

The directors have pleasure in presenting to the shareholders their report together with the audited financial statements for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries, jointly controlled entities and associated companies are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2001 are set out on page 45 of the annual report. An interim scrip dividend equivalent to 1 cent (2000: 1 cent) per share with a cash option, totalling HK\$18,235,000 (2000: HK\$17,273,000), was paid during the year. The directors recommend a final scrip dividend equivalent to 2 cents (2000: 2 cents) per share with a cash option totalling HK\$37,438,000 (2000: HK\$35,312,000). Full details of the scrip dividend will be set out in a letter to be sent to the shareholders.

SHARE CAPITAL

Details of shares issued as at 31st December 2001 are set out in note 25 to the financial statements.

On 11th July 2001, 57,902,937 new shares were issued at a price of HK\$0.4256 as the final dividend for the year ended 31st December 2000 to shareholders who had not made cash elections in respect of their shareholdings.

On 23rd November 2001, 47,117,764 new shares were issued at a price of HK\$0.3183 as the 2001 interim dividend to shareholders who had not made cash elections in respect of their shareholdings.

During the year, 17,327 shares of the Company were issued on the exercise of 2001 Warrants by the warrant holders and 456,000 new shares were issued at the option price of HK\$0.36 per share pursuant to the Share Option Scheme of the Company as a result of the exercise of share options by option holders.

The Company has not redeemed any of its shares or warrants during the year ended 31st December 2001. 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 27 to the financial statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$3,086,000.

FIXED ASSETS

Details of the movements in fixed assets are set out in note 13 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 85 to 87.

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
Albert To Tak Pui (appointed on 19th December 2001)
Lennon Lun Tsan Kau (appointed on 19th December 2001)
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
Charles Cheung Wai Bun
Joseph Lai Ming (resigned on 1st September 2001)
Lau Ki Chit (retired on 31st May 2001)

The biographical details of the directors and senior management are set out on pages 31 to 33 of the annual report.

In accordance with Bye-law 109(A), Mr. Michael Leung Man Kin, Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun will retire from office at the forthcoming annual general meeting, and being eligible, offer themselves for re-election. In accordance with Bye-law 100, Mr. Albert To Tak Pui and Mr. Lennon Lun Tsan Kau shall hold office until the forthcoming annual general meeting, and being eligible, offer themselves 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 2001, the beneficial interest of each director in the share capital 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	241,895	6,564,657	30,651,381 ⁽¹⁾	1,155,322,894 ⁽²⁾	1,192,780,827
Francis Lui Yiu Tung	379,804	—	—	1,155,322,894 ⁽²⁾	1,155,702,698
Albert To Tak Pui	—	—	—	—	—
Lennon Lun Tsan Kau	—	—	—	—	—
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,155,322,894 ⁽²⁾	1,159,962,060
David Akers-Jones	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—
Alex Wu Shu Chih	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—
Robin Chan Yau Hing	248,812	—	—	—	248,812
Charles Cheung Wai Bun	7,239	—	—	—	7,239

(B) Share Options of the Company

Details are set out in the SHARE OPTION SCHEME section below.

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	7,183,641	1,389,650	69,428,557 ⁽³⁾	823,069,667 ⁽²⁾	901,071,515
Francis Lui Yiu Tung	2,822	—	—	823,069,667 ⁽²⁾	823,072,489
Albert To Tak Pui	—	—	—	—	—
Lennon Lun Tsan Kau	—	—	—	—	—
Paddy Tang Lui Wai Yu	1,861,906	—	—	823,069,667 ⁽²⁾	824,931,573
David Akers-Jones	—	—	—	—	—
Michael Leung Man Kin	—	—	—	—	—
Alex Wu Shu Chih	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—
Robin Chan Yau Hing	57,663	—	—	—	57,663
Charles Cheung Wai Bun	1,810	—	—	—	1,810

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

	Share Options	
	Number Outstanding at 31st December 2001	Number Exercised during the year
Lui Che Woo	3,300,000	—
Francis Lui Yiu Tung	2,600,000	—
Albert To Tak Pui	—	—
Lennon Lun Tsan Kau	—	—
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	—	—
Charles Cheung Wai Bun	—	—

DISCLOSURE OF INTERESTS (Cont'd)

Notes:

- (1) 30,651,381 shares in the Company were held by Best Chance Investments Ltd. which was controlled by Dr. Lui Che Woo.
- (2) 1,155,322,894 shares in the Company representing more than one-third of its issued share capital were held by discretionary trusts. The Company was interested in 819,476,512 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. In addition, a discretionary trust was interested in 3,593,155 shares in K. Wah Construction Materials Limited. Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu, as discretionary beneficiaries interested in the trusts, are deemed to be interested in those shares in the Company held by the trusts and in those shares in K. Wah Construction Materials Limited in which the Company was interested as aforesaid.
- (3) 69,428,557 shares in K. Wah Construction Materials Limited were held by Best Chance Investments Ltd. which was controlled by Dr. Lui Che Woo.

At 31st December 2001, 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	
HSBC Holdings Plc	1,120,237,583	(Note)
HSBC Finance (Netherlands)	1,120,237,583	(Note)
HSBC Holdings B.V.	1,120,237,583	(Note)
HSBC Investment Bank Holdings B.V.	1,120,237,583	(Note)
HSBC International Trustee Limited	1,120,237,583	(Note)

Note: HSBC International Trustee Limited is the trustee of discretionary trusts which hold 1,120,237,583 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 1,120,237,583 shares in the Company held by HSBC International Trustee Limited, being a wholly owned subsidiary within the HSBC Group.

There was duplication of interest of:

- (i) 1,155,322,894 shares in the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Mrs. Paddy Tang Lui Wai Yu; and
- (ii) 823,069,667 shares in K. Wah Construction Materials Limited between Dr. 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.

SHARE OPTION SCHEME

The Company's Share Option Scheme (the "Scheme") was adopted on 23rd June 2000 and became effective on 27th September 2000 for the purpose of providing incentives to directors and eligible employees by the granting of share options. Under the Scheme, options may be granted to directors, senior executives or employees of the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the Scheme (or under any other share option scheme of the Company) is 10% of the issued share capital of the Company from time to time (excluding shares issued pursuant to the Scheme). The maximum entitlement of each participant is 25% of the maximum number of shares in respect of which options may be granted as calculated above.

The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire later than 10 years from the date of grant of the option. The minimum period, if any, for which an option must be held before it can be exercised is determined by the Board from time to time.

Consideration to be paid on each grant of option is HK\$1.00. Full amount of the exercise price must be paid on the exercise of option. The exercise price shall be determined by the Board and shall not be less than the higher of the nominal value of a share and 80% of the average of the closing prices of the shares for the five business days immediately preceding the date of grant of the option.

The Scheme has a life of ten years and shall expire on 26th September 2010. However, approval is being sought from shareholders at the forthcoming annual general meeting to be held on 30th May 2002 for the adoption of a new share option scheme and the termination of the Scheme. Details are set out in the circular to shareholders enclosed with this Annual Report.

SHARE OPTION SCHEME (Cont'd)

Particulars of the options held by each of the directors of the Company and the employees granted under the Scheme or under any other share option scheme of the Company are as follows:

	Date of grant	Options held at 1st January 2001	Options granted during year	Options exercised during year	Options held at 31st December 2001	Exercise price (HK\$)	Exercise period
Lui Che Woo	20th May 1998	1,500,000	—	—	1,500,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,350,000	—	—	1,350,000	0.36	30th Dec 2000 – 29th Dec 2009
Francis Lui Yiu Tung	20th May 1998	1,000,000	—	—	1,000,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	1,200,000	—	—	1,200,000	0.36	30th Dec 2000 – 29th Dec 2009
Albert To Tak Pui	—	—	—	—	—	—	—
Lennon Lun Tsan Kau	30th Dec 1999	500,000	—	—	500,000	0.36	30th Dec 2000 – 29th Dec 2009
Paddy Tang Lui Wai Yu	20th May 1998	600,000	—	—	600,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	870,000	—	—	870,000	0.36	30th Dec 2000 – 29th Dec 2009
David Akers-Jones	—	—	—	—	—	—	—
Michael Leung Man Kin	20th May 1998	300,000	—	—	300,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	870,000	—	—	870,000	0.36	30th Dec 2000 – 29th Dec 2009
Alex Wu Shu Chih	—	—	—	—	—	—	—
Philip Wong Kin Hang	—	—	—	—	—	—	—
Leo Lee Tung Hai	—	—	—	—	—	—	—
Robin Chan Yau Hing	—	—	—	—	—	—	—
Charles Cheung Wai Bun	—	—	—	—	—	—	—
Employees	20th May 1998	9,352,000	—	—	9,352,000	0.5586	20th May 1999 – 19th May 2008
	30th Dec 1999	13,686,000	—	456,000 (Note)	13,230,000	0.36	30th Dec 2000 – 29th Dec 2009

SHARE OPTION SCHEME (Cont'd)

Note:

As at the date of exercise of 73,000 options, 8th January 2001, the closing price per share was HK\$0.52.
As at the date of exercise of 31,000 options, 11th January 2001, the closing price per share was HK\$0.495.
As at the date of exercise of 87,000 options, 12th March 2001, the closing price per share was HK\$0.49.
As at the date of exercise of 150,000 options, 15th March 2001, the closing price per share was HK\$0.455.
As at the date of exercise of 115,000 options, 7th December 2001, the closing price per share was HK\$0.485.

All options referred to above are subject to a one-year vesting period.

Except for the Scheme, 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 1st April 2001, the Company executed a corporate guarantee of up to JP¥150,000,000 to The Bank of Tokyo-Mitsubishi, Limited ("BTM") as part of the security for the provision of general banking facilities of up to JP¥250,000,000 by BTM to Asahi Kohatsu Corporation ("AKC"). AKC is 75% owned by the Company beneficially. The guarantee is a several guarantee and represents 60% of the facilities amount, which is less than the Company's percentage interest in AKC. As at 31st December 2001, facilities utilised by AKC amounted to JPY30,000,000.
2. On 20th July 2001, Profit Access Investments Limited, a wholly owned subsidiary of K. Wah Construction Materials Limited ("KWCM"), entered into a share transfer agreement and a joint venture contract with 上海北蔡房地產發展有限公司 for the acquisition of 40% equity interest in Shanghai Beicai Concrete Co., Ltd. ("Beicai") at a consideration of RMB8,620,000 (approximately HK\$8,121,764) and the reorganisation of Beicai into a cooperative joint venture company.

Beicai is principally engaged in the manufacture and sale of ready-mixed concrete. KWCM originally owned 60% equity interest in Beicai beneficially. After the acquisition and reorganisation, Beicai would be accounted for as a 100% 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 20th July 2001.

3. On 19th December 2001, KWCM executed a corporate guarantee of up to HK\$88,900,000 to The Hongkong and Shanghai Banking Corporation Limited ("HSBC") as part of the security for the provision of general banking facilities of up to HK\$140,000,000 by HSBC to KWP Quarry Co. Limited ("KWP"). KWP is a 63.5% owned subsidiary of KWCM. The guarantee is a several guarantee and is limited to KWCM's percentage interest in KWP. As at 31st December 2001, no facilities were utilised by KWP.

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 28 to 30 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2001, 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.

AUDITORS

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

On behalf of the Board

Dr. Lui Che Woo

Chairman

Hong Kong, 11th April 2002