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

RESULTS

Turnover for the year ended 31st December 2002 was HK$2,134,552,000 which compared to HK$2,274,900,000 recorded last year, a decline of 6 percent.

Profit attributable to shareholders, however, rose 6% to HK$106,403,000, higher than HK$100,236,000 reported last year.

DIVIDENDS

The Board recommended to the forthcoming annual general meeting a final dividend of 2 cents per share payable to the shareholders whose names appear on the register of members of the Company on 23rd May 2003 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 3 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 4th July 2003.

THE YEAR UNDER REVIEW

The economy of Hong Kong is still undergoing a long-term adjustment. Unemployment rate is still running near record highs. Deflation had been continuing for over four years but there is no sign of abating in the near term. Cases of negative equity had been increasing. Gross domestic product was estimated to grow 2.3 per cent in 2002. Domestic consumption and investment remain subdued.

Despite the lacklustre economic conditions, our dedication to providing home buyers with properties of "superior design, top quality and value for money" did pay off.

Contribution from the Properties Division increased as compared to the same period last year, accounting for over fifty percent of the results for 2002, both in terms of total turnover and total operating profit. Our projects in Tuen Mun and Ma On Shan were well received by the market when these two projects were launched for pre-sale throughout 2001 and 2002 and in the latter part of 2002 respectively. This is primarily due to the fact that most of the homebuyers nowadays are shrewd end users. Homes with good design would certainly appeal to them.

There was no new projects for pre-sale in Shanghai during the year as all our Shanghai projects were still in their preliminary construction stage.

Overall contribution from the Construction Materials Division was fifty-nine percent less than that of last year due to the decrease in profit margin in our Hong Kong operations from the escalating business competition. Contribution from the Mainland operations, on the other hand, began to emerge during the year and had mitigated the fall in the overall profit contribution from the construction materials division to the Group. The Group's construction materials business now covers Shanghai, Beijing, Guangzhou, Shenzhen, Huidong, Nanjing, Huzhou and Anhui.

Loss of HK$13 million were recorded during the year from the disposal of our 28% interest in a joint venture which held a commercial property in Nanjing.

During the year residential property prices in Shanghai continued its uptrend probably in anticipation of massive investment in infrastructure and tourism even though the World Expo is seven years away.

In May 2002, the Group had concluded an equity joint venture for a residential site in Jingan District in Shanghai with a total gross floor area of approximately 120,000 square meters. The project is expected to be completed in 2005. In June 2002, the Group reached agreement to purchase a residential site at Guangzhong Road, Shanghai with the total gross floor area of approximately 400,000 square metres. This project is to be completed in 2008.

As at December 2002, the total floor area of the development property portfolios held by the Group stood at approximately 800,000 square metres in the Mainland and 90,000 square metres (900,000 square feet) in Hong Kong.

MARKET OUTLOOK

PROPERTIES

In Hong Kong, high unemployment rates and deflation are expected to persist. Both the primary and secondary residential markets will remain soft. But the property prices are expected to hover at the present level given the government's pro-market housing policy, new immigration policy to attract wealthy investors and professionals to come to Hong Kong, and the strong housing affordability given the present low interest rate environment.

With our continued aim to provide better products at competitive prices to meet the demands of homebuyers, barring any unforeseeable circumstance, we are cautiously optimistic of our property sales in Hong Kong.

In the Mainland, we would expect the economy to grow impressively in the foreseeable future. Although our projects in the Mainland are still in preliminary stage of development and pre-sale has yet to be started, we believe that such projects, which were well located and were acquired at reasonable prices would eventually bear fruit to the satisfaction of the shareholders.

The management will exercise great care when it comes to the decision of making further investments in the property sector both in Hong Kong and in the Mainland to preserve the Group's long term sustainability given the uncertainties affecting the economic outlook of Hong Kong after the outbreak of war in Iraq and atypical pneumonia and the possibility that the central government may take further measures to keep the property market from overheating in the Mainland.

CONSTRUCTION MATERIALS

In Hong Kong, the severe and prolonged economic downturn in recent years continues to affect the construction sector. Shrinking demand resulting in the thinner margin, directly affecting the Group's performance. The Group however, is well prepared to cope with the foreseeable difficult business environment before the Hong Kong economy recovers.

The Group maintains its view on the increasing potential in the Mainland. We shall continue to ensure that all the existing 15 projects invested earlier will start contributing profit to the Group in 2003.

In light of growing opportunities in Mainland China, the Group will pursue its long term strategy to become one of the major suppliers of construction materials in Mainland. On this, the Group is actively exploring business opportunities to expand the Group's presence in various provinces in the Mainland.

PEOPLE

In K. Wah, people are our most valuable assets. The Group believes the success of the Group's business relies upon the employees' talents and experience. The Group's personnel strategy is to continuously invest in developing talents and ensure that the Group has sufficient talents to support the Group's growth in Greater China.

The Board welcomes the appointment of Mr. Eddie Hui Ki On as an executive director of the Company with effect from 9th April 2003, bringing substantial valuable experience to the Group.

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.

AWARD

In 2002 the Group's K. Wah Construction Materials Limited won the Caring Company Award accredited by the Hong Kong Council of Social Service, recognizing K. Wah's performance as a good corporate citizen.

On the corporate governance front, the Group's non-executive director, Dr. Charles Cheung won the Directors of the Year Awards 2002 of Listed Company Non-Executive Director from The Hong Kong Institute of Directors. Dr. Cheung was awarded for his outstanding contribution towards maintaining the Group's high standard of corporate governance.

Lastly, my gratitude goes to the directors; the management team, and all staff for their valuable contribution in making 2002 a year of success.

Dr. Lui Che Woo
Chairman

9th April 2003