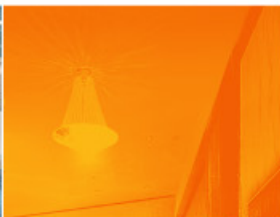




K. WAH INTERNATIONAL HOLDINGS LIMITED 嘉華國際集團有限公司

(Incorporated in Bermuda with limited liability 於百慕大註冊成立之有限公司)

(Stock code 股份代號 0173)



Interim Report **2006** 中期報告

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CHAIRMAN

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc

MANAGING DIRECTOR

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

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

* Independent Non-executive Directors

COMPANY SECRETARY

Mr. Ricky Chan Ming Tak, LLM

QUALIFIED ACCOUNTANT

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

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SHARE LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

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

BOND LISTING

Luxembourg Stock Exchange

Interim Results Highlights

Unaudited Interim Results for the six months ended 30th June 2006 ("Period") of K. Wah International Holdings Limited ("Company") and its subsidiaries (together the "Group"):

- Turnover was HK\$129 million (2005 (restated): HK\$174 million)
- Operating profit was HK\$598 million (2005 (restated): HK\$42 million)
- Profit from continuing operations was HK\$366 million (2005 (restated): HK\$43 million)
- Profit attributable to shareholders was HK\$108 million as compared to HK\$46 million for the same period in 2005 (excluding the discontinued operations of HK\$586 million)
- Earnings per share from continuing operations was 4.52 HK cents (4.49 HK cents — diluted) as compared to 2.03 HK cents (1.92 cents — diluted) for the same period in 2005

Interim Dividends

The Board of Directors of the Company ("Board") has declared an interim scrip dividends (with a cash option) of HK\$0.01 per share (totalling HK\$24,187,000) for the Period 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, totalling HK\$23,771,000 and an one-off special interim dividends (by way of distribution in specie) equivalent to HK\$0.517 per share).

04 | Consolidated Profit and Loss Statement (unaudited)

For the six months ended 30th June 2006

	Note	2006 HK\$'000	Restated 2005 HK\$'000
Continuing operations			
Turnover	5	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	5 & 6	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	7	(185,694)	(4,847)
Profit from continuing operations		366,184	42,661
Discontinued operations			
Profit from discontinued operations	8	—	589,580
Profit for the period		366,184	632,241
Attributable to:			
Shareholders		108,277	631,585
Minority interests		257,907	656
		366,184	632,241
Dividends			
Interim		24,187	23,771
Special interim (in specie)		—	1,229,143
	9	24,187	1,252,914
		HK cents	HK cents
Earnings per share from continuing operations	10		
Basic		4.52	2.03
Diluted		4.49	1.92
Earnings per share from discontinued operations	10		
Basic		N/A	25.90
Diluted		N/A	24.19
Earnings per share from operations	10		
Basic		4.52	27.93
Diluted		4.49	26.30

At 30th June 2006

	Note	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	12	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	13	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	15	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	16	2,746,004	1,567,857
Deferred tax liabilities		395,115	210,264
		3,141,119	1,778,121
Current liabilities			
Creditors and accruals	14	1,131,470	719,237
Current portion of borrowings	16	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

For the six months ended 30th June 2006

	2006	Restated 2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(333,565)	(291,569)
Net cash from/(used in) investing activities	1,171	(368,107)
Net cash from financing activities	690,080	248,075
Net increase/(decrease) in cash and bank balances	357,686	(411,601)
Cash and cash equivalents at beginning of period	255,206	610,354
Changes in exchange rates	(16,727)	1,044
Cash and cash equivalents at end of period (excluding discontinued operations)	596,165	199,797
Cash and cash equivalents in discontinued operations	—	1,280,363
Cash and cash equivalents at end of period	596,165	1,480,160

For the six months ended 30th June 2006

	Share capital	Other reserves	Revenue reserve	Shareholders' funds	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st December 2005	237,792	1,245,281	3,833,597	5,316,670	355,968	5,672,638
Exchange differences	—	9,729	—	9,729	4,505	14,234
Conversion of convertible bonds, net of tax	2,872	42,367	—	45,239	—	45,239
Issue of shares upon exercise of share options	27	167	—	194	—	194
Capital contributions from minority interests	—	—	—	—	933	933
Fair value of share options	—	1,192	—	1,192	—	1,192
Change in fair value of available-for-sale investments	—	1,952,574	—	1,952,574	—	1,952,574
Profit for the period	—	—	108,277	108,277	257,907	366,184
2005 final dividends	—	—	(24,030)	(24,030)	—	(24,030)
At 30th June 2006	240,691	3,251,310	3,917,844	7,409,845	619,313	8,029,158
At 31st December 2004	201,564	1,151,987	1,486,904	2,840,455	723,400	3,563,855
Exchange differences	—	1,182	—	1,182	16	1,198
Conversion of convertible bonds, net of tax	31,567	534,787	—	566,354	—	566,354
Issue of shares upon exercise of share options	297	2,240	—	2,537	—	2,537
Capital contributions from minority interests	—	—	—	—	1,138,480	1,138,480
Gain on deemed partial disposal of a subsidiary	—	—	—	—	(577,123)	(577,123)
Acquisition of a subsidiary	—	—	—	—	368	368
Change in fair value of available-for-sale investments	—	(1,029)	—	(1,029)	(777)	(1,806)
Realised on disposal of properties	—	(10,254)	10,254	—	—	—
Profit for the period	—	—	631,585	631,585	656	632,241
2004 final dividends	—	—	(89,859)	(89,859)	(4,444)	(94,303)
At 30th June 2005	233,428	1,678,913	2,038,884	3,951,225	1,280,576	5,231,801

1. General Information

The principal activities of the Group are property development and property investment in Hong Kong, Singapore and Mainland China.

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

2. 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").

3. Financial Risk Management

All aspects of the financial risk management objectives and policies of the Group are consistent with those disclosed in the annual financial statements for the year ended 31st December 2005.

4. Critical Accounting Estimates and Judgements

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions applied 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.

5. Segment Information

The Group is principally engaged in property development and property investment. In Japan, the Group carries on trading of plant and machinery. The Group ceased to carry on manufacture, sale and distribution of construction materials following the deemed disposal of GEG (see note 8) in 2005. There are no other significant identifiable separate businesses. In accordance with the 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, properties, debtors and prepayments and mainly exclude certain investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals. There are no sales or trading transactions between the business segments.

A summary of business segments is set out as follows:

	Continuing operations			Total HK\$'000
	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	
Six months ended 30th June 2006				
Turnover	98,465	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
Capital expenditure	2,874	69	—	2,943
Depreciation	1,487	—	—	1,487
Amortisation	2,204	—	—	2,204
Fair value gain on other investments	—	—	4,988	4,988
As at 30th June 2006				
Segment assets	7,729,186	13,035	5,287,127	13,029,348
Jointly controlled entities	579,104	—	—	579,104
Total assets				13,608,452
Total liabilities	1,111,399	10,067	4,457,828	5,579,294

5. Segment Information (cont'd)

	Continuing operations			Total HK\$'000	Discontinued operations HK\$'000
	Properties HK\$'000	Trading HK\$'000	Unallocated 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
Capital expenditure	1,653	—	—	1,653	24,465
Depreciation	947	—	—	947	36,440
Amortisation	2,142	—	—	2,142	19,307
Fair value loss/(gain) on other investments	—	—	154	154	(81)
As at 31st December 2005					
Segment assets	6,387,786	29,428	2,988,765	9,405,979	
Jointly controlled entities	577,261	—	—	577,261	
Total assets				9,983,240	
Total liabilities	697,297	18,712	3,594,593	4,310,602	

5. Segment Information (cont'd)

A summary of geographical segments is set out as follows:

	Continuing operations			
	Operating		Capital expenditure	Total assets at 30th June 2006
	Turnover	profit/(loss)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30th June 2006				
Hong Kong	5,821	(14,060)	688	7,497,820
Mainland China	84,127	604,735	2,186	5,914,693
Singapore	8,517	5,889	—	174,771
Japan	30,738	1,693	69	21,168
	129,203	598,257	2,943	13,608,452

	Continuing operations			Discontinued operations			Total assets at 31st December 2005
	Operating		Capital expenditure	Turnover	Operating profit	Capital expenditure	December 2005
	Turnover	profit/(loss)					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30th June 2005							
Hong Kong	123,441	39,958	811	242,417	5,900	17,886	4,907,515
Mainland China	22,605	1,515	842	303,741	3,398	6,579	4,878,348
Singapore	4,484	334	—	—	—	—	165,292
Japan	23,139	(161)	—	—	—	—	32,085
	173,669	41,646	1,653	546,158	9,298	24,465	9,983,240

6. Operating Profit

	2006	2005
	HK\$'000	HK\$'000
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
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

7. Taxation Charge

	2006	2005
	HK\$'000	HK\$'000
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.

8. Discontinued Operations

	2005 HK\$'000
Construction materials	
Turnover	546,158
Operating profit	9,298
Finance costs	(5,998)
Share of profits less losses of	
Jointly controlled entities	7,945
Associated companies	1,492
Profit before taxation	12,737
Taxation charge	(280)
Profit for the period	12,457
Gain on deemed partial disposal	577,123
Profit from discontinued operations	589,580
Operating cash flows	4,435
Investing cash flows	(87,566)
Financing cash flows	1,192,300
Net increase in cash and bank balances	1,109,169
Change in exchange rate	242
Cash and cash equivalents at beginning of period	170,952
Total cash flows	1,280,363

The discontinued operations represent the 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. The principal activities of GEG are gaming, sale, manufacture and distribution of construction materials.

9. Dividends

The Board has declared an interim scrip dividends (with a cash option) of HK\$0.01 per share (totalling HK\$24,187,000) for the six months ended 30th June 2006 (2005: interim cash dividends of HK\$0.01 per share and an one-off special interim dividends (by way of distribution in specie) equivalent to HK\$0.517 per share, totalling HK\$1,252,914,000). This amount will be accounted for as an appropriation of revenue reserves for the year ending 31st December 2006.

10. Earnings per Share

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

	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	1,274	6,907	—	—
Profit for calculation of diluted earnings per share	109,551	52,920	—	585,572

	Number of shares	
	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	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.

11. Capital Expenditure

For the six months ended 30th June 2006, the Group incurred HK\$2.9 million (2005: HK\$26 million) on property, plant and equipment. The Group has disposed of HK\$0.6 million (2005: HK\$1 million) of property, plant and equipment.

12 Non-current Investments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Available-for-sale investments, at fair value	4,643,130	2,690,556

The available-for-sale investments represent the Group's 18.7% equity interest in GEG. GEG is incorporated in Hong Kong, whose shares are listed on the Main Board of the Stock Exchange.

13 Debtors and Prepayments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Trade debtors, net of provision	13,431	23,756
Other receivables, net of provision	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	31st December 2005
	HK\$'000	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

14. Creditors and Accruals

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

15. Share Capital

	2006		2005	
	Ordinary shares of HK\$0.10 each	HK\$'000	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised At 1st January and 30th June	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid At 1st January	2,377,921,049	237,792	2,015,644,738	201,564
Exercise of share options (a)	270,000	27	2,968,000	297
Conversion of convertible bonds (b)	28,723,399	2,872	315,671,092	31,567
At 30th June	2,406,914,448	240,691	2,334,283,830	233,428

15. Share Capital (cont'd)

- (a) The Company operates a share option scheme under which options to subscribe for shares in the Company are granted to selected executives. During the period, no new options were granted (2005: nil) and options to subscribe for 270,000 ordinary shares (2005: 2,968,000 ordinary shares) were exercised. At 30th June 2006, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price per share HK\$	Number of share options	
		30th June 2006	31st December 2005
20th May 1999 to 19th May 2008	0.5586	33,000	33,000
30th December 2000 to 29th December 2009	0.3600	300,000	300,000
1st March 2004 to 28th February 2013	0.7200	645,000	915,000
30th December 2003 to 29th December 2013	1.3000	2,000,000	2,000,000
22nd October 2006 to 21st October 2011	1.9060	20,229,000	20,229,000
		23,207,000	23,477,000

- (b) During the period, convertible bonds (note 16(a)) with face value of HK\$54 million were converted into 28.7 million ordinary shares of the Company, of which HK\$2.87 million was credited to share capital and the balance to the share premium account.

16. Borrowings

	30th June 2006 HK\$'000	31st December 2005 HK\$'000
Long term bank loans		
Secured	2,733,502	2,212,055
Unsecured	460,580	279,798
Convertible bonds (a)	3,194,082	2,491,853
Loans from minority shareholders	39,971	81,122
	—	98,242
	3,234,053	2,671,217
Short term bank loans		
Secured	10,000	10,000
Unsecured	779,486	694,520
	4,023,539	3,375,737
Current portion included in current liabilities	(1,277,535)	(1,807,880)
	2,746,004	1,567,857

16. Borrowings (cont'd)

- (a) In March 2004, the Group issued an aggregate amount of HK\$864,260,000 0.5% guaranteed convertible bonds due in March 2009. The bonds are listed on the Luxembourg Stock Exchange and are convertible into shares of the Company, on or after 23rd April 2004 up to 8th March 2009. The initial conversion price was HK\$2.25 per share, which was adjusted to HK\$1.88 per share in November 2005 due to the payment of the special interim dividends (by way of distribution in specie). The bonds are redeemable at 91.49% of their principal amount on 23rd March 2009 according to relevant terms and conditions of the bonds.

17. Commitments

	30th June 2006	31st December 2005
	HK\$'000	HK\$'000
Contracted but not provided for Commitments in respect of property developments	1,232,516	1,655,263

18. 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 amounting 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.

19. Subsequent Event

On 6th September 2006, the Group's wholly-owned subsidiary, K. Wah Stones (Holdings) Limited, obtained a blended 3/5 years revolving/term syndicated bank loans amounting to HK\$1.8 billion.

**To the Board of Directors of
K. Wah International Holdings Limited**

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial information set out on pages 4 to 18.

Respective responsibilities of Directors and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial information to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial information is the responsibility of, and has been approved by, the Directors.

It is our responsibilities to form an independent conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial information.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial information for the six months ended 30th June 2006.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14th September 2006

(I) Review and Outlook

Operating results

Turnover and profit attributable to shareholders for the Period 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 in 2005.

During the Period, the Group has achieved satisfactory pre-sale of its development properties in Hong Kong and Shanghai. However, under the current accounting standards, the revenue of these pre-sale could not be recognised in the financial statements 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 114 apartments 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 benefits from the proximity to the amenities in Shatin and 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 launched in March with all 65 units of apartment sold out in three weeks. Pre-sale proceeds is expected to be recognised 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 2006.

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 (approx.) 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 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 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 2006, 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 2006.

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

The Group's non-current investments 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.

Syndicated Loan of HK\$1,800 Million

The Group has successfully arranged a syndicated loan of HK\$1,800 million on 6th September 2006 with a consortium of 14 international and local bankers. 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 at 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 recognised 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 minimise risk. The majority of the Group's borrowings are in Hong Kong Dollar. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilised 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 Mainland China. 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 organisations 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.

Directors' Interests in Securities

As of 30th June 2006, the interests and short positions of each director of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and the details of any right to subscribe for shares of the Company and of the exercise of such rights, as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Ordinary Shares

Name of Directors	Number of Shares				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	6,468,014	7,130,234 ⁽¹⁾	38,129,737 ⁽²⁾	1,257,389,151 ⁽³⁾	1,309,117,136	54.39
Francis Lui Yiu Tung	5,799,164	—	—	1,257,389,151 ⁽³⁾	1,263,188,315	52.48
Lennon Lun Tsan Kau	2,224,000	—	—	—	2,224,000	0.09
Eddie Hui Ki On	580,000	—	—	—	580,000	0.02
William Lo Chi Chung	630,000	—	—	—	630,000	0.03
Paddy Tang Lui Wai Yu	8,308,166	—	—	1,257,389,151 ⁽³⁾	1,265,697,317	52.59
Sir David Akers-Jones	150,000	—	—	—	150,000	0.01
Michael Leung Man Kin	700,000	—	—	—	700,000	0.03
Philip Wong Kin Hang	600,000	—	—	—	600,000	0.02
Leo Lee Tung Hai	650,000	—	—	—	650,000	0.03
Robin Chan Yau Hing	928,977	—	—	—	928,977	0.04
Charles Cheung Wai Bun	907,239	—	—	—	907,239	0.04
Robert George Nield	500,000	—	—	—	500,000	0.02

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

Notes:

- (1) Dr. Lui Che Woo was deemed to be interested in 7,130,234 shares in the Company through the interests of his spouse.
- (2) 35,075,725 shares and 3,054,012 shares in the Company were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were directly or indirectly controlled by Dr. Lui Che Woo.
- (3) 1,257,389,151 shares in the Company representing more than one-third of its issued share capital were held by the discretionary trusts established by Dr. Lui Che Woo as founder. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung 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 shares in the Company held by the trusts.

Directors' Interests in Securities (cont'd)

(b) Underlying Shares — Share Options

Share options, which are unlisted and physically settled, to subscribe for ordinary shares in the Company were beneficially held by certain directors of the Company.

As of 30th June 2006, the particulars of the options held by each of the directors of the Company, the employees of the Company and its subsidiaries (other than directors of the Company) in aggregate and other participants granted under the Share Option Scheme of the Company or under any other share option schemes of the Company, were as follows:

Holders	Date of grant	Number of Options		Held at 30th June 2006	Exercise price per share (HK\$)	Exercise period
		Held at 1st January 2006	Exercise during the Period			
Lui Che Woo	21st Oct 2005	1,350,000	—	1,350,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Francis Lui Yu Tung	21st Oct 2005	1,340,000	—	1,340,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Lennon Lun Tsan Kau	21st Oct 2005	670,000	—	670,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Eddie Hui Ki On	21st Oct 2005	580,000	—	580,000	1.9060	22nd Oct 2006 – 21st Oct 2011
William Lo Chi Chung	21st Oct 2005	530,000	—	530,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Paddy Tang Lui Wai Yu	21st Oct 2005	930,000	—	930,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Sir David Akers-Jones	28th Feb 2003	150,000	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013

Directors' Interests in Securities (cont'd)

(b) Underlying Shares — Share Options (cont'd)

Holders	Date of grant	Number of Options			Exercise price per share (HK\$)	Exercise period
		Held at 1st January 2006	Exercise during the Period	Held at 30th June 2006		
Michael Leung Man Kin	21st Oct 2005	400,000	—	400,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Philip Wong Kin Hang	21st Oct 2005	300,000	—	300,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Leo Lee Tung Hai	21st Oct 2005	500,000	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Robin Chan Yau Hing	21st Oct 2005	500,000	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Charles Cheung Wai Bun	21st Oct 2005	600,000	—	600,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Robert George Nield	21st Oct 2005	500,000	—	500,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Employees (in aggregate)	20th May 1998	33,000	—	33,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	#150,000	—	150,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	615,000	120,000 ^(a)	495,000	0.7200	1st Mar 2004 – 28th Feb 2013
	29th Dec 2003	2,000,000	—	2,000,000	1.3000	30th Dec 2003 – 29th Dec 2013
	21st Oct 2005	11,689,000	—	11,689,000	1.9060	22nd Oct 2006 – 21st Oct 2011
Others	30th Dec 1999	#150,000	—	150,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	150,000	150,000 ^(b)	—	0.7200	1st Mar 2004 – 28th Feb 2013
	21st Oct 2005	340,000	—	340,000	1.9060	22nd Oct 2006 – 21st Oct 2011

On reclassification of a total number of 150,000 share options under "Employees" to "Others" after the option holder ceased to be an employee of a subsidiary of the Company.

Directors' Interests in Securities (cont'd)

(b) Underlying Shares — Share Options (cont'd)

Notes:

- (a) The weighted average closing price of the shares in the Company immediately before the date on which the options were exercised during the Period was HK\$2.40.
- (b) The weighted average closing price of the shares in the Company immediately before the date on which the options were exercised during the Period was HK\$1.72.

Except for the options granted on 29th December 2003 which were fully vested at the date of grant, the other options referred to above were subject to a one-year vesting period.

No options were granted, cancelled or lapsed during the Period.

All the interests stated above represent long positions.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu were deemed to be interested in the issued share capital of every other subsidiary and jointly controlled entity of the Company.

Save as disclosed above, as of 30th June 2006, none of the directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' Interests

As of 30th June 2006, the interests of every person (not being a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Shareholders	Number of Ordinary Shares (Long Position)	Approximate % of Issued Share Capital
HSBC International Trustee Limited	1,257,579,151 ⁽¹⁾	52.25
Penta Investment Advisers Ltd.	291,800,104 ⁽²⁾	12.12
Zwaanstra John	291,800,104 ⁽²⁾	12.12
Marapro Co., Ltd.	190,228,080 ⁽³⁾	7.90
Symmetry Co., Ltd.	190,228,080 ⁽³⁾	7.90
Polymate Co., Ltd.	190,228,080 ⁽⁴⁾	7.90

Notes:

- (1) HSBC International Trustee Limited is the trustee of discretionary trusts which (as of the end of the Period) held 1,257,579,151 shares in the Company.
- (2) Penta Investment Advisers Ltd., a company controlled by Zwaanstra John, was (as of the end of the Period) interested in 291,800,104 shares in the Company in the capacity of investment manager.
- (3) Marapro Co., Ltd. is a beneficiary and Symmetry Co., Ltd. is a trustee of a trust which (as of the end of the Period) was interested in 190,228,080 shares in the Company.
- (4) Polymate Co., Ltd. is the ultimate holding company of those companies which (as of the end of the Period) were interested in 190,228,080 shares in the Company.

There was duplication of interest of:

- (i) 1,257,389,151 shares in the Company among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu. These shares were also interested by HSBC International Trustee Limited and of these shares, 190,228,080 shares in the Company were also interested by Marapro Co., Ltd., Symmetry Co., Ltd. and Polymate Co., Ltd.; and
- (ii) 291,800,104 shares in the Company between Penta Investment Advisers Ltd. and Zwaanstra John.

Save as disclosed above, as of 30th June 2006, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

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.

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 who are the Auditors of the Company, has reviewed the Group's unaudited interim results for the Period.

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.

Corporate Governance

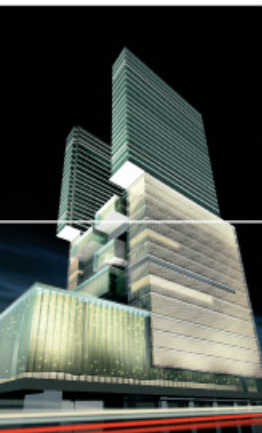
During the Period, the Company has complied with the provisions ("Code Provisions") in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, save for the deviation from Code Provision A.4.2. The Chairman of the Board and the Managing Director are not subject to retirement 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 considers that the spirit of Code Provision A.4.2 has been upheld, given that over one-third of the Directors (except for the case of the Chairman and the Managing Director) do retire by rotation every 3 years as a matter of actual practice and the continuity in office of the Chairman and the Managing Director is of considerable benefit to the Company and an asset of the Group. The Board will continue to review and recommend such step and action as appropriate in the circumstances of such deviation.

Close 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.

By Order of the Board
Ricky Chan Ming Tak
Company Secretary

Hong Kong, 14th September 2006



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