(I) REVIEW AND OUTLOOK

The profit attributable to shareholders for the first half of 2005 was HK$631,585,000, an increase of 306% as compared to HK$155,637,000 for the same period last year.

Adoption of new and revised Financial Reporting Standards

This is the first half year's financial report of the Group following the adopting of the new Hong Kong Financial Reporting Standards effective 1st January 2005. The changes in accounting policies do not have any material effect on the financial statements under review other than certain presentation changes with the comparative figures being realigned.

The changes, however, could have certain impact on the Group's future operations. The main impact on the future financial statements is that revenue recognition for development properties will be recognised when the development is completed and sold instead of based on the stage of completion.

Acquisition of Galaxy by KWCM

On 22nd July 2005, the acquisition (the "Acquisition") of 88.1% of the voting shares carrying 97.9% of the economic interest in Galaxy Casino, S.A. ("Galaxy") at a consideration of HK$18,405,198,023 by Canton Treasure Group Ltd., a wholly-owned subsidiary of K. Wah Constructions Materials Limited ("KWCM") pursuant to a conditional acquisition agreement dated 14th March 2005 as amended by two supplementary agreements dated 1st April 2005 and 31st May 2005, was completed.

The Acquisition constituted a connected transaction, deemed very substantial disposal and very substantial acquisition for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was duly approved by the independent shareholders of the Company at the special general meeting duly convened and held on 19th July 2005.

Further details of the Acquisition were included in the circular of the Company dated 30th June 2005 issued to its shareholders.

Upon completion of the Acquisition, KWCM ceased to be a subsidiary and became an 25.9% associated company.

Following the special interim dividend payment by way of one KWCM share for every ten shares of the Company held by the shareholders, the Group's shareholding in KWCM will further be diluted from existing 25.9% to 18.8%. KWCM will cease to be an associated company of the Group and become a long term investment as "available-for-sale financial asset".

Operating results

The Group's profit attributable to shareholders increased by 306% to HK$631,585,000. The big jump in profit attributable to shareholders was mainly due to the profit amounting to HK$577 million arising from the deemed disposal of shares in KWCM by the Group in a top-up placement of shares by KWCM. As a consequence of the placement, the Group's attributable share in KWCM's net assets increased by the said amount of HK$577 million, despite the fact that its shareholding in KWCM was diluted.

Following the completion of the Acquisition when KWCM issued 1,840,519,798 new KWCM shares at the agreed price of HK$8.00 each to the vendors, there will have another deemed profit of the amount close to HK$3 billion arising from a further dilution of the Group's shareholding in KWCM to 25.9%. This sum will be recorded in the books of accounts of the Group in the latter part of the year.

Development properties in Shanghai

During the period, phase I of the Shanghai Westwood, a luxurious condominium residential project in the Da Ning International Community within the inner ring area of Shanghai commenced its pre-completion marketing launch in May this year. There are a total number of 632 units available for pre-sale. The market response so far was modest. This is due to the Central Government and the Shanghai Municipal Government having issued various measures since last year to cool down the soaring property prices. Most of the potential home buyers have adopted a "wait and see" attitude. However, the soft market conditions in the real estate sector helps speeding up the pace of the demolition for our development property projects in Shanghai.

With the continuing strong economic and income growth in the Mainland and the unabated desire and enthusiasm for the urban households to buy their own homes to improve their living standards, the long term prospect for real estate is still promising. We believe that the project will bear good results at the end. This is particularly so because most of our property development projects were acquired in the latter part of 2001 or early part of 2002 when the property prices in Shanghai were just beginning to rise.

Overall, the Group's property development projects and investment property projects in Shanghai were progressing well. The Shanghai K. Wah Centre, our Grade A office building situated on the Huaihaizhong Road in the Xuhui District, was completed in the first quarter of 2005 and has an over 95% occupancy. With multi-national corporation tenants profile and satisfactory rental rates being achieved, this investment property will contribute a strong steady rental income to the Group.

Development properties in Hong Kong

The development for Tung Lo Wan Hill Road and Johnston Road were progressing well in accordance with schedule. The former project is expected to launch its pre-sale marketing campaign in the late 2005 or early 2006 whereas the latter project will start its pre-sale in early 2006. We are expecting that the two projects would bring handsome profits to the Group based on the present market conditions in Hong Kong.

Construction Materials Division

The market condition for construction material business remained soft in the first half of the year though encouraging signs of gradual improvements are developing. Turnover for the period for the construction materials division was similar to that of last year while the profit attributable to shareholders increased by approximately 23% over last year.

(II) REVIEW OF FINANCE

Financial position

The financial position of the Group remains strong. At 30th June 2005, the equity increased by 54% to HK$5,232 million from HK$3,396 million at 31st December 2004.

The number of the issued shares of the Company increased through the exercise of the convertible bonds and share options during the period. The dilution effect, however, was offset by the profits recognised for the period.

Liquidity and gearing ratio

Cash and bank balances less short term loans at 30th June 2005 stood at HK$939 million and the gearing ratio, defined as the total loans outstanding less cash balances to total assets, stayed at a healthy level of 20%.

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 Hong Kong Dollars. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilised when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation.

The Group has not engaged in the use of derivative products.

Charges on Group assets

Investment properties and land and buildings with carrying values of HK$135 million (31st December 2004: HK$261 million) and HK$256 million (31st December 2004: HK$259 million restated) 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$3,772 million (31st December 2004: HK$3,844 million), of which HK$2,204 million (31st December 2004: HK$1,904 million), have been utilised.

The Company has executed guarantees in favour of convertible bondholders in respect of convertible bonds issued by a subsidiary amounting to HK$154 million (31st December 2004: HK$864 million).

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

Employees and remuneration policy

As at 30th June 2005, the Group, excluding associated companies and jointly controlled entities, had over 2,400 employees in Hong Kong and the Mainland (2004: 2,268). Employee costs, excluding Directors' emoluments, amounted to HK$122 million for the period under review (2004: HK$104 million).

The Group recruits and promotes individuals based on merit and their development potential and ensures that 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.