



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 173)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008

INTERIM RESULTS HIGHLIGHTS

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 (together the “*Group*”) for the six months ended 30 June 2008 (“*Period*”) as follows:

- Revenue was HK\$716 million (2007: HK\$1,759 million)
- Operating profit was HK\$457 million (2007: HK\$576 million)
- Profit for the period was HK\$333 million (2007: HK\$588 million)
- Profit attributable to shareholders was HK\$251 million (2007: HK\$439 million)
- Earnings per share (basic) was 10.18 HK cents (2007: 18.06 HK cents)

INTERIM DIVIDEND

The Board has declared an interim cash dividend for the Period of 1 HK cent per share, totaling HK\$24,704,000, payable on 7 November 2008 to the shareholders whose names appear on the registers of members of the Company at the close of business on 10 October 2008 (2007: an interim cash dividend of 2.5 HK cents per share and a special interim cash dividend of 25 HK cents per share, totaling HK\$676,041,000).

CONDENSED CONSOLIDATED PROFIT AND LOSS STATEMENT (unaudited)
For the six months ended 30 June 2008

	<i>Note</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Revenue	2	715,672	1,758,554
Cost of sales		(362,511)	(1,286,769)
Gross profit		353,161	471,785
Other operating income		116,660	67,386
Administrative expenses		(113,921)	(61,183)
Other operating expenses		(6,043)	(1,224)
Change in fair value of investment properties		107,434	99,365
Operating profit	2 & 3	457,291	576,129
Finance costs		(55,444)	(40,880)
Share of profits less losses of jointly controlled entities		40,941	152,005
Share of losses of associated companies		(18)	—
Profit before taxation		442,770	687,254
Taxation charge	4	(109,380)	(98,933)
Profit for the period		333,390	588,321
Attributable to:			
Shareholders		250,601	439,487
Minority interests		82,789	148,834
		333,390	588,321
Interim dividend	6	24,704	61,368
Special interim dividend	6	—	614,673
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	5		
Basic		10.18	18.06
Diluted		10.12	17.89

CONDENSED CONSOLIDATED BALANCE SHEET (unaudited)**As at 30 June 2008**

	30 June 2008	31 December 2007
<i>Note</i>	HK\$'000	HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	53,511	52,732
Investment properties	3,938,800	3,679,112
Leasehold land and land use rights	67,097	67,390
Jointly controlled entities	782,930	700,920
Associated companies	(23)	(4)
Non-current investments	822,169	1,191,008
Other non-current assets	6,274	7,099
	<u>5,670,758</u>	<u>5,698,257</u>
Current assets		
Development properties	5,297,460	4,800,680
Amounts due from jointly controlled entities	1,485,573	2,454,691
Amounts due from associated companies	670,148	652,790
Debtors and prepayments	7 193,679	328,228
Tax recoverable	2,762	2,762
Cash and bank balances	1,315,707	2,444,742
	<u>8,965,329</u>	<u>10,683,893</u>
Total assets	<u>14,636,087</u>	<u>16,382,150</u>
EQUITY		
Share capital	246,978	245,869
Reserves	8,348,253	8,256,702
Shareholders' funds	8,595,231	8,502,571
Minority interests	1,215,560	1,056,774
Total equity	<u>9,810,791</u>	<u>9,559,345</u>
LIABILITIES		
Non-current liabilities		
Borrowings	1,944,398	3,297,252
Deferred taxation liabilities	596,204	527,379
	<u>2,540,602</u>	<u>3,824,631</u>
Current liabilities		
Amounts due to jointly controlled entities	56,315	56,286
Creditors and accruals	8 597,462	883,928
Current portion of borrowings	1,352,987	1,282,246
Tax payable	204,159	161,041
Dividend payable	73,771	614,673
	<u>2,284,694</u>	<u>2,998,174</u>
Total liabilities	<u>4,825,296</u>	<u>6,822,805</u>
Total equity and liabilities	<u>14,636,087</u>	<u>16,382,150</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 and non-current investments, which are carried at fair value and in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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 31 December 2007.

In 2008, the Group adopted the new interpretation of Hong Kong Financial Reporting Standards (“HKFRS”) below, which is relevant to its operations.

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HKFRS 2 – Group and Treasury Share Transactions

The Group has assessed the impact of the adoption of this new interpretation and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies and presentation of the financial statements.

2. Segment information

The Group is principally engaged in property development and investment in Hong Kong, Mainland China and Singapore. In Japan, the Group carries on trading of plant and machinery. There are no other significant identifiable separate businesses. In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets primarily consist of property, plant and equipment, other non-current assets, properties, amounts due from jointly controlled entities and associated companies, debtors and prepayments and mainly exclude non-current investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals and amounts due to jointly controlled entities. There are no sales or trading transactions between the business segments.

2. Segment information (Cont'd)

(A) BUSINESS SEGMENTS

	Properties <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2008				
Revenue	620,079	95,593	—	715,672
Operating profit	363,240	4,933	89,118	457,291
Finance costs				(55,444)
Share of profits less losses of jointly controlled entities	40,941	—	—	40,941
Share of losses of associated companies	(18)	—	—	(18)
Profit before taxation				442,770
Taxation charge				(109,380)
Profit for the period				333,390
Capital expenditure	(2,496)	—	—	(2,496)
Depreciation	(1,735)	—	—	(1,735)
Amortization	(9,108)	—	—	(9,108)
Change in fair value of investment properties	107,434	—	—	107,434
Six months ended 30 June 2007				
Revenue	1,637,319	121,235	—	1,758,554
Operating profit	509,303	2,856	63,970	576,129
Finance costs				(40,880)
Share of profits less losses of jointly controlled entities	152,005	—	—	152,005
Profit before taxation				687,254
Taxation charge				(98,933)
Profit for the period				588,321
Capital expenditure	(814)	(521)	—	(1,335)
Depreciation	(1,524)	—	—	(1,524)
Amortization	(2,647)	—	—	(2,647)
Change in fair value of investment properties	99,365	—	—	99,365

2. Segment information (Cont'd)

(B) GEOGRAPHICAL SEGMENTS

	Revenue		Operating profit/(loss)	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June				
Hong Kong	438,252	4,887	162,878	(12,508)
Mainland China	150,375	1,625,936	241,110	550,579
Singapore	31,452	6,496	48,352	35,174
Japan	95,593	121,235	4,951	2,884
	715,672	1,758,554	457,291	576,129

3. Operating profit

	2008	2007
	HK\$'000	HK\$'000
Operating profit is stated after crediting:		
Exchange gain	80,629	37,789
Interest income	7,394	27,913
Gain on disposal of a subsidiary	3,985	—
Gain on disposal of property, plant and equipment	—	50
	85,783	115,008
and after charging :		
Cost of inventories sold	85,783	115,008
Depreciation (net of capitalization)	1,735	1,524
Amortization for leasehold land and land use rights (net of capitalization)	9,108	2,647
Operating lease rental for land and buildings	890	1,800
Loss on disposal of property, plant and equipment	61	—
	109,380	98,933

4. Taxation charge

	2008	2007
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	27,505	6
Overseas taxation	37,178	197,670
Deferred taxation	44,697	(98,743)
	109,380	98,933

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the period after setting off available tax losses brought forward. Taxation assessable on profits generated overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates.

With effect from 1 January 2008, the corporate income tax rate for the Group is reduced from 33% to 25% upon coming into effect of the new Corporate Income Tax Law in Mainland China approved by the National People's Congress on 16 March 2007.

4. Taxation charge (Cont'd)

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

5. Earnings per share

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

	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	250,601	439,487
Effect of dilutive potential ordinary shares		
Interest on convertible bonds, net of tax	722	677
Profit for calculation of diluted earnings per share	251,323	440,164
	2008	2007
Weighted average number of shares for calculating basic earnings per share	2,460,766,000	2,433,459,000
Effect of dilutive potential ordinary shares		
Share options	3,414,000	5,708,000
Convertible bonds	19,713,000	21,277,000
Weighted average number of shares for calculating diluted earnings per share	2,483,893,000	2,460,444,000

6. Interim dividend

The Board has declared an interim cash dividend of HK\$24,704,000 (being 1 HK cent per share) (2007: an interim cash dividend of 2.5 HK cents per share and a special interim cash dividend of 25 HK cents per share, totaling HK\$676,041,000). This amount will be accounted for as an appropriation of revenue reserves in the year ending 31 December 2008.

7. Debtors and prepayments

	30 June	31 December
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade debtors	6,991	125,175
Other debtors	32,993	31,291
Prepayments and deposits	153,695	171,762
	193,679	328,228

7. Debtors and prepayments (Cont'd)

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

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

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within one month	5,025	123,689
Two to three months	1,611	1,179
Four to six months	333	249
Over six months	22	58
	<u>6,991</u>	<u>125,175</u>

8. Creditors and accruals

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade creditors	318,816	559,432
Other creditors	9,728	38,670
Amounts due to minority shareholders	84,248	83,988
Accrued operating expenses	40,064	63,718
Advanced proceeds on sale of properties	59,389	66,988
Deposits received	85,217	71,132
	<u>597,462</u>	<u>883,928</u>

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

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within one month	287,828	506,973
Two to three months	3,004	2,474
Four to six months	15	174
Over six months	27,969	49,811
	<u>318,816</u>	<u>559,432</u>

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW AND OUTLOOK

Operating Results

Revenue and profit attributable to shareholders for the Period was HK\$716 million and HK\$251 million respectively, compared to HK\$1,759 million and HK\$439 million for same period last year. The decrease in profit was mainly due to lesser projects were completed for profit recognition purpose during the Period.

Property Development and Investment in Mainland China

The central government's macroeconomic control and a generally tightened bank credit policy are expected to remain for the last quarter of 2008, which will have an impact on the residential property market of the Mainland China. The Group has a total of nine pieces of land in Shanghai, Guangzhou and Jiangmen. Total development attributable gross floor area of the residential and commercial development projects of the Group in Mainland China is estimated to be approximately 21,500,000 square feet. Our Mainland China projects will be developed in phases in line with market conditions and are progressing well according to schedule. The Group continues to have strong rental income from its Shanghai K. Wah Centre.

Property Development and Investment in Hong Kong

The overall property market in Hong Kong remains stable. The fundamentals of the local property market remain intact. The Government's forecast shows a shortage of residential units in the private sector and demand for housing is likely to remain strong in the near term. However, there has been a slow down in sales transactions in the past few months. The Group has residential development projects with attributable gross floor area of approximately 700,000 square feet. Most of these development projects are scheduled for completion in 2010 and 2011.

Investment in Galaxy Entertainment Group Limited (“GEG”)

The Group continues to hold its investment in GEG which is being carried at fair value. As of 30 June 2008, the share price of GEG was HK\$5.06 as compared to HK\$7.33 at 31 December 2007. The change in the fair value of approximately HK\$369 million was recorded in reserve.

Outlook

It is clear from the United States government's conservatorship action with Fannie Mae and Freddie Mac that, after the biggest surge in mortgage defaults in the last 3 decades, the United States economy will not recover until the bulk of the housing market correction is behind her. Credit crunch in the global capital market following the fall out from the sub-prime crisis, inflationary pressure, and volatility in oil and commodity price all conspire to add uncertainty – if not downside – to growth. Financial market turmoil has since spilled over from the United States to Europe, and now leverage de-coupling is starting to take its toll on Asian export economies.

Mainland China and Hong Kong are not immune. Since the beginning of this year, housing price correction in Mainland China has been going in lockstep with stock market correction. While we remain optimistic on her long-term economic prospect, a short-term easing on the economic growth of Mainland China can have impact on her housing market and in turn, on the sales, turnover and earnings of the Group. Hong Kong's economy will inevitably be affected by the fallout from a possible global slowdown. Despite the fact that the impact on Hong Kong may be moderated by Mainland China's solid sustainable development, it is possible for the Hong Kong housing market to also go into period of consolidation in the near term, which can affect the Group's results and performance.

The Board views the economic outlook of the Group's major operating markets with caution. Into the last quarter of 2008 and the first quarter of 2009, there will still be uncertainties in the business environment for the Group. Management is exercising caution in making acquisitions and planning, and is timely tuning its business strategies in line with changing market conditions.

(II) FINANCIAL REVIEW

Financial Position

The financial position of the Group remained strong. As of 30 June 2008, total funds employed was HK\$13 billion as compared to HK\$14 billion at 31 December 2007.

The number of the issued shares of the Company increased slightly as a result of small amount of the share options being exercised and the conversion of the convertible bonds during the Period. The dilution effect is minimal and was offset by the profit earned for the Period.

Liquidity and Gearing Ratio

Cash and bank balances as of 30 June 2008 stood at HK\$1,316 million and the gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 15%.

The Group's liquidity and gearing ratio stayed at a healthy level and the Group has sufficient funds 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 dollar. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are utilized when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation. During the Period, the Group has not engaged in the use of derivative products.

Charges on Group Assets

As of 30 June 2008, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK\$6,266 million (31 December 2007: HK\$5,618 million) to banks to secure the Group's borrowing facilities.

Guarantees

The Company has executed guarantees in favor of banks and financial institutions in respect of facilities granted to certain subsidiaries, jointly controlled entities and associated companies amounting to HK\$6,093 million (31 December 2007: HK\$6,045 million), HK\$2,404 million (31 December 2007: HK\$775 million) and HK\$1,009 million (31 December 2007: HK\$1,009 million) respectively, of which HK\$2,451 million (31 December 2007: HK\$3,232 million), HK\$1,437 million (31 December 2007: HK\$438 million) and HK\$642 million (31 December 2007: HK\$642 million) have been utilized respectively.

The Company has also executed guarantees in favour of convertible bondholders in respect of the convertible bonds issued by a subsidiary. The outstanding amount of such convertible bonds was HK\$20 million (31 December 2007: HK\$40 million) as of 30 June 2008.

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

Employees and remuneration policy

As of 30 June 2008, the Group, excluding jointly controlled entities and associated companies, employs 311 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$72,574,000 for the Period under review.

The Group continues to attract, retain, motivate and promote competent and committed individuals for its long term success and growth. The Group believes our remuneration packages are fair and competitive based on quality, merit and development potentials.

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

CORPORATE GOVERNANCE

During the Period, save for Code Provision A.4.2, the Company has complied with all the provisions in the Code on Corporate Governance Practices set out in the Appendix 14 to the Rules Governing the Listing of Securities (“*Listing Rules*”) on The Stock Exchange of Hong Kong Limited. The Board believes that the underlying rationale for such a deviation, as mentioned under the section headed “COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES” in the Corporate Governance Report of its 2007 Annual Report (“*2007 Annual Report*”), still holds. The Board will continue to review and recommend such steps and action as appropriate in the circumstances of such deviation. Since the 2007 Annual Report, Mr. Lam Kwong Yu has been appointed as executive director and Mr. Lennon Lun Tsan Kau has resigned as executive director and deputy managing director, respectively, on 28 May 2008 and 16 June 2008, and Dr. William Yip Shue Lam has been appointed as independent non-executive director of the Company on 20 June 2008. Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun retired, respectively, as non-executive director and as independent non-executive director of the Company at the conclusion of the annual general meeting on 27 May 2008.

AUDIT COMMITTEE

The Audit Committee of the Company has met on 5 September 2008 and reviewed the Company’s accounting principles and practices and discussed auditing, internal control and financial reporting matters. The Group’s unaudited interim results for the Period have been reviewed by the Audit Committee of the Company and by the Company’s independent auditors – PricewaterhouseCoopers.

The Board welcomes the appointment of Dr. William Yip Shue Lam as the chairman of the Audit Committee on 20 June 2008. The Board thanks Dr. Charles Cheung Wai Bun for his contributions to the Audit Committee before his retirement (as then chairman) on 27 May 2008.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s shares or convertible bonds during the Period.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members will be closed from 6 October 2008 to 10 October 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, 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 4:30 p.m. on 3 October 2008.

PUBLICATION OF FURTHER INFORMATION ON WEBSITE

This interim results announcement is published on the respective websites of the Company and Hong Kong Exchanges and Clearing Limited (“*HKEx*”). The 2008 Interim Report 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 HKEx in late September 2008.

DIRECTORS

As at the date of this announcement, the Executive Directors are Dr. Che-woo Lui (Chairman), Mr. Francis Lui Yiu Tung, Mr. Eddie Hui Ki On, Ms. Paddy Tang Lui Wai Yu and Mr. Lam Kwong Yu; the Non-executive Director is Mr. Michael Leung Man Kin; and the Independent Non-executive Directors are Sir David Akers-Jones, Dr. The Hon. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Mr. Robert George Nield and Dr. William Yip Shue Lam.

By Order of the Board
Ricky Chan Ming Tak
Company Secretary

Hong Kong, 10 September 2008

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