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

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 173)**

**DISCLOSEABLE TRANSACTION**  
**JOINT VENTURE BY WAY OF DISPOSAL OF 50%**  
**OF THE SHAREHOLDING IN**  
**HUI CHENG REAL ESTATE DEVELOPMENT CO. LTD. GUANGZHOU**

The Directors wish to announce that on May 26, 2006, Victory Way and the PRC Party have entered into the Agreement under which the PRC Party will pay approximately RMB320,590,000 (in cash) to subscribe for a 50% interest in Hui Cheng, which will then cease to be a subsidiary of the Company and become a jointly-controlled entity of the Group. Hui Cheng is the registered owner of the PRC Lands, and will become the joint venture vehicle of the Parties for development of the PRC Lands. Victory Way is a 99.999% indirectly-owned subsidiary of the Company, and the PRC Party is a wholly-owned subsidiary of China Vanke.

The Parties have 60 days from May 26, 2006 to conclude, and then execute, the JV Documents failing which, unless the Parties agree to extend such period, the Agreement will expire. The Parties may terminate the JV Documents if BOFTEC does not approve, or requires modification to the JV Documents upon which the Parties cannot agree. The Company will make further announcement if the Agreement is terminated.

The joint venture arrangement under the Transaction constitutes a discloseable transaction for the Company under the Listing Rules. The Company will issue a circular containing further information on the Transaction to its shareholders in accordance with the requirements of Chapter 14 of the Listing Rules.

**1. KEY TERMS OF THE AGREEMENT**

Date: May 26, 2006.

Parties: (1) Victory Way, and  
(2) the PRC Party.

The disposal	<p>Subject to the Transaction becoming effective, Victory Way will dispose 50% of its interest in Hui Cheng to the PRC Party, after which Hui Cheng will cease to be a subsidiary and become a jointly-controlled entity of the Group.</p> <p>Victory Way is currently owned as to 99.999% interest by the Company and the remaining 0.001% interest is held by a director of Victory Way.</p>
Consideration for the disposal	<p>Total consideration payable by the PRC Party for 50% interest in Hui Cheng is approximately RMB320,590,000, which will be paid by the PRC Party by way of capital subscription to increase the registered capital of Hui Cheng. The consideration is arrived at after arm's length negotiations between the Parties and represents the market value of the PRC Lands of approximately RMB298,280,000, and the book value of other assets of approximately RMB22,310,000 owned by Hui Cheng. Victory Way has to assume liabilities of Hui Cheng actually incurred prior to the PRC Party becoming a registered shareholder ("pre-disposal liability"). Based on the management accounts of Hui Cheng, as at May 18, 2006, the liabilities of Hui Cheng were negligible. The Company does not anticipate substantial liability to be incurred by Hui Cheng prior to the PRC Party being a registered shareholder.</p>
Conditions for the Transaction to become effective & payment of the consideration	<p>The Transaction will become effective when BOFTEC approves the JV Documents. The Parties will negotiate, and conclude, the JV Documents within 60 days from May 26, 2006, whereupon the PRC Party will pay RMB18,000,000 (in cash) to Hui Cheng. When BOFTEC approves the JV Documents, the PRC Party will pay the balance of approximately RMB302,590,000 (in cash), which will be applied together with the RMB18,000,000 towards increasing the registered capital of Hui Cheng. China Vanke has guaranteed the due performance by the PRC Party of its obligation to pay the sum of RMB18,000,000 and approximately RMB302,590,000 in accordance with the terms of the Agreement.</p> <p>If the JV Documents are not executed within such 60 days, then unless the Parties extend the time for further negotiation, the Agreement will expire. If BOFTEC does not approve, or requires modification to the terms of the JV Documents that the Parties cannot agree, the Parties may terminate the JV</p>

Documents. In such circumstances, Hui Cheng will return the RMB18,000,000 to the PRC Party, and neither party will be liable to the other.

The JV Documents may be terminated if the PRC Party has any material breach of the terms of the Agreement and whereupon Victory Way is entitled to forfeit the RMB18,000,000. The JV Documents may also be terminated if Victory Way has any material breach of the terms of the Agreement and whereupon Victory Way shall repay the PRC Party RMB36,000,000 (inclusive of the RMB18,000,000 earlier paid). The Company has agreed to ensure Victory Way will repay the PRC Party RMB36,000,000 in such circumstances.

The Company will make further announcement if the Agreement is terminated.

Guarantee by the Company

The Company will give a guarantee to the PRC Party with respect to Victory Way's obligation to settle the pre-disposal liability. The guarantee is for a period of 2 years from the date the PRC Party becomes the registered shareholder of Hui Cheng.

The joint venture company

Hui Cheng will become a joint venture company owned as to 50% by Victory Way and 50% by the PRC Party upon completion of the Transaction. Each Party will nominate 3 members to the board. The chairman will be appointed amongst the board members and will serve a term of 2 years. Victory Way will nominate the 1st board chairman and the PRC Party will nominate board chairman for the 2nd term. Thereafter, board chairman for subsequent term will be elected by unanimous agreement of the board members, failing which the Party who does not nominate the board chairman for the immediately preceding term will have the right to nominate the board chairman. The PRC Party nominates the general manager, and Victory Way will nominate the financial controller of the joint venture company. Voting on major decisions of the joint venture company is by majority. The board chairman does not have a 2nd or casting vote in case of equality of votes. Hui Cheng is the sole registered owner of the PRC Lands. The joint venture company is to develop the PRC Lands (which are vacant at the moment) in accordance with the development plans, timetable, and budgets to be agreed between the Parties.

Profit	Profit is to be distributed to the Parties in proportion to their respective equity interest in the joint venture company.
Further capital contribution	Further capital contributions require prior agreement in writing of the Parties, and then, they shall be made in proportion to the Parties' respective equity interest in the joint venture company. As at the date of this announcement, Victory Way has not agreed to make any further capital contributions to Hui Cheng.

## **2. USE OF PROCEEDS**

Hui Cheng will use the capital subscription proceeds of approximately RMB320,590,000 for the purpose of developing the PRC Lands.

## **3. FINANCIAL INFORMATION ON HUI CHENG**

Based on the most recent management accounts of Hui Cheng, as at May 18, 2006, the total net asset of Hui Cheng, which represents mainly the book value of the PRC Lands and other assets owned by Hui Cheng, is approximately RMB176,261,143 and the liabilities are negligible. Hui Cheng has yet to develop the PRC Lands and has generated neither turnovers nor profit for the two financial years ended December 31, 2005. The Transaction will result in a gain of approximately RMB75 million for the Group. Upon completion of the Transaction, the value of Hui Cheng to the Company will be approximately RMB490 million (being the aggregate of RMB320,590,000 and RMB169,776,705 (after consolidation adjustments on RMB176,261,143)). The value of Victory Way's 50% interest will be approximately RMB245 million. The gain is the difference between RMB245 million and RMB169,776,705.

## **4. REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Group's core business strategy is to develop and invest in real estates in Mainland China and Hong Kong, either by itself or in the form of joint venture with appropriate partners. The Transaction is consistent with this strategy. The Directors believe the Transaction enhances the business prospect of the Group, given China Vanke's experience and expertise in property development in Mainland China. Having China Vanke as a joint venture partner not only increases the Group's visibility in the real estate industry in Mainland China but also enables the Group to diversify risk. The Directors believe that the terms of the Agreement are fair and reasonable, and the Transaction is in the interests of the Company's shareholders as a whole.

## **5. CIRCULAR**

The Transaction constitutes a discloseable transaction for the Company under the Listing Rules. The Company will send a circular containing further information on the Transaction to the shareholders in accordance with the requirements of Chapter 14 of the Listing Rules.

## **6. INFORMATION ON THE COMPANY**

The Company is an investment holding company. Its subsidiaries are mainly engaged in property development and investment in Mainland China, Hong Kong, and South East Asia.

## **7. INFORMATION ON THE PRC PARTY AND CHINA VANKE**

The PRC Party is a wholly-owned subsidiary of China Vanke. China Vanke is principally engaged in property development in Mainland China and it also provides property management services. The shares of China Vanke are listed on the Shenzhen Stock Exchange, Mainland China.

To the best of the knowledge, information and belief of the Directors (having made all reasonable enquiries), the PRC Party and China Vanke are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

## **8. DIRECTORS OF THE COMPANY**

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

## **9. DEFINITIONS**

In this announcement, unless otherwise states, the following expressions means:

“Agreement”	the agreement in Chinese (协议书) dated May 26, 2006 and made between Victory Way and the PRC Party in respect of the Transaction.
“BOFTEC”	the Bureau of Foreign Trade and Economic Cooperation of Guangzhou Municipality, Mainland China.
“China Vanke”	万科企业股份有限公司 (China Vanke Co., Ltd.), a company incorporated in Mainland China with registered office at Vanke Architecture Research Centre, No 63, Meilin Road, Futian District, Shenzhen, Mainland China.
“Company”	K. Wah International Holdings Limited, an exempted company incorporated with limited liability in Bermuda, the shares of which are listed on the main board of the Stock Exchange.
“Group”	the Company and its subsidiaries.
“Directors”	directors of the Company.
“Hui Cheng” or “joint venture company”	广州汇城房地产开发有限公司 (Hui Cheng Real Estate Development Co. Ltd. Guangzhou), a company incorporated in Mainland China and a wholly owned subsidiary of Victory Way before the Transaction.
“Hong Kong”	the Hong Kong Special Administrative Region of Mainland China.

“JV Documents”	collectively, the share transfer and capital increase agreement, the joint venture contract and the new articles of association in respect of the joint venture company and the rights and obligations of Victory Way and the PRC Party therein.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Parties”	Victory Way and the PRC Party, and “Party” is any one of them.
“PRC Lands”	collectively, the 3 parcels of land, namely, 地号 121008, 0121030, 及 0121031 at Hua Dou District, Guangzhou, Mainland China (内地广州市花都区新华镇新广花路) with a total site area of approximately 956 acres (Mainland China measurement and equivalent to, approximately, 637,346 square meters).
“PRC Party”	广州市万科房地产有限公司, a company incorporated in Mainland China and a wholly-owned subsidiary of China Vanke.
“RMB”	Renminbi, the lawful currency of Mainland China.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.
“Transaction”	collectively, the disposal by Victory Way of 50% of its interest in Hui Cheng, and the setting up of the joint venture between Victory Way and the PRC Party as envisaged by the JV Documents.
“Victory Way”	Victory Way Limited, a company incorporated in Hong Kong with limited liability, which is an indirect 99.999% non-wholly owned subsidiary of the Company.

By Order of the Board  
**K. Wah International Holdings Limited**  
**Ricky Chan Ming Tak**  
*Company Secretary*

Hong Kong, May 26, 2006

*For the purpose of this announcement:*

- (1) *certain English translation of Chinese names or words in this announcement are included for information purpose only, and should not be relied upon as the official translation of such Chinese names or words; and*
- (2) *1 acre (Mainland China measurement) is equivalent to 666.67 square meters.*

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