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

RESULTS

Turnover for the year ended 31st December 2003 was HK$1,130,894,000 which represents an increase of approximately 12% when compared to HK$1,010,999,000 of the preceding year.

Profit attributable to shareholders was HK$40,205,000 which decreased by approximately 35% when compared to HK$62,328,000 in 2002.

DIVIDENDS

The Board recommended to the forthcoming annual general meeting a final dividend of 1 cent 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 2 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.

MARKET REVIEW

The first quarter of 2003 Hong Kong saw continued weak economy and consumer spending. The property market remained very soft as transaction volume shrank and prices slid. The setback in the property market spread to the construction and construction materials industries when the decrease in number of construction contracts caused a very difficult operating environment.

The impact of SARS (Severe Acute Respiratory Syndrome) hit the economy badly in the second quarter. Shortly after the SARS was over, the Beijing Central Government rolled out a series of measures to help Hong Kong to revitalize 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 economic situation improved in the second half of the year. The abovementioned measures have been making positive effect in stimulating spending and investment and hence revitalizing the entire economy. Economic recovery has caused unemployment seemingly peaked and a substantial improvement in the stock market. Meanwhile, financial institutions put up more optimistic economic projections for Hong Kong.

The local property market also turned much more positive and active in the latter half of the year. 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 announcement of resumption of land auctions by the Hong Kong SAR Government in October 2003 was welcomed by the construction and construction materials industries. On the other hand, the construction materials industry 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

2003 is still a rather difficult year to the Group. 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 material 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.

Besides slag, the Group develops other environmentally friendly products such as aerated light weight concrete and recycled aggregates. It is also working intensively with Hong Kong Polytechnic University on "green" road pavers that are capable to absorb toxic materials in the air and hence making contribution to household hygiene and protection of the environment.

The Group's rock quarrying operating arm in Hong Kong, KWP Quarry Co. Limited ("KWP Quarry"), claimed the Environmental Performance Award in 2003 Hong Kong Awards for Industry in recognition of the Group's continuous environmental protection effort. To the contrary of the customary dusty and noisy impression of a typical rock quarry, KWP Quarry is achieving much higher standards than the official government standard in control of air, water and noise pollution and vibration from blasting.

OUTLOOK

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 the Group'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.

Through investment in new products, the Group is evolving to provide a stronger base for future earnings and to pave for the next stage of growth.

OUR STAFF

People are the most valuable assets of K. Wah. 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 the Company, sadly passed away on 9th May 2003. Dr. Chan has 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, and Mr. Joseph Chee Ying Keung, Head of Southern China Business Division, as Executive Directors and also Mr. James Ross Ancell as Independent Non-executive Director of the Company. 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