REVIEW OF PERFORMANCE

Turnover and profit attributable to shareholders for the year ended 31st December 2002 were HK$2,134,552,000 and HK$106,403,000, a decrease of 6% and an increase of 6% respectively. Gross profit margin for the year was 11%, similar to last year.

Contribution from the Properties Division continued to increase during the year. Major properties sold during the year were The SeaCrest, La Costa and The Palace in Hong Kong, Chez Moi in Shanghai and Parkview Place Phase 3 in Guangzhou. Sales from this Division had accounted for approximately 51% of the Group's turnover.

Due to the escalating competition, contribution from the Construction Materials Division was 59% less than that of last year.

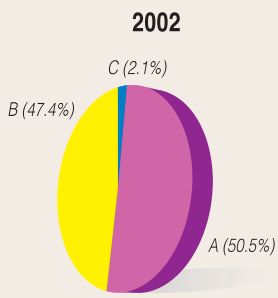
Set out below are the segmental analysis of the Group's operation for the year ended 31st December 2002.

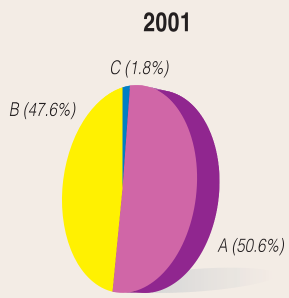
By Division

	Properties	**Construction materials**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	1,079,095	1,010,999	44,458	2,134,552
Cost of sales	(955,627)	(909,523)	(36,429)	(1,901,579)
Gross profit	123,468	101,476	8,029	232,973
Other revenues	4,362	6,499	859	11,720
Other operating income	12,198	7,043	5,617	24,858
Administrative expenses	(18,841)	(51,689)	(11,737)	(82,267)
Other operating expenses	(31,587)	(17,375)	—	(48,962)
Operating profit	89,600	45,954	2,768	138,322

TURNOVER BY DIVISION

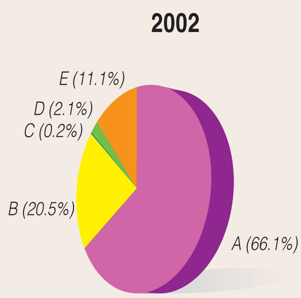
		2002	2001
		HK$'000	*HK$'000*
A	Properties	**1,079,095**	1,152,189
B	Construction materials	**1,010,999**	1,082,615
C	Others	**44,458**	40,096
		2,134,552	2,274,900

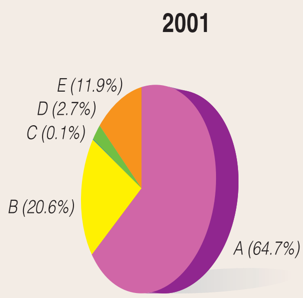




EMPLOYMENT OF GROSS ASSETS

		2002	2001
		HK$'000	*HK$'000*
A	Properties	**4,106,615**	3,566,589
B	Construction materials	**1,276,310**	1,138,545
C	Trading	**11,690**	6,267
D	Central services	**132,998**	150,241
E	Cash & bank balances	**686,409**	656,303
		6,214,022	5,517,945





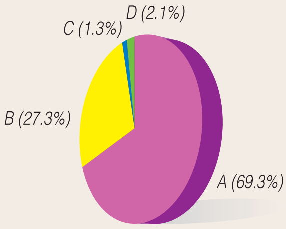
By Geographical Spread

	Hong Kong	**Mainland**	**Singapore**	**Japan**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	1,479,594	583,176	27,324	44,458	2,134,552
Cost of sales	(1,307,456)	(541,084)	(16,610)	(36,429)	(1,901,579)
Gross profit	172,138	42,092	10,714	8,029	232,973
Other revenues	10,906	800	11	3	11,720
Other operating income	1,297	23,351	187	23	24,858
Administrative expenses	(59,537)	(13,340)	(1,682)	(7,708)	(82,267)
Other operating expenses	(25,946)	(15,724)	(7,292)	—	(48,962)
Operating profit	98,858	37,179	1,938	347	138,322

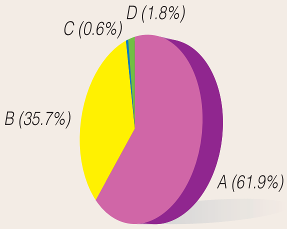
TURNOVER BY GEOGRAPHICAL SPREAD

		2002 HK$'000	2001 HK$'000
A	Hong Kong	**1,479,594**	1,407,367
B	Mainland China	**583,176**	813,260
C	Singapore	**27,324**	14,177
D	Japan	**44,458**	40,096
		2,134,552	2,274,900

2002



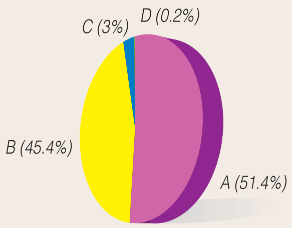
2001



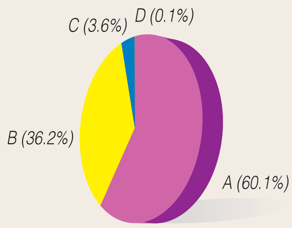
GROSS ASSETS BY GEOGRAPHICAL SPREAD

		2002 HK$'000	2001 HK$'000
A	Hong Kong	**3,195,839**	3,314,429
B	Mainland China	**2,819,030**	1,997,079
C	Singapore	**185,932**	198,272
D	Japan	**13,221**	8,165
		6,214,022	5,517,945

2002



2001



REVIEW AND OUTLOOK OF OPERATION

(1) Properties in Hong Kong

(A) ***Current development properties***
(Total gross floor area of approximately 154,000 square metres)

(i) *La Costa, Sha Tin Town Lot 483, Ma On Shan, Sha Tin (100% owned)*

The Property is being developed into two towers of 32-storey residential apartment buildings with a full range of clubhouse facilities and an outdoor swimming pool, overlooking the panoramic view of Tolo Harbour. Superstructure work is in progress and the development is expected to be completed by early 2004. Pre-sale was launched in December 2002. Market response was encouraging and over 60% of the residential flats were sold.

(ii) *The Palace, 83 Broadcast Drive, Kowloon Tong (100% owned)*

The property was developed into a 37-storey high rise luxurious residential apartment building with clubhouse facilities and a large swimming pool. The development was completed during the year and occupation permit has been obtained. Over 60% of the units were sold.

(iii) *The SeaCrest, Hang Kwai Street, Tuen Mun (100% owned)*

The property was developed into two towers of 28-storey residential apartment buildings with large clubhouse facilities and an outdoor swimming pool. The development was completed during the year and occupation permit has been obtained. All of the residential flats were sold.

(iv) *DD 387, Lot 214, Sham Tseng, Tsuen Wan (50% owned)*

This is a development property joint venture of which the Group holds a 50% interest. The Group was appointed as the project manager for the development.

The property has a site area of approximately 7,900 square metres with a total gross floor area of approximately 17,000 square metres for residential property development. The property will be developed into two blocks of 36-storey luxurious residential apartment buildings. Foundation work is at its final stage and superstructure work will commence shortly. The development is expected to be completed by 2004.

(v) *Tsuen Wan Town Lot 395, Route Twisk, Tsuen Wan (25% owned)*

This is a development property joint venture of which the Group holds a 25% interest. The property has a site area of approximately 26,000 square metres with a total gross floor area of approximately 77,000 square metres for residential property development. The project was at the superstructure work stage and the development is expected to be completed by 2004. Cheung Kong was appointed as the project manager for the development.

(vi) *The Montebello, 155 Argyle Street, Kowloon Tong (100% owned)*

The property was developed into a 28-storey luxurious residential apartment building with clubhouse facilities and an indoor heated swimming pool. The development was completed and close to 90% of the units were sold.

(B) ***Other properties (all 100% owned)***

(i) *Skyline Commercial Centre, Wing Lok Street, Sheung Wan*

The property is a 24-storey commercial building comprising approximately 3,900 square metres of office space and ground floor shops. The property is held for long term investment purpose. The occupancy rate maintained at 90% in 2002 and has contributed steady rental income to the Group.

(ii) *Shopping Arcade at Grandview Garden, Pau Chung Street*

The property is a shopping arcade of approximately 2,700 square metres. The property is held for sale and is currently leased out for rental. Occupancy rate of the arcade maintained at 70% in 2002 generating a steady rental income to the Group.

(iii) *Kingsfield Centre, Shell Street*

The property comprises approximately 2,100 square metres of office space inside a 26-storey commercial building. The property is held for sale and is currently leased out for rental. The property maintained an occupancy rate at 80% in 2002 and has contributed a steady rental income to the Group.

(2) Properties in the Mainland

Current development properties
(Total gross floor area of approximately 766,000 square metres)

(i) *Lot A&B No.68 Jianguo Xi Road, Xuhui District, Shanghai (100% owned)*

The property will be developed into residential apartment buildings with a total gross floor area of approximately 152,000 square metres. Demolition work is being carried out and the development is expected to be completed by 2005.

(ii) *Phase III, Yanjiazhai, Jingan District, Shanghai (99% owned)*

This development has a site area of approximately 29,000 square metres with a total gross floor area of approximately 120,000 square metres for residential property. Demolition work is being carried out and the development is expected to be completed by 2005.

(iii) *No. 701, Guangzhong Road, Zhabei District, Shanghai (100% owned)*

This development will be divided into three Phases for residential property development. The total gross floor area is approximately 400,000 square metres. Demolition work is being carried out and targeted completion of the first Phase is around 2005.

(iv) *Pacific Plaza, Huaihai Zhong Road, Shanghai (35.75%)*

This is a development property joint venture of which the Group holds a 35.75% interest.

The development comprises two development phases. Phase 1 development is a luxurious residential property development which has been completed and fully sold. Phase 2 will be developed into a high rise Grade A office tower and the development is expected to be completed by 2004/2005. Plan for the Phase 2 development was finalised during the year.

(v) *Parkview Place, Dongfeng Road West, Guangzhou (100% owned)*

The property comprises three phases. Nearly all the residential flats of Phase 1 and Phase 2 were sold. The final Phase 3 was developed into four luxurious residential apartment buildings with clubhouse facilities, an indoor swimming pool and a ground floor shopping arcade. Nearly 90% of residential flats of this phase were sold.

(3) Properties in Singapore

San Centre, Chin Swee Road (100% owned)

The property comprises approximately 5,800 square metres of office space inside a 12-storey building with carparks. Approximately 3,700 square metres is held for long term investment purpose and the remaining area is held for sale. 80% of the property was leased out contributing a steady rental income to the Group.

(4) Construction Materials Business and Technology Investment via 67% Shareholding in K. Wah Construction Materials Limited ("KWCML")

(A) *Business in the Hong Kong Construction Materials*

The stagnant property market prevailing in Hong Kong and the slow pace of government infrastructure development had further curtailed the construction activities, which resulted in shrinking of demand for construction materials in Hong Kong. Fortunately, our continued management efforts in cost effectiveness review implemented a few years ago had enabled us to meet those challenges. The results of the Hong Kong operations were in line with expectation and new projects proceeded as scheduled.

The rehabilitation works of KWP Quarry Co. Limited at Anderson Road in which KWCML has a 63.5% interest was proceeding smoothly. KWCML's wholly owned quarry in Huidong had commenced operation during the year.

(B) *Business in the Mainland Construction Materials*

The overall performance of the Mainland Division for 2002 had further improved as compared to last year. The Group had successfully expanded into the mainland both in terms of new market and new product range with a number of new operations set up during the year. The Group's Mainland business has now expanded to Shanghai, Beijing, Guangzhou, Shenzhen, Huidong, Nanjing, Huzhou and Anhui.

The performance of our Shanghai operation has been very encouraging during the year. In order to capitalise on the growing market fuelled by the China's entry to WTO and the World Expo 2010 to be held in Shanghai, ready-mixed concrete production capacity had been expanded during the year and concrete piles and slag factories had been set up and commenced operation. For KWCML's wholly owned quarry in Huzhou, commercial operation is expected to be commenced shortly.

In Beijing, KWCML's 55% owned Beijing Shoujia Stone Co. Ltd. had commenced operation during the year and performance was satisfactory.

In Guangzhou, the ailing market condition had impacted the industry overall. Nevertheless, cement operation performance in Guangzhou K. Wah Nanfang Cement Co. Ltd, in which KWCML has a 50% interest, was satisfactory.

(C) *Technology Investments*

Adhering to the strategic mandate, the Group has been proceeding prudently to explore new technology investments during the year. As at 31st December 2002, total technology investments stood at approximately HK$116 million, which was at a similar level as that of last year. A balanced investment portfolio is being maintained covering various segments both in Hong Kong and in the Mainland.

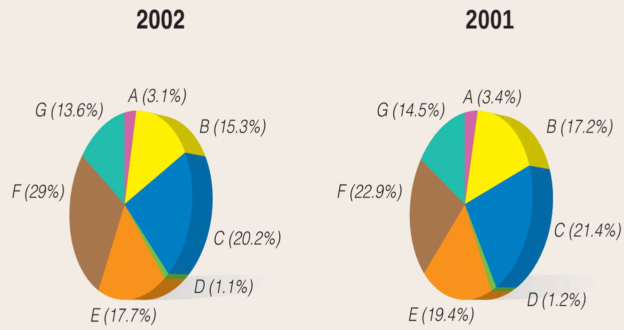
(5) Others

The Group has taken measures to monitor and evaluate the impact of the recent outbreak of atypical pneumonia on the Group's employees and business.

REVIEW OF FINANCE

SOURCES OF FUNDING

		2002 HK$'000	2001 HK$'000
A	Share capital	**191,955**	187,075
B	Other reserves	**947,484**	950,186
C	Revenue reserves	**1,256,179**	1,178,772
D	Revaluation reserves	**68,037**	68,037
E	Minority interest	**1,102,215**	1,071,648
F	Long term loans	**1,800,916**	1,263,460
G	Short term loans	**847,236**	798,767
		6,214,022	5,517,945



(1) Financial Position

Total funds employed increased by 13% from HK$5.5 billion at 31st December 2001 to HK$6.2 billion at 31st December 2002.

Total fixed assets increased by HK$103 million representing mainly the acquisition of plants and machinery for the Construction Materials operation and the transfer of a commercial property from development properties to investment properties during the year.

The decrease in investment in associated companies represent mainly the disposal of our Nanjing properties joint venture and the account reclassification.

The net asset value per share as at 31st December 2002 was HK$1.28, similar to HK$1.27 as at 31st December 2001. The number of issued shares was increased through the scrip shares issued for scrip dividend paid and share options exercised during the year. The dilution effect, however, was offset by the profit earned for the year.

(2) Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was strong during the year. Cash and bank balances less short term loans and overdrafts at 31st December 2002 was HK$533 million as compared to the net balance of HK$289 million at 31st December 2001.

The total long-term borrowings increased by HK$799 million representing mainly additional term loans and refinancing of short term bank loans during the year. Out of the total long-term borrowings, over 72% of these borrowings mature over a period of one year and above as compared to 74% for last year.

In order to enhance a better utilisation of the cash resources within the Group, a revolving loan facility was issued during the year by the Group's 67% owned subsidiary, K. Wah Construction Materials Limited.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a satisfactory level of 32% at 31st December 2002 as compared to 26% for last year.

In addition to the aggregate cash balances of HK$686 million, the total undrawn banking facilities of the Group at 31st December 2002 amounted to over HK$1.6 billion.

The Group's liquidity position and gearing ratio are healthy, and has sufficient funds to meet its commitment and operational requirements.

(3) 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.

(4) Charges on Group Assets

Details of charges on group assets are set out in note 13 to the financial statements.

(5) Contingent Liabilities

Details of contingent liabilities are set out in note 33 to the financial statements.

EMPLOYEES

Employees and Remuneration Policy

The Group, excluding associated companies and jointly controlled entities, employs 1,600 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK$199 million. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Staff performance is reviewed at least annually while compensation is performance driven. 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.

Training and Development

The Group believes that our future growth and success will come from enhancing employee effectiveness through staff development. To strive for excellence, we seek continuous improvement by sponsoring staff to attend external and internal training courses in a wide range of areas covering such topics as the Group's business, its mission and core values, business integrity and ethics, finance and taxation, laws, human resources management and languages.

The Group continues with the hosting of our 16th Corporate Seminar. It provides a forum for our executives to acquire the latest knowledge and insights on Hong Kong hot topics including "Land, Housing, Planning and Development in Hong Kong" and "Hong Kong Economic Trend".

Complementing the growth of our China business, we are committed to our localization plan targeted at training up promising staff to become future leaders of the company. A series of training programs have been implemented with the overall objective to upgrade and strengthen their technical and managerial competencies.

Good Corporate Citizenship

1. The Community Chest's 'Walk for Millions'
2. The management fully supports charitable activities, e.g. Round-the-CU Walkathon & Carnival.
3. 'Challenging 12 Hours': colleagues to support education of children from mainland mountain areas
4. Hong Kong Red Cross blood donation campaign
5. Visits to elderly centre and orphanage