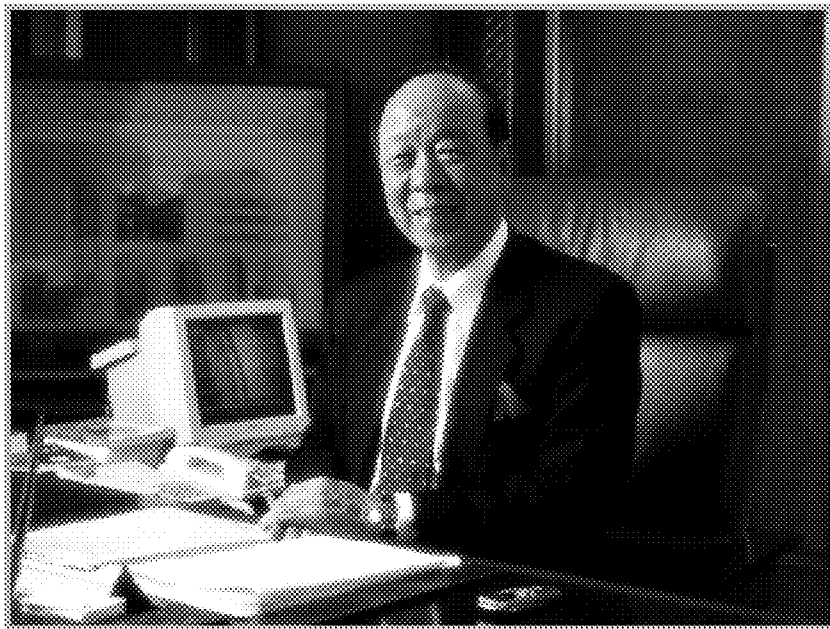


Chairman's Statement



Chairman - Mr. Lui Che Woo, MBE, JP

RESULTS

The Group's turnover for the year ended 31st December 2000 was HK\$1,094 million and the consolidated profit after tax and minority interests was HK\$166 million. On a proforma basis, turnover in 2000 recorded an increase of 1% and consolidated net profit after tax and minority interests showed a decrease of 13% as compared to 1999. Earnings per share was 15.2 cents. (1999: 17.9 cents on an annualised basis).

The Board will recommend at the forthcoming annual general meeting a final dividend of 4 cents per share payable to the shareholders whose names appear on the register of members of the Company on 31st May 2001 by way of scrip dividend with shareholders given the option of electing cash. Together with the interim dividend of 2.5 cents per share, a total dividend of 6.5 cents per share will be paid for the whole financial year. Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the final dividend will be paid on 11th July 2001.

BUSINESS REVIEW

Hong Kong

Challenging market conditions and the slow down in property developments in the private and public sectors during the year affected the overall turnover. Further mounting pressure for competitive pricing in the industry dampened performance of the Hong Kong operations. The introduction of the Interpretation 9 – Accounting for Pre-operating costs which became effective in 2000 disallowing amortization of pre-operating expenses, reduced contributions of the Hong Kong operations.

KWP Quarry Co. Limited in which the Group has a 63.5% interest participated and won the Silver Award in Good Housekeeping Competition for the construction industry in March 2000. Organized by Labour Department in conjunction with other construction associations, about one hundred participants took part in the Competition. The award was based on safety management system of the company.

To stay ahead of competition and to remain as one of the leaders in the construction materials industry in Hong Kong, various initiatives have been implemented by the Group to sustain competitive operating cost. The management is pleased to announce the successful implementation of the PeopleSoft Accounting System for its Hong Kong operations in January 2001. The new accounting system enables management online access to financial information.

Mainland China

In Guangzhou, the overall performance of our operations is satisfactory. K. Wah (Huangpi) Quarry Company Limited, Guangzhou ("Huangpi Quarry") reported significant improvement in results.

In December 2000, Huangpi Quarry was served with a notification from the Guangzhou authorities regarding a public notice issued by the People's Government of City of Guangzhou. The public notice states that all the eight districts within the city and the special administrative districts were being zoned as non-exploration zone and all quarries located within the non-exploration zone will have to be closed on or before 1st June 2001. Huangpi Quarry is alleged to be located within the non-exploration zone.

We are utmost disappointed with the closure notice. To protect shareholders' interests, upon the advice of our lawyers, the Group has instigated legal proceedings to revoke the closure notice.

In Shanghai, to increase the benefits from the potential of the ready-mixed concrete market, the Group acquired from our Chinese partner in August 2000 an additional 29% equity interest in Shanghai Xin Cai Concrete Company Limited. On completion of this acquisition, the Group now owns 99% equity interest in and has full management and control of this subsidiary.

With the acquisition and the Group's realignment of operational efficiency and the gradual easing of liquidity in the market, our ready-mixed concrete operations recorded slight improvement in both turnover and profit.

Technology Investments

The Group has proceeded cautiously with its diversification plan. We have allocated a budget of HK\$312 million on technology investments. As at 31st December 2000, we have invested in eight projects totalling HK\$75.6 million. The investments are diversified into disciplines such as software solutions, network infrastructure and bio-technology. The Group is confident that these investments will achieve satisfactory return for the shareholders in medium to long term.

OUTLOOK

The stronger than expected economic growth over the last two years and the possible economic slow down in the US suggest that in the next 18 months, Hong Kong is unlikely to replicate the pace of growth that we had experienced from 1999 to 2000. On a longer term basis, the Group envisages that the Hong Kong economy will benefit from China entering WTO and the Hong Kong SAR Government's more defined policies on housing, land and infrastructural development. The Group expects the construction materials industry to benefit from the infrastructural investments in the pipeline. In particular, development projects such as Route 9 from Tsing Yi to Shatin of more than HK\$20 billion; redevelopment of the former Kai Tak Airport; site formation and other ancillary infrastructural facilities for Disney Land; KCRC's eleven residential projects in the coming three years, and the Deep Bay link which will extend the Route 10 highway through the north-west New Territories towards Yuen Long, costing more than HK\$10 billion are set to go ahead. All these will provide business opportunities to the Group.

Hong Kong

In the near term, with keener competition and the lack of major projects in both private and public sectors, the Group envisages that profit from Hong Kong operations would in the meantime be reduced. To strengthen the Group's position, proactive measures have been taken to further streamline the management structure, reinforce cost control and realign resources to cover new strategic locations.

Mainland China

In Guangzhou, subject to the outcome of the legal proceedings to revoke the closure notice served on Huangpi Quarry, the Group remains cautiously optimistic of the overall performance of the Guangzhou operations.

In Shanghai, with the easing of liquidity in the market and the Group's continuous efforts in streamlining the management structure, we expect contribution from the Shanghai operations to increase in the coming year.

Technology Investments

The Group will actively explore technology investments within the current strategic mandate that will bring satisfactory return in the medium to long term. We will also continue to explore our relationship with existing partners to create synergy that will bring to the Group more investment opportunities from Mainland China and overseas.

In selecting investment projects, the Group places emphasis on management skill, technical expertise, innovation and technological advancement. We are confident that our prudent investment approach can capitalise the market potential available from this new economic frontier.

Others

In line with our strategy to expand the core business in construction materials beyond Hong Kong and Mainland China and provide a more diversified income stream, our dedicated team is actively identifying and evaluating promising opportunities in the Asia Pacific Region related to our core construction materials business. With our strong financial background and management resources, we are confident that we are well positioned to capture good investment opportunities with good returns.

CHANGES IN THE BOARD

Dr. Chan Nai Keong, CBE, JP resigned as an executive director of the Company on 1st July 2000 and remains on the Board as a non-executive director. The Board would like to express appreciation towards Dr. Chan for his valuable contribution to the Company.

On behalf of the Board, I sincerely thank the Company's management and staff for their dedication and hard work in the year.

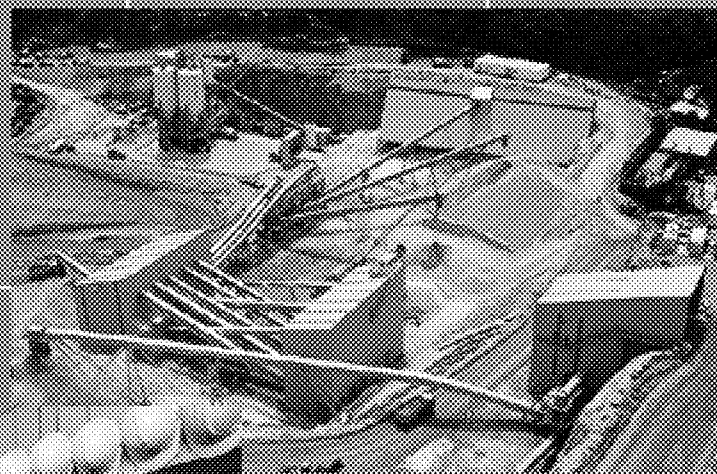
Lui Che Woo

Chairman

Hong Kong, 17th April 2001

Anderson Road

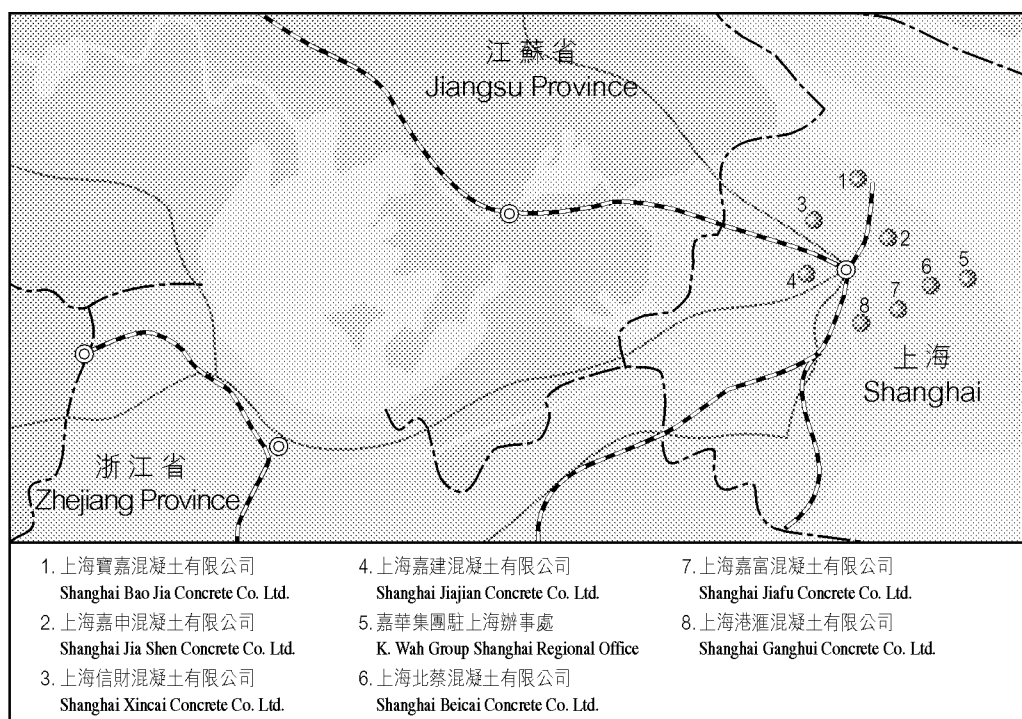
An aerial, black-and-white photograph showing a massive construction project on a steep hillside. The hillside is terraced into numerous horizontal layers, creating a series of wide, flat steps. These terraces are interconnected by a network of roads and pathways. At the base of the hill, there is a large, developed area with several large, rectangular buildings, possibly warehouses or administrative offices, and a parking lot. The surrounding landscape is rugged and appears to be in the early stages of development. The overall scene conveys a sense of large-scale engineering and land reclamation.



- 1 Aerial view of Anderson Road Quarry
- 2 Aggregates conveyor belts
- 3 Boulders unloaded to the crushing machine
- 4 Aggregates are produced through conveyor belts equipped with sprinkler control system to reduce dust emission
- 5 Computerized control room in crushing plant

以下地圖顯示嘉華建材有限公司於廣州及上海之業務分佈：

The following maps show the locations of the K. Wah Construction Materials Limited's operations in Guangzhou and Shanghai:



以下地圖顯示嘉華建材有限公司於香港、珠海及深圳之業務分佈：

The following maps show the locations of the K. Wah Construction Materials Limited's operations in Hong Kong, Zhuhai and Shenzhen:

