



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

(Incorporated in Bermuda with limited liability)



Interim Report **2005**

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2 Corporate Information

CHAIRMAN

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

MANAGING DIRECTOR

Mr. Francis Lui Yiu Tung

DEPUTY MANAGING DIRECTOR

Mr. Lennon Lun Tsan Kau

EXECUTIVE DIRECTORS

Mr. Eddie Hui Ki On, GBS, CBE, QPM, CPM

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. Leo Lee Tung Hai, GBS, LLD, JP*

Dr. Robin Chan Yau Hing, GBS, LLD, JP*

Dr. Charles Cheung Wai Bun, JP*

Mr. Robert George Nield*

* *Independent Non-executive Directors*

COMPANY SECRETARY

Mr. Seaman Kwok Siu Man, FCIS, FCS

QUALIFIED ACCOUNTANT

Mr. Ken Wong Chun Keung, FCCA, AHKICPA

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SHARE LISTING

The Stock Exchange of Hong Kong
Limited ("SEHK")

STOCK CODE

SEHK : 173
Bloomberg : 173 HK
Reuters : 0173.HK

BOND LISTING

Luxembourg Stock Exchange

INTERIM RESULTS

The Directors of K. Wah International Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th June 2005 as follows:

The Group’s turnover for the six months ended 30th June 2005 was HK\$719,827,000, a decrease of HK\$180,858,000 over the corresponding period last year.

The Group’s unaudited profit attributable to shareholders for the six months ended 30th June 2005 amounted to HK\$631,585,000, an increase of HK\$475,948,000 over the corresponding period last year.

INTERIM DIVIDEND

The Board of Directors has resolved to pay an interim cash dividend of 1 HK cent per share, totalling HK\$23,491,000 for the six months ended 30th June 2005 to shareholders whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005 (six months ended 30th June 2004: an interim scrip dividend with a cash option of 2 HK cents per share, totalling HK\$40,195,000).

The Board of Directors has also declared a special interim dividend for the six months ended 30th June 2005 to be effected by way of distribution (the “Distribution”) in specie of the shares of K. Wah Construction Materials Limited (“KWCM”) to the shareholders of the Company whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005 (the “Record Date”), on the basis of one KWCM share for every ten shares of the Company then held. Fractional entitlements will be disregarded.

The aggregate market value of the KWCM shares to be distributed under the Distribution (the “Distribution Shares”) as at 14th September 2005 was HK\$1,268,519,000, which equates to a dividend of approximately HK\$0.54 per share before the Distribution (on the assumption that there is no change in the issued share capital of the Company from 14th September 2005 up to the Record Date).

4 Interim Results and Interim Dividend

The Distribution will not be made to the shareholders of the Company whose addresses as shown in the register of members in Bermuda and the Hong Kong Branch register of members of the Company at the close of business on the Record Date are outside of Hong Kong (the "Overseas Shareholders") in the event that the Directors, upon making enquiry, consider such exclusion to be necessary or expedient on account of either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in those places and accordingly, such Overseas Shareholders will not receive the KWCM shares pursuant to the Distribution. Instead, arrangements will be made for the KWCM shares which would otherwise have been distributed to such Overseas Shareholders to be sold in the market as soon as practicable after the posting of the share certificates of the Distribution Shares and any proceeds of sale will be distributed in Hong Kong dollars to such persons pro rata to their entitlements (except that amounts of less than HK\$100 payable to the respective shareholders of the Company will be retained for the benefit of the Company).

Further details of the Distribution are included in the announcement of the Company dated 14th September 2005.

It is expected that the dividend warrants for the interim cash dividend and the share certificates of the Distribution Shares for the special interim dividend will be sent to shareholders of the Company on or about 4th November 2005.

Consolidated Profit and Loss Statement (unaudited) 5

For the six months ended 30th June 2005

	Note	2005 HK\$'000	Restated 2004 HK\$'000
Turnover	3	719,827	900,685
Cost of sales		(628,241)	(803,869)
Gross profit		91,586	96,816
Other revenues		23,189	11,413
Other operating income		15,055	16,210
Gain/(loss) on deemed partial disposal of a subsidiary		577,123	(4,933)
Administrative expenses		(72,429)	(72,761)
Other operating expenses		(6,457)	(19,976)
Operating profit	3 & 4	628,067	26,769
Finance costs		(20,667)	(10,235)
Share of profits less losses of			
Jointly controlled entities		28,476	146,443
Associated companies		1,492	865
Profit before taxation		637,368	163,842
Taxation	5	(5,127)	(5,630)
Profit for the period		632,241	158,212
Attributable to:			
Shareholders of the Company		631,585	155,637
Minority interests		656	2,575
		632,241	158,212
Interim dividend	6	23,491	40,195
		HK cents	HK cents
Earnings per share	7		
Basic		27.9	7.9
Diluted		26.3	6.7

6 Consolidated Balance Sheet (unaudited)

At 30th June 2005

	Note	30th June 2005 HK\$'000	Restated 31st December 2004 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		492,862	506,055
Investment properties		328,540	326,798
Leasehold land and land use rights		2,171,778	2,192,983
Goodwill		16,617	—
Jointly controlled entities		961,104	489,739
Associated companies		20,142	18,650
Available-for-sale financial assets		92,054	152,375
Other non-current assets	9	251,106	288,572
		4,334,203	3,975,172
Current assets			
Development properties		2,932,050	2,599,825
Inventories		94,047	93,175
Debtors and prepayments	10	879,560	820,597
Tax recoverable		4,406	4,384
Other investments		109,710	44,547
Cash and bank balances		1,480,160	781,306
		5,499,933	4,343,834
Total assets		9,834,136	8,319,006
EQUITY			
Share capital	12	233,428	201,564
Reserves		3,717,797	2,471,190
Shareholders' funds		3,951,225	2,672,754
Minority interests		1,280,576	723,354
Total equity		5,231,801	3,396,108
LIABILITIES			
Non-current liabilities			
Borrowings	13	1,645,116	2,773,224
Deferred tax liabilities		85,603	78,375
Negative goodwill		—	136
Provisions		163,347	180,873
		1,894,066	3,032,608
Current liabilities			
Creditors and accruals	11	1,052,371	1,005,969
Current portion of borrowings	13	1,612,772	844,542
Tax payable		43,126	39,779
		2,708,269	1,890,290
Total liabilities		4,602,335	4,922,898
Total equity and liabilities		9,834,136	8,319,006

Consolidated Cash Flow Statement (unaudited) 7

For the six months ended 30th June 2005

	2005 HK\$'000	Restated 2004 HK\$'000
Net cash used in operating activities	(287,134)	(551,696)
Net cash used in investing activities	(455,673)	(130,653)
Net cash from financing activities	1,440,375	1,268,372
Net increase in cash and bank balances	697,568	586,023
Cash and cash equivalents at beginning of period	781,306	517,065
Changes in exchange rates	1,286	4,516
Cash and cash equivalents at end of period	1,480,160	1,107,604

8 Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 30th June 2005

	Share capital HK\$'000	Other reserves HK\$'000	Revenue reserve HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31st December 2004						
As previously reported	201,564	1,011,973	1,517,698	2,731,235	745,308	3,476,543
Prior year adjustments						
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(57,783)	(9,596)	(67,379)	(3,366)	(70,745)
Transfer of leasehold land to investment properties (HKAS 40)	—	—	22,230	22,230	—	22,230
Increase in provisions (HKAS 16, 37 and HKFRS-Int 1)	—	—	(13,332)	(13,332)	(18,588)	(31,920)
As restated, before opening adjustments	201,564	954,190	1,517,000	2,672,754	723,354	3,396,108
Opening adjustments						
Equity element of convertible bonds and related interest (HKAS 39)	—	192,037	(24,426)	167,611	—	167,611
Negative goodwill written off (HKFRS 3)	—	—	90	90	46	136
At 1st January 2005, as restated	201,564	1,146,227	1,492,664	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 contribution 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
Dividends	—	—	(89,859)	(89,859)	(4,444)	(94,303)
At 30th June 2005	233,428	1,671,971	2,045,826	3,951,225	1,280,576	5,231,801
At 31st December 2003						
As previously reported	197,797	1,010,800	1,323,090	2,531,687	623,705	3,155,392
Prior year adjustments						
Reversal of revaluation and amortisation for leasehold land (HKAS 17)	—	(57,783)	(8,925)	(66,708)	(11,077)	(77,785)
Increase in provisions (HKAS 16, 37 and HKFRS-Int 1)	—	—	(13,286)	(13,286)	(18,524)	(31,810)
At 1st January 2004, as restated	197,797	953,017	1,300,879	2,451,693	594,104	3,045,797
Exchange differences	—	—	2,441	2,441	2,130	4,571
Issue of shares upon exercise of share options	458	2,250	—	2,708	—	2,708
Capital contribution from minority interests	—	—	—	—	86,152	86,152
Loss on deemed partial disposal of a subsidiary	—	—	—	—	4,933	4,933
Profit for the period	—	—	155,637	155,637	2,575	158,212
Dividends	—	—	(39,643)	(39,643)	—	(39,643)
At 30th June 2004	198,255	955,267	1,419,314	2,572,836	689,894	3,262,730

1 BASIS OF PREPARATION

The interim financial information has been prepared under historical cost convention as modified by the revaluation of certain properties and available-for-sale financial assets and other short-term investments and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The interim financial information has been presented in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies 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 2004 except that the Group has changed certain of its accounting policies following its adoption of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRS”) which are effective for accounting periods commencing on or after 1st January 2005. The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

Following the adoption of the new HKFRS, certain comparative figures in the interim financial information have been restated or reclassified to conform with the current presentation. Major changes in the presentation are set out as follows:

Presentation in 2004 annual financial statements	New presentation
(a) Share of taxation of jointly controlled entities and associated companies included under taxation	Share of profits less losses of jointly controlled entities and associated companies presented net of taxation
(b) Loans receivable, amounts receivable from and payable to jointly controlled entities included under jointly controlled entities	Loans receivable, amounts receivable from and payable to jointly controlled entities classified under current and non-current assets or liabilities according to their terms of repayment
(c) Loans from minority interests included under minority interests	Loans from minority interests classified under current and non-current liabilities according to their terms of repayment

2 CHANGES IN ACCOUNTING POLICIES

2.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled entity and associated company at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference is recognised directly in the profit and loss statement. Goodwill on acquisition of subsidiaries is included in intangible assets while goodwill on acquisition of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

In previous years, goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill is reviewed annually and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired. This accounting policy has been changed to conform with HKFRS 3 "Business Combinations". As a result of this change, the Group has adopted the transitional provision to write off the negative goodwill of HK\$136,000 against the opening revenue reserve as at 1st January 2005 whereas the comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.2 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value and valuations are reviewed annually by external valuers. Changes in fair values are recognised in the profit and loss statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as properties under development and carried at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment under HKAS 16 "Property, plant and equipment". However, if the fair value gives rise to a reversal of the previous impairment loss, this write back is recognised in the profit and loss statement.

In previous years, a deficit in valuation was charged to the profit and loss statement; an increase was first credited to the profit and loss statement to the extent of any valuation deficit previously charged and thereafter was credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement. These accounting policies have been changed to conform with HKAS 40 "Investment property".

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.2 Investment properties (Cont'd)

As a result of the above changes in accounting policies, the opening revenue reserve at 31st December 2004 has been increased by HK\$22.2 million arising from the transfer of leasehold land to investment properties during 2004. As at 31st December 2004, the valuation of investment properties was less than their original costs and the revaluation deficits had already been charged to the profit and loss statement in previous years and there was no investment properties revaluation reserve. Consequently, no prior period adjustment on revenue reserve and investment properties revaluation reserve is required.

2.3 Leases

The Group reclassifies prepayments of lease premiums from property, plant and equipment and development properties to leasehold land and land use rights following the adoption of HKAS 17 "Leases". The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss statement. The amortisation of the leasehold land and land use rights is capitalised under the relevant assets when the property on the leasehold land is under construction.

In previous years, leasehold land and land use rights were classified under property, plant and equipment and development properties according to the intention with regard to the underlying properties. For those classified as leasehold land and buildings under property, plant and equipment, they were stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature, whereas development properties were stated at cost, including land and construction costs, less provisions for foreseeable losses. The adoption of HKAS 17 has resulted in a change in the accounting policy of which the leasehold land is stated at cost less amortisation instead of valuation.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.3 Leases (Cont'd)

As a result of the above changes in accounting policies, the net book amounts of leasehold land and land use rights have been increased by HK\$2,193.0 million, property, plant and equipment have been decreased by HK\$282.6 million, development properties have been decreased by HK\$1,962.0 million, revenue reserve has been decreased by HK\$9.6 million and property revaluation reserve has been decreased by HK\$57.8 million as at 31st December 2004.

2.4 Financial instruments

Upon adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement", there is a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial assets. The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including other investments), loans and receivables, and available-for-sale financial assets.

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.4 Financial instruments (Cont'd)

Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from investment securities.

In previous years, securities intended to be held for indefinite long-term purpose or strategic reason were included in the balance sheet under non-current assets and were carried at cost less provision. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investment would be reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss statement and was written back to profit and loss statement when the circumstances and events that led to the write-downs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. As a result of the above changes to the accounting policy, the classification of investments has been redesignated as at 1st January 2005 and there is no significant impact to the opening reserves of the Group. The comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.5 Borrowings

Upon adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”, there is a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial liabilities. Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' equity, net of income tax effects. The equity component is recognised in the capital reserve when the bonds are derecognised, either converted, redeemed or lapsed.

In previous years, convertible bonds were included under long term liabilities at face value. Expenses incurred in connection with the issuance of convertible bonds were deferred and amortised on a straight line basis over the relevant tenure of the finance.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. As a result of the above changes to the accounting policies, the convertible bond reserve has been increased by HK\$192.0 million and the revenue reserve has been decreased by HK\$24.4 million at 1st January 2005. The comparative amounts as at 31st December 2004 have not been restated.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.6 Provisions

Upon adoption of HKAS 16, HKAS 37 “Provisions, contingent liabilities and contingent assets” and HKFRS-Int 1 “Changes in existing decommissioning, restoration and similar liabilities”, there is a change in accounting policy of provision for environmental restoration and its related asset. Any changes in the measurement of provision for environmental restoration are added to or deducted from its related assets. The periodic unwinding of the discounts of the provision is recognised in the profit and loss statement as a finance cost as it incurs.

In previous years, cost of the asset related to the provision for environmental restoration was not adjusted by the changes in the provision. As a result of the above change in accounting policies, the revenue reserve and minority interests have been decreased by HK\$13.3 million and HK\$18.6 million, respectively, at 31st December 2004.

2.7 Revenue recognition

Sales of properties are recognised when the risk and rewards of the property have been passed to the customers.

In previous years, when a development property is sold in advance of completion, sales are recognised over the course of the development and are computed as a proportion of the total estimated sales to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds. This accounting policy has been changed to conform with HK-Int 3 “Revenue — Pre-completion contracts for the sale of development properties” and the Group has elected to adopt the transitional provision and change the recognition policy in relation to sales of properties occurring on or after 1st January 2005.

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

2.8 Share-based payments

Upon adoption of HKFRS 2 “Share-based payments”, there is a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss statement. Since all the existing share options had vested on or before 1st January 2005, a prior year adjustment is not required.

3 SEGMENT INFORMATION

The Group is principally engaged in property development and investment, manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. In accordance with the Group’s internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets primarily consist of property, plant and equipment, other non-current assets, inventories, properties, debtors and prepayments and mainly exclude certain investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals and provisions. There are no sales or trading transactions between the business segments.

18 Notes to the Financial Statements

3 SEGMENT INFORMATION (CONT'D)

A summary of business segments is set out as follows:

	Properties HK\$'000	Construction materials HK\$'000	Others HK\$'000	Total HK\$'000
Six months ended 30th June 2005				
Turnover	157,116	539,572	23,139	719,827
Other revenues	3,039	7,421	12,729	23,189
Operating profit/(loss)	50,950	(10,244)	587,361	628,067
Finance costs				(20,667)
Share of profits less losses of				
Jointly controlled entities	20,531	7,945	—	28,476
Associated companies	—	1,492	—	1,492
Profit before taxation				637,368
Taxation				(5,127)
Profit for the period				632,241
Capital expenditure	1,653	24,465	—	26,118
Depreciation	1,304	36,440	—	37,744
Amortisation	17,767	19,307	—	37,074
Fair value (gain)/loss on other investments	—	(81)	154	73
As at 30th June 2005				
Segment assets	5,326,865	1,867,835	23,725	7,218,425
Jointly controlled entities	704,913	256,191	—	961,104
Associated companies	—	20,142	—	20,142
Unallocated assets				1,634,465
Total assets				9,834,136
Segment liabilities	609,993	598,798	6,927	1,215,718
Unallocated liabilities				3,386,617
Total liabilities				4,602,335

3 SEGMENT INFORMATION (CONT'D)

	Properties HK\$'000	Construction materials HK\$'000	Others HK\$'000	Total HK\$'000
Six months ended 30th June 2004				
Turnover	265,279	617,478	17,928	900,685
Other revenues	5,584	5,025	804	11,413
Operating profit/(loss)	24,854	3,861	(1,946)	26,769
Finance costs				(10,235)
Share of profits less losses of Jointly controlled entities Associated companies	142,157 —	4,286 865	— —	146,443 865
Profit before taxation				163,842
Taxation				(5,630)
Profit for the period				158,212
Capital expenditure	1,950	42,114	—	44,064
Depreciation	1,217	36,344	—	37,561
Amortisation	17,595	19,117	—	36,712
Fair value loss/(gain) on other investments	—	1,419	(7,408)	(5,989)
As at 31st December 2004				
Segment assets	5,051,008	1,802,417	26,445	6,879,870
Jointly controlled entities	241,496	248,243	—	489,739
Associated companies	—	18,650	—	18,650
Unallocated assets				930,747
Total assets				8,319,006
Segment liabilities	563,705	613,298	9,839	1,186,842
Unallocated liabilities				3,736,056
Total liabilities				4,922,898

20 Notes to the Financial Statements

3 SEGMENT INFORMATION (CONT'D)

A summary of geographical segments is set out as follows:

	Turnover <i>HK\$'000</i>	Operating profit/(loss) <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>	Total assets <i>HK\$'000</i>
				At
Six months ended				30th June
30th June 2005				2005
Hong Kong	365,858	622,981	18,697	4,605,732
Mainland China & Others	353,969	5,086	7,421	5,228,404
	719,827	628,067	26,118	9,834,136
				At
Six months ended				31st December
30th June 2004				2004
Hong Kong	458,146	34,525	38,989	3,709,013
Mainland China & Others	442,539	(7,756)	5,075	4,609,993
	900,685	26,769	44,064	8,319,006

4 OPERATING PROFIT

	2005	2004
	HK\$'000	HK\$'000
Operating profit is stated after crediting:		
Profit on disposal of property, plant and equipment	180	21
Fair value gain on other investments	—	5,989
Interest income	9,379	10,677
Dividend income from unlisted investments	12,721	—
Write back of stock provision	1,332	—
Fair value gain on investment properties	1,742	—
Negative goodwill arising from acquisition of a jointly controlled entity	4,317	—
Amortisation of negative goodwill	—	316
and after charging:		
Cost of inventories sold	507,058	554,566
Depreciation	37,744	37,561
Amortisation		
Leasehold land and land use rights	20,786	20,073
Quarry site development	932	871
Overburden removal costs	7,796	8,208
Quarry site improvements	7,560	7,560
Royalty	2,792	1,979
Operating lease rental for land and buildings	13,327	14,048
Fair value loss on other investments	73	—
Provision for other investments	—	11,000
Loss on disposal of listed investments	—	2,893

5 TAXATION

	2005	2004
	HK\$'000	HK\$'000
Current taxation		
Hong Kong profits tax	4,853	4,526
Overseas taxation	304	1,518
Deferred taxation	(30)	(414)
	5,127	5,630

5 TAXATION (CONT'D)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

Share of taxation of associated companies and jointly controlled entities for the six months ended 30th June 2005 are HK\$184,000 (2004: HK\$443,000) and HK\$4,425,000 (2004: HK\$31,381,000) respectively and are included in the profit and loss statement as share of profits less losses of associated companies and jointly controlled entities.

6 INTERIM DIVIDEND

The Board of Directors has resolved to pay an interim cash dividend of 1 HK cent per share (2004: scrip dividend with a cash option of 2 HK cents per share), totalling HK\$23,491,000 (2004: HK\$40,195,000) for the six months ended 30th June 2005 to shareholders whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005. This amount will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2005.

The Board of Directors has also declared a special interim dividend for the six months ended 30th June 2005 to be effected by way of distribution in specie of the shares of K. Wah Construction Materials Limited ("KWCM") to the shareholders of the Company whose names appear on the register and branch register of members of the Company at the close of business on 21st October 2005, on the basis of one KWCM share for every ten shares of the Company then held.

The aggregate market value of the KWCM shares to be distributed under the distribution as at the date of the announcement dated 14th September 2005 is HK\$1,268,519,000, which equates to a dividend of approximately HK\$0.54 per share before distribution. The actual amount of dividends to be booked to the accounts of the Company will be determined based on the closing price of the KWCM shares as at the date of posting the share certificates of the distribution shares.

7 EARNINGS PER SHARE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit for calculation of basic earnings per share	631,585	155,637
Effect of dilutive potential ordinary shares		
Interest on convertible bonds, net of tax	6,907	891
Unamortised issue costs for convertible bonds, net of tax	—	(12,813)
Profit for calculation of diluted earnings per share	638,492	143,715
	2005 <i>Number of shares</i>	2004 <i>Number of shares</i>
Weighted average number of shares for calculating basic earnings per share	2,261,175,000	1,980,970,000
Effect of dilutive potential ordinary shares		
Convertible bonds	140,370,000	145,626,000
Share options	19,378,000	20,062,000
Weighted average number of shares for calculating diluted earnings per share	2,420,923,000	2,146,658,000

8 CAPITAL EXPENDITURE

For the six months ended 30th June 2005, the Group incurred HK\$26 million (2004: HK\$40 million) on property, plant and equipment and HK\$0.5 million (2004: HK\$4 million) on deferred expenditure. The Group has disposed of HK\$1 million (2004: HK\$4 million) of property, plant and equipment.

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9 OTHER NON-CURRENT ASSETS

	30th June 2005 HK\$'000	31st December 2004 <i>HK\$'000</i>
Deferred expenditure		
Overburden removal costs	92,129	99,679
Quarry site development	13,224	14,073
Issue costs for convertible bonds	—	13,896
	105,353	127,648
Quarry site improvements	128,490	136,050
Deferred receivable	6,265	6,706
Mortgage loans	10,998	18,168
	251,106	288,572

10 DEBTORS AND PREPAYMENTS

	30th June 2005 HK\$'000	31st December 2004 <i>HK\$'000</i>
Trade debtors	491,783	471,934
Other receivables	130,063	130,293
Prepayments	64,542	63,133
Amounts due from jointly controlled entities	191,224	155,237
Amount due from a minority shareholder	1,948	—
	879,560	820,597

The Group has established credit policies which follow local industry standard. The average normal credit period ranges from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic review by management.

10 DEBTORS AND PREPAYMENTS (CONT'D)

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 2005 HK\$'000	31st December 2004 HK\$'000
Within one month	97,523	135,270
Two to three months	141,721	157,988
Four to six months	81,028	89,423
Over six months	171,511	89,253
	491,783	471,934

11 CREDITORS AND ACCRUALS

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Trade creditors	276,068	300,403
Other creditors	73,823	79,849
Accrued operating expenses	112,154	88,403
Deposits received	51,851	28,872
Amounts due to jointly controlled entities	243,507	204,500
Amounts due to minority shareholders	294,968	303,942
	1,052,371	1,005,969

26 Notes to the Financial Statements

11 CREDITORS AND ACCRUALS (CONT'D)

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

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Within one month	142,457	186,800
Two to three months	58,156	63,237
Four to six months	32,424	26,502
Over six months	43,031	23,864
	276,068	300,403

12 SHARE CAPITAL

	2005		2004	
	Ordinary Shares of HK\$0.10 each	HK\$'000	Ordinary Shares of HK\$0.10 each	HK\$'000
Authorised				
At 1st January	5,000,000,000	500,000	3,888,000,000	388,800
Increase during the period	—	—	1,112,000,000	111,200
At 30th June	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid				
At 1st January	2,015,644,738	201,564	1,977,968,748	197,797
Exercise of share options (note (a))	2,968,000	297	4,581,000	458
Conversion of convertible bonds (note (b))	315,671,092	31,567	—	—
At 30th June	2,334,283,830	233,428	1,982,549,748	198,255

12 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 (2004: nil) and options to subscribe for 2,968,000 shares (2004: 4,581,000 shares) were exercised. At 30th June 2005, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price per share HK\$	Number of share options	
		30th June 2005	31st December 2004
20th May 1999 to 19th May 2008	0.5586	3,613,000	3,728,000
30th December 2000 to 29th December 2009	0.3600	5,040,000	5,490,000
1st March 2004 to 28th February 2013	0.7200	11,210,000	12,613,000
30th December 2003 to 29th December 2013	1.3000	5,000,000	6,000,000
		24,863,000	27,831,000

- (b) During the period, convertible bonds (note 13(a)) with face value of HK\$710.3 million were converted into 315.7 million ordinary shares of the Company, of which HK\$31.6 million was credited to share capital and the balance to the share premium account.

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13 BORROWINGS

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Long term bank loans		
Secured	2,050,598	1,874,622
Unsecured	450,850	744,736
	2,501,448	2,619,358
Convertible bonds (<i>note (a)</i>)	117,223	864,260
Loans from minority shareholders	98,015	98,015
	2,716,686	3,581,633
Short term bank loans		
Secured	157,400	—
Unsecured	383,802	36,133
	3,257,888	3,617,766
Current portion included in current liabilities	(1,612,772)	(844,542)
	1,645,116	2,773,224

- (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, at an initial conversion price of HK\$2.25 per share, subject to adjustment, on or after 23rd April 2004 up to 8th March 2009. The bonds are redeemable at 91.49% of their principal amount on 23rd March 2009 according to relevant terms and conditions of the bonds.

Until 31st December 2004, the convertible bonds were carried at face value. Upon adoption of HKAS 39 on 1st January 2005, the values attributed to the liability component and option component were determined on issue of the bonds. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual value on issue, representing the value of the conversion option component, is recognised separately as convertible bond reserve under equity. As at 30 June 2005, the convertible bonds remaining not yet converted were carried at amortised cost.

14 COMMITMENTS

	30th June 2005 HK\$'000	31st December 2004 HK\$'000
Contracted but not provided for		
Commitments in respect of property developments	1,055,389	969,302
Commitments in respect of capital expenditure	45,471	75,198

In addition to the above, the Group has entered into an agreement dated 14th March 2005 for the acquisition of Galaxy Casino, S.A. (note 16).

15 BUSINESS COMBINATIONS

In April 2005, the Group acquired a jointly controlled entity for property development and investment in Shanghai of which the Group holds a 41.5% interest. The net assets acquired and negative goodwill arising are as follows:

	<i>HK\$'000</i>
Cash consideration	438,567
Fair value of net assets acquired	<u>442,884</u>
Negative goodwill	<u>(4,317)</u>

In May 2005, the Group acquired 51% equity interest in a subsidiary carrying on construction materials business. Details of net assets acquired and goodwill arising are as follows:

	<i>HK\$'000</i>
Cash consideration	17,000
Fair value of net assets acquired	<u>383</u>
Goodwill	<u>16,617</u>

30 Notes to the Financial Statements

15 BUSINESS COMBINATIONS (CONT'D)

The goodwill is attributable to the future profit prospects of the acquired business. The assets and liabilities arising from the acquisition of the subsidiary are as follows:

	Fair value <i>HK\$'000</i>	Acquiree's carrying amount <i>HK\$'000</i>
Plant and equipment	166	166
Other receivables	314	314
Prepayments and deposits	133	133
Cash and bank balances	310	310
Other payables	(172)	(172)
Net assets	751	751
Minority interests	(368)	
Net assets acquired	383	

16 POST BALANCE SHEET EVENT

On 22nd July 2005, the Group completed the acquisition of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. at an aggregate consideration of HK\$18,405 million. The consideration was satisfied by the issue of 1,840,519,798 new shares of a subsidiary, K Wah Construction Materials Limited ("KWCM"), unsecured fixed rate notes and cash. Following the completion of the acquisition, the Group's interest in KWCM was diluted from 59.1% to 25.9% and therefore constituted a deemed disposal by the Group of its interest in KWCM. As a result, KWCM ceased to be a subsidiary and became an associated company of the Group. Details of the acquisition are set out in the circular of the Company dated 30th June 2005.

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 5 to 30.

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 2005.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14th September 2005

(I) REVIEW AND OUTLOOK

The profit attributable to shareholders for the first half of 2005 was HK\$631,585,000, an increase of 306% as compared to HK\$155,637,000 for the same period last year.

Adoption of new and revised Financial Reporting Standards

This is the first half year's financial report of the Group following the adopting of the new Hong Kong Financial Reporting Standards effective 1st January 2005. The changes in accounting policies do not have any material effect on the financial statements under review other than certain presentation changes with the comparative figures being realigned.

The changes, however, could have certain impact on the Group's future operations. The main impact on the future financial statements is that revenue recognition for development properties will be recognised when the development is completed and sold instead of based on the stage of completion.

Acquisition of Galaxy by KWCM

On 22nd July 2005, the acquisition (the "Acquisition") of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. ("Galaxy") at a consideration of HK\$18,405,198,023 by Canton Treasure Group Ltd., a wholly-owned subsidiary of K. Wah Constructions Materials Limited ("KWCM") pursuant to a conditional acquisition agreement dated 14th March 2005 as amended by two supplementary agreements dated 1st April 2005 and 31st May 2005, was completed.

The Acquisition constituted a connected transaction, deemed very substantial disposal and very substantial acquisition for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was duly approved by the independent shareholders of the Company at the special general meeting duly convened and held on 19th July 2005.

Further details of the Acquisition were included in the circular of the Company dated 30th June 2005 issued to its shareholders.

Upon completion of the Acquisition, KWCM ceased to be a subsidiary and became an 25.9% associated company.

Following the special interim dividend payment by way of one KWCM share for every ten shares of the Company held by the shareholders, the Group's shareholding in KWCM will further be diluted from existing 25.9% to 18.8%. KWCM will cease to be an associated company of the Group and become a long term investment as "available-for-sale financial asset".

Operating results

The Group's profit attributable to shareholders increased by 306% to HK\$631,585,000. The big jump in profit attributable to shareholders was mainly due to the profit amounting to HK\$577 million arising from the deemed disposal of shares in KWCM by the Group in a top-up placement of shares by KWCM. As a consequence of the placement, the Group's attributable share in KWCM's net assets increased by the said amount of HK\$577 million, despite the fact that its shareholding in KWCM was diluted.

Following the completion of the Acquisition when KWCM issued 1,840,519,798 new KWCM shares at the agreed price of HK\$8.00 each to the vendors, there will have another deemed profit of the amount close to HK\$3 billion arising from a further dilution of the Group's shareholding in KWCM to 25.9%. This sum will be recorded in the books of accounts of the Group in the latter part of the year.

Development properties in Shanghai

During the period, phase I of the Shanghai Westwood, a luxurious condominium residential project in the Da Ning International Community within the inner ring area of Shanghai commenced its pre-completion marketing launch in May this year. There are a total number of 632 units available for pre-sale. The market response so far was modest. This is due to the Central Government and the Shanghai Municipal Government having issued various measures since last year to cool down the soaring property prices. Most of the potential home buyers have adopted a "wait and see" attitude. However, the soft market conditions in the real estate sector helps speeding up the pace of the demolition for our development property projects in Shanghai.

With the continuing strong economic and income growth in the Mainland and the unabated desire and enthusiasm for the urban households to buy their own homes to improve their living standards, the long term prospect for real estate is still promising. We believe that the project will bear good results at the end. This is particularly so because most of our property development projects were acquired in the latter part of 2001 or early part of 2002 when the property prices in Shanghai were just beginning to rise.

Overall, the Group's property development projects and investment property projects in Shanghai were progressing well. The Shanghai K. Wah Centre, our Grade A office building situated on the Huaihaizhong Road in the Xuhui District, was completed in the first quarter of 2005 and has an over 95% occupancy. With multi-national corporation tenants profile and satisfactory rental rates being achieved, this investment property will contribute a strong steady rental income to the Group.

Development properties in Hong Kong

The development for Tung Lo Wan Hill Road and Johnston Road were progressing well in accordance with schedule. The former project is expected to launch its pre-sale marketing campaign in the late 2005 or early 2006 whereas the latter project will start its pre-sale in early 2006. We are expecting that the two projects would bring handsome profits to the Group based on the present market conditions in Hong Kong.

Construction Materials Division

The market condition for construction material business remained soft in the first half of the year though encouraging signs of gradual improvements are developing. Turnover for the period for the construction materials division was similar to that of last year while the profit attributable to shareholders increased by approximately 23% over last year.

(II) REVIEW OF FINANCE

Financial position

The financial position of the Group remains strong. At 30th June 2005, the equity increased by 54% to HK\$5,232 million from HK\$3,396 million at 31st December 2004.

The number of the issued shares of the Company increased through the exercise of the convertible bonds and 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 less short term loans at 30th June 2005 stood at HK\$939 million and the gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 20%.

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 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

Investment properties and land and buildings with carrying values of HK\$135 million (31st December 2004: HK\$261 million) and HK\$256 million (31st December 2004: HK\$259 million restated) 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\$3,772 million (31st December 2004: HK\$3,844 million), of which HK\$2,204 million (31st December 2004: HK\$1,904 million), have been utilised.

The Company has executed guarantees in favour of convertible bondholders in respect of convertible bonds issued by a subsidiary amounting to HK\$154 million (31st December 2004: HK\$864 million).

The Company has executed a guarantee in favour of the Hong Kong Government in respect of the performance by a subsidiary's obligation under a contract with the Hong Kong Government.

Employees and remuneration policy

As at 30th June 2005, the Group, excluding associated companies and jointly controlled entities, had over 2,400 employees in Hong Kong and the Mainland (2004: 2,268). Employee costs, excluding Directors' emoluments, amounted to HK\$122 million for the period under review (2004: HK\$104 million).

The Group recruits and promotes individuals based on merit and their development potential and ensures that remuneration packages are competitive. Following approval by the shareholders in 1989, the Group has a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in the Mainland China, employees' remuneration is commensurate with market pay levels with the emphasis on provision of training and development opportunities.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June 2005, the interests of each director of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), K. Wah Construction Materials Limited ("KWCM"), and the details of any right to subscribe for shares in the Company and KWCM and of the exercise of such rights as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(a) Ordinary Shares of the Company

Name of Directors	Number of Shares				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	268,014	7,130,234 ⁽¹⁾	38,129,737 ⁽²⁾	1,257,389,151 ⁽³⁾	1,302,917,136	55.82
Francis Lui Yiu Tung	391,164	—	—	1,257,389,151 ⁽³⁾	1,257,780,315	53.88
Lennon Lun Tsan Kau	—	—	—	—	—	—
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	100,000	—	—	—	100,000	0.00
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,257,389,151 ⁽³⁾	1,262,028,317	54.06
David Akers-Jones	—	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—
Robin Chan Yau Hing	278,977	—	—	—	278,977	0.01
Charles Cheung Wai Bun	7,239	—	—	—	7,239	0.00
Robert George Nield	—	—	—	—	—	—

(b) Underlying Shares — Share Options of the Company

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. Details are set out in the section headed "Information on Share Option Schemes" below.

DIRECTORS' INTERESTS IN SECURITIES (CONT'D)**(c) Ordinary Shares of KWCM**

Name of Directors	Number of Shares				Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	13,385,831	1,468,496 ⁽¹⁾	76,880,265 ⁽⁴⁾	2,068,288,784 ⁽³⁾	2,160,023,376	149.60
Francis Lui Yiu Tung	4,472,980	—	436,753,661 ⁽⁶⁾	2,068,288,784 ⁽³⁾	2,509,515,425	173.81
Lennon Lun Tsan Kau	—	—	—	—	—	—
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	186,000	—	—	—	186,000	0.01
Paddy Tang Lui Wai Yu	4,801,906	—	—	2,068,288,784 ⁽³⁾	2,073,090,690	143.58
David Akers-Jones	—	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—
Robin Chan Yau Hing	65,306	—	—	—	65,306	0.00
Charles Cheung Wai Bun	1,810	—	—	—	1,810	0.00
Robert George Nield	—	—	—	—	—	—

(d) Underlying Shares — Share Options of KWCM

Share options, which are unlisted and physically settled, to subscribe for ordinary shares in KWCM were beneficially held by certain directors of the Company. Details are set out in the section headed "Information on Share Option Schemes" below.

Notes:

- (1) Dr. Lui Che Woo was deemed to be interested in 7,130,234 shares in the Company and 1,468,496 shares in KWCM respectively 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 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 family trusts established by Dr. Lui Che Woo as founder.

City Lion Profits Corp. which is wholly-owned by a discretionary family trust established by Dr. Lui Che Woo as founder was interested in 1,160,449,206 shares in KWCM issued on 22nd July 2005 upon the completion of the acquisition by a subsidiary of KWCM of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. (the "Completion"). The Company was interested in 852,775,351 shares in KWCM representing about 59.06% of its issued share capital held by a wholly-owned subsidiary of the Company.

DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

Notes: (Cont'd)

Further, the Company was deemed to be interested in 51,118,000 shares in KWCM. In addition, one of the said discretionary trusts was interested in 3,946,227 shares in KWCM.

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 and those shares in KWCM held by the trusts and in those shares in KWCM in which the Company was interested as aforesaid.

- (4) 76,880,265 shares in KWCM were held by Best Chance Investments Ltd. which was controlled by Dr. Lui Che Woo.
- (5) 111,138,039 shares in KWCM were issued on 22nd July 2005 upon Completion to Recurrent Profits Limited, which was controlled by Mr. Francis Lui Yiu Tung. 231,615,731 shares and 93,999,891 shares in KWCM were respectively to be interested by Top Notch Opportunities Limited and Kentlake International Investments Limited upon Completion for the purpose of the SFO, both of which were controlled by Mr. Francis Lui Yiu Tung.
- (6) All personal interests stated above were held by the respective directors of the Company in the capacity of beneficial owners.

All the interests stated above represent long positions.

In addition, 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, jointly controlled entity and associated company of the Company and KWCM.

Save as disclosed above, as at 30th June 2005, 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 IN SECURITIES

As at 30th June 2005, the interests of every person or entity (other than a director or chief executive of the Company) in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Number of Ordinary Shares (Long Position)	Approximate % of Issued Share Capital
HSBC International Trustee Limited	1,257,579,151 ⁽¹⁾	53.87
Marapro Co., Ltd.	190,228,080 ⁽²⁾	8.15
Symmetry Co., Ltd.	190,228,080 ⁽²⁾	8.15
Polymate Co., Ltd.	190,228,080 ⁽³⁾	8.15
Moore Michael William	253,584,104 ⁽⁴⁾	10.86
Penta Investment Advisers Ltd.	253,584,104 ⁽⁴⁾	10.86
Zwaanstra John	253,584,104 ⁽⁴⁾	10.86

Notes:

- (1) HSBC International Trustee Limited was the trustee of discretionary trusts which held 1,257,579,151 shares in the Company.
- (2) Marapro Co., Ltd. was a beneficiary and Symmetry Co., Ltd. was a trustee of a trust which was interested in 190,228,080 shares in the Company.
- (3) Polymate Co., Ltd. was the ultimate holding company of companies interested in 190,228,080 shares in the Company.
- (4) Penta Investment Advisers Ltd. was interested in 253,584,104 shares in the Company in the capacity of investment manager. Moore Michael William and Zwaanstra John each controlled more than one-third of the issued share capital of Penta Investment Advisers Ltd.

There was duplication of interests of:

- (i) 1,257,389,151 shares in the Company among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and 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.;
- (ii) 2,068,288,784 shares in KWCM among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu; and
- (iii) 253,584,104 shares in the Company among Moore Michael William, Penta Investment Advisers Ltd. and Zwaanstra John.

Save as disclosed above, as at 30th June 2005, no other interests or short positions in the shares or underlying shares of the Company were recorded in the above register.

INFORMATION ON SHARE OPTION SCHEMES

(a) The Company

At 30th June 2005, the particulars of the options held by each of the directors of the Company, the employees of the Group (other than directors of the Company) 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			Exercise Price per share (HK\$)	Exercise period
		Held at 1st January 2005	Exercised during the period	Held at 30th June 2005		
Lui Che Woo	20th May 1998	1,500,000	—	1,500,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,350,000	—	1,350,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	2,000,000	—	2,000,000	0.7200	1st Mar 2004 – 28th Feb 2013
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	1,000,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,200,000	—	1,200,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,868,000	—	1,868,000	0.7200	1st Mar 2004 – 28th Feb 2013
Lennon Lun Tsan Kau	30th Dec 1999	500,000	—	500,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,054,000	—	1,054,000	0.7200	1st Mar 2004 – 28th Feb 2013
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	—	—	—	—	—	—
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	600,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	870,000	—	870,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	1,269,000	—	1,269,000	0.7200	1st Mar 2004 – 28th Feb 2013
David Akers-Jones	28th Feb 2003	150,000	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013
Michael Leung Man Kin	28th Feb 2003	300,000	—	300,000	0.7200	1st Mar 2004 – 28th Feb 2013

INFORMATION ON SHARE OPTION SCHEMES (CONT'D)

(a) The Company (Cont'd)

Holders	Date of grant	Number of Options			Exercise Price per share (HK\$)	Exercise period
		Held at 1st January 2005	Exercised during the period	Held at 30th June 2005		
Philip Wong Kin Hang	28th Feb 2003	300,000	—	300,000	0.7200	1st Mar 2004 – 28th Feb 2013
Leo Lee Tung Hai	28th Feb 2003	150,000	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013
Robin Chan Yau Hing	28th Feb 2003	150,000	—	150,000	0.7200	1st Mar 2004 – 28th Feb 2013
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	300,000	0.7200	1st Mar 2004 – 28th Feb 2013
Robert George Nield	—	—	—	—	—	—
Employees (in aggregate)	20th May 1998	628,000	115,000 ^(a)	513,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,570,000	450,000 ^(b)	1,120,000	0.3600	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	4,550,000	1,031,000 ^(c)	3,519,000	0.7200	1st Mar 2004 – 28th Feb 2013
	29th Dec 2003	3,000,000	1,000,000 ^(d)	2,000,000	1.3000	30th Dec 2003 – 29th Dec 2013
Others	28th Feb 2003	522,000*	372,000 ^(c)	150,000	0.7200	1st Mar 2004 – 28th Feb 2013
	29th Dec 2003	3,000,000	—	3,000,000	1.3000	30th Dec 2003 – 29th Dec 2013

* after reclassification of share options held by Dr. Alex Wu Shu Chih under “Directors” to “Others” following his pass-away on 9th January 2005.

Notes:

- (a) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$3.05.
- (b) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$2.99.
- (c) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$2.98.
- (d) The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the period was HK\$2.43.

INFORMATION ON SHARE OPTION SCHEMES (CONT'D)**(a) The Company (Cont'd)**

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

No options were granted, cancelled or lapsed during the period for the six months ended 30th June 2005.

(b) KWCM

At 30th June 2005, the particulars of the options held by each of the directors of the Company and the employees of the KWCM Group and other participants granted under the Share Option Scheme of KWCM or under any other share option schemes of KWCM were as follows:

Holders	Date of grant	Number of Options			Exercise Price per share (HK\$)	Exercise period
		Held at 1st January 2005	Exercised during the period	Held at 30th June 2005		
Lui Che Woo	20th May 1998	1,500,000	—	1,500,000	0.5333	20th May 1999 – 19th May 2008 30th Dec 2000 – 29th Dec 2009 1st Mar 2004 – 28th Feb 2013
	30th Dec 1999	1,800,000	—	1,800,000	0.5216	
	28th Feb 2003	2,000,000	—	2,000,000	0.5140	
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	1,000,000	0.5333	20th May 1999 – 19th May 2008 30th Dec 2000 – 29th Dec 2009 1st Mar 2004 – 28th Feb 2013
	30th Dec 1999	1,600,000	—	1,600,000	0.5216	
	28th Feb 2003	1,870,000	—	1,870,000	0.5140	
Lennon Lun Tsan Kau	—	—	—	—	—	—
Eddie Hui Ki On	—	—	—	—	—	—
William Lo Chi Chung	—	—	—	—	—	—
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	600,000	0.5333	20th May 1999 – 19th May 2008 30th Dec 2000 – 29th Dec 2009 1st Mar 2004 – 28th Feb 2013
	30th Dec 1999	1,070,000	—	1,070,000	0.5216	
	28th Feb 2003	1,270,000	—	1,270,000	0.5140	

INFORMATION ON SHARE OPTION SCHEMES (CONT'D)

(b) KWCM (Cont'd)

Holders	Date of grant	Number of Options			Exercise Price per share (HK\$)	Exercise period
		Held at 1st January 2005	Exercised during the period	Held at 30th June 2005		
David Akers-Jones	—	—	—	—	—	—
Michael Leung Man Kin	20th May 1998	300,000	—	300,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,070,000	—	1,070,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	300,000	—	300,000	0.5140	1st Mar 2004 – 28th Feb 2013
Philip Wong Kin Hang	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—
Robin Chan Yau Hing	—	—	—	—	—	—
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	300,000	0.5140	1st Mar 2004 – 28th Feb 2013
Robert George Nield	—	—	—	—	—	—
Employees of the KWCM Group (in aggregate)	20th May 1998	1,602,000	470,000 ^(e)	1,132,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,374,000	416,000 ^(f)	958,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	2,386,000	504,000 ^(g)	1,882,000	0.5140	1st Mar 2004 – 28th Feb 2013
Others	28th Feb 2003	300,000	—	300,000	0.5140	1st Mar 2004 – 28th Feb 2013

Notes:

- (e) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the period was HK\$7.48.
- (f) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the period was HK\$9.35.
- (g) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the period was HK\$6.58.

All options referred to above are subject to a one-year vesting period.

No options were granted, cancelled or lapsed during the period for the six months ended 30th June 2005.

DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or bonds during the six months ended 30th June 2005. Neither the Company nor any of its subsidiary companies have purchased or sold any of the Company's shares and bonds during the period.

AUDIT COMMITTEE

Having been reviewed by the Company's Auditors, PricewaterhouseCoopers, the Group's interim financial information for the six months ended 30th June 2005 was reviewed by the Audit Committee of the Company.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company (the "Code"). The Company, having made specific enquiry of all the Directors of the Company, confirms that its Directors had complied with the required standard as set out in the Code during the six months ended 30th June 2005.

CORPORATE GOVERNANCE

The Company has, during the six months ended 30th June 2005, complied with the code provisions (with the exception of Code Provision C.2 on internal controls) set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules except for the following deviations:

- (a) Code Provision A.4.2

The Chairman of the Board and the Managing Director are not subject to retirement by rotation. A special resolution will be proposed to amend the Bye-laws of the Company at the annual general meeting to be held in 2006 so that every Director (including the Chairman of the Board and the Managing Director) shall be subject to retirement by rotation at least once every three years.

- (b) Code Provision A.5.4

Written guidelines in respect of the dealings by relevant employees in the securities of the Company were established by the Company on 17th August 2005.

CORPORATE GOVERNANCE (CONT'D)

- (c) Code Provision B.1.1

The Company is in the process of establishing a Remuneration Committee with appropriate composition and terms of reference.

- (d) Code Provision C.3.3

On 14th September 2005, the terms of reference of the Audit Committee of the Company were revised to include the duties set out in this Code Provision.

- (e) Code Provision E.1.2

The Chairman did not attend the annual general meeting of the Company held on 28th April 2005. The Directors present elected Mr. Francis Lui Yiu Tung, the Managing Director, to chair the meeting in accordance with the Bye-laws of the Company.

CLOSE OF REGISTERS

The register and branch register of members of the Company will be closed from 14th October 2005 to 21st October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim cash dividend and special 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 4:00 p.m. on 13th October 2005.

By Order of the Board
Seaman Kwok Siu Man
Company Secretary

Hong Kong, 14th September 2005