

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

Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司

Stock code 股份代號 0173

INTERIM REPORT 2008 中期報告



New
Age

New
Face

A Quality Property Developer

Listed since 1987

Our Mission

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and value creation. With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.

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Corporate Profile

K. Wah International Holdings Limited (“KWIH”; stock code: 0173), listed in Hong Kong in 1987*, is the property flagship of K. Wah Group with property portfolio encompassing premium residential developments, Grade-A office towers, hotels, service apartments and retail spaces in Hong Kong, Shanghai, Guangzhou and Southeast Asia.

KWIH positions to be a large-scale integrated property developer and investor in the Greater China region. With a focus on an integrated approach for value creation, KWIH blends architectural design, quality, functionalities and top-notch building services in all its properties to redefine the standard of quality modern living. Furthermore, driven by a keen market sense and a versatile strategy, and backed by strong financial capability, KWIH has built up a prime land reserve in major cities of China, and thus a strong foothold for future growth.

KWIH has received several international accolades for its outstanding quality and service. Awarded Business Superbrands in the property development sector in 2006, KWIH was also the only winner in the Hong Kong Property Developer category of the High-Flyer Outstanding Enterprises consecutively in 2006 and 2007. In 2008, it won the Quality Building Award in the Special Awards Category: Heritage with J SENSES, the arcade of J Residence.

* Formerly K. Wah Stones (Holdings) Limited listed in 1987.

Corporate Information

CHAIRMAN

Dr. Che-woo Lui,
GBS, MBE, JP, LLD, DSSc, DBA

MANAGING DIRECTOR

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

EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung
Ms. Paddy Tang Lui Wai Yu, JP
Mr. Lam Kwong Yu, SBS

NON-EXECUTIVE DIRECTORS

Sir David Akers-Jones*,
KBE, GBM, CMG, Hon. RICS, JP
Mr. Michael Leung Man Kin, CBE, JP
Dr. The Hon. Leo Lee Tung Hai*,
GBM, GBS, LLD, JP
Dr. Robin Chan Yau Hing*, GBS, LLD, JP
Mr. Robert George Nield*
Dr. William Yip Shue Lam*, LLD

* Independent Non-executive Directors

COMPANY SECRETARY

Mr. Ricky Chan Ming Tak, LLM

QUALIFIED ACCOUNTANT

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

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor
K. Wah Centre
191 Java Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda)
Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor
Services Limited
Shops 1712 – 1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AMERICAN DEPOSITARY RECEIPTS DEPOSITARY

The Bank of New York
Investor Services
P.O. Box 11258
Church Street Station
New York, NY 10286 – 1258
USA

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong
Limited

STOCK CODE

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

BOND LISTING

Luxembourg Stock Exchange

Interim Results Highlights and Interim Dividend

INTERIM RESULTS HIGHLIGHTS

The Board of Directors ("Board") of K. Wah International Holdings Limited ("Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2008 ("Period") as follows:

- Revenue was HK\$716 million (2007: HK\$1,759 million)
- Operating profit was HK\$457 million (2007: HK\$576 million)
- Profit for the Period was HK\$333 million (2007: HK\$588 million)
- Profit attributable to shareholders was HK\$251 million (2007: HK\$439 million)
- Earnings per share (basic) was 10.18 HK cents (2007: 18.06 HK cents)

INTERIM DIVIDEND

The Board has declared an interim cash dividend for the Period of 1 HK cent per share, totaling HK\$24,704,000, payable on 7 November 2008 to the shareholders whose names appear on the registers of members of the Company at the close of business on 10 October 2008 (2007: an interim cash dividend of 2.5 HK cents per share and a special interim cash dividend of 25 HK cents per share, totaling HK\$676,041,000).

Management Discussion and Analysis

(I) BUSINESS REVIEW AND OUTLOOK

Operating Results

Revenue and profit attributable to shareholders for the Period was HK\$716 million and HK\$251 million respectively, compared to HK\$1,759 million and HK\$439 million for same period last year. The decrease in profit was mainly due to lesser projects were completed for profit recognition purpose during the Period.

Property Development and Investment in Mainland China

The central government's macroeconomic control and a generally tightened bank credit policy are expected to remain for the last quarter of 2008, which will have an impact on the residential property market of Mainland China. The Group has a total of nine pieces of land in Shanghai, Guangzhou and Jiangmen. Total development attributable gross floor area of the residential and commercial development projects of the Group in Mainland China is estimated to be approximately 21,500,000 square feet. Our Mainland China projects will be developed in phases in line with market conditions and are progressing well according to schedule. The Group continues to have strong rental income from its Shanghai K. Wah Centre.

Property Development and Investment in Hong Kong

The overall property market in Hong Kong remains stable. The fundamentals of the local property market remain intact. The Government's forecast shows a shortage of residential units in the private sector and demand for housing is likely to remain strong in the near term. However, there has been a slow down in sales transactions in the past few months. The Group has residential development projects with attributable gross floor area of approximately 700,000 square feet. Most of these development projects are scheduled for completion in 2010 and 2011.

Investment in Galaxy Entertainment Group Limited ("GEG")

The Group continues to hold its investment in GEG which is being carried at fair value. As of 30 June 2008, the share price of GEG was HK\$5.06 as compared to HK\$7.33 at 31 December 2007. The change in the fair value of approximately HK\$369 million was recorded in reserve.

Outlook

It is clear from the United States government's conservatorship action with Fannie Mae and Freddie Mac that, after the biggest surge in mortgage defaults in the last 3 decades, the United States economy will not recover until the bulk of the housing market correction is behind her. Credit crunch in the global capital market following the fall out from the sub-prime crisis, inflationary pressure, and volatility in oil and commodity price all conspire to add uncertainty – if not downside – to growth. Financial market turmoil has since spilled over from the United States to Europe, and now leverage de-coupling is starting to take its toll on Asian export economies.

Mainland China and Hong Kong are not immune. Since the beginning of this year, housing price correction in Mainland China has been going in lockstep with stock market correction. While we remain optimistic on her long-term economic prospect, a short-term easing on the economic growth of Mainland China can have impact on her housing market and in turn, on the sales, turnover and earnings of the Group. Hong Kong's economy will inevitably be affected by the fallout from a possible global slowdown. Despite the fact that the impact on Hong Kong may be moderated by Mainland China's solid sustainable development, it is possible for the Hong Kong housing market to also go into period of consolidation in the near term, which can affect the Group's results and performance.

The Board views the economic outlook of the Group's major operating markets with caution. Into the last quarter of 2008 and the first quarter of 2009, there will still be uncertainties in the business environment for the Group. Management is exercising caution in making acquisitions and planning, and is timely tuning its business strategies in line with changing market conditions.

(II) FINANCIAL REVIEW

Financial Position

The financial position of the Group remained strong. As of 30 June 2008, total funds employed was HK\$13 billion as compared to HK\$14 billion at 31 December 2007.

The number of the issued shares of the Company increased slightly as a result of small amount of the share options being exercised and the conversion of the convertible bonds during the Period. The dilution effect is minimal and was offset by the profit earned for the Period.

Liquidity and Gearing Ratio

Cash and bank balances as of 30 June 2008 stood at HK\$1,316 million and the gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 15%.

The Group's liquidity and gearing ratio stayed at a healthy level and the Group has sufficient funds 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 dollar. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are utilized when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation. During the Period, the Group has not engaged in the use of derivative products.

Charges on Group Assets

As of 30 June 2008, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK\$6,266 million (31 December 2007: HK\$5,618 million) to banks to secure the Group's borrowing facilities.

Guarantees

The Company has executed guarantees in favor of banks and financial institutions in respect of facilities granted to certain subsidiaries, jointly controlled entities and associated companies amounting to HK\$6,093 million (31 December 2007: HK\$6,045 million), HK\$2,404 million (31 December 2007: HK\$775 million) and HK\$1,009 million (31 December 2007: HK\$1,009 million) respectively, of which HK\$2,451 million (31 December 2007: HK\$3,232 million), HK\$1,437 million (31 December 2007: HK\$438 million) and HK\$642 million (31 December 2007: HK\$642 million) have been utilized respectively.

The Company has also executed guarantees in favour of holders of the convertible bonds issued by a subsidiary. The outstanding amount of such convertible bonds was HK\$20 million (31 December 2007: HK\$40 million) as of 30 June 2008.

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

Employees and remuneration policy

As of 30 June 2008, the Group, excluding jointly controlled entities and associated companies, employs 311 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK\$72,574,000 for the Period under review.

The Group continues to attract, retain, motivate and promote competent and committed individuals for its long term success and growth. The Group believes our remuneration packages are fair and competitive based on quality, merit and development potentials.

With approval by the shareholders in 1989, the Group has a share option scheme for executives and general staff for the purpose of providing competitive remuneration package and long term retention of management talents and good performers. Likewise in Mainland China, employees' remuneration is commensurate with market pay levels with the emphasis on provision of training and development opportunities.

Review Report of the Independent Auditor



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT OF THE INDEPENDENT AUDITOR TO THE BOARD OF DIRECTORS OF
K. WAH INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 8 to 19, which comprises the condensed consolidated balance sheet of K. Wah International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2008, and the condensed consolidated profit and loss statement, the condensed consolidated statement of changes in equity and the condensed consolidated cash flows statement for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 September 2008

Condensed Consolidated Profit and Loss Statement (unaudited)

For the six months ended 30 June 2008

	Note	2008 HK\$'000	2007 HK\$'000
Revenue	5	715,672	1,758,554
Cost of sales		(362,511)	(1,286,769)
Gross profit		353,161	471,785
Other operating income		116,660	67,386
Administrative expenses		(113,921)	(61,183)
Other operating expenses		(6,043)	(1,224)
Change in fair value of investment properties		107,434	99,365
Operating profit	5 & 6	457,291	576,129
Finance costs		(55,444)	(40,880)
Share of profits less losses of jointly controlled entities		40,941	152,005
Share of losses of associated companies		(18)	—
Profit before taxation		442,770	687,254
Taxation charge	7	(109,380)	(98,933)
Profit for the period		333,390	588,321
Attributable to:			
Shareholders		250,601	439,487
Minority interests		82,789	148,834
		333,390	588,321
Interim dividend	8	24,704	61,368
Special interim dividend	8	—	614,673
		HK cents	HK cents
Earnings per share	9		
Basic		10.18	18.06
Diluted		10.12	17.89

Condensed Consolidated Balance Sheet (unaudited)

As at 30 June 2008

	Note	30 June 2008 HK\$'000	31 December 2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		53,511	52,732
Investment properties		3,938,800	3,679,112
Leasehold land and land use rights		67,097	67,390
Jointly controlled entities		782,930	700,920
Associated companies		(23)	(4)
Non-current investments		822,169	1,191,008
Other non-current assets		6,274	7,099
		5,670,758	5,698,257
Current assets			
Development properties		5,297,460	4,800,680
Amounts due from jointly controlled entities		1,485,573	2,454,691
Amounts due from associated companies		670,148	652,790
Debtors and prepayments	11	193,679	328,228
Tax recoverable		2,762	2,762
Cash and bank balances		1,315,707	2,444,742
		8,965,329	10,683,893
Total assets		14,636,087	16,382,150
EQUITY			
Share capital	12	246,978	245,869
Reserves		8,348,253	8,256,702
Shareholders' funds		8,595,231	8,502,571
Minority interests		1,215,560	1,056,774
Total equity		9,810,791	9,559,345
LIABILITIES			
Non-current liabilities			
Borrowings	13	1,944,398	3,297,252
Deferred tax liabilities		596,204	527,379
		2,540,602	3,824,631
Current liabilities			
Amounts due to jointly controlled entities		56,315	56,286
Creditors and accruals	14	597,462	883,928
Current portion of borrowings	13	1,352,987	1,282,246
Tax payable		204,159	161,041
Dividend payable		73,771	614,673
		2,284,694	2,998,174
Total liabilities		4,825,296	6,822,805
Total equity and liabilities		14,636,087	16,382,150

Condensed Consolidated Cash Flow Statement (unaudited)

For the six months ended 30 June 2008

	2008 HK\$'000	2007 HK\$'000
Net cash from/(used in) operating activities	759,856	(381,252)
Net cash used in investing activities	(520,947)	(716,807)
Net cash (used in)/from financing activities	(1,320,141)	1,000,731
Net decrease in cash and cash equivalents	(1,081,232)	(97,328)
Cash and cash equivalents at beginning of period	2,444,742	741,060
Changes in exchange rates	(47,803)	(49,951)
Cash and cash equivalents at end of period	1,315,707	593,781

Condensed Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 30 June 2008

	Share capital HK\$'000	Other reserves HK\$'000	Revenue reserve HK\$'000	Shareholders' funds HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 31 December 2007	245,869	2,447,203	5,809,499	8,502,571	1,056,774	9,559,345
Exchange differences	—	254,459	—	254,459	75,997	330,456
Conversion of convertible bonds, net of tax	1,075	17,571	—	18,646	—	18,646
Exercise of share options	34	614	—	648	—	648
Fair value of share options	—	10,916	—	10,916	—	10,916
Change in fair value of non-current investments	—	(368,839)	—	(368,839)	—	(368,839)
Profit for the period	—	—	250,601	250,601	82,789	333,390
2007 final dividend	—	—	(73,771)	(73,771)	—	(73,771)
At 30 June 2008	246,978	2,361,924	5,986,329	8,595,231	1,215,560	9,810,791
At 31 December 2006	242,995	3,174,898	4,046,470	7,464,363	856,817	8,321,180
Exchange differences	—	74,211	—	74,211	28,629	102,840
Exercise of share options	510	8,959	—	9,469	—	9,469
Change in fair value of non-current investments	—	209,094	—	209,094	—	209,094
Profit for the period	—	—	439,487	439,487	148,834	588,321
2006 final dividend	—	—	(60,869)	(60,869)	—	(60,869)
At 30 June 2007	243,505	3,467,162	4,425,088	8,135,755	1,034,280	9,170,035

Notes to the Interim Financial Information

1 GENERAL INFORMATION

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

The principal activities of the Company and its subsidiaries (together the “Group”) are property development and investment in Hong Kong, Singapore and Mainland China and trading of plant and machinery in Japan.

2 BASIS OF PREPARATION

The interim financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties and non-current investments, which are carried at fair value and in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2007.

The adoption of new/revised HKFRS

In 2008, the Group adopted the new interpretation of Hong Kong Financial Reporting Standards (“HKFRS”) below, which is relevant to its operations.

HK(IFRIC) - Int 11 HKFRS 2 — Group and Treasury Share Transactions

The Group has assessed the impact of the adoption of this new interpretation and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies and presentation of the financial statements.

3 FINANCIAL RISK MANAGEMENT

All aspects of the financial risk management objectives and policies of the Group are consistent with those disclosed in the annual financial statements for the year ended 31 December 2007.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2007.

Notes to the Interim Financial Information

5 SEGMENT INFORMATION

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets primarily consist of property, plant and equipment, other non-current assets, properties, amounts due from jointly controlled entities and associated companies, debtors and prepayments and mainly exclude non-current investments, cash and bank balances and tax recoverable. Segment liabilities comprise mainly creditors and accruals and amounts due to jointly controlled entities. There are no sales or trading transactions between the business segments.

(A) Business segments

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Six months ended 30 June 2008				
Revenue	620,079	95,593	—	715,672
Operating profit	363,240	4,933	89,118	457,291
Finance costs				(55,444)
Share of profits less losses of jointly controlled entities	40,941	—	—	40,941
Share of losses of associated companies	(18)	—	—	(18)
Profit before taxation				442,770
Taxation charge				(109,380)
Profit for the period				333,390
Capital expenditure	(2,496)	—	—	(2,496)
Depreciation	(1,735)	—	—	(1,735)
Amortisation	(9,108)	—	—	(9,108)
Change in fair value of investment properties	107,434	—	—	107,434
As at 30 June 2008				
Segment assets	11,698,977	9,542	2,144,661	13,853,180
Jointly controlled entities	782,930	—	—	782,930
Associated companies	(23)	—	—	(23)
Total assets	12,481,884	9,542	2,144,661	14,636,087
Total liabilities	644,492	7,786	4,173,018	4,825,296

Notes to the Interim Financial Information

5 SEGMENT INFORMATION (cont'd)

(A) Business segments (cont'd)

	Properties HK\$'000	Trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Six months ended 30 June 2007				
Revenue	1,637,319	121,235	—	1,758,554
Operating profit	509,303	2,856	63,970	576,129
Finance costs				(40,880)
Share of profits less losses of jointly controlled entities	152,005	—	—	152,005
Profit before taxation				687,254
Taxation charge				(98,933)
Profit for the period				588,321
Capital expenditure	(814)	(521)	—	(1,335)
Depreciation	(1,524)	—	—	(1,524)
Amortisation	(2,647)	—	—	(2,647)
Change in fair value of investment properties	99,365	—	—	99,365
As at 31 December 2007				
Segment assets	12,029,614	12,282	3,639,338	15,681,234
Jointly controlled entities	700,920	—	—	700,920
Associated companies	(4)	—	—	(4)
Total assets	12,730,530	12,282	3,639,338	16,382,150
Total liabilities	923,939	10,926	5,887,940	6,822,805

Notes to the Interim Financial Information

5 SEGMENT INFORMATION (cont'd)

(B) Geographical segments

	Revenue HK\$'000	Operating profit/(loss) HK\$'000	Capital expenditure HK\$'000	Total assets HK\$'000
Six months ended 30 June 2008				At 30 June 2008
Hong Kong	438,252	162,878	2,025	5,119,168
Mainland China	150,375	241,110	426	9,195,724
Singapore	31,452	48,352	45	297,833
Japan	95,593	4,951	—	23,362
	715,672	457,291	2,496	14,636,087
Six months ended 30 June 2007				At 31 December 2007
Hong Kong	4,887	(12,508)	366	8,039,272
Mainland China	1,625,936	550,579	441	8,069,370
Singapore	6,496	35,174	7	248,913
Japan	121,235	2,884	521	24,595
	1,758,554	576,129	1,335	16,382,150

6 OPERATING PROFIT

	2008 HK\$'000	2007 HK\$'000
Operating profit is stated after crediting:		
Net exchange gain	80,629	37,789
Interest income	7,394	27,913
Gain on disposal of a subsidiary	3,985	—
Gain on disposal of property, plant and equipment	—	50
and after charging:		
Cost of inventories sold	85,783	115,008
Depreciation (net of amount capitalised under properties under development of HK\$1,342,000 (2007: HK\$727,000))	1,735	1,524
Amortisation of leasehold land and land use rights (net of amount capitalised under properties under development of HK\$8,481,000 (2007: HK\$17,664,000))	9,108	2,647
Operating lease rental for land and buildings	890	1,800
Loss on disposal of property, plant and equipment	61	—

Notes to the Interim Financial Information

7 TAXATION CHARGE

	2008 HK\$'000	2007 HK\$'000
Current taxation		
Hong Kong profits tax	27,505	6
Overseas taxation	37,178	197,670
Deferred taxation	44,697	(98,743)
	109,380	98,933

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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.

With effect from 1 January 2008, the corporate income tax rate for the Group is reduced from 33% to 25% upon coming into effect of the new Corporate Income Tax Law in Mainland China approved by the National People's Congress on 16 March 2007.

Land appreciation tax in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

8 INTERIM DIVIDEND

The Board has declared an interim cash dividend of 1 HK cent per share (totalling HK\$24,704,000) for the six months ended 30 June 2008 (2007: an interim cash dividend of 2.5 HK cents per share and a special interim cash dividend of 25 HK cents per share, totaling HK\$676,041,000). This amount will be accounted for as an appropriation of revenue reserves for the year ending 31 December 2008.

9 EARNINGS PER SHARE

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

	2008 HK\$'000	2007 HK\$'000
Profit attributable to shareholders	250,601	439,487
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of tax	722	677
Profit for calculation of diluted earnings per share	251,323	440,164

	2008	2007
Weighted average number of shares for calculating basic earnings per share	2,460,766,000	2,433,459,000
Effect of dilutive potential ordinary shares:		
Share options	3,414,000	5,708,000
Convertible bonds	19,713,000	21,277,000
Weighted average number of shares for calculating diluted earnings per share	2,483,893,000	2,460,444,000

Notes to the Interim Financial Information

10 CAPITAL EXPENDITURE

For the six months ended 30 June 2008, the Group incurred HK\$2.5 million (2007: HK\$1.3 million) on property, plant and equipment. The Group has disposed of HK\$0.4 million (2007: HK\$0.5 million) of property, plant and equipment.

11 DEBTORS AND PREPAYMENTS

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade debtors, net of provision	6,991	125,175
Other debtors, net of provision	32,993	31,291
Prepayments and deposits	153,695	171,762
	193,679	328,228

Trade debtors mainly comprise receivable for sales of goods and rental. Rental from tenants is due and payable in advance. The terms for sales of goods vary and are determined with reference to the prevailing market conditions.

The aging analysis of the trade debtors of the Group based on the date of invoices and net of provision for bad and doubtful debts is as follows:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within one month	5,025	123,689
Two to three months	1,611	1,179
Four to six months	333	249
Over six months	22	58
	6,991	125,175

12 SHARE CAPITAL

	2008		2007	
	Ordinary Shares of HK\$0.10 each	HK\$'000	Ordinary Shares of HK\$0.10 each	HK\$'000
Authorised				
At 1 January and 30 June	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid				
At 1 January	2,458,690,508	245,869	2,429,947,502	242,995
Exercise of share options (a)	340,000	34	5,107,000	510
Conversion of convertible bonds (b)	10,752,688	1,075	—	—
At 30 June	2,469,783,196	246,978	2,435,054,502	243,505

Notes to the Interim Financial Information

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 eligible participants. During the period, options to subscribe for 7,933,000 shares at the exercise price of HK\$3.882 per share were granted to directors and selected employees of the Group and its affiliates (2007: nil) and options to subscribe for 340,000 shares (2007: 5,107,000 shares) were exercised. The fair value of options granted during the period, as determined by using the Black-Scholes valuation model, was HK\$10.1 million. The significant inputs into the model were share price of HK\$3.84 at the valuation date, exercise price at the date of granting the options, expected volatility of 46%, expected life of options of 5.35 years, expected dividend paid out rate of 3% and annual risk-free interest rate of 2.08%. The volatility measured at the standard deviation of expected share price returns was based on statistical analysis of daily share prices over the past 5.35 years. At 30 June 2008, outstanding options granted under the scheme are as follows:

Exercise period	Exercise price per share HK\$	Number of share options	
		30 June 2008	31 December 2007
1 March 2004 to 28 February 2013	0.720	199,000	199,000
22 October 2006 to 21 October 2011	1.906	6,800,000	7,140,000
27 November 2008 to 26 November 2017	4.636	14,360,000	15,352,000
27 November 2008 to 26 November 2017	3.882	6,075,000	—
		27,434,000	22,691,000

- (b) During the period, convertible bonds with face value of HK\$20,000,000 were converted into 10,752,688 ordinary shares of the Company, of which HK\$1,075,269 was credited to share capital and the balance to the share premium account.

13 BORROWINGS

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Long term bank loans		
Secured	2,087,886	1,885,244
Unsecured	846,106	1,969,950
	2,933,992	3,855,194
Convertible bonds (a)	17,650	34,435
	2,951,642	3,889,629
Short term bank loans		
Unsecured	345,743	689,869
	3,297,385	4,579,498
Current portion included in current liabilities	(1,352,987)	(1,282,246)
	1,944,398	3,297,252

- (a) In March 2004, the Group issued an aggregate amount of HK\$864,260,000 0.5% guaranteed convertible bonds due in March 2009. The bonds are listed on the Luxembourg Stock Exchange and are convertible into shares of the Company on or after 23 April 2004 up to 8 March 2009. The initial conversion price was HK\$2.25 per share, which was adjusted to HK\$1.88 per share in November 2005 and further to HK\$1.86 per share in January 2008 due to the payment of the special interim dividends. The bonds are redeemable at 91.49% of their principal amount on its maturity by 23 March 2009 according to relevant terms and conditions of the bonds.

Notes to the Interim Financial Information

13 BORROWINGS (cont'd)

(a) (cont'd)

During the period, convertible bonds with face value of HK\$20,000,000 were converted into 10,752,688 ordinary shares of the Company and the remaining face value of the convertible bonds amounted to HK\$20,000,000 (2007: HK\$40,000,000) were carried at amortised cost.

14 CREDITORS AND ACCRUALS

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Trade creditors	318,816	559,432
Other creditors	9,728	38,670
Amounts due to minority shareholders	84,248	83,988
Accrued operating expenses	40,064	63,718
Advanced proceeds on sale of properties	59,389	66,988
Deposits received	85,217	71,132
	597,462	883,928

The aging analysis of the trade creditors of the Group based on the dates of the invoices is as follows:

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Within one month	287,828	506,973
Two to three months	3,004	2,474
Four to six months	15	174
Over six months	27,969	49,811
	318,816	559,432

15 COMMITMENTS

	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Contracted but not provided for Commitments in respect of property developments	2,454,766	1,308,684

16 GUARANTEES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries, jointly controlled entities and associated companies amounting to HK\$6,093 million (31 December 2007: HK\$6,045 million), HK\$2,404 million (31 December 2007: HK\$775 million) and HK\$1,009 million (31 December 2007: HK\$1,009 million), respectively, of which HK\$2,451 million (31 December 2007: HK\$3,232 million), HK\$1,437 million (31 December 2007: HK\$438 million) and HK\$642 million (31 December 2007: HK\$642 million) have been utilised respectively.

The Company has executed guarantees in favour of convertible bondholders in respect of the convertible bonds issued by a subsidiary. The outstanding amount of such convertible bonds was HK\$20 million as at 30 June 2008 (31 December 2007: HK\$40 million).

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

Other Information

DIRECTORS' INTERESTS IN SECURITIES

As of 30 June 2008, the interests and short positions of each director of the Company ("Director") in the ordinary shares of the Company ("Shares"), underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), if any, and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Shares

Name of Directors	Number of Shares			Total	Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests		
Che-woo Lui	7,613,534	7,256,345 ⁽¹⁾	1,342,157,115 ⁽²⁾	1,357,026,994	54.95
Francis Lui Yiu Tung	5,878,035	—	—	5,878,035	0.24
Eddie Hui Ki On	1,790,000	—	—	1,790,000	0.07
Paddy Tang Lui Wai Yu	10,080,371	—	—	10,080,371	0.41
Lam Kwong Yu	—	—	—	—	—
Sir David Akers-Jones	650,000	—	—	650,000	0.03
Michael Leung Man Kin	500,000	—	—	500,000	0.02
Leo Lee Tung Hai	1,050,000	—	—	1,050,000	0.04
Robin Chan Yau Hing	1,436,563	—	—	1,436,563	0.06
Robert George Nield	753,000	—	—	753,000	0.03
William Yip Shue Lam	—	—	—	—	—

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

Notes:

- (1) Dr. Che-woo Lui is deemed to be interested in 7,256,345 Shares through the interests of his spouse.
- (2) These 1,342,157,115 Shares represent the aggregate of (i) 35,696,109 Shares held by Best Chance Investments Ltd., (ii) 3,095,377 Shares held by Po Kay Securities & Shares Company Limited; (iii) 23,737,000 Shares held by Favor Right Investments Limited; (iv) 1,086,035,985 Shares held by Super Focus Company Limited, (v) 135,435,613 Shares held by Premium Capital Profits Limited and (vi) 58,157,031 Shares held by Mark Liaison Limited. All the aforesaid companies are ultimately beneficially owned and controlled by Dr. Che-woo Lui.

Other Information

(b) Underlying Shares — Share Options

Share options, which are unlisted and physically settled, to subscribe for Shares were beneficially held by certain Directors.

As of 30 June 2008, the particulars of the options held by each of the Directors, the employees of the Company and its subsidiaries (other than the Directors) in aggregate and other participants granted under the share option scheme of the Company, were as follows:

Holders	Date of grant	Number of Options				Held at 30 June 2008	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2008	Granted during the Period ^(a)	Exercised during the Period	Lapsed during the Period			
Che-woo Lui	21 Oct 2005	1,350,000	—	—	—	1,350,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	1,055,000	—	—	—	1,055,000	4.6360	27 Nov 2008–26 Nov 2017
Francis Lui Yiu Tung	21 Oct 2005	1,340,000	—	—	—	1,340,000	1.9060	22 Oct 2006–21 Oct 2011
Eddie Hui Ki On	27 Nov 2007	410,000	—	—	—	410,000	4.6360	27 Nov 2008–26 Nov 2017
	24 Jan 2008	—	800,000	—	—	800,000	3.8820	27 Nov 2008–26 Nov 2017
Paddy Tang Lui Wai Yu	21 Oct 2005	930,000	—	—	—	930,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	940,000	—	—	—	940,000	4.6360	27 Nov 2008–26 Nov 2017
	24 Jan 2008	—	800,000	—	—	800,000	3.8820	27 Nov 2008–26 Nov 2017
Lam Kwong Yu	—	—	—	—	—	—	—	—
Sir David Akers-Jones	28 Feb 2003	150,000	—	—	—	150,000	0.7200	1 Mar 2004–28 Feb 2013
	27 Nov 2007	500,000	—	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Michael Leung Man Kin	27 Nov 2007	500,000	—	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Leo Lee Tung Hai	27 Nov 2007	500,000	—	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Robin Chan Yau Hing	21 Oct 2005	500,000	—	—	—	500,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	500,000	—	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
Robert George Nield	27 Nov 2007	500,000	—	—	—	500,000	4.6360	27 Nov 2008–26 Nov 2017
William Yip Shue Lam	—	—	—	—	—	—	—	—
Employees (in aggregate)	28 Feb 2003	49,000	—	—	—	49,000	0.7200	1 Mar 2004–28 Feb 2013
	21 Oct 2005	3,020,000 ^(b)	—	340,000 ^(c)	—	2,680,000	1.9060	22 Oct 2006–21 Oct 2011
	27 Nov 2007	10,447,000 ^(d)	—	—	992,000	9,455,000	4.6360	27 Nov 2008–26 Nov 2017
	24 Jan 2008	—	6,333,000 ^(d)	—	1,858,000	4,475,000	3.8820	27 Nov 2008–26 Nov 2017

Notes:

- The closing price of the Shares immediately before the date on which the options were granted during the Period was HK\$3.730.
- After reclassification of a total number of 900,000 share options under “Directors” to “Employees” following the retirement of Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun as directors of the Company at the annual general meeting of the Company on 27 May 2008 (“2008 AGM”).
- The weighted average closing price of the Shares immediately before the date on which the options were exercised during the Period was HK\$3.770.
- After reclassification of a total number of 1,433,000 share options under “Directors” to “Employees” following the resignation of Mr. Lennon Lun Tsan Kau as a director of the Company on 12 June 2008 and the retirement of Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun as directors of the Company at the 2008 AGM respectively.

Other Information

- (e) After reclassification of a number of 800,000 share options under "Directors" to "Employees" following the resignation of Mr. Lennon Lun Tsan Kau as a director of the Company on 12 June 2008.

On 24 January 2008, the Company granted 7,933,000 share options (all at subscription price of HK\$3.882 per share) to Directors and selected employees of the Company and its affiliates, of which 1,858,000 share options have since lapsed.

The fair value of the share options granted during the Period is set out in Note 12(a) to the Interim Financial Information.

Except for the options granted on 24 January 2008 which vest on 27 November 2008, the other options granted were subject to a one-year vesting period.

No options was cancelled during the Period.

All the interests stated above represent long positions.

Save as disclosed above, as of 30 June 2008, none of the Directors had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 30 June 2008, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying shares in the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange were as follows:

Name of Shareholders	Number of Shares (Long Position)	Approximate % of Issued Share Capital
Super Focus Company Limited	1,086,035,985 ⁽¹⁾	43.97
Penta Investment Advisers Limited	369,015,033 ⁽²⁾	14.94
Mr. John Zwaanstra	369,015,033 ⁽³⁾	14.94
Star II Limited	193,592,644 ⁽¹⁾	7.84
Penta Asia Fund, Ltd.	159,840,672 ⁽⁴⁾	6.47
Mr. Todd Zwaanstra	159,840,672 ⁽⁵⁾	6.47
Mercurius GP LLC	159,840,672 ⁽⁶⁾	6.47
Value Partners Limited	136,109,000 ⁽⁷⁾	5.51
Value Partners Group Limited	136,109,000 ⁽⁷⁾	5.51
Cheah Capital Management Limited	136,109,000 ⁽⁸⁾	5.51
Cheah Company Limited	136,109,000 ⁽⁸⁾	5.51
Hang Seng Bank Trustee International Limited	136,109,000 ⁽⁸⁾	5.51
Mr. Cheah Cheng Hye	136,109,000 ⁽⁹⁾	5.51
Ms. To Hau Yin	136,109,000 ⁽¹⁰⁾	5.51

Notes:

- (1) Super Focus Company Limited and Star II Limited are beneficially interested in, respectively, 1,086,035,985 Shares and 193,592,644 Shares, and both are solely owned and controlled by Dr. Che-woo Lui.
- (2) Penta Investment Advisers Limited ("Penta Investment"), a company which is 100% controlled by Mr. John Zwaanstra, was interested in 369,015,033 Shares in the capacity of investment manager.
- (3) By virtue of the SFO, Mr. John Zwaanstra was deemed to have interests in the 369,015,033 Shares referred to in note (2) through his 100% interest in Penta Investment. Mr. John Zwaanstra was also deemed to have interests in the 159,840,672 Shares in which Penta Asia Fund, Ltd. ("Penta Asia") and Mercurius GP LLC ("Mercurius GP") were interested through his control of more than one-third of the voting power of Penta Asia and Mercurius GP.
- (4) The 159,840,672 Shares were held by Penta Master Fund, Ltd. ("Penta Master"), a wholly-owned subsidiary of Penta Asia and duplicate part of the interests of Penta Investment.

Other Information

- (5) By virtue of the SFO, Mr. Todd Zwaanstra was deemed to have interests in the 159,840,672 Shares in which Penta Master was interested pursuant to his control of more than one-third of the voting power of Penta Asia as trustee of Mercurius Partners Trust, being a discretionary trust.
- (6) Mercurius GP was the founder of the Mercurius Partners Trust and was therefore deemed to have interests in the 159,840,672 Shares in which Mr. Todd Zwaanstra and Mercurius Partners Trust were interested.
- (7) Value Partners Limited ("VPL"), a company which is wholly-owned by Value Partners Group Limited ("VPGL"), was interested in 136,109,000 Shares in the capacity of investment manager.
- (8) Cheah Capital Management Limited ("CCML") was deemed to have interests in 136,109,000 Shares as it holds 35.65% interests in VPGL. CCML is wholly-owned by Cheah Capital Limited ("CCL") which in turn is wholly-owned by Hang Seng Bank Trustee International Limited ("HSTI"). HSTI is a company incorporated in the Bahamas, and is the trustee of The C H Cheah Family Trust (being a discretionary trust), the discretionary objects of which include Mr. Cheah Cheng Hye and certain members of his family.
- (9) By virtue of the SFO, Mr. Cheah Cheng Hye (being the Chairman and Chief Investment Officer of VPGL) was deemed to be interested in 136,109,000 Shares pursuant to his control of more than one-third of the voting power of VPL through his interests in VPGL and also as the founder of The C H Cheah Family Trust.
- (10) By virtue of the SFO, Ms. To Hau Yin was deemed to be interested in 136,109,000 Shares through the interests of Mr. Cheah Cheng Hye, being her spouse.

There was duplication of interest of:

- (i) 369,015,033 Shares held by Penta Investment, which Mr. John Zwaanstra was deemed to have interests in. Of these 369,015,033 Shares, 159,840,672 Shares were also deemed to be interested in by: (a) Mr. Todd Zwaanstra through Penta Master which is wholly-owned by Penta Asia in which Mr. Todd Zwaanstra controls more than one-third of the voting power as trustee of the Mercurius Partners Trust (a discretionary trust), and (b) Mercurius GP as founder of the Mercurius Partners Trust; and
- (ii) 136,109,000 Shares held by VPL, which are also deemed to be interested among VPGL, CCML, CCL, HSTI as trustee of The C H Cheah Family Trust, Mr. Cheah Cheng Hye and Ms. To Hau Yin.

Save as disclosed above, as of 30 June 2008, the Company had not been notified by any persons who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

RULE 13.22 OF THE LISTING RULES

As of 30 June 2008, the Group had given financial assistance and guarantees to financial institutions for the benefit of its affiliated companies. In compliance with the Listing Rules, the combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

	Combined balance sheet HK\$'000	Group's attributable interest HK\$'000
Non-current assets	356,617	148,018
Current assets	20,167,919	5,069,432
Current liabilities	(446,538)	(171,904)
	20,077,998	5,045,546
Share capital	816,495	338,841
Reserves	1,065,320	444,066
Amounts due to shareholders	9,286,288	2,172,992
Non-current liabilities	8,909,895	2,089,647
	20,077,998	5,045,546

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares or convertible bonds during the Period.

AUDIT COMMITTEE

The Audit Committee of the Company has met on 5 September 2008 and reviewed the Company's accounting principles and practices and discussed auditing, internal control and financial reporting matters. The Group's unaudited interim results for the Period have been reviewed by the Audit Committee of the Company and by the Company's independent auditor — PricewaterhouseCoopers.

The Board welcomes the appointment of Dr. William Yip Shue Lam as the chairman of the Audit Committee on 20 June 2008. The Board thanks Dr. Charles Cheung Wai Bun for his contributions to the Audit Committee before his retirement (as then chairman) on 27 May 2008.

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 of the Listing Rules ("Model Code"). Having made specific enquiries with all its Directors, the Company confirms that during the Period all its Directors have complied with the required standards as set out in the Model Code.

CORPORATE GOVERNANCE

During the Period, save for Code Provision A.4.2, the Company has complied with all the provisions in the Code on Corporate Governance Practices set out in the Appendix 14 to the Listing Rules. The Board believes that the underlying rationale for such a deviation, as mentioned under the section headed "COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES" in the Corporate Governance Report of its 2007 Annual Report ("2007 Annual Report"), still holds. The Board will continue to review and recommend such steps and action as appropriate in the circumstances of such deviation. Since the 2007 Annual Report, Mr. Lam Kwong Yu has been appointed as executive director and Mr. Lennon Lun Tsan Kau has resigned as executive director and deputy managing director, respectively, on 28 May 2008 and 16 June 2008, and Dr. William Yip Shue Lam has been appointed as independent non-executive director of the Company on 20 June 2008. Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun retired, respectively, as non-executive director and as independent non-executive director of the Company at the conclusion of the annual general meeting on 27 May 2008.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members will be closed from 6 October 2008 to 10 October 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the 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 4:30 p.m. on 3 October 2008.

By Order of the Board
Ricky Chan Ming Tak
Company Secretary

Hong Kong, 10 September 2008



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

29/F, K. Wah Centre, 191 Java Road, North Point, Hong Kong
香港北角渣華道191號嘉華國際中心29樓
Tel電話:(852) 2880 0178 Fax傳真:(852) 2880 5610

www.kwih.com