

REVIEW AND OUTLOOK OF OPERATION

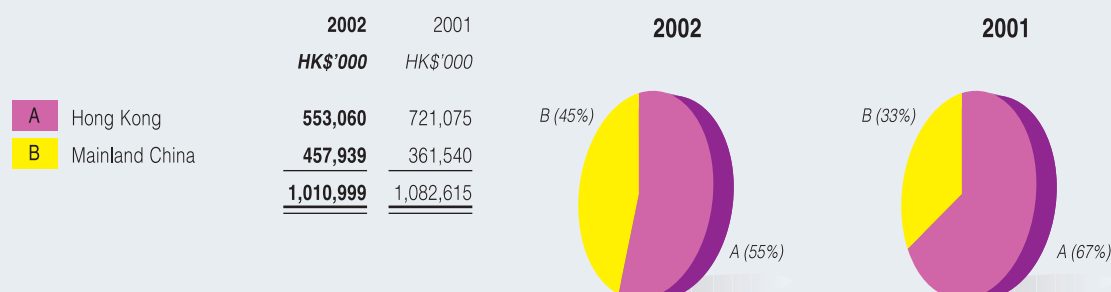
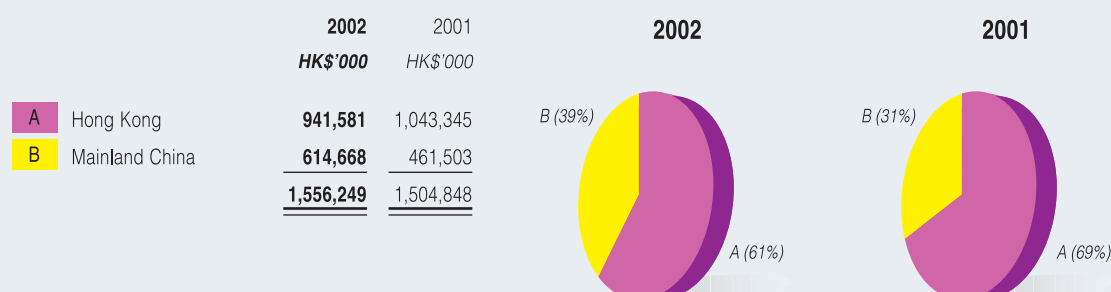
Overview

Turnover and profit before taxation for the year ended 31st December 2002 were HK\$1,011 million and HK\$70 million, as compared to HK\$1,083 million and HK\$128 million for the year ended 31st December 2001 respectively. The Group has achieved a similar turnover level as in last year but the profit before taxation decreased by approximately 45% from last year due to the escalating competitive business environment in Hong Kong.

The contribution from the Mainland operations has begun to emerge during the year. With all the planned new projects in the Mainland gradually phasing into commercial operation, more contribution to the Group in future is expected.

Analysis by Geographical Area

	Hong Kong HK\$'000	Mainland HK\$'000	Group HK\$'000
Turnover	<u>553,060</u>	<u>457,939</u>	<u>1,010,999</u>
Operating profit	50,495	18,073	68,568
Finance costs	(6,722)	(471)	(7,193)
Share of profits less losses of			
Jointly controlled entities	1,968	2,471	4,439
Associated companies	<u>3,944</u>	<u>—</u>	<u>3,944</u>
Profit before taxation	<u>49,685</u>	<u>20,073</u>	69,758
Taxation			<u>(4,414)</u>
Profit after taxation			65,344
Minority interests			<u>(3,016)</u>
Profit attributable to shareholders			<u>62,328</u>

TURNOVER BY GEOGRAPHICAL SPREAD

GROSS ASSETS BY GEOGRAPHICAL SPREAD

Business in Hong Kong

The stagnant property market and the slow down in housing construction activities have resulted in shrinking of demand for construction materials in Hong Kong. Fortunately, our continued management efforts implemented a few years ago to ensure cost efficiency in all facets of the operations have enabled us to meet those challenges brought about by the stiff market competition. The results of the Hong Kong operations were in line with expectation and new projects proceeded in accordance with planned schedules.

The rehabilitation works of KWP Quarry Co. Limited at Anderson Road in which the Group has a 63.5% interest is proceeding in accordance with the planned schedule. The subsidiary has met the second milestone on time in accordance with the contract with the Hong Kong SAR Government. The Group's wholly-owned quarry in Huidong has commenced operation during the year. The Group will continue its effort in cost efficiency review in order to maintain a competitive position in the industry and face the challenges ahead.

Given the current subdued Hong Kong economy, our Hong Kong operations are expected to face more severe competition in the near term. In order to maintain a leading industry position and ensure our competitiveness in the Hong Kong market, we will continue to find ways to improve product quality and cost efficiency including capitalisation on the cheap labour market in the

peripheral areas. Our earlier production facilities in these areas have proven to be successful in this aspect. With the ample opportunities that exist in the Pearl River Delta area, the Group will continue to fetch opportunities to expand into these areas to develop new market and new product range.

Business in Mainland China

The Mainland Division for 2002 recorded an overall robust performance as compared to the previous year. The Group has 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 Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, Anhui, Huzhou and Huidong.

The performance of our Shanghai operation has been very encouraging during the year and is now providing additional contribution to the Group. The sales volume of the Group's ready-mixed concrete in the area continued to grow and profit contribution is increasing. In order to capitalise on the growing market fuelled by China's entry to WTO and the World Expo 2010 to be held in Shanghai, the ready-mixed concrete production capacity has been expanded during the year. Along with the strategy to cover the upstream products and expand product range, the Group's wholly-owned subsidiary, Shanghai K. Wah Concrete Piles Co., Ltd., has commenced operation, supplying piles to the Shanghai market. In addition, the Group has entered into an agreement with Maanshan Masteel to set up a joint venture, Anhui Masteel K. Wah New Building Materials Co., Ltd., in which the Group holds a 30% interest for the manufacturing of slag. The operation is expected to commence in 2003. It is also expected that the Group's wholly-owned quarry in Huzhou will commence production shortly.

In Beijing, the Group's 55% owned Beijing Shoujia Stone Co., Ltd. has commenced quarrying operation during the year and the performance was satisfactory. Driven by the Beijing 2008 Olympic Game, the demand for quality construction materials in the area has increased and the Group is confident that it is the appropriate time to enter into this market with a growing demand in high quality ready-mixed concrete. To seize such valuable opportunity, the Group will consider setting up new business in the area to serve the growing construction materials market in Beijing. With the Group's experiences in the business and emphasis in providing quality products to the market, it is expected the operations in this area will further expand and provide good contribution to the Group.

In Guangzhou, the ailing market condition has an impact on the industry overall. Notwithstanding such unfavorable environment, the Group's cement operation in Guangzhou K. Wah Nanfang Cement Limited, in which the Group has a 50% interest, was satisfactory during the year, providing contribution to the Group. Continued efforts have been made to ensure that the most cost efficient operation is in place to maintain our competitiveness among the industry in the area.

The Group will continue to expand our business presence into other major cities in the Mainland.

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.

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.

AWARDS

In pursuit of improvement, the Group has participated in various competitions during 2002 and is pleased to report the following awards:

Awards in Hong Kong

Wastewi\$e Logo

K. Wah Construction Materials (Hong Kong) Limited participated in the Wastewi\$e Scheme organised by the Environmental Protection Department of Hong Kong SAR Government, and has been awarded the Wastewi\$e Logo by achieving a number of waste reduction targets in 2002.

Caring Company

K. Wah Construction Materials Limited has been given a "Caring Company Award" by the Hong Kong Council of Social Service. The Company aimed to command recognition of the public on the colleagues' care for society through joining the voluntary work organised by KWCM Social Club as well as to demonstrate the Company's commitment to social responsibility.

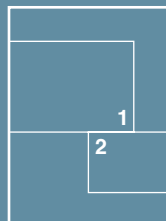
Awards in Mainland China

Guangzhou K. Wah Nanfang Cement Limited won three outstanding awards in 2002. They are "紅棉牌商標 — 廣州市著名商標"; "第八次全國水泥化學分析大對比全優單位" and "二零零二年全省水泥檢驗大對比全優單位".

Contract Signing



1. K. Wah signed a joint venture with Shougang Group for the production of limestone.
2. The management of the Maanshan Iron & Steel Company Limited visited K. Wah's headquarters and signed an agreement with K. Wah.



Hong Kong	
Company	Award
K. Wah Construction Materials Limited	— Caring Company
K. Wah Construction Materials (Hong Kong) Limited	— Wastewi\$e Logo
K. Wah Construction Products Limited	— ISO9001 : 2000 for Quality Management System — Best Safety Performance Award 2002 — Certificate of Appreciation for Employing People of Disability
KWP Quarry Co. Limited	— Certificate of Merit in Quality, 2002 Hong Kong Awards for Industry
Shanghai	
Company	Award
Shanghai Bao Jia Concrete Co., Ltd.	— 二零零二年度交通安全區級達標單位 — 二零零二至二零零三年工商免檢企業（首批） — 二零零二年度納稅信用A類企業 — 二零零二年度上海市建設銀行信得過企業
Shanghai Xin Cai Concrete Co., Ltd.	— 閘北區外資先進企業（金牌） — 滬浦鎮先進企業 — 上海市工商免檢企業（首批） — 上海財政局A級信用單位 — 二零零二年度發展區域經濟先進單位
Shanghai Jiajian Concrete Co., Ltd.	— 上海市混凝土協會「質量誠信杯」第十名 — 閘北區外資先進企業（金牌） — 滬浦鎮先進企業 — 上海市工商免檢企業（首批） — 上海財政局A級信用單位
Shanghai Jia Shen Concrete Co., Ltd.	— 上海市混凝土協會「質量誠信杯」第十一名
Shanghai Ganghui Concrete Co., Ltd.	— 徐匯區外商投資企業「十佳」企業 — 徐匯區人民政府「小巨人」企業 — 徐匯區千萬元納稅大戶 — 上海市混凝土協會「質量誠信杯」第三名
Guangzhou	
Company	Award
Guangzhou K. Wah Nanfang Cement Limited	— 「紅棉」牌商標 — 廣州市著名商標 — 第八次全國水泥化學分析大對比全優單位 — 二零零二年全省水泥檢驗大對比全優單位



Training & Continuous Learning