



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

A summary of geographical segments is set out as follows:

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

		2006 HK\$'000	(Restated) 2005 HK\$'000
Continuing operations			
Turnover	2	129,203	173,669
Cost of sales		(35,376)	(97,441)
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		537,139	1,742
Operating profit	2 & 3	598,257	41,646
Finance costs		(48,222)	(14,669)
Share of profits less losses of jointly controlled entities		1,843	20,531
Profit before taxation		551,878	47,508
Taxation charge	4	(185,694)	(4,847)
Profit from continuing operations		366,184	42,661
Discontinued operations			
Profit from discontinued operations	2	—	589,580
Profit for the period		366,184	632,241
Attributable to:			
Shareholders of the Company		108,277	631,585
Minority interest		257,907	656
		366,184	632,241
Dividends	5		
Interim		24,187	23,771
Special interim (in specie)		—	1,229,143
		24,187	1,252,914
		HK cents	HK cents
Earnings per share from continuing operations	6		
Basic		4.52	2.03
Diluted		4.49	1.92
Earnings per share from discontinued operations	6		
Basic		N/A	25.90
Diluted		N/A	24.19
Earnings per share from operations	6		
Basic		4.52	27.93
Diluted		4.49	26.30

CONSOLIDATED BALANCE SHEET (unaudited) At 30th June 2006

		30th June 2006 HK\$'000	31st December 2005 HK\$'000
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		10,923	8,277
		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		596,165	255,206
		5,675,299	4,566,283
Total assets		13,608,452	9,983,240
EQUITY			
Share capital		240,691	237,792
Reserves		7,169,154	5,078,878
Shareholders' funds		7,409,845	5,316,670
Minority interests		619,313	355,968
Total equity		8,029,158	5,672,638
LIABILITIES			
Non-current liabilities			
Borrowings		2,746,004	1,567,857
Deferred tax liabilities		395,115	210,264
		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		24,030	—
		2,438,175	2,532,481
Total liabilities		5,579,294	4,310,602
Total equity and liabilities		13,608,452	9,983,240

NOTES

- 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")).
- 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.

	Properties HK\$'000	Continuing operations Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000	
Six months ended 30th June 2006					
Turnover	96,465	30,738	—	129,203	
Operating profit	594,513	1,693	2,051	598,257	
Finance costs				(48,222)	
Share of profits less losses of jointly controlled entities	1,843			1,843	
Profit before taxation				551,878	
Taxation charge				(185,694)	
Profit for the period				366,184	
	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	150,530	23,139	—	173,669	546,158
Operating profit/(loss)	52,692	(161)	(10,885)	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				—	1,492
Profit before taxation				47,508	12,737
Taxation charge				(4,847)	(280)
Profit after taxation				42,661	12,457
Gain on deemed partial disposal of a subsidiary				—	577,123
Profit for the period				42,661	589,580

	Continued operations Turnover HK\$'000	Operating profit/(loss) HK\$'000	Discontinued operations Turnover HK\$'000	Operating profit HK\$'000
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	—	—
	129,203	598,257	—	—
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)	—	—
	173,669	41,646	546,158	9,298

	2006 HK\$'000	2005 HK\$'000
Operating Profit		
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

	2006 HK\$'000	2005 HK\$'000
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))	1,467	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	2,160	—
Operating lease rental for land and buildings	2,160	—
Loss on disposal of property, plant and equipment	56	133

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

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.

	2006 HK\$'000	2005 HK\$'000
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\$3,517 per share)). This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2006.		

	2006 HK\$'000	2005 HK\$'000
Earnings per Share		
The calculation of basic and diluted earnings per share for the period is based on the followings:		
Continuing operations	2006 HK\$'000	2005 HK\$'000
Discontinued operations	2006 HK\$'000	2005 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	1,274	6,907	—	—
Profit for calculation of diluted earnings per share	109,551	52,920	—	585,572

	2006 Number of shares	2005 Number of shares
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	4,991,000	140,370,000
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	39,096,000	19,378,000
Weighted average number of shares for calculating diluted earnings per share	2,438,401,000	2,420,923,000

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.

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

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	830	5,066
	13,431	23,756

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Creditors and Accruals		
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	122,179	208,341
	1,131,470	719,237

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	1,198	517
	161,023	210,515

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 Huaihai Zhong 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