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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in doubt as to any aspect of this circular or as to the actions to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in K. Wah International Holdings Limited, you should at once hand this circular and the accompanying Form of Election (if any) to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**Executive Directors:**

Dr. Lui Che Woo, GBS, MBE, JP, LLD, DSSc (Chairman)

Francis Lui Yiu Tung

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

Lennon Lun Tsan Kau

William Lo Chi Chung

Paddy Tang Lui Wai Yu, JP

**Non-executive Directors:**

Sir David Akers-Jones, KBE, GBM, CMG, Hon. RICS, JP\*

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\*

Robert George Nield\*

\* Independent Non-executive Directors

**Registered Office:**

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Hamilton HM 12

Bermuda

**Principal Place of Business in  
Hong Kong:**

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North Point

Hong Kong

13th October 2006

To the Shareholders,

Dear Sir or Madam,

### Interim Scrip Dividends with Cash Option for the Six Months Ended 30th June 2006

#### Introduction

It was resolved by the Directors of K. Wah International Holdings Limited ("Company") on 14th September 2006 that an interim dividends for the six months ended 30th June 2006 ("Interim Dividends") of HK\$0.01 per issued share of the Company ("Share") be paid to shareholders whose names appear on the registers of members at the close of the business on 13th October 2006. It was also resolved that the Interim Dividends should be satisfied by way of scrip dividends by an allotment of new Shares credited as fully paid in accordance with

the Memorandum of Association and Bye-laws of the Company and that shareholders may elect to receive cash wholly or partly in lieu of the scrip dividends. The latest date on which transfers were accepted for registration in order to qualify for the Interim Dividends was 6th October 2006.

### Particulars of the Interim Dividends

Shareholders have the following choices in respect of the Interim Dividends:

- (i) an allotment of new Shares (“New Shares”) credited as fully paid and having an aggregate discounted market value (as defined below) equal to the total amount of Interim Dividends which shareholders could elect to receive in cash in respect of HK\$0.01 per Share, subject to any fractional entitlement being disregarded as mentioned below; or
- (ii) Interim Dividends of HK\$0.01 per Share in cash; or
- (iii) partly New Shares and partly cash.

For the purpose of calculating the number of New Shares to be allotted, the discounted market value (“Discounted Market Value”) of a New Share means the average of the closing prices of one Share on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) for the five trading days from 16th October 2006 to 20th October 2006 (both days inclusive), less 5% discount, rounding down such figure to four decimal places. It will not be possible to determine until the close of business on 20th October 2006 the exact number of New Shares to which a shareholder, electing to receive New Shares, will be entitled. A press announcement of the Discounted Market Value for the purpose of calculating the number of New Shares to be allotted by way of scrip dividends will be made on 23rd October 2006. **The last day on which shareholders will be entitled to make their choices of the above alternatives is 10th November 2006.**

Accordingly, the number of New Shares which shareholders will receive, in respect of the existing Shares registered in their names as at 13th October 2006 and for which elections to receive the Interim Dividends in cash are not lodged with the Company’s branch share registrars in Hong Kong on or before 10th November 2006, will be calculated as follows:

$$\begin{array}{l} \text{Number of} \\ \text{New Shares} \\ \text{to receive} \end{array} = \begin{array}{l} \text{Number of existing Shares} \\ \text{held on 13th October 2006 for} \\ \text{which cash election is not made} \end{array} \times \frac{\text{HK\$0.01}}{\text{Discounted Market Value}}$$

The New Shares to be issued pursuant to the scrip dividends arrangements will rank pari passu in all respects with the existing issued Shares, except for the Interim Dividends and will rank in full for all future dividends and distributions which may be declared, made or paid. No shareholder will be entitled to be issued any fraction of a Share under the scrip dividends arrangements. Fractional entitlements to Shares will be disregarded and the benefit thereof will accrue to the Company.

### Advantage of the Scrip Dividends

The scrip dividends will enable shareholders to increase their holdings of Shares without incurring dealing costs or stamp duty. The Company will also benefit because, to the extent that shareholders elect to receive New Shares, in whole or in part, such cash as would otherwise have been paid to shareholders will be retained for use as working capital by the Company.

### Effect of the Scrip Dividends

If elections to receive the Interim Dividends in cash were received in respect of all the existing Shares registered as at 13th October 2006, the total cash dividends payable by the Company would be approximately HK\$24,188,000.

Shareholders of the Company should note that the scrip dividends may give rise to notification requirements under the Securities and Futures Ordinance for those shareholders who may have notifiable interests in the Company. Shareholders of the Company who are in any doubt as to how these provisions may affect them are recommended to seek their own professional advices.

The Company, being an exempted company incorporated in Bermuda, has been designated as non-resident for Bermuda exchange control purposes and has been granted an assurance by the Minister of Finance in Bermuda under the Exempted Undertakings Tax Protection Act 1966. Accordingly, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or any of its operations or Shares, debentures or other obligations of the Company provided that such assurance shall not be construed as to

- (i) prevent the application of any such tax or duty to such persons as are ordinarily resident in Bermuda;
- (ii) prevent the application of any tax payable in accordance with the provisions of the Land Tax Act, 1967 or otherwise payable in relation to the land leased to the Company.

### **Form of Election**

Enclosed is a Form of Election. **No action is required if you wish the Interim Dividends which you are entitled to receive to be wholly satisfied by an allotment of new Shares on the abovementioned basis. Otherwise, if you wish to receive such dividends wholly in cash in lieu of New Shares, or partly in cash with the balance satisfied by an allotment of new Shares, you must complete the enclosed Form of Election in accordance with the instructions printed thereon and lodge it 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 not later than 4:00 p.m. on 10th November 2006.** If you have signed the Form of Election but do not specify the number of Shares in respect of which you wish to receive the dividends in cash or, if you elect to receive the dividends in cash in respect of a greater number of Shares than your registered holding, then in either case you will be deemed to have exercised your election to receive the dividends in cash in lieu of New Shares in respect of all the Shares registered in your name(s). No acknowledgement of receipt of Form of Election will be issued. The Form of Election also enables you to elect to receive all future dividends wholly in cash in lieu of New Shares until notice in writing to cancel such election is received by the Branch Share Registrars of the Company. Permanent elections cannot be made in respect of part of your registered holding.

The Form of Election has not been sent to shareholders who have previously made a permanent election to receive all future dividends wholly in cash. These shareholders will receive cash in lieu of scrip dividends for all the Shares for the time being registered in their names, without having to complete any further Form of Election. Any shareholder wishing to change these existing permanent elections should contact the Company's Branch Share Registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, before 4:00 p.m. on 10th November 2006.

### **Shareholders Resident Outside Hong Kong**

All shareholders resident outside Hong Kong should consult their bankers or other professional advisers as to whether any governmental or other consents are required or other formalities need to be observed to enable them to receive Shares in satisfaction of the Interim Dividends. No person receiving in any territory outside Hong Kong a copy of this circular and/or a Form of Election may treat the same as an invitation to him unless in the relevant territory such invitation could lawfully be made to him without having to comply with any unfulfilled registration or other legal requirements.

This circular and Form of Election will not be registered in Hong Kong or any other jurisdiction. The Shares have not been registered under the applicable securities legislation of any jurisdictions other than Hong Kong. The Company has made enquiries with legal advisers where its overseas shareholders are based regarding legal restrictions and regulatory requirements on participation of shareholders resident outside Hong Kong in the scrip dividends arrangements as required by Rule 13.36(2) of the Rules Governing the Listing of Securities on the Stock Exchange. Since registration or filing or other procedures will need to be carried out to comply with the relevant securities legislations of Australia, the United Kingdom, Liberia and the United States (“Excluded Jurisdictions”) and/or the costs of complying with the requirements in each Excluded Jurisdiction will exceed materially any potential benefit to the Company of doing so, the Directors consider that it would be necessary and expedient to exclude shareholders with registered addresses in the Excluded Jurisdictions (“Excluded Shareholders”) from the scrip dividends arrangements as it would be impractical to comply with such procedures in these countries given the small shareholder base. Accordingly, Form of Election will not be sent to the Excluded Shareholders and they will only receive this circular for information. Excluded Shareholders will receive their dividends wholly in cash.

Apart from the Excluded Shareholders, according to the Company’s registers of members, there are some other shareholders whose registered addresses are outside Hong Kong. They are allowed to participate in the scrip dividends arrangements. It is the responsibility of any shareholders outside Hong Kong who wishes to receive New Shares under the scrip dividends arrangements to comply with the laws of the relevant jurisdictions including procedures or any other similar formalities. It is also the responsibility of any shareholders outside Hong Kong who receive New Shares in lieu of the cash dividends must also comply with any restrictions on the resale of the Shares which may apply outside Hong Kong.

### **Listing and Dealings**

Shares issued by the Company have been admitted as eligible securities for deposit and settlement in the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited. Dealings in the Shares may be settled through the Central Clearing and Settlement System. Investors should seek the advice of their stockbrokers or other professional advisers for details of these settlement arrangements and how such arrangements will affect their rights and interests.

The Shares are listed and dealt in on the Stock Exchange. On no other stock exchanges are any part of the Shares listed or dealt in or on which listing or permission to deal is being or is proposed to be sought. There are convertible bonds listed on the Luxembourg Stock Exchange, which are convertible into Shares, as referred to in the Company’s announcement dated 23rd March 2004. Application has been made to the Stock Exchange for the listing of and permission to deal in the New Shares to be issued pursuant to the scrip dividends arrangements. It is expected that share certificates in respect of such Shares and dividends warrants will be posted at the risk of those entitled thereto on 24th November 2006 and dealings in such Shares will commence on 27th November 2006. In the unlikely event that the New Shares are not admitted to listing by the Stock Exchange before 24th November 2006, the Forms of Election will be disregarded and the full cash dividends will be paid to the entitled shareholders according to their registered shareholdings.

### **Recommendation and Advice**

It is the shareholders’ responsibility to decide in this regard whether or not to exercise their rights to receive cash in lieu of the scrip dividends. Whether or not it is to the shareholders’ advantages to receive cash or New Shares, in whole or in part, depends upon their own individual circumstances. The effect on the tax position of any shareholder will depend on that shareholder’s particular circumstances. If you are in any doubt as to what to do, you should consult your professional advisers. Shareholders who are trustees are recommended to take professional advice as to whether the choice to receive cash or New Shares is within their powers and as to its effect having regard to the terms of the relevant trust instrument.

Yours faithfully,  
**Dr. Lui Che Woo**  
Chairman

*This document is in English and Chinese. In case of any inconsistency, the English version shall prevail.*