



K. WAH INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 173)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2005

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 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 this announcement is HK\$1,268,519,000, which equates to a dividend of approximately HK\$0.54 per share before distribution (on the assumption that there is no change in the issued share capital of the Company from the date of this announcement up to the Record Date). 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.

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”.

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

CONSOLIDATED PROFIT AND LOSS STATEMENT

For The Six Months Ended 30th June 2005

		(Restated)
		2004
	Note	2005
		HK\$'000
		HK\$'000
Turnover	2	719,827
Cost of sales		<u>(628,241)</u>
Gross profit		91,586
Other revenues		23,189
Other operating income		15,055
Gain/(loss) on deemed partial disposal of a subsidiary		577,123
Administrative expenses		(72,429)
Other operating expenses		<u>(6,457)</u>
Operating profit	2 & 3	628,067
Finance costs		(20,667)
Share of profits less losses of Jointly controlled entities		28,476
Associated companies		<u>1,492</u>
Profit before taxation		637,368
Taxation	4	<u>(5,127)</u>
Profit for the period		<u><u>632,241</u></u>
Attributable to:		
Shareholders of the Company		631,585
Minority interest		<u>656</u>
		<u><u>632,241</u></u>
Interim dividend	5	<u><u>23,491</u></u>
		HK cents
Earnings per share	6	HK cents
Basic		27.9
Diluted		<u><u>26.3</u></u>
		<u><u>7.9</u></u>
		<u><u>6.7</u></u>

CONSOLIDATED BALANCE SHEET

At 30th June 2005

		(Restated)
	30th June	31st December
	2005	2004
Note	HK\$'000	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	<u>251,106</u>	<u>288,572</u>
	4,334,203	3,975,172
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Current assets		
Development properties	2,932,050	2,599,825
Inventories	94,047	93,175
Debtors and prepayments	7 879,560	820,597
Tax recoverable	4,406	4,384
Other investments	109,710	44,547
Cash and bank balances	<u>1,480,160</u>	<u>781,306</u>
	5,499,933	4,343,834
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Total assets	<u>9,834,136</u>	<u>8,319,006</u>
EQUITY		
Share capital	233,428	201,564
Reserves	<u>3,717,797</u>	<u>2,471,190</u>
Shareholders' funds	3,951,225	2,672,754
Minority interests	<u>1,280,576</u>	<u>723,354</u>
Total equity	<u>5,231,801</u>	<u>3,396,108</u>
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LIABILITIES		
Non-current liabilities		
Borrowings	1,645,116	2,773,224
Deferred tax liabilities	85,603	78,375
Negative goodwill	—	136
Provisions	<u>163,347</u>	<u>180,873</u>

		1,894,066	3,032,608
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Current liabilities			
Creditors and accruals	8	1,052,371	1,005,969
Current portion of borrowings		1,612,772	844,542
Tax payable		43,126	39,779
		-----	-----
		2,708,269	1,890,290
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Total liabilities		4,602,335	4,922,898
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Total equity and liabilities		9,834,136	8,319,006
		=====	=====

NOTES

1. Basis of Preparation

The interim financial information have 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. 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 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.

2. Segment Information

The Group is principally engaged in property development and investment, manufacture, sale and distribution of construction materials. A summary of business segments is set out as follows:

	Properties <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30th June 2005				
Turnover	157,116	539,572	23,139	719,827
Other revenues	<u>3,039</u>	<u>7,421</u>	<u>12,729</u>	<u>23,189</u>
Operating profit/(loss)	<u>50,950</u>	<u>(10,244)</u>	<u>587,361</u>	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	—	<u>1,492</u>
Profit before taxation				637,368
Taxation				<u>(5,127)</u>
Profit for the period				<u>632,241</u>
	Properties <i>HK\$'000</i>	Construction materials <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30th June 2004				
Turnover	265,279	617,478	17,928	900,685
Other revenues	<u>5,584</u>	<u>5,025</u>	<u>804</u>	<u>11,413</u>
Operating profit/(loss)	<u>24,854</u>	<u>3,861</u>	<u>(1,946)</u>	26,769
Finance costs				(10,235)
Share of profits less losses of				
Jointly controlled entities	142,157	4,286	—	146,443
Associated companies	—	865	—	<u>865</u>
Profit before taxation				163,842
Taxation				<u>(5,630)</u>
Profit for the period				<u>158,212</u>

A summary of geographical segments is set out as follows:

	Turnover		Operating Profit/(loss)	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	365,858	458,146	622,981	34,525
Mainland China and others	353,969	442,539	5,086	(7,756)
	<u>719,827</u>	<u>900,685</u>	<u>628,067</u>	<u>26,769</u>

3. Operating Profit

	2005 HK\$'000	2004 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
Fair value gain on investment properties	1,742	—
Interest income	9,379	10,677
Dividend income from unlisted investments	12,721	—
Negative goodwill arising from acquisition of a jointly controlled entity	4,317	—
Amortisation of negative goodwill	—	316
	<u>507,058</u>	<u>554,566</u>
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 improvement	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 other investments	—	2,893
	<u>13,327</u>	<u>14,048</u>

4. Taxation

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

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period. 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.

5. Interim Dividend

The Board of Directors declares an interim cash dividend of 1 cent per share (2004: scrip dividend with a cash option of 2 cents per share), totalling HK\$23,491,000 for the six months ended 30th June 2005 (2004: HK\$40,195,000) to shareholders whose names appear on the registers 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 this announcement 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.

6. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$631,585,000 (2004: HK\$155,637,000 restated) and the weighted average number of 2,261,175,000 shares (2004: 1,980,970,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the adjusted profit attributable to shareholders of HK\$638,492,000 (2004: HK\$143,715,000 restated) and the weighted average number of 2,420,923,000 shares (2004: 2,146,658,000 shares) after adjusting for the effects of all dilutive potential shares.

7. Debtors and Prepayments

	30th June 2005	31st December 2004
	<i>HK\$'000</i>	<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	—
	<u>879,560</u>	<u>820,597</u>

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.

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	<u>171,511</u>	<u>89,253</u>
	<u>491,783</u>	<u>471,934</u>

8. 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
Amount due to minority shareholders	<u>294,968</u>	<u>303,942</u>
	<u>1,052,371</u>	<u>1,005,969</u>

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	58,155	63,237
Four to six months	32,424	26,502
Over six months	<u>43,032</u>	<u>23,864</u>
	<u>276,068</u>	<u>300,403</u>

MANAGEMENT DISCUSSION AND ANALYSIS

(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 material 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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 (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Exchange”) 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.

(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.

PUBLICATION OF FURTHER INFORMATION

This announcement will be published on the respective websites of the Company and the Exchange. The Group’s interim financial information has been reviewed by the Company’s Auditors, PricewaterhouseCoopers and a report of their review will be included in the Interim Report to Shareholders.

An interim report for the six months ended 30th June 2005 containing all the applicable information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Exchange in late September 2005.

DIRECTORS

As at the date of this announcement, the Executive Directors are Dr. Lui Che Woo (Chairman), 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; 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.

By Order of the Board
Seaman Kwok Siu Man
Company Secretary

Hong Kong, 14th September 2005

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Please also refer to the published version of this announcement in (South China Morning Post)