Chairman — **Dr. Lui Che Woo**, MBE, JP, LLD, DSSc

RESULTS

Turnover for the year ended 31st December 2003 was HK$3,076,143,000 which represents an increase of 44% when compared to HK$2,134,552,000 of the preceding year.

Profit attributable to shareholders increased by 18% to HK$120,380,000 from 2002's restated profit of HK$102,334,000.

DIVIDENDS

The Board recommended to the forthcoming annual general meeting a final dividend of 2 cents per share payable to the shareholders whose names appear on the register of members of the Company on 31st May 2004 by way of scrip dividend with shareholders being given the option of electing cash. Together with the interim dividend of 1 cent per share, the total dividend for the year will be 3 cents per share. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 9th July 2004.

OVERALL ECONOMIC REVIEW

Inheriting a weak economy from 2002, the first quarter of 2003 saw dim economic sentiment and general market pessimism. The impact on the property market was particularly felt as business volume shrank and prices slid. Customers were holding back their purchase decisions because of uncertainties in the market. The setback in the property market, coupled with the lack of sizable public infrastructure projects, had spread to the construction and construction materials industries. The decrease in the number of construction contracts has resulted in a very difficult operating environment.

SARS (Severe Acute Respiratory Syndrome) hit Hong Kong in March and triggered a fierce battle against the epidemic in the following four months. Shortly after the SARS impact was over, the Beijing Central Government rolled out a series of measures to help Hong Kong to stabilize its economy. These measures include individual travel visa, Closer Economic Partnership Arrangement ("CEPA") and those still in the pipeline such as investment by national social security fund and Qualified Domestic Institutional Investors ("QDII") in Hong Kong stock market.

The abovementioned efforts not only add fuel to the economic engine but also help improve both investor and consumer sentiment that was translated into increased investment and spending. Unemployment, on the other hand, has seemingly peaked and shows early signs of a downward trend. Based on this and other encouraging economic indicators, many financial institutions put up more optimistic economic projections for Hong Kong and commented that the worst is probably behind us. Meanwhile, the stock market has recorded significant improvement in the second half of the year.

The local property market also turned much more positive and active during the same period. While transaction volume began to pick up as market sentiment improved, prices of luxurious residential units and grade A office units have increased significantly. The medium to high end of the market was performing particularly well due to strong demand from customers.

The construction materials sector, on the other hand, began to stabilize after two years of market consolidation. Selling prices were seen going back to a more reasonable level and it is expected that civil construction contracts will increase at the same pace of recovery as the property market.

BUSINESS REVIEW

Despite the SARS impact, the Group's property development business still recorded very satisfactory results in 2003. Besides satisfactory business turnover, the Group's property projects such as The Palace, La Costa, The Cairnhill and Anglers' Bay also earned praises from the market and customers. These accolades have proven the successful implementation of our corporate objectives "to deliver only the BEST design, quality and value-for-money to customers" and are enhancing the Group's corporate brand value.

2003 was still a rather difficult year to the Group's construction materials business. The setback in the Hong Kong market has created negative impact to market operators in different degrees. For the Group, profitability could still be maintained although margins have been severely cut back. Credits should go to the Group's solid base and the concerted effort of our staff who also took this opportunity to improve operational efficiency in preparation for market recovery.

The Group formulated a plan in mid-2002 to expand its presence in Mainland China to capture the growing market. Since then, a total of 19 new projects have been approved for investment and almost half of them are for "green" products and high value-added products that command high entry barriers in the marketplace. The Group's strategy is to continue to diversify into upstream products. 10 out of the 19 projects have become operational in 2003 or before and there will be 6 in 2004 and 3 in 2005 to follow.

Slag is one of the strategic focuses of the Group's new product plan. It is a waste product generated from the blast furnaces in the steel refinery process. Traditionally it commands no commercial value but advancement in scientific technology has made it possible to make use of slag by grinding them into powder form after additional refinery processes and applying them in cement and concrete production. Slag powder is now being used to substitute up to a maximum of 60% of cement but at a much lower cost of production than that of cement. Slag is not only economical, but more importantly, it also reduces environmental pollution caused by industrial wastes and helps preserve natural resources. As a result, the Mainland China government is committed to promote the use of this new type of "green" construction materials in recent years. The joint venture slag project with Beijing Shougang Group has commenced production in February 2004 with satisfactory results and there will be three more joint venture plants with other steel companies coming into operation over the next twelve months.

The rock quarrying operating arm of K. Wah Construction Materials Limited ("KWCML") in Hong Kong, KWP Quarry Co. Limited, claimed the Environmental Performance Award in 2003 Hong Kong Awards for Industry in recognition of the Group's continuous environmental protection effort.

OUTLOOK

The Group is currently working on three residential projects in Shanghai. They are situated at Urumqibei Road in Jingan District, Jianguoxi Road in Xuhui District and Guangzhong Road in Zhabei District. The first two projects will be developed into top-range luxurious properties to take full advantage of the superb locations and beautiful living environment. The Guangzhong Road project will be developed into a large scale community project in 3 phases comprising residential, commercial and condominium units. The above three residential projects will be providing significant profit contributions to the Group.

Besides residential properties, the Group is also currently constructing a 37-storey grade A office building at Huaihaizhong Road in Xuhui District. The building will be named "Shanghai K. Wah Centre" and is expected to complete by early 2005. The property will be held for investment purpose to provide steady rental revenue to the Group.

The Group maintains a cautiously optimistic view on the Shanghai property market based on the observation that the economy of Shanghai will continue to prosper and there are a growing number of local and overseas enterprises and investors trying to establish footholds in the city after China's WTO entry.

On the other hand, the Group envisages that the Hong Kong property market will continue to recover in a healthy manner thus creating reasonable business opportunities for property developers.

As a result of increased cash flow from property sales last year and net proceeds in excess of HK$800,000,000 from the convertible bonds issued by the Company in March 2004, the Group's liquidity position is very strong at the moment. The management will keep a close watch on market opportunities in Hong Kong and Mainland China and will cautiously increase its land reserve with good development potential lands to pave for the Group's next stage of growth.

As to KWCML's construction materials business, the goals for 2004 are to further strengthen the Hong Kong business and to implement the new investments in Mainland China. The management believes that our Hong Kong business should show improvements in 2004 in light of economic recovery and market consolidation. On the Mainland China front, it is expected that the growing housing and infrastructure sector and the forthcoming 2008 Beijing Olympics and Expo 2010 Shanghai will continue to bring continuing growth and prosperity to KWCML's business. The Group will also maintain its track on integrating into upstream products that are characterized by higher technology content and bigger barrier to new entrants.

OUR STAFF

People are our most valuable assets. The Group believes the success of the Group's business depends upon the competence and dedication of its staff.

The Group lost a very capable colleague in 2003. Dr. Chan Nai Keong, Non-Executive Director of KWCML, sadly passed away on 9th May 2003. Dr. Chan had made tremendous contribution to the Group during his service and his death is regretted by all members of the Board.

The Group welcomes the appointment of Mr. William Lo Chi Chung, Group Finance Director, as an Executive Director of the Company and KWCML, Mr. Joseph Chee Ying Keung, Head of KWCML's Southern China Business Division as an Executive Director of KWCML and also Mr. James Ross Ancell as an Independent Non-Executive Director of KWCML. The Group is confident that their appointments will bring valuable contributions to the Group.

Lastly, my hearty gratitude goes to the directors, the management team and all staff for their hard work and contribution in 2003.

Dr. Lui Che Woo
Chairman

Hong Kong, 15th April 2004