approximately 61,000 sq.m. has been pre-sold, which is approximately 94% of the total available inventory in this early phase. Phase 1B, which comprises of over 600 units representing approximately 69,000 sq.m. will be launched to the market in the second half of the year commencing mid-August. Market response has been very encouraging. Out of the 128 units that were put up for pre-sale in August, 127 units representing approximately 12,850 sq.m. were either pre-sold or reserved. Phase 1 will be completed in 2007 and the management is now working on the planning of Westwood Phase 2.

The relocation of residents in the Group's land bank at Xuhui and Jingan District has been making satisfactory progress during the period. The management is hopeful that construction could commence in the eastern side of the two respective sites before the end of the year.

Turning to the office market in Shanghai, the past six months saw continuing influx of foreign and local companies alike into the city. Demand for Grade A office space continues to grow which leads to surge in both office rental and market valuation. Shanghai K. Wah Centre, the Group's 37-storey premium office tower situated on the Huaihaizhong Road in Xuhui District, is one of the most sought after office buildings in Shanghai. With a 100% occupancy and top-of-the-range rental rates, this investment property continues to create a strong steady rental income and increasing value to the Group.

Investment in Galaxy Entertainment Group Limited (GEG)

The non-current investments in the Group's consolidated balance sheet represent the Group's strategic investment in GEG which is being carried at fair value. As of 30th June 2006, the closing price of GEG is HK\$7.55 per share as compared to HK\$4.375 per share at 31st December 2005. The change in fair value of approximately HK\$2 billion was recorded as an increase in reserve.

HK\$1,800 Million Syndicated Loan

The Group has successfully arranged a HK\$1,800 million syndicated loan on 6th September 2006 with a consortium of 14 international and local bankers. Underwritten and co-arranged by Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and Standard Chartered Bank (Hong Kong) Limited, the syndicated loan comprises two tranches — a 3-year HK\$900 million revolving loan and a 5-year HK\$900 million revolving/term loan.

On the back of the Group's reputation, the syndicated loan received oversubscription at the general syndication stage and the amount was increased from HK\$1,500 million to HK\$1,800 million.

(II) REVIEW OF FINANCE

Financial position

The financial position of the Group remains strong. As of 30th June 2006, the equity increased by 42% to HK\$8,029 million from HK\$5,673 million on 31st December 2005.

The number of the issued shares of the Company increased as a result of conversion of convertible bonds and exercise of share options during the Period. The dilution effect, however, was offset by the profits recognized for the Period.

Liquidity and gearing ratio

Cash and bank balances as of 30th June 2006 stood at HK\$596 million and the gearing ratio, defined as the total borrowings outstanding less cash balances to total assets, stayed at a healthy level of 26%.

The Group's liquidity position remains strong and the Group possesses sufficient cash and substantial banking facilities to meet its working capital requirements, future acquisitions and investments.

Treasury policies

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

Charges on Group assets

As of 30th June 2006, investment properties and land and buildings with carrying values of HK\$2,575 million (31st December 2005: HK\$2,016 million) and HK\$111 million (31st December 2005: HK\$112 million) respectively were pledged to banks to secure the Group's borrowing facilities.

Contingent liabilities

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK\$3,336 million (31st December 2005: HK\$3,572 million), of which HK\$2,323 million (31st December 2005: HK\$2,079 million) have been utilised.

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

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

Employees and remuneration policy

As of 30th June 2006, the Group, excluding jointly controlled entities, employs 270 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK\$42 million for the period under review.

The Group believes its success and long-term growth and development depends upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to attract, retain and motivate competent individuals based on merits and development potentials. The Group believes the remuneration we offer to our employees is fair and competitive in relation to comparable organizations in the areas in which the Group operates its principal business.

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

CORPORATE GOVERNANCE

During the Period, the Company has complied with the provisions ("Code Provisions") in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), save for the deviation from Code Provision A.4.2. The Chairman of the Board and the Managing Director are not subject to retirement by rotation. The Board believes that the underlying rationale for such a deviation, as mentioned in the section on "Compliance with Appendix 14" in the Corporate Governance Report of the 2005 Annual Report of the Company, still holds. The Board will continue to review and recommend such step and action as appropriate in the circumstances of such deviation.

On 14th September 2006, Mr. Francis Lui Yiu Tung has resigned as the Managing Director of the Company (remaining, however, as an Executive Director of the Company) and Mr. Eddie Hui Ki On, currently an Executive Director of the Company, has become the acting Managing Director of the Company. The Board would like to express its gratitude to Mr. Francis Lui for his leadership and valuable contribution to the Group during his terms of service as the Managing Director of the Company for over 10 years and also express its congratulation to Mr. Hui on his appointment.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules ("Model Code"). Having made specific enquiries with all its Directors, the Company confirms that during the Period all its Directors have complied with the required standards as set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee, which comprises two Independent Non-executive Directors and one Non-executive Director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with PricewaterhouseCoopers ("Company's Auditors") who are the Auditors of the Company, has reviewed the Group's unaudited interim results for the Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares and any of its convertible bonds during the Period. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares or convertible bonds during the Period.

INTERIM DIVIDENDS

The Board has declared an interim scrip dividends (with a cash option) of HK\$24,187,000 (being HK\$0.01 per share) to shareholders whose names appear on the registers of members of the Company at the close of business on 13th October 2006 (2005: interim cash dividends of HK\$0.01 per share, totaling HK\$23,771,000 and a one-off special interim dividends of HK\$0.517 per share). A circular containing the details of the scrip dividends will be sent to shareholders of the Company in due course. It is expected that the dividend warrants and the share certificates for the scrip dividends will be sent to shareholders of the Company on or about 24th November 2006.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 9th October 2006 to 13th October 2006 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the interim dividends, shareholders must ensure that all duly completed transfers together with the relevant share certificates are lodged with the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 6th October 2006.

PUBLICATION OF FURTHER INFORMATION

This announcement will be published on the respective websites of the Company and the Stock Exchange. The Group's unaudited interim results have been reviewed by the Company's Auditors, and a report of their review will be included in the Interim Report to the shareholders of the Company.

The Interim Report for the Period containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

DIRECTORS

As at the date of this announcement, the Executive Directors are Dr. Lui Che Woo (Chairman), Mr. Francis Lui Yiu Tung, Mr. Eddie Hui Ki On, Mr. Lennon Lun Tsan Kau, Mr. William Lo Chi Chung and Ms. Paddy Tang Lui Wai Yu; the Non-executive Directors are Mr. Michael Leung Man Kin and Dr. Philip Wong Kin Hang; and the Independent Non-executive Directors are Sir David Akers-Jones, Dr. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun and Mr. Robert George Nield.

By Order of the Board
Chan Ming Tak Ricky
Company Secretary

Hong Kong, 14th September 2006

Principal Place of Business in Hong Kong:

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North Point

Hong Kong

Website: www.kwih.com

*Please also refer to the published version of this announcement in **South China Morning Post**.*