REVIEW OF PERFORMANCE

Turnover and profit attributable to shareholders for the year ended 31st December 2001 were HK$2,275 million and HK$100 million, an increase of 28% and 22% respectively. Gross profit margin for the year was 14%, similar to that of last year.

Contribution from the Properties Division continued to improve during the year. Major properties sale during the year were Le Cachet, The Montebello and The SeaCrest in Hong Kong, Chez Moi in Shanghai and Parkview Place Phase 3 in Guangzhou. Sale from the Properties Division has accounted for approximately 50% of the Group's turnover.

While for Construction Materials Division, the market condition has remained competitive during the year and contribution from this Division was less than that of last year.

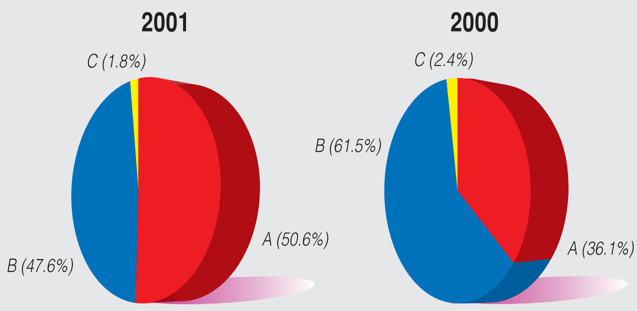
Set out below are the segmental analysis of the Group's operation for the year ended 31st December 2001.

By Division

	Properties	Construction materials	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	1,152,189	1,082,615	40,096	2,274,900
Cost of sales	(1,024,328)	(903,738)	(33,130)	(1,961,196)
Gross profit	127,861	178,877	6,966	313,704
Other revenues	8,746	11,606	241	20,593
Administrative expenses	(62,263)	(63,277)	(10,219)	(135,759)
Other operating income	29,264	15,634	5,240	50,138
Other operating expenses	(31,679)	(30,168)	(10,000)	(71,847)
Operating profit/(loss)	71,929	112,672	(7,772)	176,829

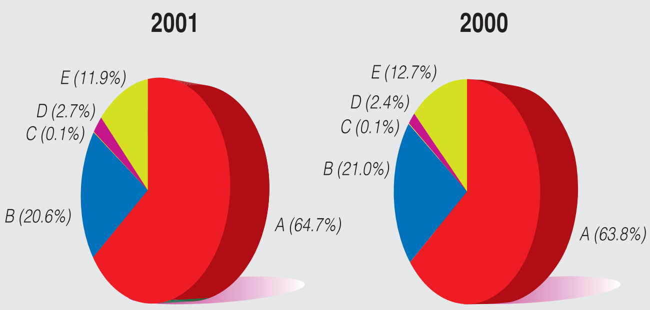
TURNOVER BY DIVISION

		2001 HK$'000	2000 HK$'000
A	Properties	**1,152,189**	641,300
B	Construction materials	**1,082,615**	1,093,521
C	Others	**40,096**	43,629
		2,274,900	1,778,450



EMPLOYMENT OF GROSS ASSETS

		2001 HK$'000	2000 HK$'000
A	Properties	**3,566,589**	3,429,796
B	Construction materials	**1,138,545**	1,126,903
C	Trading	**6,267**	6,146
D	Central services	**150,241**	129,296
E	Cash & bank balances	**656,303**	682,954
		5,517,945	5,375,095

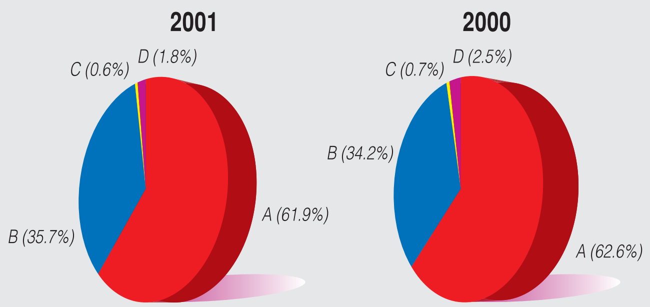


By Geographical Spread

	Hong Kong HK$'000	**Mainland** HK$'000	**Singapore** HK$'000	**Japan** HK$'000	**Total** HK$'000
Turnover	1,407,367	813,260	14,177	40,096	2,274,900
Cost of sales	(1,169,426)	(753,266)	(5,372)	(33,132)	(1,961,196)
Gross profit	237,941	59,994	8,805	6,964	313,704
Other revenues	17,236	3,331	23	3	20,593
Administrative expenses	(100,882)	(26,293)	(1,854)	(6,730)	(135,759)
Other operating income	28,378	18,616	3,079	65	50,138
Other operating expenses	(31,180)	(21,312)	(19,330)	(25)	(71,847)
Operating profit/(loss)	151,493	34,336	(9,277)	277	176,829

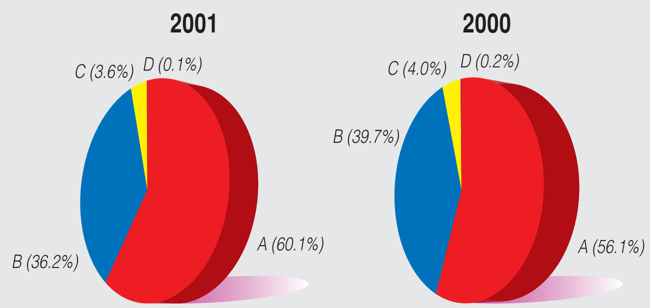
TURNOVER BY GEOGRAPHICAL SPREAD

		2001 HK$'000	2000 HK$'000
A	Hong Kong	**1,407,367**	1,113,831
B	Mainland China	**813,260**	608,051
C	Singapore	**14,177**	12,939
D	Japan	**40,096**	43,629
		2,274,900	1,778,450



GROSS ASSETS BY GEOGRAPHICAL SPREAD

		2001 HK$'000	2000 HK$'000
A	Hong Kong	**3,314,429**	3,017,234
B	Mainland China	**1,997,079**	2,132,754
C	Singapore	**198,272**	216,578
D	Japan	**8,165**	8,529
		5,517,945	5,375,095



REVIEW OF OPERATION

(1) Properties in Hong Kong

(A) *Current Development Properties in Hong Kong (Total gross floor area of approximately 183,000 square metres)*

(i) *The Palace, 83 Broadcast Drive, Kowloon Tong (100% owned)*

The property is being developed into a 37-storey high rise luxurious residential apartment building with clubhouse facilities and a large swimming pool. Superstructure works are at its final stage and the whole construction works are expected to be completed by the end of 2002. The residential apartment building has incorporated the green features as promulgated by the Government on green and innovative building. This together with its elegant and stylish design will make the property to be one of the most prestigious residential apartment building in that area. Pre-sale of the residential flats will be launched shortly.

(ii) *The SeaCrest, Tuen Mun Town Lot 408, Hang Kwai Street, Tuen Mun (100% owned)*

The property is being developed into two towers of 28-storey high rise residential apartment buildings with large clubhouse facilities and an outdoor swimming pool. The buildings were topped out in October 2001 and the whole development works are expected to be completed by May 2002. The residential flats were first launched for pre-sale in May 2001. Market response was very encouraging and close to 90% of the residential flats were sold.

(iii) *Sha Tin Town Lot 483, Ma On Shan, Sha Tin (100% owned)*

The property has a site area of approximately 7,300 square metres with a total gross floor area of approximately 37,000 square metres for residential property development. The development planning works have just completed and the residential building will incorporate the green features to enhance the value of the development. Foundation works have been commenced and the development is expected to be completed by 2004. Pre-sale of the residential flats will be launched by the end of this year or early next year.

(iv) *DD 387, Lot 214, Sham Tseng, Tsuen Wan (50% owned)*

This is a development property joint venture of which the Group holds a 50% interest. The Group was appointed as the project manager for the development.

The property has a site area of approximately 7,900 square metres with a total gross floor area of approximately 17,000 square metres for residential property development. The property will be developed into two blocks of 36-storey luxurious residential apartment building. Planning works are at its final stage and construction works will be commenced shortly. The development is expected to be completed by 2004.

(v) *Tsuen Wan Town Lot 395, Route Twisk, Tsuen Wan (25% owned)*

This is a development property joint venture of which the Group holds a 25% interest.

The property has a site area of approximately 26,000 square metres with a total gross floor area of approximately 77,000 square metres for residential property development. The project is at the foundation works stage and the development is expected to be completed by 2004. Cheung Kong was appointed as the project manager for the development.

(vi) *Le Cachet, 69 Sing Woo Road, Happy Valley (100% owned)*

The property was developed into a 31-storey luxurious residential apartment building with clubhouse facilities. The development was completed during the year and occupation permit has been obtained.

All the residential flats were sold.

(vii) *The Montebello, 155 Argyle Street, Kowloon Tong (100% owned)*

The property was developed into a 28-storey luxurious residential apartment building with clubhouse facilities and an indoor heated swimming pool. The development was completed during the year and occupation permit has been obtained.

Nearly 80% of the units were sold.

(B) *Other Major Properties in Hong Kong (all 100% owned)*

(i) *Skyline Commercial Centre, Wing Lok Street, Sheung Wan*

The property is a 24-storey commercial building comprising approximately 3,900 square metres of office space and ground floor shops. The property is held for long term investment purpose. The occupancy rate has maintained at 90% level in 2001 and has contributed steady rental income to the Group during the year.

(ii) *Shopping Arcade at Grandview Garden, Pau Chung Street*

The property is a shopping arcade of approximately 2,700 square metres. The property is held for sale and is currently leased out for rental. Occupancy rate of the arcade has improved further to 80% in 2001 as compared to 60% in 2000.

(iii) *Kingsfield Centre, Shell Street*

The property comprises approximately 2,200 square metres of office space inside a 26-storey commercial building. The property is held for sale and is currently leased out for rental. The property has maintained an occupancy rate of over 80% in 2001, slightly improved over 2000.

(2) Properties in the Mainland

Current Development Properties in the Mainland (Total gross floor area of approximately 374,000 square metres)

(i) *Lot A&B, No.68 Jianguo Xilu, Xuhui District, Shanghai (100% owned)*

The property has a site area of approximately 38,000 square metres with a total gross floor area of approximately 152,000 square metres for residential property development purpose. The land was acquired through public land auction in September, 2001. Planning work for the development is in progress and the development is expected to be completed by 2004.

(ii) *Pacific Plaza, Huaihai Zhong Road, Shanghai (35.75% owned)*

This is a development property joint venture of which the Group holds a 35.75% interest.

The development comprises two development phases. Phase I development which was a luxurious residential property development was completed and fully sold. Plan for the Phase 2 development was finalised during the year. It will be developed into a high rise Grade A office tower and the development is expected to be completed by 2004/2005.

(iii) *Chez Moi, Wanhangdu Road, Shanghai (95% owned)*

The property was developed into five domestic residential apartment buildings with clubhouse facilities and a swimming pool. The development was completed during the year and occupation permit has been obtained. All residential flats were sold.

(iv) *Parkview Place, Donfeng Road West, Guangzhou (100% owned)*

The development comprises three phases. Development for Phase 1 and Phase 2 were completed and nearly all the residential flats were sold. The final Phase 3 was developed into four luxurious residential apartment buildings with clubhouse facilities, an indoor swimming pool and a ground floor shopping arcade. The development was completed in October 2001 and occupation permit has been obtained. Nearly 65% of total residential flats were sold.

(3) Major Properties in Singapore (100% owned)

San Centre, Chin Swee Road

The property comprises approximately 5,800 square metre of office space inside a 12-storey commercial building. Approximately 3,800 square metres is held for long term investment purpose and the remaining area is held for sale. The property was virtually fully let during the year and has contributed steady rental income to the Group. However the market condition become more competitive and the occupancy rate may drop in the coming year.

(4) Construction Materials Business and Technology Investment via 67% shareholding in K. Wah Construction Materials Limited ("KWCM")

(a) *Business in the Hong Kong Construction Materials*

Despite the continued management efforts of the Construction Materials Division to ensure all facets of operation are cost effective, soft demand and competitive pricing in the construction materials industry put significant pressure on the profit of the operations of the Hong Kong Construction Materials Division.

The rehabilitation works of KWP Quarry Co. Limited at Anderson Road in which KWCML has a 63.5% interest is proceeding on schedule. In January 2002, the company met its second milestone on time in accordance with its contract with the Hong Kong SAR Government. To cope with the changing market conditions and maintain the Group's competitive position as one of the leaders in the construction materials industry in Hong Kong, KWCM has established a wholly owned new quarry in Huidong, Guangdong to supply aggregates primarily to the Hong Kong market. Its production will commence by the end of 2002.

(b) *Business in the Mainland Construction Materials*

The overall performance of our Mainland China Construction Materials Division reported significant profit improvement as compared to the corresponding period last year.

In Shanghai, the better than expected profit contributions from our Shanghai operations were due to the increase in overall ready mixed concrete demand in Shanghai in 2001. The Group's ready-mixed concrete sales volume in Shanghai has reached a level where the Group sees the opportunity to create a vertical integration by expanding its production facility to cover upstream products. Along this, the Group will establish a quarry in Huzhou aiming to serve primarily the Shanghai market. It is scheduled for full production by the end of 2002. In addition, the Group has established Shanghai K. Wah Concrete Piles Company Limited, a co-operative joint venture of which KWCM has 100% equity interest, for production of piles aiming to serve primarily the Shanghai market.

In Guangzhou, the performance is unsatisfactory due to the worsening market condition and the closure of Huang Pi Quarry and the Jia Fang Concrete batching plant although the operations of K. Wah Nanfang Cement Limited, a 50% jointly controlled entity of KWCM, improved modestly with a small contribution to profit during the year.

Through leveraging the Group's strong financial position and its invaluable years of management experience in the Mainland, the Group is confident of grasping the opportunities arising China's entry to WTO and Beijing's 2008 Olympics.

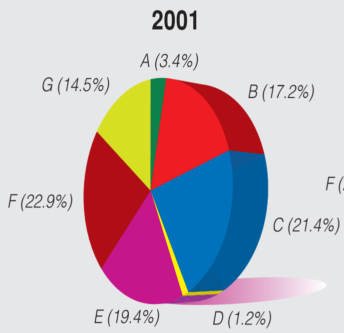
(c) *Technology Investments*

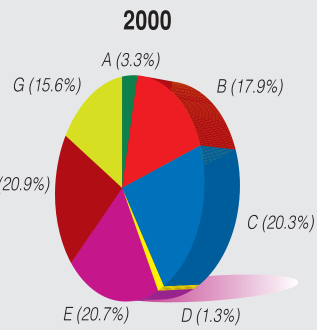
The Group has been proceeding prudently with its diversified investment plan and so far has invested HK$111 million on technology investments. It has achieved a balanced investment portfolio in various segments, both in Hong Kong and in the Mainland.

REVIEW OF FINANCE

SOURCES OF FUNDING

		2001	2000
		HK$'000	*HK$'000*
A	Share capital	**187,075**	176,525
B	Other reserves	**950,186**	960,560
C	Revenue reserves	**1,178,772**	1,092,805
D	Revaluation reserves	**68,037**	68,037
E	Minority interest	**1,071,648**	1,110,349
F	Long term loans	**1,263,460**	1,127,624
G	Short term loans	**798,767**	839,195
		5,517,945	5,375,095





(1) Financial Position

Total funds employed for the year ended 31st December 2001 was HK$5.5 billion, slightly improved over the figure of HK$5.4 billion for the year ended 31st December 2000.

The capital expenditure for the year amounted to HK$83 million representing mainly the acquisition of plants and machinery and other capital expenditures incurred for the Construction Materials operation. These payment were financed by funds generated from operating activities and bank borrowings.

The decrease in fixed assets and increase in investment in associated companies represent mainly the reclassification adjustments subsequent to the capital restructuring in our Nanjing properties joint venture undergone during the year. Through the restructuring, a new local partner was invited to the joint venture and our interest in the joint venture was reduced from 55% to 28%.

Increase in other non-current assets represents funds invested in technology joint ventures during the year.

The net asset value per share as at 31st December 2001 was HK$1.27, similar to HK$1.3 as at 31st December 2000. The number of issued shares was increased through the scrip shares issued for scrip dividend paid during the year. However, the dilution effect was offset by the profit earned for the year.

(2) Liquidity, Financial Resources and Gearing Ratio

The liquidity position of the Group was maintained at a satisfactory level during the year. Cash and bank balances less short term loans and overdrafts at 31st December 2001 was HK$289 million as compared to the net balance of HK$394 million at 31st December 2000.

The total long-term borrowings at 31st December 2001 amounted to HK$1,695 million, similar to the amount of HK$1,678 million at 31st December 2000. Out of the total long-term borrowings, over 74% of these borrowings mature over a period of one year and above. Our position is further strengthened as compared to 67% last year.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a steady level of 26% during the year ended 31st December 2001 as compared to 25% for last year.

In addition to the aggregate cash balances of HK$656 million, the total undrawn banking facilities of the Group at 31st December 2001 amounts to over HK$1.8 billion.

The Group's liquidity position and gearing ratio are healthy, and has sufficient funds to meet its commitment and operational requirements.

(3) Treasury Policies

The Group continues to adopt a conservative approach regarding foreign exchange exposure, which is managed to minimize risk. The majority of the Group's borrowings are in either Hong Kong Dollars or United States Dollars. Forward foreign exchange contracts are utilized when suitable opportunities arise and when considered appropriate, to hedge against non-Hong Kong Dollar and non-United States Dollar exposures. Interest rate swap contracts are also utilized when considered appropriate to avoid impact of any undue interest rate fluctuation on the operation.

The Group has not engaged in the use of derivative products, which are considered not necessary for the Group's treasury management activities.

(4) Charges on Group Assets

Details of charges on group assets are set out in note 13 to the financial statements.

(5) Contingent Liabilities

Details of contingent liabilities are set out in note 33 to the financial statements.

EMPLOYEES

Employees and Remuneration Policy

The Group, excluding associated companies and jointly controlled entities, employs 1,471 staff of which 456 are employed in Hong Kong. Employee costs, excluding Directors' emoluments, amounted to HK$199,461,000. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Staff performance is reviewed at least annually while compensation is performance driven. Following approval by the shareholders in 1989, the Group has been implementing a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents.

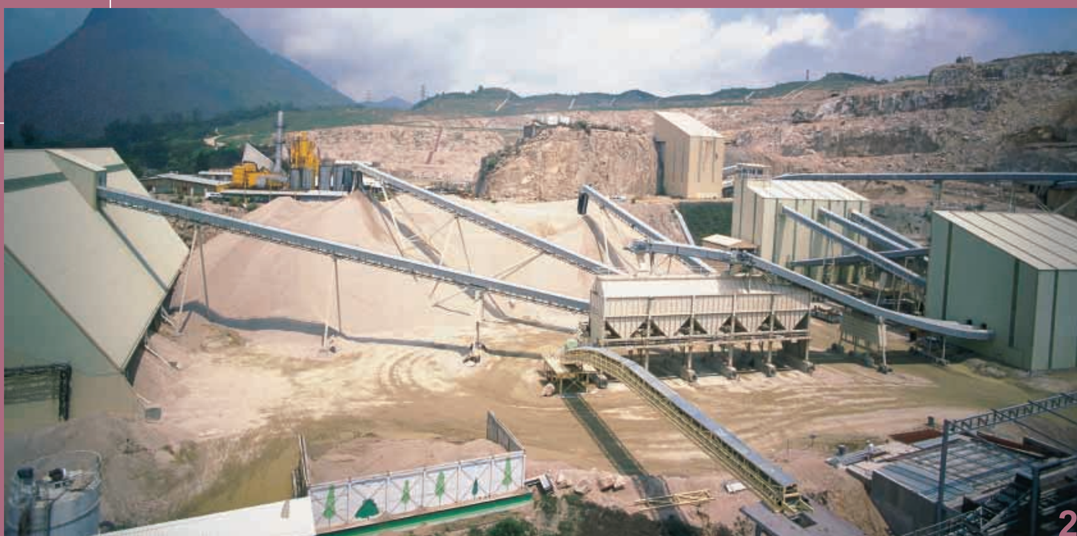
Training and Development

Our Group recognizes that competitive advantage is largely created through our people's capability. Facing economic downturn and the aftereffect of 11th September, the Group believes that our future growth and development will come from enhanced employee effectiveness through staff development.

To keep abreast with technology development and application to enhance our process, the Group continues to focus on improving the computer and e-commerce skills of our staff by providing comprehensive information technology training. We also encourage learning by sponsoring staff to attend external and internal training courses in a wide range of areas such as knowledge of the Group and its business, mission and core values, business integrity and ethics, finance and taxation, laws, human resources management and language. A series of tailor-made management development programs are developed to provide our senior management with advanced knowledge and skills essential to create competitive strategies and practices.

To keep up with our business expansion in the Mainland, a localization plan targeted at training up promising staff has been implemented to enhance operational efficiency. High potential staff has been identified and sent to Hong Kong to undergo attachment training to uplift and strengthen their technical and managerial competencies.

Anderson Road Quarry



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1. Anderson Road Quarry
2&3. The latest quarrying facilities were installed to increase productivity

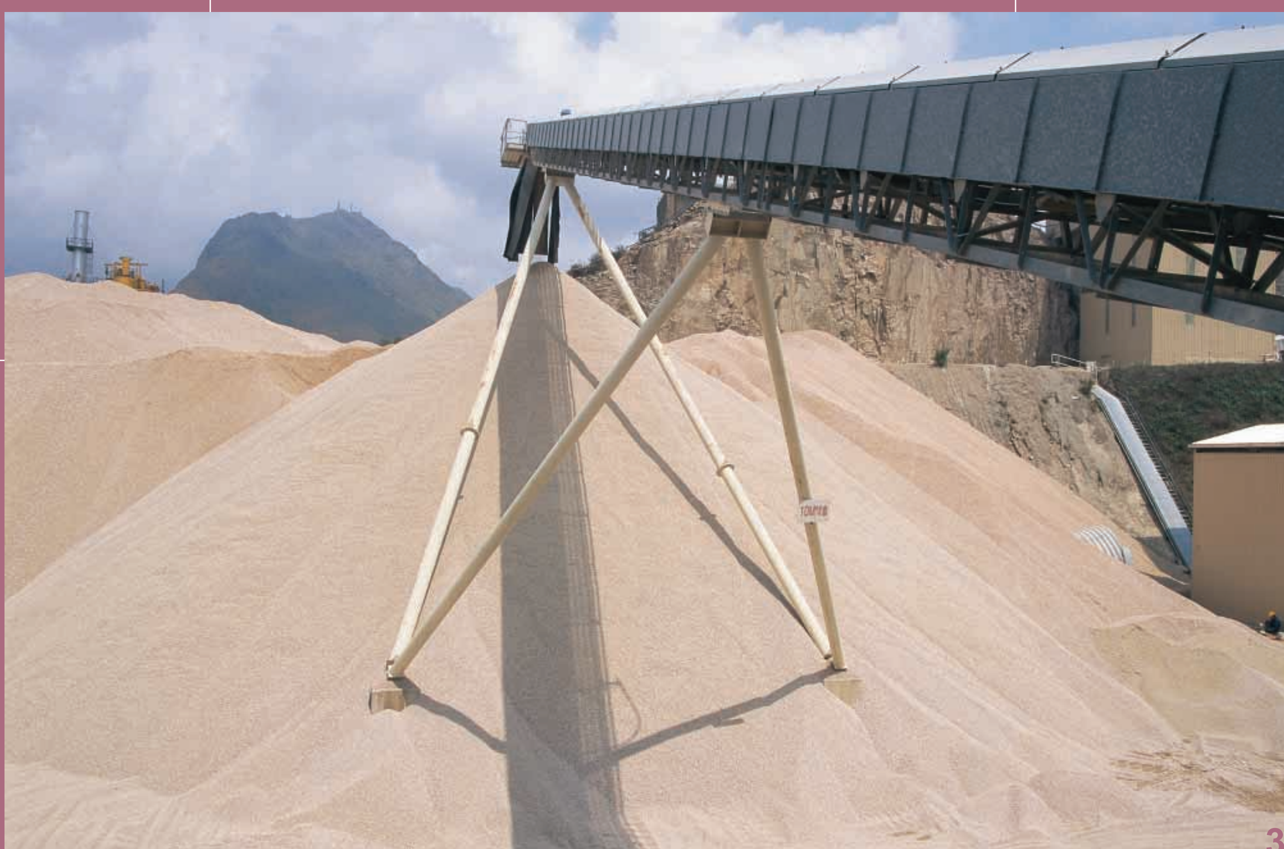

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Photo taken by Risky Liu