OVERVIEW

The overall economy of Hong Kong has slowed down in the first half of 2001. The residential property market remained sluggish. Developers have to lure buyers with lower prices, attractive financing schemes and other incentives. In view of a highly competitive property market, the Group has endeavored to further improve the quality of its property development projects in terms of floor layout, design, environmental concept, amenities and quality materials. With a flexible and effective sales strategy, the Group's reasonably priced quality residential units have attracted many buyers amid the current modest profit environment. The Group thus managed to secure a remarkable increase in property sales during the period even in the present quiet properties market. In February, 2001 the Group acquired through Government public auction a residential site in Ma On Shan with a total gross floor area of approximately 37,000 square metres.

In Mainland China, the economy grew at a strong pace of 7.9% in the first half of this year. Residential property prices and sales volume in Shanghai increased modestly. The Group's property sales in the Mainland have recorded growth during the period, particularly in Shanghai where property sales result was encouraging.

The slowdown of the construction industry in Hong Kong has affected the Group's Construction Materials business. As a result, the performance for the period has declined.

REVIEW OF OPERATIONS

Turnover and profit before taxation for the six-month period ended 30th June 2001 were HK$1,219 million and HK$89 million as compared to HK$699 million and HK$83 million respectively for same period last year, representing an increase of 74% and 7% respectively.

The net profit ratio (defined as the ratio of net profit before tax to turnover) for the period was 7%, slightly lower than the ratio of 9% last year.

The turnover from property sales was 276% higher than that of the corresponding period last year and accounted for 53% of the total turnover for the period.

The growth was mainly attributable to the satisfactory result on the properties pre-sale both in Hong Kong and in the Mainland.

Construction Materials business which used to be the major profit contributor to the Group showed a 33% decrease in its attributable profit mainly due to significant drops in both the prices and demand for construction materials amid the continuous slowdown in the construction industry in Hong Kong.

The segmental results of the Group operations for the six-month period ended 30th June 2001 are set out in note (2) to the financial statements.

(1) Properties In Hong Kong

(A) *Current Development Properties in Hong Kong*
(Total gross floor area of approximately 178,000 square meters)

Construction works of both Le Cachet, 69A&B Sing Woo Road, Happy Valley and The Montebello, 155 Argyle Street, Kowloon Tong were completed and occupation permit obtained. Nearly all the residential flats of Le Cachet and around 70% of the residential flats of The Montebello were sold.

Construction works of The Seacrest, Hang Kwai Street, Tuen Mun are now at the superstructure works stage. It is expected that the development will be completed by early 2002. Pre-sale of the residential flats was launched in May 2001 and was well received by the market, with nearly 50% of the flats sold.

Construction works of The Palace, 83 Broadcast Drive, Kowloon Tong, proceeded in accordance with the planned schedule. Foundation works were completed and superstructure works have commenced. The residential apartment building will incorporate the green features as promulgated in the recent government announcement on Green and Innovative Buildings to enhance the value of the development.

The development at Sha Tin Town Lot 483, Ma On Shan, Sha Tin is at the final planning stage. Construction works are expected to commence shortly. The building will incorporate the green features to enhance the value of the development. It is expected that the development will be completed by 2004.

The property development joint ventures at DD387, Lot 214, Sham Tseng, of which the Group holds a 50% interest and at Tsuen Wan Town Lot 395, Route Twisk, Tsuen Wan of which the Group holds a 25% interest were progressing in accordance with the planned schedules. Both developments are expected to be completed by 2004/2005.

(B) *Other major properties in Hong Kong*

The Skyline Commercial Centre at Wing Lok Street, Sheung Wan were virtually fully let during the period and has contributed a steady rental income to the Group.

The occupancy rates for the Shopping Arcade at the Grandview Garden, Pau Chung Street, Tokwawan and the office building at the Kingfield Centre, Shell Street have remained steady at 60% and 80% respectively.

(2) Properties in the Mainland

(A) *Current Development Properties in the Mainland*
(Total gross floor area of approximately 152,000 square metres)

In Guangzhou, the development of phase 3 of the Parkview place at Dongfeng Road West, Guangzhou is at its final stage. Construction works will be completed shortly. Pre sale was first launched late last year and over 60% of the residential flats launched were sold. Further launch is planned in the coming few months.

In Shanghai, construction works for the Chez Moi, Wanhangdu Road, Shanghai were completed and occupation permit has been obtained. Over 90% of the flats were sold.

(B) *Other major properties in the Mainland*

Various development alternatives were being reviewed during the period for the Pacific Plaza at Huaihai Zhong Road, Shanghai of which the Group holds a 35.75% interest. Plan for the phase 2 development was finalized and construction works are expected to commence soon. The property will be developed into a Grade A Office Tower. Construction works are expected to be completed by 2004/2005.

The local market condition in Nanjing remained very competitive and the operating results for the Times Square, at Zhongshan Road, Nanjing of which the Group held a 55% interest, was not satisfactory. A capital restructuring was undergone during the period to invite new local partner to the joint venture whereby new funds and expertise were injected into the operation. Subsequent to the restructuring, the Group's interest in the joint venture was reduced to 28%. Provision on diminution in value of the investment has been made.

(3) Properties in Singapore

The office spaces and car parking spaces at the San Centre, Chin Swee Road, Singapore were virtually fully let during the period and have contributed a steady rental income to the Group.

(4) Construction Materials Business and Technology Investments (Investment via 67% shareholding in K. Wah Construction Materials Limited)

(A) *Construction materials business in Hong Kong*

The profit contribution of the construction materials division in Hong Kong decreased due to the continuous slowdown in the local public and private property sectors and infrastructure developments. Resource rationalization and cost control were undertaken to curb the decrease in profit contribution from this division.

During the period, the Group has incorporated a subsidiary in Huidong for setting up a new quarry to supply aggregates to Hong Kong.

(B) *Construction materials business in the Mainland*

The overall performance of the Mainland's construction materials division was steady as compared to the corresponding period last year. The performance of the Guangzhou operations was unsatisfactory owing to the intensifying market competition and the shut down of the ready mixed concrete batching plant of Guangzhou Jia Fang Concrete Co. Ltd. However, the loss incurred in Guangzhou was offset by the continuous improving performance of the Shanghai region.

(C) *Technology Investments*

The Group has so far invested a total sum of HK$99 million based on a prudent and diversification plan. The investment portfolio held by the Group covers a well-balanced and diversified line of investments in Hong Kong and in the Mainland. The Group remains confident on the investment made so far even though the present market condition is not favourable for the high-tech industry.

OUTLOOK

Expecting no dramatic improvement in economic activities, the Hong Kong government has revised its GDP forecast for 2001 from the adjusted 3% to 1% in real teams in view of the global economic slowdown.

Affected by the global economic slowdown, the economic condition of Hong Kong is unlikely to be eased in the short term. Under such circumstances, the Group's property division in Hong Kong will continue to adopt a revenue focus strategy in the current modest profit margin environment.

In the Mainland, officials are confident that with steady increase in fixed asset investments and strong domestic demand, GDP growth will reach 7% to 8% this year. With the imminent accession to the WTO and the hosting of the 2008 Olympic games in Beijing, the economic outlook for the Mainland is encouraging.

Given the solid foundation of the operation of our Mainland property division, the Group will benefit from the prospering Mainland market. The Group will continue to look for quality residential development opportunities in Shanghai and Guangzhou. The Group has also resolved to develop the Huaihai Zhong Road Phase II as a class A office building to meet the thriving demand of office space in the central business district in Shanghai.

For the construction materials division, the Group is consolidating its Hong Kong operations through resource rationalization to stay competitive and to remain as one of the leaders in the industry, while at the same time expanding the Mainland operations.