REVIEW AND OUTLOOK

Turnover and profit attributable to shareholders for the first half of 2004 was HK$901 million and HK$150 million respectively as compared to HK$1,639 million and HK$42 million for the same period last year. Turnover for the period decrease by 45% whereas the profit was more than double with an increase of 257%.

The decrease in the Group's turnover but with a drastic increase in profit attributable to shareholders was due to the profit from sales of properties from the jointly controlled entities where only the Group's share of profits is included in the profit and loss statement. Contribution from the properties division during the period was performing well with the continued rising trend of properties prices as a result of the improvement in the overall economic outlook and property market sentiment in Hong Kong after the SARS impact. In some cases, the increase might be as high as 40% and above when compared with last year. Major properties sold in Hong Kong during the period were La Costa, The Palace, Anglers' Bay, The Cairnhill and Parkview Place Phase III in Guangzhou.

The Group's property development projects and investment property project in Shanghai (with the total gross floor area of approximately 700,000 square metres) were progressing well. Pre-sale of residential units of some of these property development projects will commence by the end of this year or early next year. Our Grade A office building located in Huaihai Zhong Road will be completed at around the same time. Pre-leasing program of this Grade A office building progressed well and was well received by the market.

During the period, the Group had acquired through Government public auction and tender of the Urban Renewal Authority, two sites at Tung Lo Wan Hill Road in Shatin and Johnston Road in Wanchai with total gross floor areas of approximately 25,000 and 21,000 square metres respectively. Development plans are now underway. It is expected that the two projects will be completed in 2007 and 2008 respectively.

The market condition for construction materials business in Hong Kong is soft in the first half of the year but is expected to improve gradually as the economy of Hong Kong is now on the path of recovery. The Group has continued to explore new business opportunities and areas to improve profit contribution from the construction materials division. New projects such as the ready-mixed concrete operation at Daya Bay, Huidong has begun making profit contribution as planned.

REVIEW AND OUTLOOK (continued)

In the Mainland, the volatile fluctuation in raw material prices in the first half of the year has its toll on the performance of the operations. With the implementation of austerity measures by the Central Government, raw material prices begin to stabilize. This would of course be beneficial to the Group's operation in the Mainland. As regards new projects, all of them were progressed as planned. It is envisaged that the Group's performance will be further enhanced when all these projects gradually phasing into operation. On 19th August 2004, the Group entered into a joint venture contract to establish an equity joint venture company in Yunnan, PRC of which the Group will hold a 20% interest, the joint venture company shall be named Yunnan Kungang & K. Wah Cement Construction Materials Co. Ltd, for the manufacture, sale, and distribution of cement and slag and related products.

FINANCIAL POSITION

The financial position of the Group continued to remain strong during the period. At 30th June 2004, the shareholders' funds increase by 5% to HK$2,648 million from HK$2,532 million at 31st December 2003 and total funds employed was HK$6.6 billion, an increase of 26% over the end of 2003.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

Cash and bank balances less short term loans and overdrafts at 30th June 2004 stood at HK$821 million, 141% higher than the HK$340 million at 31st December 2003.

The gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 29%.

During the period, the Group issued an aggregate amount of HK$864.26 million 0.5% guaranteed convertible bonds due in March 2009 in order to diversify its source of funding.

The Group's liquidity position remains strong and the Group possesses sufficient cash and substantial banking facilities to meet its working capital requirements, future acquisitions and investments.

TREASURY POLICIES

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimize risk. The majority of the Group's borrowings are in either Hong Kong Dollars or Renminbi. 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 also utilized when considered appropriate to avoid impact of any undue interest rate fluctuation on the operation.

The Group has not engaged in the use of derivative products, which are considered not necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Investment properties and leasehold land and buildings with carrying values of HK$147 million (31st December 2003: HK$267 million) and HK$188 million (31st December 2003: HK$290 million) respectively were pledged to banks to secure the Group's borrowing facilities.

CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries amounting to HK$2,781 million (31st December 2003: HK$1,505 million), of which HK$1,409 million (31st December 2003: HK$767 million), have been utilised.

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance by a subsidiary's obligation under a contract with the HKSAR Government.

EMPLOYEES AND REMUNERATION POLICY

The Group, excluding associated companies and jointly controlled entities, employs 2,268 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK$104 million.

The Group recruits and promotes individuals based on merit and their development potential and ensures remuneration packages are competitive. Following approval by the shareholders in 1989, the Group has a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in the Mainland China, employees' remuneration is commensurate with market pay levels with the emphasis on provision of training and development opportunities.