嘉華國際集團有限公司
K. WAH INTERNATIONAL HOLDINGS LIMITED
於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability

(Stock Code: 00173)

Delivering Value with Distinctive Quality

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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***") as follows:

- In the first half of 2018, the Group had attributable contracted sales amounted to approximately HK$8.5 billion as a result of the overwhelming sales response to Solaria in Hong Kong launched in June.
- As of 30 June 2018, the Group had record attributable contracted sales of approximately HK$18.5 billion in total yet to be recognised, including HK$9.2 billion for K. City which occupation permit was obtained in August.
- Pursuant to the prevailing revised accounting standard for revenue recognition effective on 1 January 2018, revenue of the Group was HK$623 million. Taking into account joint ventures and associated companies, total attributable revenue of the Group was HK$679 million.
- Earnings per share was 18.88 HK cents, and an interim dividend per share of 6 HK cents was declared.
- As of 30 June 2018, net asset value per share was HK$11.5 and cash and bank deposits amounted to HK$6,183 million.
- The Group enhanced its funding capability and lowered its financing cost by successfully securing a HK$7 billion 5-year loan facility.
- The Group participated in joint ventures in three pieces of land in Suzhou, Kunshan, and Jiangmen. The Group also acquired a 100% interest in a land site in Dongguan. The Group will continue to seek opportunities to augment its landbank on a disciplined basis in Hong Kong, The Pearl River and Yangtze River Deltas.

CONDENSED CONSOLIDATED PROFIT AND LOSS STATEMENT (unaudited)
For the six months ended 30 June 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Revenue	3	**622,638**	4,917,951
Cost of sales		**(217,499)**	(1,733,783)
Gross profit		**405,139**	3,184,168
Other operating income		**132,220**	106,021
Other net losses		**(29,141)**	(3,313)
Fair value gain on transfer of development properties to investment properties	4	**524,736**	973,803
Change in fair value of investment properties		**217,900**	137,417
Other operating expenses		**(117,766)**	(245,574)
Administrative expenses		**(248,130)**	(245,772)
Finance costs		**(18,709)**	(9,308)
Share of profits of joint ventures		**30,928**	79,445
Share of profits of associated companies		**11,794**	51,439
Profit before taxation	5	**908,971**	4,028,326
Taxation charge	6	**(282,336)**	(1,821,944)
Profit for the period		**626,635**	2,206,382
Attributable to:			
Equity holders of the Company		**577,737**	2,162,206
Non-controlling interests		**48,898**	44,176
		626,635	2,206,382

		HK cents	HK cents
Earnings per share	7		
Basic		**18.88**	73.06
Diluted		**18.83**	72.81

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)
For the six months ended 30 June 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the period	**626,635**	2,206,382
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit and loss:		
Change in fair value of financial assets at fair value through other comprehensive income	**(316,844)**	2,209,783
Item that may be reclassified to profit and loss:		
Exchange differences arising from translation	**(224,045)**	522,702
Other comprehensive (loss)/income for the period	**(540,889)**	2,732,485
Total comprehensive income for the period	**85,746**	4,938,867
Total comprehensive income attributable to:		
Equity holders of the Company	**46,508**	4,862,214
Non-controlling interests	**39,238**	76,653
	85,746	4,938,867

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2018

	Note	**(unaudited) 30 June 2018** *HK$'000*	(audited) 31 December 2017 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**430,659**	447,913
Investment properties		**13,657,856**	12,599,451
Leasehold land and land use rights		**14,247**	14,684
Joint ventures		**7,105,968**	7,237,381
Associated companies		**1,157,300**	1,106,983
Financial assets at fair value through other comprehensive income		**9,870,906**	10,187,750
Deferred taxation assets		**120,399**	119,663
Other non-current assets		**540,980**	585,192
		32,898,315	32,299,017
Current assets			
Development properties		**32,659,471**	29,696,662
Inventories		**2,075**	3,990
Amounts due from associated companies		**-**	3,674
Debtors and prepayments	9	**1,194,898**	2,118,931
Land and tender deposits		**100,000**	1,896,658
Derivative financial instruments		**464**	-
Financial assets at fair value through profit or loss		**658,059**	270,024
Taxes recoverable		**569,925**	368,954
Cash and bank deposits		**6,183,439**	5,848,809
		41,368,331	40,207,702
Total assets		**74,266,646**	72,506,719
EQUITY			
Share capital		**306,041**	305,546
Reserves		**34,763,912**	34,697,102
Shareholders' funds		**35,069,953**	35,002,648
Non-controlling interests		**1,678,018**	2,014,039
Total equity		**36,747,971**	37,016,687
LIABILITIES			
Non-current liabilities			
Borrowings		**18,089,195**	16,668,400
Guaranteed notes		**999,433**	998,863
Deferred taxation liabilities		**2,339,207**	2,147,108
		21,427,835	19,814,371
Current liabilities			
Amounts due to joint ventures		**958,439**	824,220
Amounts due to associated companies		**327,694**	415,839
Creditors and accruals	10	**1,574,287**	2,213,195
Pre-sales deposits		**9,556,594**	7,731,214
Current portion of borrowings		**1,778,659**	811,587
Derivative financial instruments		**-**	615
Taxes payable		**1,895,167**	3,678,991
		16,090,840	15,675,661
Total liabilities		**37,518,675**	35,490,032
Total equity and liabilities		**74,266,646**	72,506,719
Net current assets		**25,277,491**	24,532,041
Total assets less current liabilities		**58,175,806**	56,831,058

NOTES

1. Basis of preparation

The interim financial information for the six months ended 30 June 2018 has been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through other comprehensive income, derivative financial instruments and financial assets at fair value through profit or loss, which are carried at fair values and in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017 which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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 2017, except as stated below.

The adoption of new standards and amendments and interpretation to standards

In 2018, the Group adopted the following new standards and amendments and interpretation to standards, which are relevant to its operations.

HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to HKFRSs 2014–2016 Cycle	

The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note (i) below. The other amendments and interpretation to standards did not have significant impact on the Group's accounting policies and did not require retrospective adjustments.

New standards and amendments and interpretation to standards that are not yet effective

		Effective for accounting periods beginning on or after
HKAS 19 (Amendment)	Employee Benefits - Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No mandatory effective date
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle		1 January 2019

The Group will adopt the above new standards and amendments and interpretation to standards as and when they become effective. The Group has commenced an assessment of the likely impact of adopting the above new standards and amendments and interpretation to standards, in which the preliminary assessment of HKFRS 16 is detailed below. The Group will continue to assess the impact in more details.

1. Basis of preparation (Cont'd)

HKFRS 16 'Leases'

The new standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases.

Upon adoption of HKFRS 16, the majority of operating lease commitments will be recognised in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortised cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from the above, there was no significant impact on the Group's results and financial position or any substantial changes in the Group's accounting policies and presentation of the interim financial information.

(i) Changes in accounting policies

The changes in accounting policies upon the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' are set out below:

HKFRS 9 'Financial Instruments'

Classification, measurement and derecognition of financial assets

On 1 January 2018, the Group's management has assessed the Group's business models of management, and the contractual cash flow characteristics, of each of the Group's financial instruments, and has classified them into appropriate categories under HKFRS 9.

The Group has elected to present changes in the fair value of its listed equity securities not held for trading (previously classified under non-current investment and accounted for as available-for-sale financial asset) in other comprehensive income. Under this election, only qualifying dividends are recognised in profit and loss unless they clearly represented recovery of a part of the cost of the investment. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised.

Impairment of financial assets

The Group assessed on a forward looking basis for the expected credit losses associated with its financial assets carried at amortised cost. The results of the adopted new impairment model as at 1 January 2018 have not resulted in material impact on the carrying amount of the Group's financial assets.

1. Basis of preparation (Cont'd)

(i) Changes in accounting policies (Cont'd)

HKFRS 15 'Revenue from Contracts with Customers'

In prior reporting periods, revenue from the sale of properties was recognised when significant risks and rewards of ownership of properties have been transferred to the customers.

Under HKFRS 15, revenue from pre-sales of properties under development is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contracts and the laws that apply to the contracts, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

Revenue from sales of completed properties is recognised at a later point in time when the underlying property is legally and/or physically transferred to the customer.

The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financial component exists in that contract.

The Group has elected to use a modified retrospective approach on all the uncompleted contracts as at 1 January 2018, which the cumulative impact of the adoption is recognised as an adjustment to the retained earnings as at 1 January 2018 and that the comparatives is not restated. The adoption of HKFRS 15 has no material impact to the retained earnings as at 1 January 2018 and therefore, no adjustment was made.

2. Segment information

The Group is principally engaged in property development and investment in Hong Kong, Mainland China and Singapore. In accordance with the internal financial reporting of the Group provided to the chief operating decision-maker for the purposes of allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are property development and property investment. The Group regards the Board as the chief operating decision-maker.

The results of the operating segments represent the adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). Certain items include other operating income/expenses, other net losses, fair value gain on transfer of development properties to investment properties and change in fair value of investment properties. Also the Adjusted EBITDA excludes the share of results of joint ventures and associated companies. There are no sales or trading transactions between the operating segments. Others represent corporate level activities including central treasury management, hotel operation and administrative function.

Segment assets primarily consist of property, plant and equipment, leasehold land and land use rights, deferred taxation assets, other non-current assets, development and investment properties, debtors and prepayments, land and tender deposits, financial assets at fair value through profit or loss, taxes recoverable, cash and bank deposits and other assets mainly include financial assets at fair value through other comprehensive income, derivative financial instruments, hotel building, inventories and other non-operating assets held by the corporate office. Segment liabilities comprise mainly creditors and accruals, pre-sales deposits, amounts due to joint ventures and associated companies, borrowings, guaranteed notes, derivative financial instruments, taxes payable and deferred taxation liabilities. Other liabilities include liabilities not arising from the operation of the operating segments.

2. Segment information (Cont'd)

	Property development			Property investment	Others	Total
	Hong Kong *HK$'000*	Mainland China *HK$'000*	Others *HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2018						
Revenue	**59,789**	**237,628**	**-**	**268,450**	**56,771**	**622,638**
Adjusted EBITDA	**24,429**	**43,763**	**(1,360)**	**219,855**	**(113,829)**	**172,858**
Other income and expenses/losses, net						**(14,687)**
Depreciation and amortisation						**(15,849)**
Fair value gain on transfer of development properties to investment properties				**524,736**		**524,736**
Change in fair value of investment properties				**217,900**		**217,900**
Finance costs						**(18,709)**
Share of profits/(losses) of joint ventures	**34,851**	**(3,923)**				**30,928**
Share of profits of associated companies	**11,794**					**11,794**
Profit before taxation						**908,971**
Taxation charge						**(282,336)**
Profit for the period						**626,635**
As at 30 June 2018						
Segment assets	**19,918,238**	**21,629,928**	**11,525**	**13,934,851**	**-**	**55,494,542**
Other assets	**-**	**-**	**-**	**-**	**10,508,836**	**10,508,836**
Joint ventures	**6,813,986**	**291,982**	**-**	**-**	**-**	**7,105,968**
Associated companies	**976,254**	**181,046**	**-**	**-**	**-**	**1,157,300**
Total assets	**27,708,478**	**22,102,956**	**11,525**	**13,934,851**	**10,508,836**	**74,266,646**
Total liabilities	**19,328,473**	**15,607,900**	**379**	**2,520,635**	**61,288**	**37,518,675**
Six months ended 30 June 2017						
Revenue	64,970	4,593,636	-	209,982	49,363	4,917,951
Adjusted EBITDA	39,458	2,847,930	(1,467)	171,162	(103,174)	2,953,909
Other income and expenses/losses, net						(142,866)
Depreciation and amortisation						(15,513)
Fair value gain on transfer of development properties to investment properties				973,803		973,803
Change in fair value of investment properties				137,417		137,417
Finance costs						(9,308)
Share of profits/(losses) of joint ventures	79,514	(69)				79,445
Share of profits of associated companies	51,439					51,439
Profit before taxation						4,028,326
Taxation charge						(1,821,944)
Profit for the period						2,206,382
As at 31 December 2017						
Segment assets	19,334,857	20,824,513	149,506	12,911,490	-	53,220,366
Other assets	-	-	-	-	10,938,315	10,938,315
Joint ventures	6,766,148	471,233	-	-	-	7,237,381
Associated companies	1,110,657	-	-	-	-	1,110,657
Total assets	27,211,662	21,295,746	149,506	12,911,490	10,938,315	72,506,719
Total liabilities	17,583,923	15,489,392	648	2,356,300	59,769	35,490,032

2. Segment information (Cont'd)

	Property development			Property investment	Others	Total
	Hong Kong *HK$'000*	Mainland China *HK$'000*	Others *HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Six months ended 30 June 2018						
Additions to non-current assets	**-**	**1,217**	**8**	**6**	**300**	**1,531**
Six months ended 30 June 2017						
Additions to non-current assets	-	1,055	1	-	781	1,837

Geographical segment information

The Group operates in three (2017: three) main geographical areas, including Hong Kong, Mainland China and Singapore. The revenue for the six months ended 30 June 2018 and 2017 and total non-current assets (other than joint ventures, associated companies, financial assets at fair value through other comprehensive income, deferred taxation assets and other non-current assets) as at 30 June 2018 and 31 December 2017 by geographical area are as follows:

Revenue

	2018 *HK$'000*	2017 *HK$'000*
Hong Kong	**96,967**	96,899
Mainland China	**525,671**	4,821,052
Singapore	**-**	-
	622,638	4,917,951

Non-current assets

	30 June 2018 *HK$'000*	31 December 2017 *HK$'000*
Hong Kong	**3,004,201**	2,940,511
Mainland China	**11,098,392**	10,121,355
Singapore	**169**	182
	14,102,762	13,062,048

3. Revenue

	2018 *HK$'000*	2017 *HK$'000*
Sales of properties	**297,417**	4,658,606
Rental income	**268,450**	209,982
Hotel operations	**56,771**	49,363
	622,638	4,917,951

4. Fair value gain on transfer of development properties to investment properties

The amount recognised during the period represented fair value gain on transfer of certain development properties to investment properties in pursuance of the Group's strategy to increase the recurring income.

5. Profit before taxation

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation is stated after crediting:		
Interest income	**39,567**	42,341
Dividend income from financial assets at fair value through other comprehensive income	**66,618**	42,246
Net fair value gains on derivative financial instruments	**1,080**	-
Net fair value gains on financial assets at fair value through profit or loss	**5,025**	4,164
Net exchange gains	**-**	1,098
and after charging:		
Cost of properties sold	**156,462**	1,691,476
Selling and marketing expenses	**108,110**	235,884
Depreciation (net of capitalisation)	**15,785**	15,454
Amortisation for leasehold land and land use rights	**64**	59
Operating lease rental for land and buildings	**4,978**	3,296
Loss on disposal of property, plant and equipment	**94**	17
Net loss on settlement of derivative financial instruments	**-**	7,759
Net fair value losses on derivative financial instruments	**-**	799
Net exchange losses	**35,152**	-

6. Taxation charge

	2018	2017
	HK$'000	*HK$'000*
Current		
Hong Kong profits tax	**2,520**	7,980
Mainland China		
- Income tax	**42,780**	463,989
- Land appreciation tax	**23,978**	1,119,270
Overseas	**-**	66
Over-provision in previous years	**(18)**	(47)
Deferred	**213,076**	230,686
	282,336	1,821,944

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period after setting off available tax losses brought forward. Taxation assessable on profits generated in Mainland China and overseas has been provided at the rates of taxation prevailing in the countries in which the Group operates. There is no income tax provided on other comprehensive income.

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

7. Earnings per share

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

	2018	2017
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**577,737**	2,162,206

	Number of shares	
	2018	2017
Weighted average number of shares for calculating basic earnings per share	**3,059,922,000**	2,959,511,000
Effect of dilutive potential ordinary shares – Share options	**8,699,000**	10,265,000
Weighted average number of shares for calculating diluted earnings per share	**3,068,621,000**	2,969,776,000

8. Dividend

The Board has declared an interim scrip dividend (with a cash option) of HK$187,034,000 (being 6 HK cents per share) (2017: an interim scrip dividend (with a cash option) of 5 HK cents per share, totaling HK$151,147,000). This dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2018.

9. Debtors and prepayments

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
Trade debtors	**11,756**	1,274,660
Other debtors	**283,294**	251,894
Prepayments and other deposits	**525,322**	328,101
Prepaid sales commissions	**225,785**	186,363
Prepaid sales taxes	**148,741**	77,913
	1,194,898	2,118,931

Trade debtors mainly comprise proceeds receivables in respect of sales of properties and rental receivable. Proceeds receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sales and purchase agreements. Rental from tenants is due and payable in advance.

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 2018	31 December 2017
	HK$'000	*HK$'000*
Within one month	**10,057**	1,260,808
Two to three months	**307**	11,741
Four to six months	**124**	408
Over six months	**1,268**	1,703
	11,756	1,274,660

10. Creditors and accruals

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
Trade creditors	**1,151,257**	1,749,118
Other creditors	**91,480**	65,871
Amounts due to non-controlling interests	**314**	-
Accrued operating expenses	**142,062**	212,339
Rental and other deposits received	**189,174**	185,867
	1,574,287	2,213,195

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
Within one month	**1,144,469**	1,738,121
Two to three months	**787**	3,879
Four to six months	**33**	1,878
Over six months	**5,968**	5,240
	1,151,257	1,749,118

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Operating Results

Attributable contracted sales of the Group (comprised of contracted sales of the Group and attributable contracted sales from joint ventures and associated companies) for the six months ended 30 June 2018 ("***Period***") amounted to approximately HK$8.5 billion, mainly derived from Solaria, K. City and The Spectra in Hong Kong, The Palace in Shanghai, The Peak in Nanjing, J Metropolis and Le Palais in Guangzhou, Silver Cove in Dongguan and joint venture projects both in Hong Kong and Nanjing.

As of 30 June 2018, the Group's total attributable unrecognised contracted sales amounted to approximately HK$18.5 billion (including HK$9.2 billion for K. City), estimated to be accounted for in the next 24 months.

Following the revised standard for revenue recognition became effective on 1 January 2018, sales are generally recognised at a later point of time than in previous years, upon the completed units are handed over to our customers. Accordingly, certain contracted sales in the Period in respect of the completed projects were yet to be accounted for.

The revenue of the Group for the Period was HK$623 million, primarily derived from the property sales of The Palace in Shanghai, J Metropolis in Guangzhou, Silver Cove in Dongguan and the rental income of the Shanghai K. Wah Centre. The amount was below that for the same period last year as less revenue for the contracted sales was recognised for the Period. The attributable revenue of the Group (comprising the revenue of the Group and attributable revenue from joint ventures and associated companies of HK$56 million) was HK$679 million for the Period.

Profit attributable to equity holders of the Company was HK$578 million, while underlying profit of the Group (before fair value gain of investment properties) was HK$32 million for the Period.

The total comprehensive income attributable to equity holders of the Company for the Period was HK$47 million after accounting for the change in fair value of the investment in Galaxy Entertainment Group Limited ("***GEG***") and exchange differences arising from translation of the Group's RMB denominated net assets at Period end.

Property Development and Investment in Hong Kong

The property market has remained active throughout the first half of the year. Home prices increased for a 27th straight month in June and continued to reach new heights against the backdrop of strong demand from both investors and end-users. Meanwhile, with limited supply, there was no sign of significant adjustments in the residential market despite the new measures introduced in June by the government and interest rate hikes in the United States (the "***US***").

Solaria was launched for sale in June and received an overwhelming market response. About 95% of the 700 units launched were sold for about HK$5.8 billion as of Period end. The Group also continued to market the remaining units of K. City and joint venture projects, The Spectra, Marinella, Providence Bay and Providence Peak. Construction for all Hong Kong projects, including joint venture projects of Kam Sheung Road and Cheung Sha Wan, progressed as scheduled.

The Group’s leasing performance continued to be satisfactory during the Period. Our premium dining and shopping arcade J SENSES, luxury serviced apartments Chantilly and shopping mall Twin Peaks, all maintained high occupancy and recorded satisfactory rental income. On the other hand, the remaining office units in Kingsfield Centre were transferred to investment properties in accordance with the Group’s strategy to increase recurring income.

Property Development and Investment in Mainland China

During the Period, overall property market sentiment remained positive. Home prices in Tier 1 and 2 cities remained stable while transaction volumes had been adversely affected by various home purchase restrictions and credit tightening policies with no signs of being relaxed in the short term. However, home prices and transaction volumes particularly in lower-tier cities, still saw growth due to less stringent restrictive measures.

Sales for UpTown, J Metropolis Phase IV, started in April with encouraging market response. Around 75% of the 297 units launched were sold as of Period end. The Group also continued to market the remaining units of The Palace in Shanghai, J Metropolis, Le Palais and J Wings in Guangzhou, Silver Cove in Dongguan and The Peak in Nanjing, with good responses. With the completion of Silver Cove Phase III and the handover of the pre-sale units to buyers, certain pre-sale results were recognised in the first half of 2018, with more to be expected in the second half of the year. Occupation permit for The Palace Phase III was also obtained during the Period.

During the Period, the Group participated in a joint venture with several property developers to develop a site in Kunshan and subsequent to Period end, another two joint ventures for sites in Suzhou and Jiangmen with a total attributable land premium of approximately RMB820 million, broadening the Group’s means of land replenishment. In early August, the Group also acquired a 100% interest in a land site in Dongguan with a GFA of approximately 159,000 square metres for approximately RMB1.77 billion.

The Group’s investment properties have maintained satisfactory occupancy throughout the Period. Shanghai K. Wah Centre, continued to achieve around 95% occupancy rate. Our serviced apartments under the brand “Stanford Residences” have been very well received and enjoy high occupancy. Following two towers of The Palace launched for leasing in 2017, a further two towers were also put into market upon completion and transferred to investment properties in the first half of the year. The market response to them has been satisfactory.

Investment in GEG

The Group maintains the investment of 162 million shares, or an approximate 3.8% interest, in GEG carried at fair market value. As of 30 June 2018, the share price of GEG was HK$60.75 compared with HK$62.7 as of 31 December 2017. The change in fair value of approximately HK$317 million was directly recorded in reserve.

OUTLOOK AND STRATEGY

Global economies

During the Period, global economy continued to grow steadily despite factors including the trade war initiated by the US; the two interest rate hikes of 0.25% each in the US; and the unfavourable Brexit negotiations between The United Kingdom and European Union, etc. North Korea started to demolish its nuclear facilities following the meeting of its Leader Kim Jong-un with US President Donald Trump in June, a move which minimized the geo-political risk in the North Asia region although there was still much tension in the Middle East. In January, global stock markets rose generally but then dropped in the Period on the concerns over the US interest rate hikes and the widespread trade conflicts. The RMB was very volatile during the Period which rose by 4% to peak in April and fell 5% continuously by then as of the Period end.

US GDP grew 2.2% and 4.1% in the first and second quarters of 2018 respectively while China maintained GDP growth of 6.8% and 6.7%, in line with the government's 2018 target. In Hong Kong, GDP grew at 4.6% and 3.5% respectively for the first two quarters, compared to the government's full year forecast of 3-4%.

The property market in Hong Kong and Mainland China

Despite the rising HIBOR, on which the majority of the mortgage loan rates in Hong Kong are determined and capped with reference to a prime rate, with the liquidity in the banking market and the strong underlying demand, the residential property price continued to be on the rising trend in the Period. With fewer new projects launched, the total amount for primary transactions decreased 16% year-on-year. However, the average transacted price was approximately HK$14.6 million per unit, a rise of 7% year-on-year. With the strong fundamentals, the property market is not expected to see significant adjustments in the near term.

On the other hand, the Mainland China property market continued to be affected by the government's restrictive measures which are not expected to be relieved soon. During the Period, transaction volumes, particularly for Tier 1 and 2 cities, remained relatively low while home prices were stable as supported by genuine underlying demand. The situation is not expected to turn around soon, but we remain conservatively optimistic on the Mainland China property market in the medium and longer term, particularly in those cities where we have operations. The Group is monitoring the situation for further investment window.

Project sales and progress

In Hong Kong, construction for Solaria in Tai Po progressed as scheduled while the Group launched the first batch of units for sale in June after obtaining the pre-sale consent, which received overwhelming response with all units sold out in the day of launch. Further units were then launched for sale, with about 95% of 700 units launched sold as of the Period end. Construction works for K. City also progressed as scheduled with completion expected by 2018 while the Group continued to market the project's remaining units. With more than 98% of the project's total 900 units sold as of the Period end and occupation permit obtained in August, the Group aims to have the completed units handed over to the buyers by year end. Pre-sale for K. City of approximately HK$9.2 billion can then be recognised.

In Mainland China, the Group launched UpTown, J Metroplis Phase IV, a completed project in Guangzhou in April 2018. An encouraging response was received, with around 75% of the 297 units launched by the Period end sold. The Group also continued to market new batches of units at The Peak in Nanjing while construction has progressed as scheduled. Completion certificate was obtained for majority of its units in the first half of 2018. Further units of Royal Creek, a 33% owned new project in Nanjing, along with its wholly-owned Silver Cove Phase III in Dongguan completed in May 2018, were also launched for sale. As of the Period end, unrecognised contracted sales of The Peak, UpTown, Le Palais and Silver Cove for the aggregate amount of approximately HK$2.2 billion will be accounted for when the relevant units are delivered to buyers, expected in stages from the second half of the year. The Group will continue to market its remaining units in various projects in Shanghai, Guangzhou and Dongguan. The Group also plans to launch Windermere in Shanghai, and subject to market conditions, the third phase of The Palace and Azure.

Government approvals for the projects' construction have just been obtained by the joint ventures for the Suzhou and Kunshan sites while pre-sales are also scheduled later in the year.

Land bank replenishment

After securing six new land parcels in 2017 in Hong Kong and Mainland China, the Group participated in three joint ventures since the beginning of the year, enhancing its footprints in Suzhou, Kunshan and Jiangmen, and acquired a 100% interest in a land site in Dongguan. It will continue to exercise discipline and sound judgment in evaluating land replenishment opportunities, taking advantage of the softening land market in some Mainland China cities.

Recurring income

In Shanghai, another two towers with approximately 12,000 square metres in addition to the two towers of the second phase of The Palace under "Stanford Residences Xu Hui" launched last year were put for leasing in April and June respectively to meet the strong demand. Leasing for the three towers of approximately 13,000 square metres in Azure under "Stanford Residences Jin Qiao" continued. Palace Lane, the commercial portion of The Palace with a GFA of approximately 9,000 square metres, was fully opened with more than 75% were now leased out. J-Town, the commercial portion in Silver Cove, Dongguan, with approximately 11,400 square metres was fully opened in the Period and with more than 80% leased out.

In Hong Kong, the fully let office units in Kingsfield Centre of approximately 5,800 square feet were transferred to investment properties for rental. As a result, the Group's investment property portfolio was enlarged from approximately 190,000 square metres on 31 December 2017 to approximately 200,000 square metres as at the Period end. With Phases III and IV of K. Wah Plaza, a comprehensive development for SOHO offices, offices, hotel and retail facilities in Guangzhou, of approximately 86,000 square metres scheduled to be opened in 2019, as well as the office building at Suhe Creek, Jingan District, Shanghai of approximately 20,000 square metres, and the commercial portions of our residential projects under development to be held for rental, we are on track to enlarge our portfolio for recurring income.

Dividend derived from our approximately 3.8% interest in GEG remains a source of our recurring income.

Conclusion

Major developed countries, Mainland China and Hong Kong generally performed well in the first half of 2018 while their economies are expected to continue to grow steadily. However, investors have been cautious about the outcome of the trade war between the US and China and its consequences on global economic growth. Should US interest rate hikes be matched by Hong Kong, its property market may be affected. Further administrative policies by the government continue to be the major risk factor for property market in Mainland China while its economy growth continues to outperform many developed countries. Despite there are market volatility and uncertainties, we prudently believe that property markets in Hong Kong and Mainland China can sustain their growth healthily.

The Group has secured good contracted sales to be recognised in the next 24 months and will continue to develop our existing projects and to launch projects in our pipeline according to schedule, as well as to further replenish our land bank in a disciplined manner. The Group remains well positioned to capture any opportunities in the market arising from the restrictive property measures/policies by the Chinese and Hong Kong governments.

REVIEW OF FINANCE

Financial Position

The financial position of the Group remained healthy. As of 30 June 2018, total funds employed (being total equity and total borrowings and guaranteed notes) were HK$58 billion (31 December 2017: HK$55 billion). The number of issued shares of the Company increased to 3,060,409,052 as of 30 June 2018 (31 December 2017: 3,055,461,052) as a result of the exercise of share options during the Period.

Group Liquidity, Financial Resources and Gearing Ratio

The Group monitors its liquidity requirements on a short-to-medium-term basis and arranges refinancing of the Group's borrowings when appropriate. As of 30 June 2018, the Group's borrowings of bank loans and guaranteed notes were HK$20,867 million, with a maturity profile spread over a period of up to five years except for HK$63 million which is due after 5 years, 9% of the rest is repayable within one year and the remaining 91% repayable over one to five years. The average interest rate for the Group during the Period was approximately 2.3%.

In addition, the Group had available undrawn facilities totalling HK$8,543 million, comprising HK$5,906 million for working capital and HK$2,637 million for project facility purposes.

As of 30 June 2018, cash and bank deposits stood at HK$6,183 million, with approximately 47% held in Renminbi.

The gearing ratio, defined as the ratio of total borrowings and guaranteed notes less cash and bank deposits to total equity, stayed at 40% as of 30 June 2018 (31 December 2017: 34%).

A 5-year revolving credit and term loan totalling HK$7 billion was executed in January 2018 for refinancing at lower cost and as an additional available funding source, to enhance the Group's liquidity.

Treasury Policies

In order to minimise risk, the Group continues to adopt a prudent approach regarding foreign exchange exposure. Forward foreign exchange contracts are utilised when considered appropriate and when attractive pricing opportunities arise to mitigate foreign exchange exposures. Interest rate swap contracts are also utilised as appropriate to avoid the impact of any undue interest rate fluctuations on the Group's operations.

Of the Group's bank loans and guaranteed notes of HK$20,867 million as of 30 June 2018, approximately 91% was denominated in Hong Kong dollars, with the remainder in Renminbi. Approximately 91% of such borrowings and notes was on a floating rate basis, with the remainder on a fixed rate basis after hedging.

Charges on Group Assets

As of 30 June 2018, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, buildings and bank deposits) with aggregate carrying values of HK$11,825 million (31 December 2017: HK$5,338 million) to banks in order to secure the Group's borrowing facilities.

Guarantees

As of 30 June 2018, the Company has executed guarantees in favour of banks and financial institutions, in respect of facilities granted to certain subsidiaries and joint ventures, amounting to HK$27,226 million (31 December 2017: HK$17,779 million) and HK$1,460 million (31 December 2017: HK$1,460 million) respectively. Of these, facilities totalling HK$19,032 million (31 December 2017: HK$16,990 million) and HK$1,323 million (31 December 2017: HK$1,323 million) respectively have been utilised.

In addition, certain subsidiaries of the Company provided guarantees amounting to HK$1,230 million (31 December 2017: HK$1,241 million) in respect of mortgage facilities granted by banks relating to mortgage loans arranged for purchasers of the Group's properties.

The Company has executed a guarantee in favour of the Hong Kong government in respect of the performance obligation of an investee company under a contract on a quarry site with the Hong Kong government. On 31 July 2017, the works under the contract was completed and the quarry site of the contract was returned to the Hong Kong government.

EMPLOYEES AND REMUNERATION POLICY

The Group believes its long-term growth and success depend upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to offer competitive remuneration packages to attract, retain and motivate talents. With result-driven incentive programmes which are built upon our established performance management framework, the Group believes the remuneration packages of its employees are fair, reasonable and competitive in relation to comparable organisations with similar business interests.

The Group has put in place a share option scheme for its executives and employees since 1989 for the purposes of providing competitive remuneration package as well as retaining talents in the long term. The Group puts emphasis on employees' training and development opportunities which form an important component of the Group's human resources strategy. Training and development programmes are provided through internal and external resources in each year to address the needs of our employees for the sustainable development of our businesses.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to the principles of observing good corporate governance consistent with prudent management and enhancement of shareholders' value. The full Board is entrusted with the overall responsibility of developing and ensuring adherence to the Company's Corporate Governance Policy and the Shareholders Communication Policy. The Company is committed to maintaining high standards of corporate governance and enhancing corporate transparency and accountability.

During the period of six months ended 30 June 2018, the Company has complied with the code provisions ("***CPs***") of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities ("***Listing Rules***") on The Stock Exchange of Hong Kong Limited ("***HK Stock Exchange***"), apart from the deviations from (i) CP A.2.1, namely, the roles of chairman and managing director have not been separated; and (ii) CP A.4.2, namely, the chairman and the managing director are not subject to retirement by rotation.

The Board believes that the underlying rationale to deal with such deviations as mentioned under the section headed "COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES" in the Corporate Governance Report of its 2017 Annual Report still holds. The Board has taken alternative steps to address such deviations. The Board will continue to review and recommend such steps and actions as appropriate in the circumstances of such deviations.

AUDIT COMMITTEE

The Audit Committee of the Company met on 15 August 2018 and reviewed the Company's accounting principles and practices and discussed audit strategy, internal control and financial reporting matters. The Group's unaudited interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee of the Company and by the Company's Independent Auditor, PricewaterhouseCoopers, 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. The report on review of interim financial information by the Auditor will be included in the 2018 Interim Report to shareholders.

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 listed securities during the period of six months ended 30 June 2018.

INTERIM DIVIDEND

The Board has declared an interim scrip dividend (with a cash option) for the six months ended 30 June 2018 of 6 HK cents per share, totaling HK$187,034,000, payable on 22 October 2018 to the shareholders whose names appear on the registers of members of the Company at the close of business on 18 September 2018 (2017: an interim scrip dividend (with a cash option) of 5 HK cents per share, totaling HK$151,147,000).

Payment of the interim scrip dividend is conditional upon the HK Stock Exchange granting the listing of and permission to deal in the new shares to be issued as the scrip dividend. It is expected that the share certificates in respect of such shares and the dividend warrants will be posted to those entitled on 22 October 2018. The Company will send a circular to the shareholders containing, among others, details of the interim scrip dividend with a cash option.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members will be closed from 13 September 2018 to 18 September 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar 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 12 September 2018.

PUBLICATION OF FURTHER INFORMATION ON WEBSITE

This announcement will be published on the websites of the Company (*www.kwih.com*) and the Hong Kong Exchanges and Clearing Limited ("***HKEx***") (*www.hkexnews.hk*). The 2018 Interim Report containing all the applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Company and HKEx in late September 2018.

DIRECTORS

As at the date of this announcement, the Executive Directors are Dr. Lui Che-woo *(Chairman & Managing Director)*, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah; the Non-executive Director is Dr. Moses Cheng Mo Chi; and the Independent Non-executive Directors are Dr. Robin Chan Yau Hing, Dr. William Yip Shue Lam, Mr. Au Man Chu and Mr. Wong Kwai Lam.

By Order of the Board of
K. Wah International Holdings Limited
Lee Wai Kwan, Cecilia
Company Secretary

Hong Kong, 22 August 2018