

The directors have pleasure in presenting to the shareholders their report together with the audited financial statements of the Company and the Group for the year ended 31st December 2004.

#### PRINCIPAL ACTIVITIES

During the year, the Company acted as an investment holding company and the principal activities of its principal subsidiaries, jointly controlled entities and associated companies were property investment and development in Hong Kong and mainland China as well as investment holding in K. Wah Construction Materials Limited ("KWCM"). KWCM was an investment company and the principal activities of its primary subsidiaries, jointly controlled entities and associated companies were the manufacture, sale and distribution of construction materials in Hong Kong and mainland China.

The principal activities and other particulars of the principal subsidiaries, jointly controlled entities and associated companies of the Company as at 31st December 2004 are set out in note 37 to the financial statements.

#### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss statement on page 54 of the annual report.

An interim scrip dividend equivalent to 2 cents (2003: 1 cent) per share with a cash option, totalling about HK\$40,195,000 (2003: HK\$19,630,000), was paid during the year. The directors recommend the payment of a final cash dividend of 4 cents (2003: scrip dividend with a cash option of 2 cents) per share, totalling about HK\$88,152,000 (2003: HK\$39,643,000). As a result, the total dividends for the year under review amount to 6 cents (2003: 3 cents).

The state of affairs of the Group and the Company as at 31st December 2004 is set out in the consolidated balance sheet and company balance sheet on pages 55 and 56 of the annual report respectively.

#### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

On 23rd March 2004, the Group issued an aggregate amount of HK\$864,260,000 0.5% guaranteed convertible bonds due in March 2009. The bonds are listed on the Luxembourg Stock Exchange and are convertible into ordinary shares of the Company at a conversion price of HK\$2.25 per share on or after 23rd April 2004 up to the close of business on 8th March 2009. The bonds are redeemable at 91.49% of their principal amount on 23rd March 2009 according to relevant terms and conditions of the bonds. During the year, no bond-holders have exercised their rights to convert their bonds into ordinary shares of the Company.

On 9th July 2004, 26,663,564 new shares were issued at a price of HK\$1.2065 per share as the final dividend for the year ended 31st December 2003 to shareholders who had not made cash elections in respect of all or part of their shareholdings.

On 12th November 2004, 4,137,426 new shares were issued at a price of HK\$1.6701 per share as the interim dividend for the year ended 31st December 2004 to shareholders who had not made cash elections in respect of all or part of their shareholdings.

During the year, 740,000, 1,240,000, 3,745,000 and 1,000,000 new shares were issued at the prices of HK\$0.5586, HK\$0.36, HK\$0.72 and HK\$1.30 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

### DEALINGS IN LISTED SECURITIES

The Company has not redeemed any of its shares or bonds during the year ended 31st December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares and bonds during the year.

### RESERVES

Details of the 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\$3,379,000 (2003: HK\$4,370,000).

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31st December 2004 for investment purposes and for development and/or sale are set out on pages 94 to 96.

### DIRECTORS

The directors of the Company who served during the year were Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Lennon Lun Tsan Kau, Mr. Eddie Hui Ki On, Mr. William Lo Chi Chung, Ms. Paddy Tang Lui Wai Yu, Sir David Akers-Jones, Mr. Michael Leung Man Kin, Dr. Alex Wu Shu Chih, Dr. Philip Wong Kin Hang, Dr. Leo Lee Tung Hai, Dr. Robin Chan Yau Hing, Dr. Charles Cheung Wai Bun and Mr. Robert George Nield.

Mr. Robert George Nield was appointed as a director of the Company on 8th September 2004.

Dr. Alex Wu Shu Chih passed away on 9th January 2005.

The respective names and biographical details of the directors and senior management are set out on pages 35 to 38 of the annual report.

In accordance with Bye-law 109(A) of the Company, Mr. Michael Leung Man Kin, Dr. Philip Wong Kin Hang and Dr. Charles Cheung Wai Bun will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election. In accordance with Bye-law 100 of the Company, Mr. Robert George Nield will hold office until the forthcoming annual general meeting, and being eligible, offers himself for re-election.

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

Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, each of the directors of the Company would receive an annual directors' fee of HK\$80,000 for the year ended 31st December 2004; non-executive directors (including independent non-executive directors) would also receive an annual audit committee members' fee of HK\$80,000 if they acted as a member of the audit committee.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Group's business, to which the Company or its subsidiaries was a party and in which a director has or had a material beneficial interest, whether directly or indirectly, subsisted on 31st December 2004 or at any time during the year ended on that date.

**DIRECTORS' INTERESTS IN SECURITIES**

At 31st December 2004, the interests and short positions of each director in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO")), KWCM, and the details of any right to subscribe for shares of the Company and KWCM and of the exercise of such rights, as required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they are taken or deemed to have under such provisions of the SFO, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

**(A) Ordinary Shares of the Company**

| Name of Directors      | Number of Shares   |                          |                           |                              | Total         | % of Issued Share Capital |
|------------------------|--------------------|--------------------------|---------------------------|------------------------------|---------------|---------------------------|
|                        | Personal Interests | Family Interests         | Corporate Interests       | Other Interests              |               |                           |
| Lui Che Woo            | 268,014            | 7,130,234 <sup>(1)</sup> | 38,129,737 <sup>(2)</sup> | 1,257,389,151 <sup>(3)</sup> | 1,302,917,136 | 64.64                     |
| Francis Lui Yiu Tung   | 391,164            | —                        | —                         | 1,257,389,151 <sup>(3)</sup> | 1,257,780,315 | 62.40                     |
| Lennon Lun Tsan Kau    | —                  | —                        | —                         | —                            | —             | —                         |
| Eddie Hui Ki On        | —                  | —                        | —                         | —                            | —             | —                         |
| William Lo Chi Chung   | 100,000            | —                        | —                         | —                            | 100,000       | 0.00                      |
| Paddy Tang Lui Wai Yu  | 4,639,166          | —                        | —                         | 1,257,389,151 <sup>(3)</sup> | 1,262,028,317 | 62.61                     |
| David Akers-Jones      | —                  | —                        | —                         | —                            | —             | —                         |
| Michael Leung Man Kin  | —                  | —                        | —                         | —                            | —             | —                         |
| Alex Wu Shu Chih       | —                  | —                        | —                         | —                            | —             | —                         |
| Philip Wong Kin Hang   | —                  | —                        | —                         | —                            | —             | —                         |
| Leo Lee Tung Hai       | —                  | —                        | —                         | —                            | —             | —                         |
| Robin Chan Yau Hing    | 278,977            | —                        | —                         | —                            | 278,977       | 0.01                      |
| Charles Cheung Wai Bun | 7,239              | —                        | —                         | —                            | 7,239         | 0.00                      |
| Robert George Nield    | —                  | —                        | —                         | —                            | —             | —                         |

**(B) Share Options of the Company**

Details are set out in the SHARE OPTION SCHEMES section below. During the year, none of the directors or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.

## DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

## (C) Ordinary Shares of KWCM

| Name of Directors      | Number of Shares   |                          |                           |                            | Total       | % of Issued Share Capital |
|------------------------|--------------------|--------------------------|---------------------------|----------------------------|-------------|---------------------------|
|                        | Personal Interests | Family Interests         | Corporate Interests       | Other Interests            |             |                           |
| Lui Che Woo            | 8,085,831          | 1,468,496 <sup>(1)</sup> | 76,880,265 <sup>(4)</sup> | 856,721,578 <sup>(3)</sup> | 943,156,170 | 72.75                     |
| Francis Lui Yiu Tung   | 2,980              | —                        | —                         | 856,721,578 <sup>(3)</sup> | 856,724,558 | 66.08                     |
| Lennon Lun Tsan Kau    | —                  | —                        | —                         | —                          | —           | —                         |
| Eddie Hui Ki On        | —                  | —                        | —                         | —                          | —           | —                         |
| William Lo Chi Chung   | 186,000            | —                        | —                         | —                          | 186,000     | 0.01                      |
| Paddy Tang Lui Wai Yu  | 1,861,906          | —                        | —                         | 856,721,578 <sup>(3)</sup> | 858,583,484 | 66.22                     |
| David Akers-Jones      | —                  | —                        | —                         | —                          | —           | —                         |
| Michael Leung Man Kin  | —                  | —                        | —                         | —                          | —           | —                         |
| Alex Wu Shu Chih       | —                  | —                        | —                         | —                          | —           | —                         |
| Philip Wong Kin Hang   | —                  | —                        | —                         | —                          | —           | —                         |
| Leo Lee Tung Hai       | —                  | —                        | —                         | —                          | —           | —                         |
| Robin Chan Yau Hing    | 65,306             | —                        | —                         | —                          | 65,306      | 0.01                      |
| Charles Cheung Wai Bun | 1,810              | —                        | —                         | —                          | 1,810       | 0.00                      |
| Robert George Nield    | —                  | —                        | —                         | —                          | —           | —                         |

## (D) Share Options of KWCM

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

## Notes:

- (1) Dr. Lui Che Woo was deemed to be interested in 7,130,234 shares in the Company and 1,468,496 shares in KWCM respectively through the interests of his spouse.
- (2) 35,075,725 shares and 3,054,012 shares in the Company were respectively held by Best Chance Investments Ltd. and Po Kay Securities & Shares Company Limited, both of which were controlled by Dr. Lui Che Woo.
- (3) 1,257,389,151 shares in the Company representing more than one-third of its issued share capital were held by the discretionary trusts established by Dr. Lui Che Woo as founder. The Company was interested in 852,775,351 shares in KWCM representing more than one-third of its issued share capital held by a wholly owned subsidiary of the Company. In addition, one of the said discretionary trusts was interested in 3,946,227 shares in KWCM.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu, as either direct or indirect discretionary beneficiaries of the discretionary family trusts, were deemed to be interested in those shares in the Company held by the trusts and in those shares in KWCM in which the Company was interested as aforesaid.

- (4) 76,880,265 shares in KWCM were held by Best Chance Investments Ltd. which was controlled by Dr. Lui Che Woo.
- (5) All personal interests stated above were held by the respective directors in the capacity of beneficial owners.

All the interests stated above represent long positions.

Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu were deemed to be interested in the issued share capital of every other subsidiary, jointly controlled entity and associated company of the Company and KWCM.

Save as disclosed above, as at 31st December 2004, none of the directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 31st December 2004, the interests of every person (not being a director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of shareholders               | Number of Ordinary Shares    |                | % of Issued Share Capital |
|------------------------------------|------------------------------|----------------|---------------------------|
|                                    | Long Position                | Short Position |                           |
| HSBC International Trustee Limited | 1,257,390,959 <sup>(1)</sup> | —              | 62.38                     |
| Marapro Co., Ltd.                  | 190,228,080 <sup>(2)</sup>   | —              | 9.44                      |
| Symmetry Co., Ltd.                 | 190,228,080 <sup>(2)</sup>   | —              | 9.44                      |
| Polymate Co., Ltd.                 | 190,228,080 <sup>(3)</sup>   | —              | 9.44                      |
| Moore Michael William              | 183,301,956 <sup>(4)</sup>   | —              | 9.09                      |
| Penta Investment Advisers Ltd.     | 183,301,956 <sup>(4)</sup>   | —              | 9.09                      |
| Zwannstra John                     | 183,301,956 <sup>(4)</sup>   | —              | 9.09                      |

**Notes:**

- (1) HSBC International Trustee Limited is the trustee of discretionary trusts which hold 1,257,390,959 shares in the Company.
- (2) Marapro Co., Ltd. is a beneficiary and Symmetry Co., Ltd. is a trustee of a trust which was interested in 190,228,080 shares in the Company.
- (3) Polymate Co., Ltd. is the ultimate holding company of those companies interested in 190,228,080 shares in the Company.
- (4) Penta Investment Advisers Ltd. was interested in 183,301,956 shares in the Company in the capacity of investment manager.

There was duplication of interests of:

- (i) 1,257,389,151 shares in the Company among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu. These shares were also interested by HSBC International Trustee Limited and of these shares, 190,228,080 shares in the Company were also interested by Marapro Co., Ltd., Symmetry Co., Ltd. and Polymate Co., Ltd.;
- (ii) 856,721,578 shares in KWCM among Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu; and
- (iii) 183,301,956 shares in the Company among Moore Michael William, Penta Investment Advisers Ltd. and Zwannstra John.

Save as disclosed above, as at 31st December 2004, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## SHARE OPTION SCHEMES

The share option scheme of the Company ("Share Option Scheme") was approved and adopted by the shareholders at the annual general meeting held on 30th May 2002 ("Adoption Date"). A summary of the Share Option Scheme is set out below:

### (1) Purpose

To attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders.

### (2) Participants

- (i) any employee of the Company or any affiliate and any senior executive or director of the Company or any affiliate; or
- (ii) any consultant, agent, representative or adviser of the Company or any affiliate; or
- (iii) any person who provides goods or services to the Company or any affiliate; or
- (iv) any customer or contractor of the Company or any affiliate; or
- (v) any business ally or joint venture partner of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

### (3) Total number of shares available for issue

**Mandate Limit** — Subject to the paragraph below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the Adoption Date, being 187,563,607 shares.

**Overriding Limit** — The Company may by ordinary resolutions of the shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time.

As at the date of the annual report, the total number of shares available for issue under the Share Option Scheme was 163,905,607 shares, which represented approximately 7.44% of the issued share capital of the Company on that date.

## SHARE OPTION SCHEMES (CONT'D)

**(4) Maximum entitlement of each participant**

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

**(5) Option period**

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

**(6) Minimum period for which an option must be held before it can vest**

The minimum period, if any, for which an option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

**(7) Payment on acceptance of the option**

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the Board may specify in writing).

**(8) Basis of determining the subscription price**

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

**(9) The remaining life of the Share Option Scheme**

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 29th May 2012.

## SHARE OPTION SCHEMES (CONT'D)

Particulars of the movement of the options held by each of the directors of the Company, the employees of the Company in aggregate and other participants granted under the Share Option Scheme or under any other share option schemes of the Company during the year ended 31st December 2004, were as follows:

| Holders               | Date of grant | Number of Options        |                           |                        | Held at 31st December 2004 | Exercise price per share (HK\$) | Exercise period               |
|-----------------------|---------------|--------------------------|---------------------------|------------------------|----------------------------|---------------------------------|-------------------------------|
|                       |               | Held at 1st January 2004 | Exercised during the year | Lapsed during the year |                            |                                 |                               |
| 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                  | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                       | 28th Feb 2003 | 2,000,000                | —                         | —                      | 2,000,000                  | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| 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                  | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                       | 28th Feb 2003 | 1,868,000                | —                         | —                      | 1,868,000                  | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Lennon Lun Tsan Kau   | 30th Dec 1999 | 500,000                  | —                         | —                      | 500,000                    | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                       | 28th Feb 2003 | 1,054,000                | —                         | —                      | 1,054,000                  | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Eddie Hui Ki On       | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| William Lo Chi Chung  | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| 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                    | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                       | 28th Feb 2003 | 1,269,000                | —                         | —                      | 1,269,000                  | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| David Akers-Jones     | 28th Feb 2003 | 150,000                  | —                         | —                      | 150,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Michael Leung Man Kin | 20th May 1998 | 300,000                  | 300,000 <sup>(a)</sup>    | —                      | —                          | 0.5586                          | 20th May 1999 – 19th May 2008 |
|                       | 30th Dec 1999 | 870,000                  | 870,000 <sup>(a)</sup>    | —                      | —                          | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                       | 28th Feb 2003 | 300,000                  | —                         | —                      | 300,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Alex Wu Shu Chih      | 28th Feb 2003 | 150,000                  | —                         | —                      | 150,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Philip Wong Kin Hang  | 28th Feb 2003 | 300,000                  | —                         | —                      | 300,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Leo Lee Tung Hai      | 28th Feb 2003 | 150,000                  | —                         | —                      | 150,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Robin Chan Yau Hing   | 28th Feb 2003 | 150,000                  | —                         | —                      | 150,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |



## SHARE OPTION SCHEMES (CONT'D)

| Holders                | Date of grant | Number of Options        |                           |                        | Held at 31st December 2004 | Exercise price per share (HK\$) | Exercise period               |
|------------------------|---------------|--------------------------|---------------------------|------------------------|----------------------------|---------------------------------|-------------------------------|
|                        |               | Held at 1st January 2004 | Exercised during the year | Lapsed during the year |                            |                                 |                               |
| Charles Cheung Wai Bun | 28th Feb 2003 | 300,000                  | —                         | —                      | 300,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
| Robert George Nield    | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Employees              | 20th May 1998 | 3,179,000                | 440,000 <sup>(b)</sup>    | 2,111,000              | 628,000                    | 0.5586                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 3,944,000                | 370,000 <sup>(c)</sup>    | 2,004,000              | 1,570,000                  | 0.3600                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 9,391,000                | 3,745,000 <sup>(d)</sup>  | 1,096,000              | 4,550,000                  | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
|                        | 29th Dec 2003 | 4,000,000                | —                         | —                      | 4,000,000                  | 1.3000                          | 30th Dec 2003 – 29th Dec 2013 |
| Others                 | 28th Feb 2003 | 372,000                  | —                         | —                      | 372,000                    | 0.7200                          | 1st Mar 2004 – 28th Feb 2013  |
|                        | 29th Dec 2003 | 3,000,000                | 1,000,000 <sup>(e)</sup>  | —                      | 2,000,000                  | 1.3000                          | 30th Dec 2003 – 29th Dec 2013 |

**Notes:**

- (a) The options were exercised on the same date and the weighted average closing price of the Company's shares immediately before the date on which the options were exercised were HK\$1.63.
- (b) The weighted average closing price of the Company's shares immediate before the dates on which the options were exercised during the year was HK\$1.45.
- (c) The weighted average closing price of the Company's shares immediate before the dates on which the options were exercised during the year was HK\$1.24.
- (d) The weighted average closing price of the Company's shares immediate before the dates on which the options were exercised during the year was HK\$1.72.
- (e) The weighted average closing price of the Company's shares immediate before the dates on which the options were exercised during the year was HK\$1.84.

Except for the options granted on 29th December 2003 which were fully vested at the date of grant, the other options referred to above were subject to a one-year vesting period.

The consideration paid by each grantee for each grant of the options was HK\$1.00. No options were granted or cancelled during the year.

Except for the Share Option Schemes, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SHARE OPTION SCHEMES (CONT'D)

The share option scheme of KWCM ("KWCM Share Option Scheme") was approved and adopted by the shareholders of KWCM at the annual general meeting of KWCM held on 30th May 2002 ("Adoption Date"). The KWCM Share Option Scheme was also approved by the shareholders of the Company at the annual general meeting of the Company held on the Adoption Date. A summary of the KWCM Share Option Scheme is set out below:

### (1) Purpose

To attract and retain the best quality personnel for the development of KWCM's businesses; to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and to promote the long term financial success of KWCM by aligning the interests of option holders to shareholders.

### (2) Participants

- (i) any employee of KWCM or any affiliate and any senior executive or director of KWCM or any affiliate; or
- (ii) any consultant, agent, representative or adviser of KWCM or any affiliate; or
- (iii) any person who provides goods or services to KWCM or any affiliate; or
- (iv) any customer or contractor of KWCM or any affiliate; or
- (v) any business ally or joint venture partner of KWCM or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees of KWCM; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of KWCM; or (b) a subsidiary of a holding company of KWCM; or (c) a subsidiary of KWCM; or (d) a controlling shareholder of KWCM; or (e) a company controlled by a controlling shareholder of KWCM; or (f) a company controlled by KWCM; or (g) an associated company of a holding company of KWCM; or (h) an associated company of KWCM.

### (3) Total number of shares available for issue

**Mandate Limit** — Subject to the paragraph below, the total number of shares which may be issued upon exercise of all options to be granted under the KWCM Share Option Scheme and any other schemes of KWCM must not in aggregate exceed 10% of the shares in issue as at the Adoption Date, being 121,787,040 shares.

**Overriding Limit** — KWCM may by ordinary resolutions of its shareholders and by ordinary resolutions of the shareholders of the Company refresh the Mandate Limit as referred to in the above paragraph provided that KWCM and the Company shall issue a circular to their respective shareholders before such approval is sought. The overriding limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the KWCM Share Option Scheme and any other schemes of KWCM must not exceed 30% of the shares in issue from time to time.

As at the date of the annual report, the total number of shares available for issue under the KWCM Share Option Scheme was 102,583,040 shares, which represented approximately 7.91% of the issued share capital of KWCM on that date.

## SHARE OPTION SCHEMES (CONT'D)

**(4) Maximum entitlement of each participant**

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares in issue.

Subject to separate approval by the shareholders of KWCM in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that KWCM shall issue a circular to shareholders before such approval is sought, and separate approval by the shareholders of the Company in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, KWCM may grant a participant options which would exceed this limit.

**(5) Option period**

The period within which the shares must be taken up under an option shall be determined by the KWCM Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

**(6) Minimum period for which an option must be held before it can vest**

The minimum period, if any, for which an option must be held before it can vest shall be determined by the KWCM Board in its absolute discretion. The KWCM Share Option Scheme itself does not specify any minimum holding period.

**(7) Payment on acceptance of the option**

HK\$1.00 is payable by the grantee to KWCM on acceptance of the option offer. An offer must be accepted within 14 days from the date of grant (or such longer period as the KWCM Board may specify in writing).

**(8) Basis of determining the subscription price**

The subscription price shall be determined by the KWCM Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

- (i) the closing price of the shares on the date of grant;
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant;  
and
- (iii) the nominal value of a share.

**(9) The remaining life of the KWCM Share Option Scheme**

The life of the KWCM Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 29th May 2012.

## SHARE OPTION SCHEMES (CONT'D)

Particulars of the movement of the options held by each of the directors of the Company, the employees of KWCM in aggregate and other participants granted under the KWCM Share Option Scheme or under any other share option schemes of KWCM during the year ended 31st December 2004, were as follows:

| Holders                | Date of grant | Number of Options        |                           |                        | Held at 31st December 2004 | Exercise price per share (HK\$) | Exercise period               |
|------------------------|---------------|--------------------------|---------------------------|------------------------|----------------------------|---------------------------------|-------------------------------|
|                        |               | Held at 1st January 2004 | Exercised during the year | Lapsed during the year |                            |                                 |                               |
| Lui Che Woo            | 20th May 1998 | 1,500,000                | —                         | —                      | 1,500,000                  | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 1,800,000                | —                         | —                      | 1,800,000                  | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 2,000,000                | —                         | —                      | 2,000,000                  | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| Francis Lui Yiu Tung   | 20th May 1998 | 1,000,000                | —                         | —                      | 1,000,000                  | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 1,600,000                | —                         | —                      | 1,600,000                  | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 1,870,000                | —                         | —                      | 1,870,000                  | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| Lennon Lun Tsan Kau    | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Eddie Hui Ki On        | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| William Lo Chi Chung   | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Paddy Tang Lui Wai Yu  | 20th May 1998 | 600,000                  | —                         | —                      | 600,000                    | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 1,070,000                | —                         | —                      | 1,070,000                  | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 1,270,000                | —                         | —                      | 1,270,000                  | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| David Akers-Jones      | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Michael Leung Man Kin  | 20th May 1998 | 300,000                  | —                         | —                      | 300,000                    | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 1,070,000                | —                         | —                      | 1,070,000                  | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 300,000                  | —                         | —                      | 300,000                    | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| Alex Wu Shu Chih       | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Philip Wong Kin Hang   | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Leo Lee Tung Hai       | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Robin Chan Yau Hing    | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Charles Cheung Wai Bun | 28th Feb 2003 | 300,000                  | —                         | —                      | 300,000                    | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| Robert George Nield    | —             | —                        | —                         | —                      | —                          | —                               | —                             |
| Employees of KWCM      | 20th May 1998 | 9,262,000                | 3,784,000 <sup>(f)</sup>  | 3,876,000              | 1,602,000                  | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 19,226,000               | 11,538,000 <sup>(g)</sup> | 6,314,000              | 1,374,000                  | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 14,292,000*              | 10,478,000 <sup>(h)</sup> | 1,128,000              | 2,686,000                  | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |
| Others                 | 20th May 1998 | 300,000                  | 300,000 <sup>(i)</sup>    | —                      | —                          | 0.5333                          | 20th May 1999 – 19th May 2008 |
|                        | 30th Dec 1999 | 536,000                  | 536,000 <sup>(i)</sup>    | —                      | —                          | 0.5216                          | 30th Dec 2000 – 29th Dec 2009 |
|                        | 28th Feb 2003 | 450,000*                 | 300,000 <sup>(i)</sup>    | 150,000                | —                          | 0.5140                          | 1st Mar 2004 – 28th Feb 2013  |

\* after reclassification of share options held by an ex-director of KWCM under "Employees of KWCM" to "Others".

## SHARE OPTION SCHEMES (CONT'D)

**Notes:**

- (f) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the year was HK\$1.19.
- (g) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the year was HK\$1.27.
- (h) The weighted average closing price of KWCM's shares immediately before the dates on which the options were exercised during the year was HK\$1.42.
- (i) The options were exercised on the same date and the weighted average closing price of KWCM's shares immediately before the date on which the options were exercised during the year was HK\$0.86.

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

The consideration paid by each grantee for each grant of options was HK\$1.00. No options were granted or cancelled during the year.

## CONNECTED TRANSACTIONS

1. On 2nd January 2004, Shanghai Jia Hui Da Real Estate Development Co., Ltd., an indirect non-wholly owned subsidiary of the Company (in which the Company has an effective 35.75% attributable equity interest) as the Borrower entered into a Bridging Loan Agreement with The Development Bank of Singapore Ltd., Shanghai Branch (the "Bank") for a bridging loan facility of up to HK\$100,000,000 under which the Company had to provide the Bank with a corporate guarantee (the "Guarantee") to secure the obligations of the Borrower.

Provision of the Guarantee by the Company was a connected transaction of the Company under Rule 14.26(6)(a) of the Listing Rules in force prior to 31st March 2004. Details of the transaction were included in the press announcement made by the Company on 5th January 2004 and the circular of the Company dated 26th January 2004. The written certificate dated 31st December 2003 and issued by the registered shareholder holding approximately 53.1% of the issued share capital of the Company approving the provision of Guarantee was acceptable to the Stock Exchange in lieu of a special general meeting and the Stock Exchange had granted a waiver to that effect.

2. On 7th January 2004, K. Wah (China) Investment Co. Ltd., an indirect wholly-owned subsidiary of the Company, executed under normal commercial terms a supplemental agreement to guarantee to K. Wah Properties Investment Limited ("KWPI"), an indirect wholly-owned subsidiary of the Company, as security for the provision by KWPI of a further loan in the amount of HK\$60,000,000 to Shanghai Jianshen Real Estate Development Co., Ltd. ("Shanghai Jianshen"), which is 99% indirectly owned by the Company, in respect of a short term loan in the amount of HK\$31,200,000 granted to Shanghai Jiashen on 31st October 2003 for financing its operations. This transaction was a connected transaction of the Company under Rule 14.25(2)(a) of the Listing Rules in force prior to 31st March 2004.

## 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 summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts and adjusted as appropriate, is shown on pages 33 to 34 of the annual report.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December 2004, 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 largest suppliers represented 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 or suppliers (not including of a capital nature).

### 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 of the Company for the year under review have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

On behalf of the Board

**Dr. Lui Che Woo**

*Chairman*

Hong Kong, 3rd March 2005