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



OVERALL ECONOMIC REVIEW

The year 2004 saw marked improvements in Hong Kong’s economic performance with 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, resulting in a dropping unemployment rate and a mild increase in the price index marking the end of the deflationary cycle which had lasted for a few years.

Despite a strong upturn in the property market supported by increased turnover and prices gains, the relatively small volume of overall housing construction and large-scale public civil projects meant that the demand for construction materials was generally sluggish. Market players responded by gearing up cost controls and seeking market consolidation through various means.

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 market reactions to the austerity measures varied, the demand for construction materials in the property market showed signs of slowdown whereas the decrease or slowdown of government and public projects was fortunately not significant. In general, the overall market demand is barely satisfactory.

GROUP BUSINESS REVIEW

The Group had a minor setback in profit after taxation for the year under review despite stable growth in turnover, which was mainly attributable to the 2003 comparative base comprising an income arising from the disposal of an operating right amounting to HK\$28,000,000. Excluding this one-off gain, profit for 2004 should have registered solid growth over 2003.

The Group responded to the difficult market situation in Hong Kong by improving its operational efficiency while exploring the possibilities of adding new driving force to its business through different means.

New investment projects in mainland China started to make profit contributions to the Group after completion and commissioning during the year. As for the four new projects for slag production, the respective joint ventures with Beijing Shougang Group and Yunnan Kunming Steel Group commenced production in 2004 and performance had been satisfactory. The remaining projects, which were joint ventures with Anhui Magang Group and Guangdong Shaogang Group, respectively, also became operational in the first quarter of 2005.

OUTLOOK

The world economy is expected to enjoy stable growth in 2005. Global interest rates are set to embark on an upward spiral following the U.S. lead, although the extent of hikes should be well within expectations. In Asia, the economic focus remains in China, where the economy is expected to sustain growth in 2005 in the wake of austerity measures implemented in the past year.

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 Group will make announcements as and when appropriate to update shareholders with latest developments.

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 welcomes Dr. William Yip Shue Lam as Independent Non-Executive Director of the Company. His board membership is 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 the Group for the efforts and contributions they made during the year.

Dr. Lui Che Woo

Chairman

Hong Kong, 3rd March 2005