

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 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 36 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 46 of the annual report.

An interim scrip dividend equivalent to 1 cent (2003: 1 cent) per share with a cash option, totalling HK\$12,833,000 (2003: HK\$12,478,000) was paid during the year. The directors recommend the payment of a final cash dividend of 1 cent (2003: scrip dividend with cash option of 1 cent) per share, totalling HK\$12,971,000 (2003: HK\$12,690,000).

As a result, the total dividends for the year under review amount to 2 cents (2003: 2 cents).

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

On 9th July 2004, 9,493,926 new shares were issued at a price of HK\$0.6878 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, 1,110,986 new shares were issued at a price of HK\$1.6093 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, 4,084,000 new shares, 12,074,000 new shares and 10,778,000 new shares were issued at the prices of HK\$0.5333, HK\$0.5216 and HK\$0.514 per share respectively pursuant to share option schemes of the Company as a result of the exercise of share options by option holders.

The Company has not redeemed any of its shares during the year ended 31st December 2004. Neither the Company nor any of its subsidiaries have purchased or sold any of the Company's shares 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 25 to the financial statements.

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.

DIRECTORS

The directors of the Company who served during the year were Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Mr. Chan Kai Nang, Mr. William Lo Chi Chung, Ms. Paddy Tang Lui Wai Yu, Mr. Joseph Chee Ying Keung, Dr. Charles Cheung Wai Bun, Mr. Moses Cheng Mo Chi, Mr. Yip Hing Chung, Mr. James Ross Ancell and Dr. William Yip Shue Lam.

Mr. William Lo Chi Chung, Mr. Joseph Chee Ying Keung and Mr. James Ross Ancell were appointed as directors on 15th April 2004 and Dr. William Yip Shue Lam was appointed as director on 30th December 2004. Mr. Yip Hing Chung retired on 31st May 2004.

The respective names and biographical details of the directors and senior management are set out on pages 30 to 33 of the annual report.

In accordance with Article 106(A), Mr. Francis Lui Yiu Tung and Dr. Charles Cheung Wai Bun will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 97, Dr. William Yip Shue Lam 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) who acted as audit committee members would also receive an annual audit committee members' fee of HK\$80,000.

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.

DIRECTORS' INTERESTS IN SECURITIES

At 31st December 2004, the interests of each director in the shares 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 (the "SFO")), K. Wah International Holdings Limited ("KWIH"), and the details of any right to subscribe for shares of the Company and KWIH and of the exercise of such rights, 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 of Hong Kong Limited (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	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	76,880,265 ⁽¹⁾	856,721,578 ⁽²⁾	943,156,170	72.75
Francis Lui Yiu Tung	2,980	—	—	856,721,578 ⁽²⁾	856,724,558	66.08
Chan Kai Nang	—	—	—	—	—	—
William Lo Chi Chung	186,000	—	—	—	186,000	0.01
Paddy Tang Lui Wai Yu	1,861,906	—	—	856,721,578 ⁽²⁾	858,583,484	66.22
Joseph Chee Ying Keung	1,350,000	—	—	—	1,350,000	0.10
Charles Cheung Wai Bun	1,810	—	—	—	1,810	0.00
Moses Cheng Mo Chi	—	—	—	—	—	—
James Ross Ancell	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—

DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

(b) Share Options of the Company

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

(c) Ordinary Shares of KWIH

Name	Number of Shares				Total	% of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests		
Lui Che Woo	268,014	7,130,234	38,129,737 ⁽³⁾	1,257,389,151 ⁽²⁾	1,302,917,136	64.64
Francis Lui Yiu Tung	391,164	—	—	1,257,389,151 ⁽²⁾	1,257,780,315	62.40
Chan Kai Nang	—	—	—	—	—	—
William Lo Chi Chung	100,000	—	—	—	100,000	0.00
Paddy Tang Lui Wai Yu	4,639,166	—	—	1,257,389,151 ⁽²⁾	1,262,028,317	62.61
Joseph Chee Ying Keung	—	—	—	—	—	—
Charles Cheung Wai Bun	7,239	—	—	—	7,239	0.00
Moses Cheng Mo Chi	—	—	—	—	—	—
James Ross Ancell	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—

(d) Share Options of KWIH

Name	Date of grant	Number of Options				Exercise price (HK\$)	Exercise period
		Held at 1st January 2004	Granted during the year	Exercised during the year	Held at 31st December 2004		
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
Chan Kai Nang	—	—	—	—	—	—	—
William Lo Chi Chung	—	—	—	—	—	—	—

DIRECTORS' INTERESTS IN SECURITIES (CONT'D)

(d) Share Options of KWIH (Cont'd)

Name	Date of grant	Number of Options				Exercise price (HK\$)	Exercise period
		Held at 1st January 2004	Granted during the year	Exercised during the year	Held at 31st December 2004		
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
Joseph Chee Ying Keung	29th Dec 2003	*1,000,000	—	—	1,000,000	1.3000	30th Dec 2003 – 29th Dec 2013
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	—	300,000	0.7200	1st Mar 2004 – 28th Feb 2013
Moses Cheng Mo Chi	—	—	—	—	—	—	—
James Ross Ancell	—	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—	—

* representing the share options held by Joseph Chee Ying Keung as at his appointment date as director on 15th April 2004

Notes:

- (1) 76,880,265 shares in the Company were held by Best Chance Investments Ltd., which was controlled by Dr. Lui Che Woo.
- (2) KWIH was interested in 852,775,351 shares in the Company representing more than one-third of its issued share capital held by a wholly owned subsidiary of KWIH. 1,257,389,151 shares in KWIH representing more than one-third of its issued share capital were held by the discretionary trusts established by Dr. Lui Che Woo as founder. In addition, one of the said discretionary trusts was interested in 3,946,227 shares in the Company.

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, are deemed to be interested in those shares in KWIH and those shares in the Company held by the trusts and in those shares in the Company in which KWIH was interested as aforesaid.
- (3) 35,075,725 shares and 3,054,012 shares in KWIH 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.

All the interests stated above represent long positions.

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 of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Number of Ordinary Shares	% of Issued Share Capital
Best Chance Investments Ltd.	76,880,265	5.93
K. Wah International Holdings Limited	852,775,351	65.78
HSBC International Trustee Limited	856,722,033 ^(Note)	66.08

All the interests stated above represent long positions.

Note:

HSBC International Trustee Limited is the trustee of the discretionary trusts which hold 856,722,033 shares in the Company.

There was duplication of interests of:

- (i) 856,721,578 shares in the Company between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and HSBC International Trustee Limited. Among these shares, 852,775,351 shares were also interested by KWIH;
- (ii) 76,880,265 shares in the Company between Dr. Lui Che Woo and Best Chance Investments Ltd.; and
- (iii) 1,257,389,151 shares in KWIH between Dr. Lui Che Woo, Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

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 which would fall to be disclosed to the Company under the SFO.

SHARE OPTION SCHEME

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"). The Share Option Scheme was also approved by the shareholders of KWIH at the annual general meeting of KWIH held on the 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.

SHARE OPTION SCHEME (CONT'D)

(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 121,787,040 shares.

Overriding Limit — The Company may by ordinary resolutions of the shareholders and by ordinary resolutions of the shareholders of KWIH refresh the Mandate Limit as referred to in the above paragraph provided the Company and KWIH 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 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 31st December 2004, the total number of shares available for issue under the Share Option Scheme was 102,583,040 shares, which represented approximately 7.91% of the issued share capital of the Company on that date.

(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.

SHARE OPTION SCHEME (CONT'D)

(4) Maximum entitlement of each participant (Cont'd)

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 the Company shall issue a circular to shareholders before such approval is sought, and separate approval by the shareholders of KWIH in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided KWIH shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant 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 SCHEME (CONT'D)

At 31st December 2004, the particulars 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, were as follows:

Name	Date of grant	Number of Options				Exercise price (HK\$)	Exercise period
		Held at 1st January 2004	Lapsed during the year	Exercised during the year	Held at 31st December 2004		
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
Chan Kai Nang	28th Feb 2003	110,000	—	—	110,000	0.5140	1st Mar 2004 – 28th Feb 2013
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
Joseph Chee Ying Keung	30th Dec 1999	*650,000	—	650,000 ^(a)	—	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	*1,000,000	—	—	1,000,000	0.5140	1st Mar 2004 – 28th Feb 2013
Charles Cheung Wai Bun	28th Feb 2003	300,000	—	—	300,000	0.5140	1st Mar 2004 – 28th Feb 2013
Moses Cheng Mo Chi	28th Feb 2003	300,000	—	—	300,000	0.5140	1st Mar 2004 – 28th Feb 2013
James Ross Ancell	—	—	—	—	—	—	—
William Yip Shue Lam	—	—	—	—	—	—	—
Employees	20th May 1998	9,262,000	3,876,000	3,784,000 ^(b)	1,602,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	19,226,000	6,314,000	10,888,000 ^(c)	#1,374,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	13,882,000	1,128,000	10,478,000 ^(d)	#1,276,000	0.5140	1st Mar 2004 – 28th Feb 2013
Others	20th May 1998	600,000	—	300,000 ^(e)	300,000	0.5333	20th May 1999 – 19th May 2008
	30th Dec 1999	1,606,000	—	536,000 ^(e)	1,070,000	0.5216	30th Dec 2000 – 29th Dec 2009
	28th Feb 2003	^750,000	150,000	300,000 ^(e)	300,000	0.5140	1st Mar 2004 – 28th Feb 2013

SHARE OPTION SCHEME (CONT'D)

* representing the share options held by Joseph Chee Ying Keung as at his appointment date as director on 15th April 2004

after reclassification of share options held by Joseph Chee Ying Keung under "Employees" to "Directors"

Δ after reclassification of share options held by Yip Hing Chung under "Directors" to "Others" following his retirement as director on 31st May 2004

Notes:

- a. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$0.61.
- b. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$1.19.
- c. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$1.31.
- d. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$1.42.
- e. The options were exercised on the same date and the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year was HK\$0.86.

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

No options were granted during the year.

The consideration paid by each grantee for each grant of options is HK\$1.00.

Except for the Share Option Scheme, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding 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.

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 28 and 29 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 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 re-appointment at the forthcoming annual general meeting.

On behalf of the Board

Dr. Lui Che Woo

Chairman

Hong Kong, 3rd March 2005