REVIEW OF OPERATION

Turnover and profit attributable to shareholders for the six months ended 30th June 2004 was HK$617 million and HK$11 million as compared to HK$516 million and HK$31 million respectively for the corresponding period last year, representing an increase in turnover of 20% and a decrease in profit of 65%. The profit attributable to shareholders for the corresponding period last year included a gain on disposal of operating rights of HK$28 million. When excluding such gain the profit attributable to shareholders for the current period has in fact improved as compared to last year.

With the economic initiatives taken by the Central Government, the overall sentiments in Hong Kong have begun to improve. The economy of Hong Kong is now at its early stage of recovery and it will gradually feed through all sectors of the society. The construction industry, in particular, will benefit from the economic recovery. Along such environment the market condition for construction materials business in Hong Kong is expected to improve gradually. The Group, however, will continue to maintain a cost efficient operation so as to alleviate the effect brought about by low market demand situation. On the other hand, the Group has continued to explore new business opportunities around the area to improve profit contribution. The Group's new ready-mixed concrete operation at Daya Bay, Huidong supplying ready-mixed concrete to the CNOOC and Shell Petrochemical Complex at Huizhou has begun making profit contribution as planned. The Group's concrete pile factory at Shenzhen which commenced operation in February this year has successfully established a market locally and the products were well received by the customers.

In the mainland market, the unstable raw materials prices in the first half of the year have affected the performance of our operations. With the introduction of austerity measures by the Central Government recently, the rapidly rising raw materials prices have begun to stabilize. As regard to the new projects, all of them were proceeding as planned during the period. It is envisaged that the Group's performance will be further enhanced when all these projects gradually phase into operation.

In respect of technology investment, the Group continues to maintain a balanced investment portfolio similar to that of last year.

REVIEW OF OPERATION (Cont'd)

Looking forward, the Group will continue its strategy to capture potential opportunities to expand its products range with high value added, high entry barrier and environmental friendly nature. On 19th August 2004, the Group has entered into a joint venture contract with Kunming Steel Group to establish an equity joint venture company in Yunnan, PRC of which the Group will hold a 30% 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. The Group will also seize the valuable business opportunities bring about by closer economic cooperation among the Pan Pearl River Delta region.

LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group continued to remain strong during the period. The shareholders' funds at 30th June 2004 was HK$1,421 million similar to that at 31st December 2003 of HK$1,414 million and the Group's gross assets employed also maintained at HK$1,680 million as compared to HK$1,778 million at 31st December 2003.

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

GEARING RATIO

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was at a low level of 4% at 30th June 2004. At 31st December 2003, the gearing ratio was practically at a debt free level.

TREASURY POLICY

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, United States Dollars or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks. All of the Group's borrowings are in either Hong Kong Dollars or Renminbi. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposure. The Group has not engaged in the use of other derivative products, which are considered not necessary for the Group's treasury management activities.

CHARGES ON GROUP ASSETS

Land and buildings with net book values of HK$229,297,000 (31st December 2003: HK$231,966,000) have been pledged to secure banking facilities.

CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK$288,240,000 (31st December 2003: HK$291,516,000). At 30th June 2004, the facilities utilised amounted to HK$154,474,000 (31st December 2003: HK$108,490,000).

EMPLOYEES AND REMUNERATION POLICY

The Group, excluding associated companies and jointly controlled entities, employs around 1,900 employees in Hong Kong and Mainland China. Employee costs, excluding Directors' emoluments, amounted to HK$72 million.

The Group recruits and promotes individuals based on their competencies, merit and development potential and ensures remuneration packages are competitive. The Group has implemented a share option scheme for executives from 1991 following approval by its shareholders for the purpose of providing competitive package and long term retention of management talents. Likewise in Mainland China, employees' remuneration is commensurate with market levels with emphasis on provision of training and development opportunities.