REVIEW OF PERFORMANCE

Turnover and profit attributable to shareholders for the year ended 31st December 2004 were HK$1,730,538,000 and HK$234,323,000, a decrease of 44% and an increase of 95% respectively, compared to last year.

The decrease in the Group's turnover but with a double in profit attributable to shareholders was due to the increase in profit from sales of properties from jointly controlled entities where only the Group's share of profit is included in the profit and loss statement.

Contribution from the Properties Division continued to increase during the year. Major properties sold during the year were the Anglers' Bay and The Cairnhill in Hong Kong.

Turnover for the Construction Materials Division was slightly higher than that of last year but the profit attributable to shareholders decreased by approximately 17% from last year.

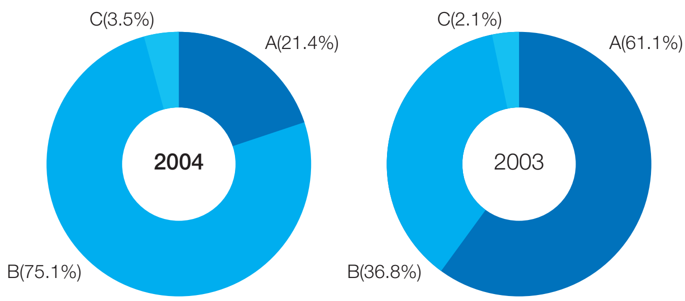
Set out below are the segmental analysis of the Group's operation for the year ended 31st December 2004.

By Division

	Properties	Construction materials	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	369,809	1,299,143	61,586	1,730,538
Cost of sales	(246,688)	(1,248,459)	(53,236)	(1,548,383)
Gross profit	123,121	50,684	8,350	182,155
Other revenues	7,709	7,638	1,817	17,164
Other operating income	13,439	26,618	16,224	56,281
Administrative expenses	(68,316)	(53,243)	(15,196)	(136,755)
Other operating expenses	(34,704)	(15,084)	(105)	(49,893)
Operating profit	41,249	16,613	11,090	68,952

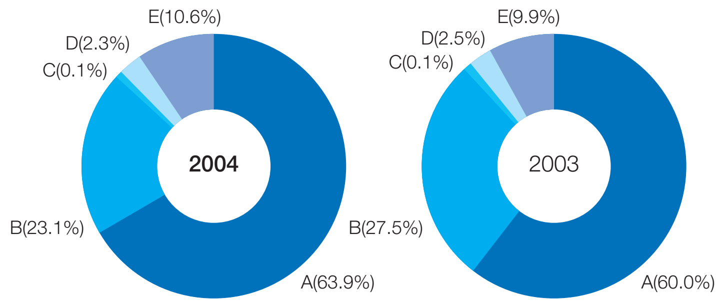
TURNOVER BY DIVISION

	2004 HK$'000	2003 HK$'000
A Properties	369,809	1,879,105
B Construction materials	1,299,143	1,130,894
C Others	61,586	66,144
	1,730,538	3,076,143



EMPLOYMENT OF GROSS ASSETS

	2004 HK$'000	2003 HK$'000
A Properties	4,728,327	3,149,711
B Construction materials	1,707,742	1,443,168
C Trading	9,498	7,784
D Central services	171,378	133,074
E Cash & Bank balances	781,306	517,065
	7,398,251	5,250,802

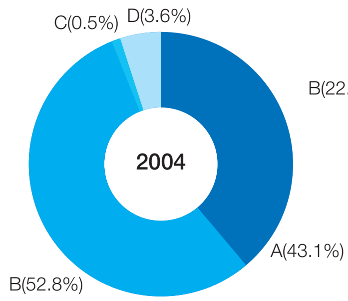


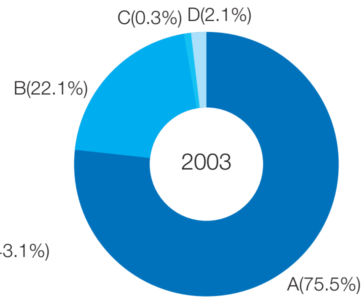
By Geographical Spread

	Hong Kong HK$'000	Mainland China HK$'000	Singapore HK$'000	Japan HK$'000	Total HK$'000
Turnover	746,529	913,233	9,190	61,586	1,730,538
Cost of sales	(639,861)	(851,978)	(3,308)	(53,236)	(1,548,383)
Gross profit	106,668	61,255	5,882	8,350	182,155
Other revenues	15,719	1,424	11	10	17,164
Other operation income	29,140	26,824	222	95	56,281
Administrative expenses	(87,131)	(40,205)	(1,484)	(7,935)	(136,755)
Other operating expenses	(22,715)	(16,639)	(10,434)	(105)	(49,893)
Operating profit/(loss)	41,681	32,659	(5,803)	415	68,952

TURNOVER BY GEOGRAPHICAL SPREAD

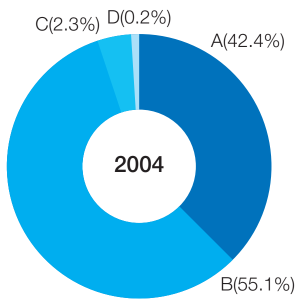
	2004	2003
	HK$'000	*HK$'000*
A Hong Kong	746,529	2,322,052
B Mainland China	913,233	678,729
C Singapore	9,190	9,218
D Japan	61,586	66,144
	1,730,538	3,076,143

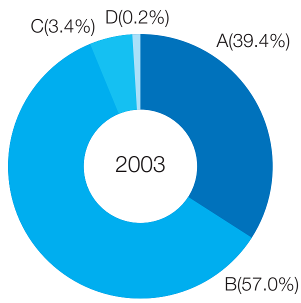




GROSS ASSETS BY GEOGRAPHICAL SPREAD

	2004	2003
	HK$'000	*HK$'000*
A Hong Kong	3,133,992	2,068,303
B Mainland China	4,080,395	2,993,565
C Singapore	171,851	176,625
D Japan	12,013	12,309
	7,398,251	5,250,802

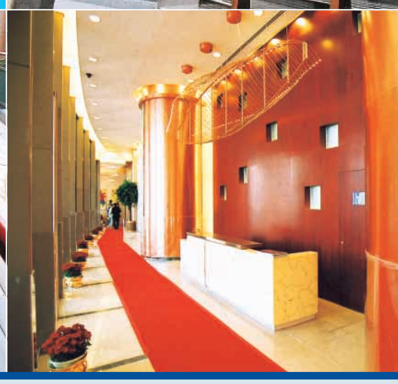




Hong Kong

Anglers' Bay
Castle Peak Road
Tsing Lung Tau
Hong Kong

Hong Kong Real Estate Development



Anglers' Bay

REVIEW AND OUTLOOK OF OPERATION

(1) Properties in Hong Kong

(A) Current development properties in Hong Kong (Total gross floor area of approximately 155,000 square metres)

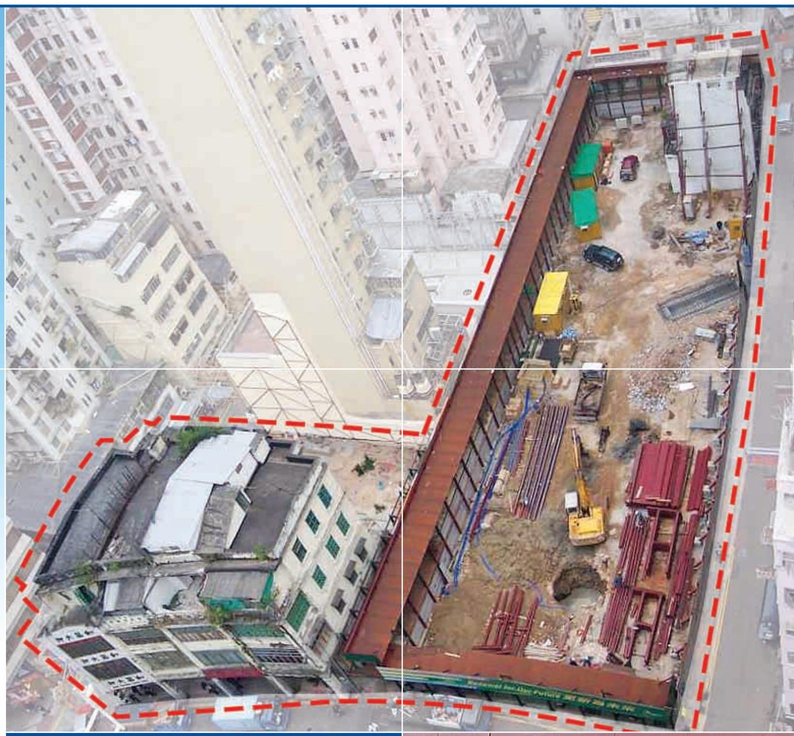
(i) the Anglers' Bay, 18A Castle Peak Road, Tsing Lung Tau (50% owned)

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

The property is situated at Sham Tseng Bay and close by the Tsing Ma Bridge and the Route 3 Highway, thus providing convenient access to Kowloon and Hong Kong. The development comprises two blocks of high-rise building towers with 248 residential units and a fully equipped clubhouse. All the units are southeast-oriented with balconies and command a scenic seaview of the Tsing Ma and the Ting Kau Bridges.

Superstructure work was completed and occupation permit was obtained in September 2004. Nearly all of the residential units have been sold.

Perspective of Johnston Road Redevelopment Project, Wan Chai, Hong Kong



Johnston Road Redevelopment Project, Wanchai, Hong Kong

PRIME LOCATION

Tung Lo Wan Hill Road Project, Shatin, Hong kong

(ii) *the Cairnhill, 108 Route Twisk, Tsuen Wan (25% owned)*

This is a development property joint venture of which the Group holds 25% interest. The remaining 50% and 25% interest are owned by Cheung Kong (Holdings) Limited ("Cheung Kong") and Sino Group respectively.

This project has a total gross floor area of approximately 92,450 square metres for low-density residential property development. Superstructure work was completed and occupation permit was obtained in November 2004. All the 770 units have been sold. Cheung Kong was appointed project manager for the development.

(iii) *Sha Tin Town Lot 510, Tung Lo Wan Hill Road*

The development has a site area of approximately 11,000 square metres and a total gross floor area of approximately 24,000 square metres for low-density residential property development. The land was acquired through public land auction in May 2004. Pre-superstructure work for the development is in progress. The development is expected to be completed by 2007.

The Palace,
Broadcast Drive,
Kowloon Tong

La Costa,
Ma On Shan,
Hong Kong

VALUE FOR MONEY

SUPREME QUALITY

(iv) *Inland Lot 8997, Johnston Road, Wan Chai*

The Group was awarded the development contract by the Urban Renewal Authority in a public tender in June 2004. The property has a site area of approximately 2,000 square metres and a total gross floor area of approximately 19,000 square metres. Planning work for the project is in progress. The development is expected to be completed by 2008.

(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. It enjoys a high occupancy and contributes a steady rental income to the Group.

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

The property, a shopping arcade of approximately 2,700 square metres, was sold in January 2005. During 2004, the property was leased and maintained a high occupancy rate with competitive rentals.

(iii) *Kingsfield Centre, Shell Street, North Point*

The property comprises approximately 1,900 square metres of office space inside a 26-storey commercial building. The property is held for sale and is currently leased for rental. The occupancy rates are satisfactory.

中國

China

Shanghai K. Wah Centre,
Huaihai Zhong Road,
Shanghai

Mainland Real Estate Development

Shanghai K. Wah Centre
Huaihai Zhong Road
Shanghai

(2) Properties in the Mainland

Current development properties in the Mainland (Total gross floor area of approximately 2,200,000 square metres)

(i) No. 701, Guangzhong Road, Da Ning International Community, Shanghai (100% owned)

The project is named as Shanghai Westwood with a total gross floor area of approximately 380,000 square metres. With reference to the style of Westwood in Los Angeles, USA, the project is designed as a luxurious condominium with full amenities. Shanghai Westwood is divided into three development phases. Construction works for phase one, with gross floor area of about 140,000 square metres, was commenced in mid-2004 and is expected to be completed in 2006. Pre-sale is scheduled to be launched in the first half of 2005. The development of other two phases with gross floor area of approximately 140,000 square metres and 100,000 square metres is targeted to start in late 2005 and 2006 respectively.

Shanghai Westwood,
Guangzhong Road,
Da Ning International Community
Shanghai

Total gross floor area of Shanghai Westwood is approximately 380,000 square metres

(ii) Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (35.75%)

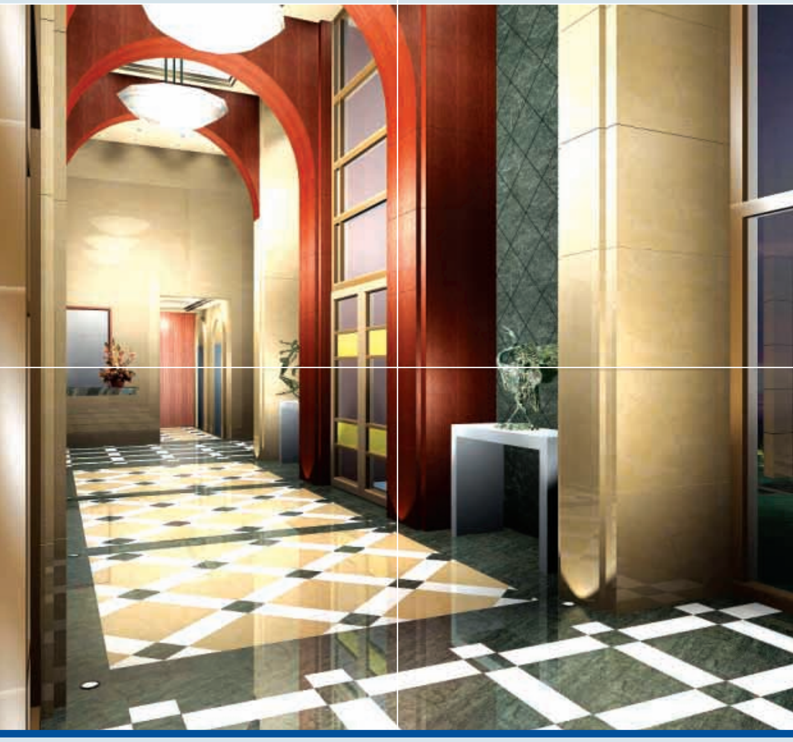
This is a development property joint venture of which the Group holds an effective 35.75% interest. The Group is the largest single shareholder in this project. The other partners are SVA Electron Co., Ltd. (30%), Tidefull Investment Ltd. (15.4%), Shanghai Xu Fang (Group) Co., Ltd. (15%) and Nissho Iwai Hong Kong Corporation Ltd. (3.85%). The Group is also the project manager for the development.

Located at the inner ring area of Shanghai and in the heart of the thriving downtown Huaihai Road commercial area, the development is of approximately 69,000 square metres and comprises a high rise Grade A office tower with two ancillary buildings. The Main Office Building (with a total lettable area of 64,500 square metres) was 70% leased by the end of 2004 and vacant possession of those units leased had been handed over to tenants by January 2005. The whole project will be completed in the first quarter of 2005.

(iii) Lot A&B No.68 Jianguo Xi Road, Xuhui District, Shanghai (100% owned)

The project is one of the last sizable pieces of land in the heritage region of Xuhui District. The project location is the traditional up scale residential area in Shanghai. We plan to develop this site as a residential landmark in the area with

Development project on Urumqi Bei Road, Jingan District, Shanghai



Development project on Jianguo Xi Road, Xuhui District, Shanghai

a total gross floor area of approximately 140,000 square metres. With heavy French style, the project would further enhance the historical values of this scarce piece of land. Demolition work is in progress and the development is expected to be completed by 2007.

(iv) Phase III, Yanjiazhai, Jingan District, Shanghai (99% owned)

The project is located in Jingan District Urumqi Bei Road and close to the prosperous Central Business District ("CBD") of Nanjing West Road. Luxurious residential buildings with a total gross floor area of approximately 100,000 square metres will be constructed on this remarkable location. The land site measures 450 metres from East to West. All the units are designed with a south-facing orientation. This also guarantees an unobstructed view overseeing the CBD of Nanjing West Road and the Yan On Highway. Demolition work is in progress and the development is expected to be completed by 2007.

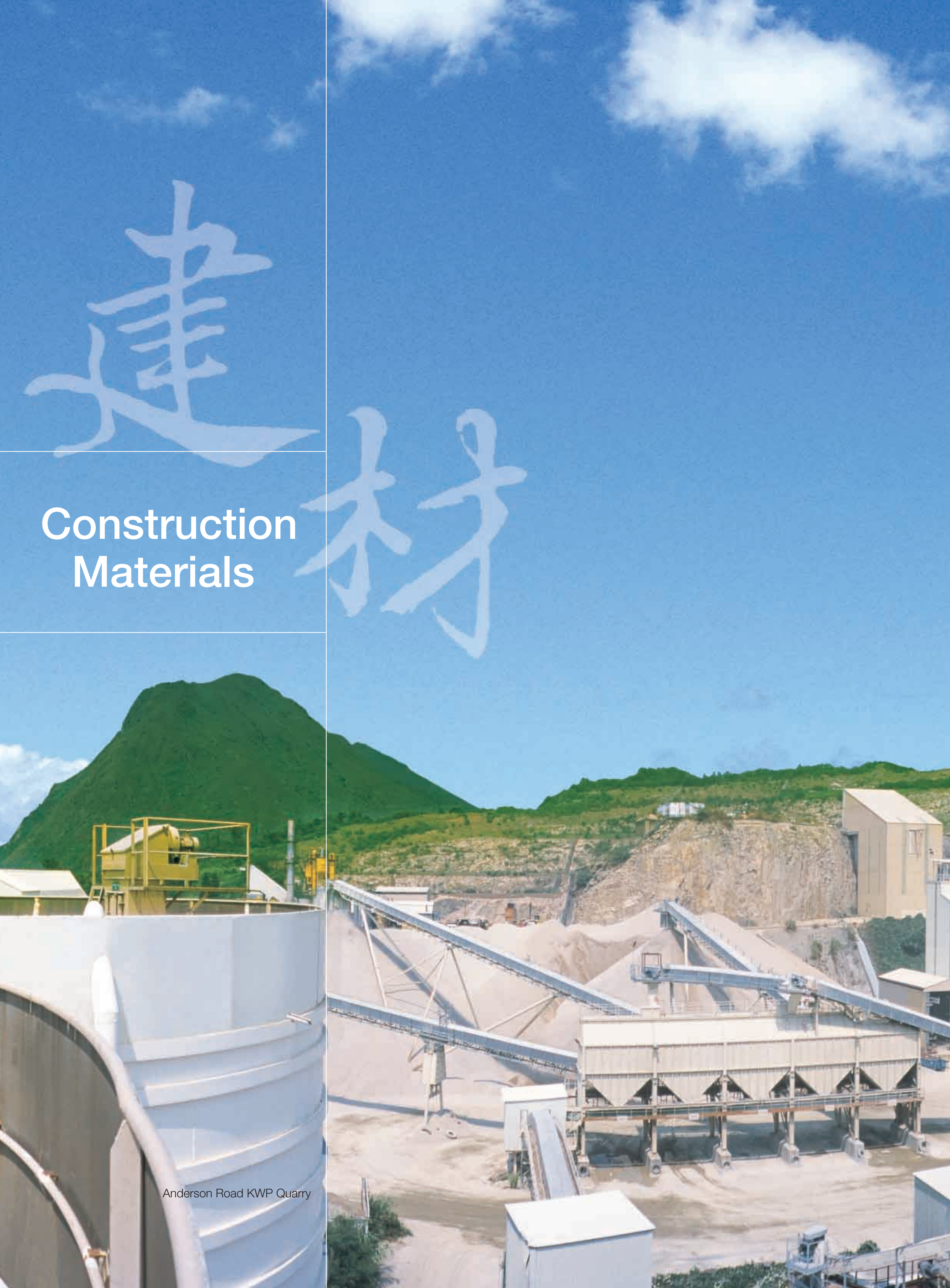
(3) Major Properties in Singapore

San Centre, Chin Swee Road (100% owned)

The property comprises approximately 5,800 square metres of office space inside a 12-storey building with carparks. Approximately 3,700 square metres of the development is held for long term investment purpose and the remaining area is held for sale. The property has maintained satisfactory occupancy with a stable income contribution to the Group.

建材

Construction Materials



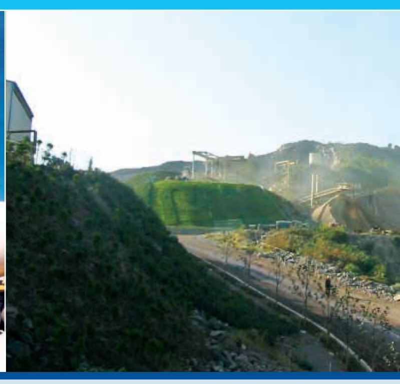
Anderson Road KWP Quarry

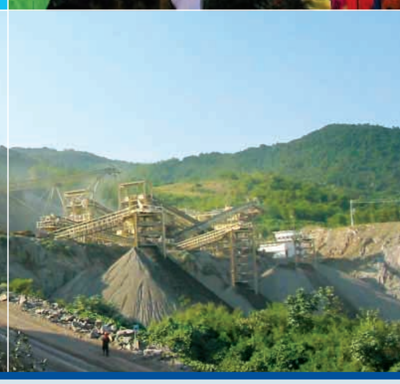
Construction Materials Production Plants

Yunnan Kungang & K. Wah Cement Construction Materials Co. Ltd

Shanghai K. Wah Qingsong Concrete Company Limited

Hui Dong Daya Bay RMC plant





K. Wah Quarry (Huzhou) Company Limited

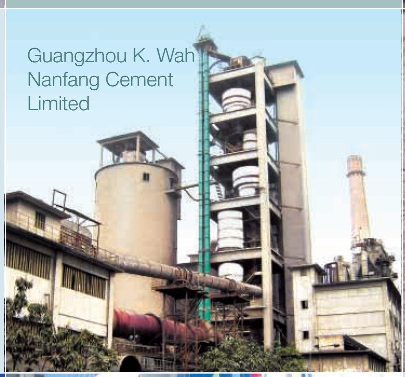
(4) Construction Materials Business via 66% Shareholding in K. Wah Construction Materials Limited ("KWCM")

(A) Construction Materials Business in Hong Kong

The construction activities remained at a low level even though there were signs of economic recovery in Hong Kong during the year. Facing such a challenging business environment, the division was able to achieve its objective to deliver a stable operating income through its ability to continuously improve its operational efficiency.

The ready-mixed concrete operation at Hui Dong Daya Bay had made satisfactory profit contribution this year while the rehabilitation work of KWP Quarry Co., Limited at Anderson Road Quarry (a 63.5% owned subsidiary of KWCM) was proceeding in accordance with the plan.

Shenzhen K. Wah Concrete Piles Company Limited
(深圳嘉華混凝土管樁有限公司)



Guangzhou K. Wah Nanfang Cement Limited

Beijing Shougang K. Wah Construction Materials Co. Ltd

Hong Kong Anderson Road KWP Quarry

Guangdong Shaogang Jia Yang New Materials Co. Ltd.

(B) Construction Materials Business in the Mainland

The Group's expansion strategy in the Mainland started to bear fruit during the year as the operations accounted for more than 50% of the Division's turnover and profit.

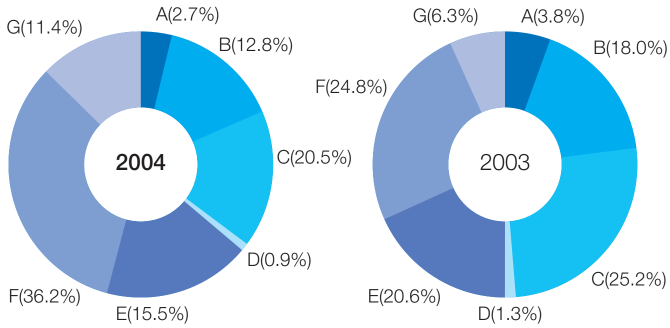
The austerity measures introduced by the Central Government did, contrary to the general wisdom, render assistance to the Division. Raw materials prices which were rising in the first half of the year, became stabilised and had therefore, restored the profit margin of the operations in the Mainland.

The Division's cement operation in Guangzhou, a 50% joint venture, had expanded its production facilities to meet the increasing local market demand. Various joint ventures with Shaoguan Iron and Steel Group, Shougang Group and the Kunming Iron and Steel Group were all operating as planned.

REVIEW OF FINANCE

SOURCES OF FUNDING

	2004 HK$'000	2003 HK$'000
A Share capital	201,564	197,797
B Other reserves	943,936	942,763
C Revenue reserves	1,517,698	1,323,090
D Revaluation reserves	68,037	68,037
E Minority interests	1,147,265	1,083,869
F Long term loans	2,675,209	1,302,184
G Short term loans	844,542	333,062
	7,398,251	5,250,802



(1) Financial Position

Total funds employed at 31st December 2004 was HK$7.4 billion, an increase of 41% compared with the figure of HK$5.3 billion at 31st December 2003.

Number of the issued shares of the Company increased through the issue of shares for scrip dividend paid and the exercise of share options during the year. The dilution effect, however, was offset by the profit earned for the year.

(2) Group 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 bank loans and overdrafts at 31st December 2004 amounted to HK$745 million as compared to the net balance of HK$340 million at 31st December 2003.

The total long-term borrowings increased by HK$2,025 million representing mainly the issue of convertible bonds in March 2004 and the new project development bank loans drawn during the year. Out of the total long-term borrowings, around 76% of these borrowings mature over a period of one year and above.

The gearing ratio, defined as the ratio of total loans outstanding less cash balances to total assets, was maintained at a healthy level of 38% at the year ended 31st December 2004 as compared to 21% for last year.

In addition to the aggregate cash balance of HK$781 million, the total undrawn banking facilities of the Group at 31st December 2004 amounted to over HK$2.8 billion.

The Group's liquidity position and gearing ratio stayed at a healthy level and the Group 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 Hong Kong Dollars. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate, to hedge against foreign exchange exposures. Interest rate swap contracts are also utilised when considered appropriate to avoid the impact of any undue interest rate fluctuation on the operation.

The Group has not engaged in the use of derivative products.

(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

At 31st December 2004, the Group, excluding associated companies and jointly controlled entities, employed 2,356 employees in Hong Kong and the Mainland. Employee costs, excluding Directors' emoluments, amounted to HK$229 million for 2004.

The Group recruits and promotes individuals based on merit and their development potential and ensures that remuneration packages are competitive. Following approval by the shareholders in 1989, the Group has a share option scheme for senior executives for the purpose of providing competitive remuneration package and long term retention of management talents. Likewise in the Mainland China, employees' remuneration is commensurate with market pay levels and the Group put emphasis on provision of training and development opportunities.

Training and Development

The Group believes that achievement of our business goals greatly relies on the competencies of our staff. To strive for excellence, the Group promotes continuous learning culture by sponsoring staff to attend external and internal training courses.

The Group enters into the 18th Anniversary of its Annual Corporate Seminar. This year, an innovative and interactive forum with the theme on "Change Management" is organized. Several professional consultants and keynote speakers in the public and private sectors are invited to host the forum in sharing their insights with our executives in handling of changes. Besides, a series of tailor-made management development programs with the focus on Teambuilding, Communication, Analytical Thinking and Problem Solving Skills and Legal knowledge are organized to equip our staff with the latest knowledge and skills so as to enhance their technical competencies.

Besides, the Group continues to sponsor staff in attending external training courses/workshops which cover the areas of languages, finance, taxation, laws, human resources, computer software applications, quality assurance and safety etc.

To augment the growth of our China business, we have re-launched the Management Trainee Programme targeted at recruiting and training up high potential university graduates in the Mainland and develop them to be our future managers and leaders.