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



OVERALL ECONOMIC REVIEW

The past year saw Hong Kong gradually recovering from the economic doldrums of 2003. Marked improvements in local economic performance were underpinned by a general pick-up in investor and consumer sentiments as the Central Government rolled out initiatives such as the individual travel visa and CEPA, etc to bolster Hong Kong economically. The business community benefited from lower operating costs as interest rates remained low throughout the year because of strong market liquidity. Business improved for the majority of companies amid those favorable conditions, followed by a turnaround in the job market highlighted by a dropping unemployment rate, while a mild increase in the price index marked the end of the deflationary cycle which had lasted for a few years. As a result of the above, the general sentiment turned positive in various sectors of the economy.

In tandem with general economic recovery, Hong Kong’s property market also took a better turn in 2004 with active turnover and considerable gains in prices. On the land supply side, all the three government public land auctions and the six open tenders hosted by the Urban Renewal Authority (“URA”) were well attended by developers which had put up very active biddings. All in all, both buyers and developers were convinced that the worst days were over for the property market.

On the mainland China scene, the Central Government implemented austerity measures in last April/May to curb excessive investments in certain sectors to prevent overheated developments in the national economy. While reactions to the austerity measures varied, there were signs of a property market slowdown in the second and third quarters, although turnover and prices rebounded when previously restrained market demand set in again in the fourth quarter, especially in major cities such as Shanghai.



GROUP BUSINESS REVIEW

2004 was a rewarding year for the Group's property development business. Sales of The Palace, La Costa, The Cairnhill and Anglers' Bay were remarkably successful. Each with a distinct character of its own, these projects were results of original design in all architectural aspects, whether in terms of facade, efficiency, floor planning or clubhouse facilities. They were highly acclaimed by buyers as new landmarks for the Group's philosophy of offering exquisite quality and worth for money.

At the government land auction held in May 2004, the Group won a low-density residential site on Tung Lo Wan Hill, Shatin with a gross floor area of approximately 24,000 square metres. In June 2004, the Group won URA's Johnston Road redevelopment project, being the only project on the island side offered by URA during the year, with a gross floor area of approximately 19,000 square metres.

K. Wah Centre located at a prime site on Huaihaizhong Road in Xuhui District, Shanghai was completed in the first quarter of 2005 as scheduled with some commercial tenants having already moved in. Occupancy ratios, contracted rental rates and tenant portfolios are satisfactory and in line with expectations.

Meanwhile, Shanghai Westwood, Phase I of the Group's high-end residential project located at Da Ning International Community, will be launched in the first half of 2005 while Phases II and III are scheduled for launch over the next two years. The entire project, with an estimated gross floor area of close to 400,000 square metres, is expected to generate very favourable returns for the Group.

Construction works for the two luxurious residential projects of the Group, namely the Jianguoxi Road project in Xuhui District and the Urumqibei Road project in Jingan District, are due to commence in 2005 after the completion of related relocation and demolition works.

Hong Kong's construction materials market remained sluggish as the volume of building construction and public projects failed to drive any substantial increase in the demand for construction materials. Market players responded by gearing up cost controls and seeking market consolidation through various means. In mainland China, the construction materials market also showed signs of a slowdown following the government's austerity measures. Most of the new projects planned in the past two years started to bring profit contributions to the Group after completion and commencement of operation during 2004.

OUTLOOK

The world economy is expected to grow steadily in 2005 despite the possible increase of interest rates driven by the US to a still acceptable level. Mainland China, which is expected to achieve significant economic growth despite last year's austerity measures, will continue to be the focal point of Asia's economic development.

We believe that Hong Kong's property market will continue to improve in 2005, with further gains in property prices driven by relative low interest rates and increases in individual income. Premium residential projects will remain the focus of the market and projects currently under development by the Group are set to benefit from this trend. Meanwhile, the Group will continue with active participation in land auctions and tenders to increase its land bank. As the management expects the property market in Shanghai to remain robust in the coming years, the Group will seek to identify new investment opportunities apart from completing its existing projects. Recently on 31st January 2005, the Group formed a joint venture company with Shanghai Baosteel Group Corporation (上海寶鋼集團公司), Mitsubishi Corporation and Tokyu Land Corporation to engage in property development in mainland China. The joint venture company is currently pending approval by relevant government authorities, and the Group will release more information upon its formal establishment.

On the front of construction materials, new projects in mainland China are expected to become the major driver to profit growth. In this connection, the management will continue to attain stated profit targets by fulfilling planned production volumes. On another note, preliminary conceptual studies are still underway regarding the possible acquisition of certain gaming business in Macau.

THE K. WAH TEAM

The Group sees its staff as its most valuable asset, as none of the Group's achievements would have been possible without the talents and contributions of each individual colleague.

The Group mourns the recent loss of one such brilliant colleague Dr. Alex Wu Shu Chih, Independent Non-Executive Director of the Company, who passed away on 10th January 2005. Dr. Wu's contributions to the Group will be sadly missed and the Board of Directors expresses deep condolences on his departure.

The Group welcomes Mr. Robert George Nield and Dr. William Yip Shue Lam who have joined the Company and KWCM, respectively, as Independent Non-Executive Director. Their memberships on the board are expected to bring significant contributions to the Group's business development.

K. WAH GROUP 50TH ANNIVERSARY

It also gives me great pleasure to announce that the year 2005 marks the 50th anniversary of K. Wah Group. A series of corporate marketing events are rolling out to celebrate this jubilee year as well as to further enhance our corporate image. Since the first K. Wah company was established in 1955, K. Wah Group has always been a part of the Hong Kong story for half a century. At the same time Hong Kong emerges as one of the international metropolitan cities, K. Wah Group has successfully established a very strong base in the Greater China region with significant market presence. Our business diversification strategy enables K. Wah Group to capitalize on the many opportunities that came its way and to grow into a multinational group of companies with a very promising prospect.

2005 is set to be the year Hong Kong rekindles its luster as the Pearl of the Orient in the wake of its economic recovery. I sincerely wish that it will bring many hopes and opportunities to the people in Hong Kong.

Last but not least, I would like to express, on behalf of the Board of Directors, sincere gratitude to the Directors, management and staff of K. Wah Group for the efforts and contributions they made during the year.

Dr. Lui Che Woo

Chairman

Hong Kong, 3rd March 2005