

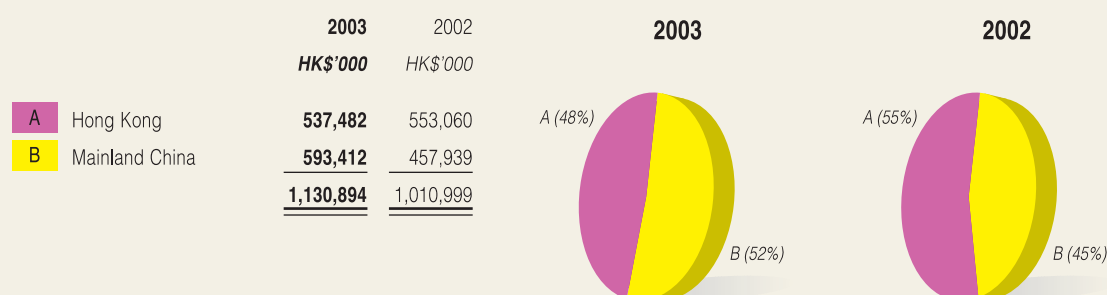
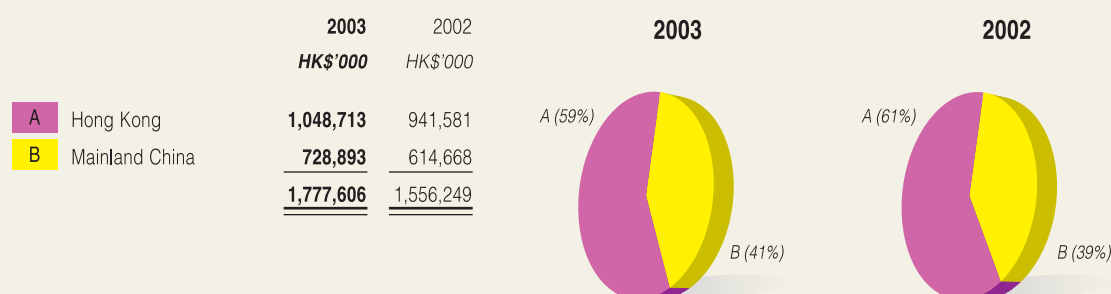
REVIEW AND OUTLOOK OF OPERATION

Overview

Turnover and profit before taxation for the year ended 31st December 2003 were HK\$1,131 million and HK\$42 million, as compared to HK\$1,011 million and HK\$70 million for the year ended 31st December 2002 respectively. The Group's turnover was slightly higher than last year but the profit before taxation decreased by approximately 40% from last year due to deteriorating market environment in Hong Kong.

Despite additional contribution from the gradual phasing in of certain new projects in the Mainland China, the profit of the Group as a whole decreased as compared to last year. Set out below is the geographical analysis of the Group's operating result for 2003.

	Hong Kong HK\$'000	Mainland HK\$'000	Group HK\$'000
Turnover	<u>537,482</u>	<u>593,412</u>	<u>1,130,894</u>
Operating profit	13,831	25,581	39,412
Finance costs	(4,639)	(869)	(5,508)
Share of profits less losses of Jointly controlled entities	18	6,856	6,874
Associated companies	<u>998</u>	<u>—</u>	<u>998</u>
Profit before taxation	<u>10,208</u>	<u>31,568</u>	41,776
Taxation			<u>341</u>
Profit after taxation			42,117
Minority interests			<u>(1,912)</u>
Profit attributable to shareholders			<u>40,205</u>

TURNOVER BY GEOGRAPHICAL SPREAD

GROSS ASSETS BY GEOGRAPHICAL SPREAD

Business in Hong Kong

In 2003, the economy of Hong Kong has further worsened due to the outbreak of SARS and the war in Iraq. However, with the initiatives taken by the Central Government, there were signs that the local economy has begun to regain luster in the last quarter of 2003.

Notwithstanding such a difficult environment, our Group has achieved a comparatively satisfactory performance among the industry in Hong Kong for the year. Besides maintaining a cost efficient operation, the Group has continued to explore new business opportunities to enhance our profit contribution. Capitalizing on our sound track records among the industry as well as our reputation in terms of product quality and customer services, we have successfully extended our ready-mixed concrete business to Daya Bay, Huidong and was awarded the ready-mixed concrete supply contract for the CNOOC and Shell Petrochemical Complex at Huizhou. Furthermore, a pile factory has been set up in Shenzhen during the year and production commenced recently supplying concrete piles to nearby markets.

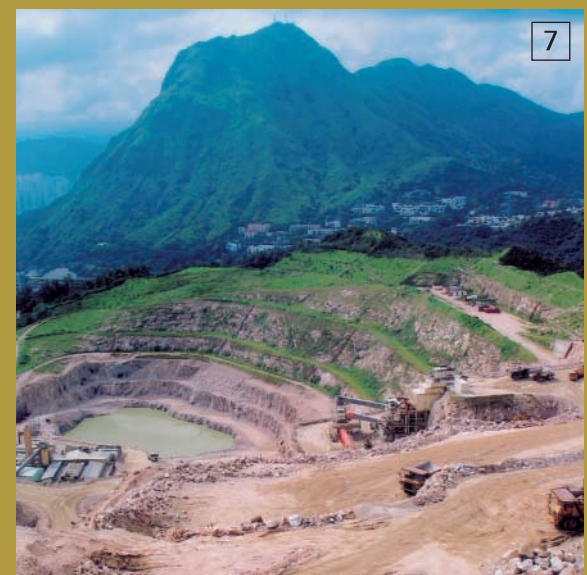


Commitment to Health, Safety & Environmental Protection Mission to Quality Products & Services





1. KWP Quarry, Anderson Road, Hong Kong
2. All products are subject to stringent quality control and assurance
3. Automatic sprinkler system helps reduce dust emission
4. KWP Quarry Co. Limited won the environmental performance award in Hong Kong Awards for Industry 2003
5. Health, Safety and Environmental Protection Promotion Day
6. Staff who have outstanding performance in health, safety and environmental protection were recognized
7. Rehabilitation of KWP Quarry



The Group is environmental-minded and has continued to explore business opportunity on environmental friendly products. In July, the Group had entered into a contract with Hong Kong Polytechnic University for the manufacture of paving blocks designed by the University using recycled construction materials. Production of these paving blocks commenced and are now being supplied to the market.

The rehabilitation work of KWP Quarry Co. Limited at Anderson Road Quarry in which the Group has a 63.5% interest is proceeding in accordance with the planned schedule. The subsidiary has met the third milestone on time in accordance with the contract with the Hong Kong SAR Government.

The Group will continue to seize business opportunities in the emerging market along the Pearl River Delta area.

Business in Mainland China

The success of the Group's expansion strategy in Mainland has built a solid platform for the Group to maintain a continued growth in future. The new projects which commenced operation as planned, have provided additional contribution to the Group during the year. In addition to the joint venture set up with Maanshan Iron & Steel Group for the manufacture of slag, the Group has also entered into agreements with Shougang Group, Guangdong Shaoguan Iron and Steel Group and Kunming Iron and Steel Group to set up joint ventures in Beijing, Shaoguan and Kunming respectively for the manufacture of slag. When all these joint ventures gradually come into operation, the Group will become one of the largest suppliers of slag in the Mainland and it is envisaged that all these projects will bring in good contribution to the Group.

The sales volume of our Shanghai operations has continued to grow as compared to last year. The Group's wholly owned quarry in Huzhou has begun supplying aggregates to the Shanghai market during the year. This will enhance the competitiveness of our Shanghai ready-mixed concrete operation, which help to strengthen the Group's leading position in the industry.

In order to capitalize on the growing ready-mixed concrete market in Nanjing and Maanshan, the Group has set up ready-mixed concrete plants in these areas during the year. Both plants have brought in satisfactory profit contribution to the Group. The performance of the Group's pile factory in Shanghai, which commenced operation in early 2003, was satisfactory and has made contribution to the Group.

The Group's quarry operation in Beijing, the Beijing Shoujia Stone Co., Ltd., in which the Group has 55% interest, has achieved increases both in sales volume and profit contribution. The Beijing 2008 Olympic Games, massive housing projects and associated infrastructure works have resulted in a surge in demand for quality ready-mixed concrete in Beijing. To seize such valuable opportunity, the Group has set up a ready-mixed concrete plant, Beijing K. Wah Gaoqiang Concrete Co., Ltd., to serve the growing market in Beijing. The operation has commenced production during the year and the performance was satisfactory. The Group will continue to look for suitable investment opportunities in the area in order to broaden our income base.

In Guangzhou, the market condition has improved during the year although it remained competitive. The Group's cement operation, Guangzhou K. Wah Nanfang Cement Limited, in which the Group has 50% interest has recorded a satisfactory result in 2003. Both turnover and profit contribution have increased over last year. The Group is considering to further expanding the cement production facilities when appropriate to enhance the profitability of the joint venture.

Technology Investment

According to the strategic mandate, the Group has continued to maintain a balanced investment portfolio similar to that of last year and the total investments at 31st December 2003 stood at approximately HK\$116 million, same as last year.

AWARDS

In pursuit of improvement, the Group has participated in various competitions during 2003 and is pleased to report the following awards:

Awards in Hong Kong

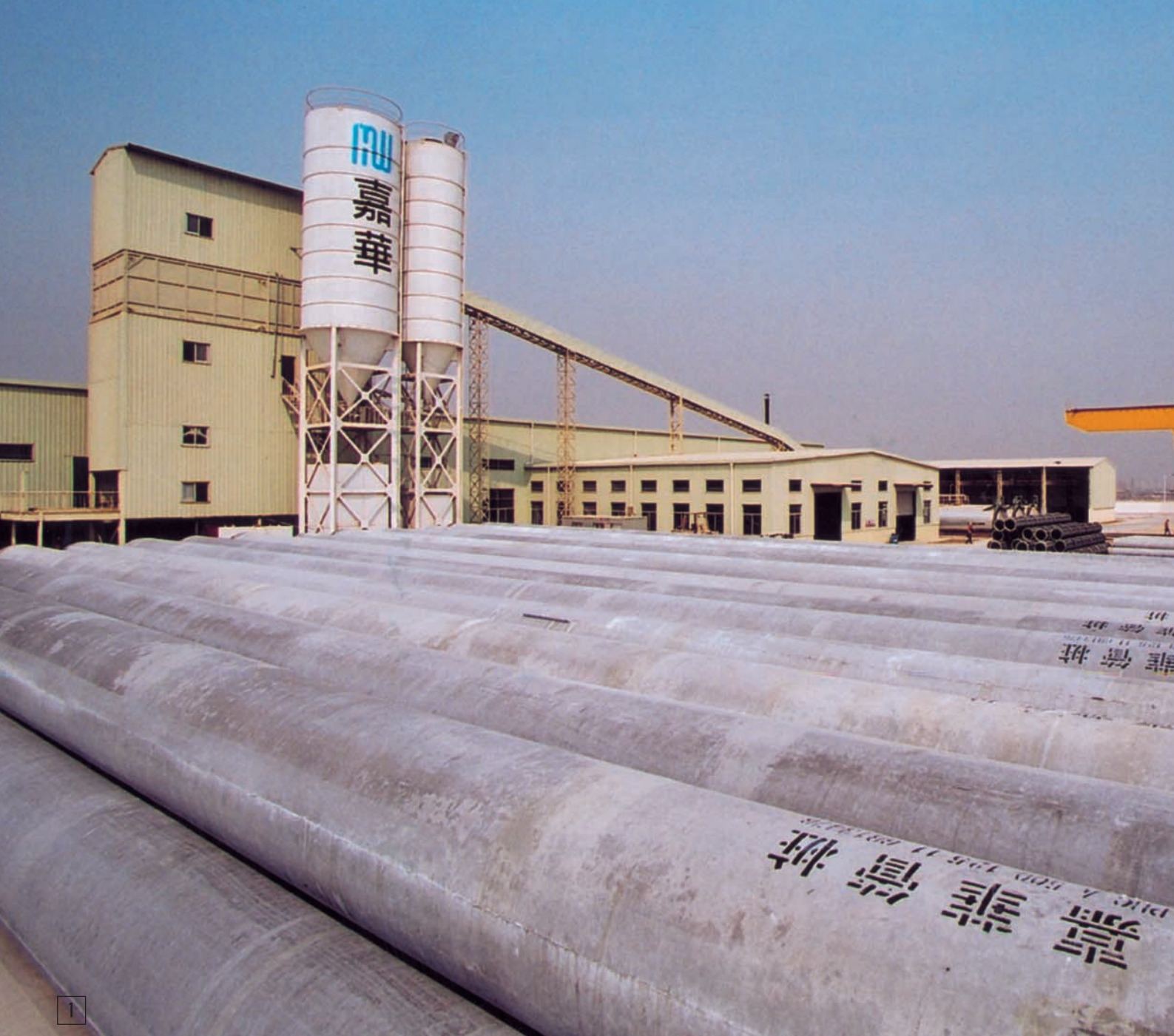
K. Wah Construction Materials Limited again received the “Caring Company Award” in 2003 granted by the Hong Kong Council of Social Service in recognition of the Company’s commitment to social responsibility. Through voluntary work organised by the KWCM Social Club, the Company aims to inculcate a sense of benevolence among its employees towards society.

KWP Quarry Co. Limited won the 2003 Hong Kong Awards for Industry — Environmental Performance.

Awards in Mainland China

Guangzhou K. Wah Nanfang Cement Limited continues to win the “全國第九次水泥品質指標檢驗大對比全優單位”.

K. Wah Quarry (Huzhou) Company Limited won the “中國環保優質建材”.



Mainland New Construction Materials Production Plants



- 1,6. 深圳嘉華混凝土管樁有限公司
2. Nanjing K. Wah Concrete Co., Ltd.
3. Shanghai K. Wah Concrete Piles Co., Ltd.
4. Members of investment community visited Shanghai K. Wah Concrete Piles Co., Ltd.
5. K. Wah Materials (Huidong) Ltd. Daya Bay Branch
7. 北京首鋼嘉華建材有限公司 (For slag production)

