

Report of the Directors

The directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31st December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries, jointly controlled entities and associated companies are set out in note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2000 are set out on page 44 of the annual report. An interim scrip dividend equivalent to 1 cent per share with a cash option, totalling HK\$17,273,000 (1999: nil), was paid during the year. The directors recommend a final scrip dividend equivalent to 2 cents (1999: 2 cents) per share with a cash option totalling HK\$35,312,000 (1999: HK\$33,146,000). Full details of the scrip dividend will be set out in a letter to be sent to the shareholders. The retained profit for the year attributable to shareholders of HK\$29,490,000 (1999: HK\$16,947,000) for the Group has been transferred to revenue reserves.

SHARE CAPITAL

Details of shares issued as at 31st December 2000 are set out in note 24 to the financial statements.

On 4th August 2000, 70,033,757 new shares were issued at a price of HK\$0.3354 as the final dividend for the nine months ended 31st December 1999 to shareholders who had not made cash elections in respect of their shareholdings.

On 24th November 2000, 37,935,532 new shares were issued at a price of HK\$0.323 as the 2000 interim dividend to shareholders who had not made cash elections in respect of their shareholdings.

During the year, 3,867 shares of the Company were issued on the exercise of 2001 Warrants by the warrant holders.

The Company has not redeemed any of its shares or warrants during the year ended 31st December 2000. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's shares or warrants during the year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$1,686,000.

FIXED ASSETS

Details of the movements in fixed assets are set out in note 12 to the financial statements.

PRINCIPAL PROPERTIES

Details of the principal properties held for development and/or sale and for investment purposes are set out on pages 81 to 83.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Lui Che Woo
Francis Lui Yiu Tung
Joseph Lai Ming
Paddy Tang Lui Wai Yu
David Akers-Jones
Michael Leung Man Kin
Alex Wu Shu Chih
Philip Wong Kin Hang
Leo Lee Tung Hai
Robin Chan Yau Hing
Lau Ki Chit
Charles Cheung Wai Bun

The biographical details of the directors and senior management are set out on pages 31 to 34 of the annual report.

In accordance with Bye-law 109(A), Mrs. Paddy Tang Lui Wai Yu, Dr. Robin Chan Yau Hing and Mr. Lau Ki Chit will retire from office at the forthcoming annual general meeting. Mrs. Paddy Tang Lui Wai Yu and Dr. Robin Chan Yau Hing, being eligible, offer themselves for re-election. Mr. Lau Ki Chit does not offer himself for re-election.

None of the directors proposed for re-election has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DISCLOSURE OF INTERESTS

At 31st December 2000, the beneficial interest of each director in the share capital and warrants of the Company and its listed subsidiary, K. Wah Construction Materials Limited, and the details of any right to subscribe for shares in the Company and K. Wah Construction Materials Limited and of the exercise of such right, as recorded in the register kept under section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(A) Ordinary Shares of the Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	1,465,486	6,079,030	380,539,558 ⁽¹⁾	717,581,296 ⁽²⁾	1,105,665,370
Francis Lui Yiu Tung	379,804	–	–	717,581,296 ⁽²⁾	717,961,100
Joseph Lai Ming	–	–	–	–	–
Paddy Tang Lui Wai Yu	4,639,166	–	–	717,581,296 ⁽²⁾	722,220,462
David Akers-Jones	–	–	–	–	–
Michael Leung Man Kin	–	–	–	–	–
Alex Wu Shu Chih	–	–	–	–	–
Philip Wong Kin Hang	–	–	–	–	–
Leo Lee Tung Hai	–	–	–	–	–
Robin Chan Yau Hing	230,407	–	–	–	230,407
Lau Ki Chit	16,500	–	–	–	16,500
Charles Cheung Wai Bun	7,239	–	–	–	7,239

(B) Share Options and Warrants of the Company

	Share Options		2001 Warrants
	Number Outstanding at 31st December 2000	Number Exercised during the year	Number Outstanding at 31st December 2000
Lui Che Woo	2,850,000	–	16,206,548
Francis Lui Yiu Tung	2,200,000	–	677
Joseph Lai Ming	685,000	–	–
Paddy Tang Lui Wai Yu	1,470,000	–	505,264
David Akers-Jones	–	–	–
Michael Leung Man Kin	1,170,000	–	–
Alex Wu Shu Chih	–	–	–
Philip Wong Kin Hang	–	–	–
Leo Lee Tung Hai	–	–	–
Robin Chan Yau Hing	–	–	12,048
Lau Ki Chit	–	–	745
Charles Cheung Wai Bun	–	–	490

DISCLOSURE OF INTERESTS (Cont'd)

(C) Ordinary Shares of K. Wah Construction Materials Limited

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Lui Che Woo	6,446,669	1,247,087	65,530,386 ⁽³⁾	774,492,820 ⁽²⁾	847,716,962
Francis Lui Yiu Tung	2,822	–	–	774,492,820 ⁽²⁾	774,495,642
Joseph Lai Ming	–	–	–	–	–
Paddy Tang Lui Wai Yu	1,861,906	–	–	774,492,820 ⁽²⁾	776,354,726
David Akers-Jones	–	–	–	–	–
Michael Leung Man Kin	–	–	–	–	–
Alex Wu Shu Chih	–	–	–	–	–
Philip Wong Kin Hang	–	–	–	–	–
Leo Lee Tung Hai	–	–	–	–	–
Robin Chan Yau Hing	51,748	–	–	–	51,748
Lau Ki Chit	3,204	–	–	–	3,204
Charles Cheung Wai Bun	1,810	–	–	–	1,810

(D) Share Options of K. Wah Construction Materials Limited

	Share Options	
	Number Outstanding at 31st December 2000	Number Exercised during the year
Lui Che Woo	3,300,000	–
Francis Lui Yiu Tung	2,600,000	–
Joseph Lai Ming	850,000	–
Paddy Tang Lui Wai Yu	1,670,000	–
David Akers-Jones	–	–
Michael Leung Man Kin	1,370,000	–
Alex Wu Shu Chih	–	–
Philip Wong Kin Hang	–	–
Leo Lee Tung Hai	–	–
Robin Chan Yau Hing	–	–
Lau Ki Chit	–	–
Charles Cheung Wai Bun	–	–

DISCLOSURE OF INTERESTS (Cont'd)

Notes:

- (1) 9,240,273 shares, 205,939,658 shares, 763,960 shares, 49,446,071 shares and 115,149,596 shares in the Company were held by Best Chance Investments Ltd., Houston Investment Limited, Lui Jip (Nominees) Limited, Mark Liaison Limited and Premium Capital Profits Limited respectively, which were all controlled by Mr. Lui Che Woo.
- (2) 717,581,296 shares in the Company representing more than one-third of its issued share capital were held by a discretionary trust. The Company was interested in 774,492,820 shares in K. Wah Construction Materials Limited representing more than one-third of its issued share capital held by a wholly owned subsidiary of the Company. Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu, as discretionary beneficiaries interested in the trust, are deemed to be interested in those shares in the Company held by the trust and in those shares in K. Wah Construction Materials Limited in which the Company was interested as aforesaid.
- (3) 13,886 shares, 687,762 shares, 60,809,718 shares, 794,488 shares and 3,224,532 shares in K. Wah Construction Materials Limited were held by Best Chance Investments Ltd., High Status Company Limited, Houston Investment Limited, Lui Jip (Nominees) Limited and Mark Liaison Limited respectively, which were all controlled by Mr. Lui Che Woo.

At 31st December 2000, the interest of every person (not being a director or chief executive of the Company) having an interest in 10% or more of the issued share capital of the Company as recorded in the register kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance, were as follows:

Name	Number of Ordinary Shares
Houston Investment Limited	370,535,325
HSBC Holdings Plc	717,687,054 (Note)
HSBC Finance (Netherlands)	717,687,054 (Note)
HSBC Holdings B.V.	717,687,054 (Note)
HSBC Investment Bank Holdings B.V.	717,687,054 (Note)
HSBC International Trustee Limited	717,687,054 (Note)

Note: HSBC International Trustee Limited is the trustee of discretionary trusts which hold 717,687,054 shares in the Company. Each of HSBC Holdings Plc, HSBC Finance (Netherlands), HSBC Holdings B.V. and HSBC Investment Bank Holdings B.V. are deemed to be interested in the 717,687,054 shares in the Company held by HSBC International Trustee Limited, being a wholly owned subsidiary within the HSBC Group.

DISCLOSURE OF INTERESTS (Cont'd)

There was duplication of interest in:

- (i) 370,535,325 shares in the Company between Mr. Lui Che Woo and Houston Investment Limited;
- (ii) 717,581,296 shares in the Company between Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mrs. Paddy Tang Lui Wai Yu, HSBC Holdings Plc, HSBC Finance (Netherlands), HSBC Holdings B.V., HSBC Investment Bank Holdings B.V. and HSBC International Trustee Limited; and
- (iii) 774,492,820 shares in K. Wah Construction Materials Limited between Mr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu.

So far as was known to any director or chief executive of the Company, save as disclosed herein, there was no other person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company.

No contracts of significance to which the Company or its subsidiaries was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year.

Except for the Share Option Scheme, details of which are set out in note 25 to the financial statements, at no time during the year was the Company or its subsidiary companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

CONNECTED TRANSACTIONS

1. On 17th July 2000, Combat Technology Limited ("Combat"), a wholly owned subsidiary of K. Wah Construction Materials Limited ("KWCM"), entered into two supplemental shareholders' agreements with Cyberlabs Holdings Limited ("CHL") and CreateLabs Inc. ("CreateLabs") whereby CHL and CreateLabs subscribed for further shares in Cyberlabs Solutions Limited ("CSL") and ZhongGuanCun.com Limited ("ZGC") respectively.

CSL is specialized in providing Chinese e-commerce solutions to businesses in Hong Kong and Mainland China. ZGC is specialized in providing information exchange platform for internet investments.

Mr. Lui Che Woo, Chairman of the Company, is the ultimate beneficial controlling shareholder of CreateLabs. Combat is interested in 5% of the issued share capital of CHL.

CSL was originally owned as to 40% by Combat and 60% by CHL. After the issue of new shares by CSL, CSL is owned as to 30% by Combat, 60% by CHL and 10% by CreateLabs.

ZGC was originally owned as to 30% by Combat and 70% by CHL. After the issue of new shares by ZGC, ZGC is owned as to 25% by Combat, 70% by CHL and 5% by CreateLabs.

The transactions were connected transactions for the Company under the Listing Rules because the Company is the holding company of KWCM. Details of the transactions were included in the press announcement made by the Company on 17th July 2000.

CONNECTED TRANSACTIONS (Cont'd)

2. On 3rd August 2000, Rainbow States Limited, a wholly owned subsidiary of KWCM, executed a share transfer agreement and an assignment of loan with 上海信財混凝土構件廠 for the acquisition of 29% equity interest in Shanghai Xin Cai Concrete Co., Ltd. ("Xin Cai") together with the shareholder loan due from Xin Cai at an aggregate consideration of RMB4,609,950 (approximately HK\$4,337,962).

Xin Cai is principally engaged in the manufacture and sale of ready-mixed concrete.

KWCM originally owned 70% equity interest in Xin Cai beneficially. After the above acquisition, Xin Cai became a 99% owned subsidiary of KWCM.

The acquisition was a connected transaction for the Company under the Listing Rules because the Company is the holding company of KWCM. Details of the acquisition were included in the press announcement made by the Company on 3rd August 2000.

PRE-EMPTIVE RIGHTS

There are no shareholder pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

FINANCIAL SUMMARY

A five year financial summary of the results and of the assets and liabilities of the Group is shown on pages 29 and 30 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2000, the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five suppliers represents less than 30% of the Group's total of such purchases.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers.

MANAGEMENT CONTRACTS

No substantial contracts concerning the management and administration of the Company were entered into or existed during the year.

SUBSEQUENT EVENTS

On 19th February 2001, the Group acquired a piece of land from the Government of the Hong Kong SAR through a public land auction of Sha Tin Town Lot No. 483 located at Area 77, Ma On Shan, Shatin, New Territories at a consideration of HK\$560 million. The transaction was completed on 19th March 2001.

CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance. The Board of Directors meets formally and has formal procedures on matters for consideration and decision. The executive directors are delegated the responsibility for the day-to-day management of the Group's operations.

In compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the directors have approved the establishment of an audit committee and have formulated its written terms of reference setting out its authority and duties, including the review of matters concerning the Group's financial reporting process. The audit committee comprises Dr. Charles Cheung Wai Bun, JP and Dr. Philip Wong Kin Hang.

For the year ended 31st December 2000, the Company has complied with the Code of Best Practice issued by The Stock Exchange of Hong Kong Limited save and except that, prior to the 2000 Annual General Meeting of the Company ("2000 AGM"), non-executive directors are being appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws. Commencing from the 2000 AGM, non-executive directors are being appointed for a term of three years, who may under special circumstances be re-appointed for another 3-year term.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible offer themselves for re-appointment. PricewaterhouseCoopers replaced Price Waterhouse in 1999 following their merger with Coopers & Lybrand.

On behalf of the Board

Francis Lui Yiu Tung
Managing Director

Hong Kong, 17th April 2001