1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by The Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties and investments.

(b) Consolidation

The consolidated financial statements include the financial statements of K. Wah International Holdings Limited and its subsidiaries made up to 31st December and the Group's share of the results and post acquisition reserves of its jointly controlled entities and associated companies.

Goodwill or capital reserve arising on acquisition of subsidiaries, jointly controlled entities and associated companies represents the excess or deficit of the purchase consideration over the fair values ascribed to the net assets acquired, and is taken directly to reserves in the year of acquisition.

Results attributable to subsidiaries, jointly controlled entities and associated companies acquired or disposed of during the year are included from the date of acquisition or to the date of disposal as applicable.

The gain or loss on the disposal of a subsidiary, jointly controlled entity or associated company represents the difference between the net disposal proceeds and the Group's share of the net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss statement.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A company is a subsidiary if more than 50% of the issued capital or equity is held, directly or indirectly, for the long term.

In the Company's balance sheet, investments in subsidiaries are carried at or below cost. Provision is made when, in the opinion of the directors, there is a diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

(d) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

The consolidated profit and loss statement includes the Group's share of the results of jointly controlled entities, and the consolidated balance sheet includes the Group's share of the net assets of jointly controlled entities under the equity method.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss statement includes the Group's share of the results of associated companies, and the consolidated balance sheet includes the Group's share of net assets of the associated companies under the equity method.

(f) Fixed assets and depreciation

Fixed assets other than investment properties (note 1(g)) are stated at cost or valuation less accumulated depreciation.

The cost or valuation of long-term and medium-term leasehold land is depreciated over the remaining term of the lease, including the period for which a right of renewal is attached, using the straight-line method. The cost or valuation of all other land and buildings and leasehold improvements is depreciated over their respective lease periods using the straight-line method.

Increases in valuation of leasehold land and buildings held as fixed assets are credited to the property revaluation reserve; subsequent decreases are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the profit and loss statement.

The cost of other fixed assets is depreciated over their estimated useful lives, using the straight-line method, at the following annual rates :

Plant and machinery	5 to 25%
Other assets	20 to 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss statement. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

Profit or loss on disposal of a fixed asset is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss statement. Upon the disposal of revalued assets, the relevant realised revaluation reserve is transferred directly to revenue reserves.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their long-term investment potential and are not occupied by the Group. Investment properties are carried at fair values, representing their open market value based on professional valuation. A deficit in valuation is charged to the profit and loss statement; an increase is first credited to the profit and loss statement to the extent of valuation deficit previously charged and thereafter is credited to the property revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss statement.

No depreciation is provided on investment properties held on leases of more than twenty years.

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(h) Development properties

Development properties are included under current assets and comprise land at cost or valuation, construction costs, an appropriate proportion of overhead expenditure and interest attributable to the development, and profit taken to date, less sales instalments received and receivable and provisions for possible losses.

(i) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group are accounted for as finance leases. At the inception of a finance lease the cost of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals. Amounts payable in respect of finance leases are apportioned between interest charge and a reduction of lease obligations based on the interest rates implicit in the relevant leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable are charged to the profit and loss statement on a straight–line basis over the lease terms.

(j) Deferred expenditure

Quarry site development represents costs of constructing infrastructure at the quarry site to facilitate excavation. Overburden removal costs are incurred to bring the quarry site into a condition ready for excavation. These costs are amortised over the estimated useful lives of the quarries and sites concerned using the straight–line method.

Pre–operating costs are expensed as they are incurred.

In previous years, pre–operating costs were deferred and amortised over a period of five years from the date of commencement of operations. This accounting policy has been changed to conform with the Interpretation 9 "Accounting for Pre–operating costs" issued by the Hong Kong Society of Accountants. The change in policy has not been applied retrospectively since the effect is not significant to the Group as a whole. As a result, the unamortised pre–operating costs as at 31st December 2000 amounting to HK$6,386,000 has been written off to the consolidated profit and loss statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost ,calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(l) Investments

(i) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss statement.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss statement as they arise.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss statement.

The financial statements of subsidiaries, jointly controlled entities and associated companies denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

(n) Retirement benefit costs

The Group contributes to defined contribution retirement benefit schemes which are available to employees. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group's contributions to these schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

(o) Deferred taxation

Deferred taxation is provided at the current rate of taxation under the liability method in respect of material timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

1. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(p) Revenue recognition

Sales of construction materials are recognised when the goods are delivered and title is transferred to customers.

Profit from the sales of completed properties are recognised upon execution of the sales agreements. When a development property is sold in advance of completion, profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the lower of the proportion of construction costs incurred at the balance sheet date to estimated total construction costs and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds.

Where purchasers fail to pay the balance of the purchase price on completion and the Company exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to operating profit, and profits recognised up to the date of forfeiture are written back.

Rental income net of any incentives given to the lessee is recognised over the periods of the respective leases on a straight-line basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss statement when they are incurred.

(r) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less advances from banks and financial institutions repayable within three months from the date of advance.

2. ANALYSIS OF TURNOVER, OTHER REVENUES AND OPERATING PROFIT

The principal activity of the Company is investment holding. The principal activities of subsidiary companies, jointly controlled entities and associated companies are set out in note 34 to the financial statements. Revenues recognised during the year are as follows:

	Year ended 31st December 2000	Nine months ended 31st December 1999
	HK$'000	*HK$'000*
Turnover		
Manufacture, sale and distribution of construction materials	**1,093,521**	812,566
Sale of development properties	**599,090**	197,679
Rental income	**42,210**	33,520
Sale of goods	**43,629**	34,322
	1,778,450	1,078,087
Other revenues		
Dividend income from listed investments	**213**	188
Interest income from listed investments	**570**	999
Interest income from banks	**30,620**	16,968
Interest income from deferred receivable	**1,831**	1,313
	33,234	19,468
Total revenues	**1,811,684**	1,097,555

2. ANALYSIS OF TURNOVER, OTHER REVENUES AND OPERATING PROFIT *(Cont'd)*

	Turnover		Operating profit/(loss)	
	Year ended 31st December 2000	Nine months ended 31st December 1999	**Year ended 31st December 2000**	Nine months ended 31st December 1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(a) By activity				
Manufacture, sale and distribution of construction materials	**1,093,521**	812,566	**182,027**	160,526
Sale of development properties and rental income	**641,300**	231,199	**12,919**	(22,172)
Others	**43,629**	34,322	**(7,259)**	(6,522)
	1,778,450	1,078,087	**187,687**	131,832
(b) By geographical location				
Hong Kong	**1,113,831**	682,444	**240,794**	169,000
Mainland China	**608,051**	322,209	**(62,688)**	(59,401)
Singapore	**12,939**	39,112	**9,237**	22,005
Japan	**43,629**	34,322	**344**	228
	1,778,450	1,078,087	**187,687**	131,832

3 OPERATING PROFIT

	Year ended 31st December 2000 HK$'000	Nine months ended 31st December 1999 HK$'000
Operating profit is stated after crediting :		
Unrealised gain of other investments	–	2,641
Profit on disposal of other investments	1,519	1,904
Net exchange gains	4,350	–
Write–back of revaluation deficits on investment properties previously charged (net)	25,502	–
Realisation of revaluation reserve upon disposal of development properties	2,924	–
Gain on disposal of an associated company	6,650	–
Gain on foreign exchange forward contracts	5,085	–
and after charging :		
Cost of inventories sold	672,492	494,711
Revaluation deficits on investment properties (net)	–	8,491
Provision for development properties	35,967	442
Depreciation		
Owned fixed assets	81,075	58,061
Leased fixed assets	307	215
Additional provision for fixed assets	18,840	–
Amortisation		
Quarry site development	5,173	2,787
Overburden removal costs	10,322	6,246
Pre-operating expenses and other deferred expenditure	6,961	6,189
Write-off of pre-operating expenses	6,386	–
Write-off of other deferred expenditure	10,392	–
Staff costs including directors' remuneration	189,648	147,132
Royalties	5,846	4,917
Auditors' remuneration		
Charge for the year	1,998	1,930
Under/(over) provision for previous year	393	(162)
Operating lease rentals for land and buildings	16,238	11,145
Unrealised loss of other investments	3,200	–
Loss on disposal of fixed assets	811	8,905
Loss on foreign exchange forward contracts	–	3,128
Net exchange losses	–	1,646
Provision for doubtful debts	4,153	7,753

4. FINANCE COSTS

	Year ended 31st December 2000 HK$'000	Nine months ended 31st December 1999 HK$'000
Interest expenses		
Bank loans and overdrafts	**145,078**	101,207
Finance lease obligations wholly repayable within five years	**398**	248
	145,476	101,455
Capitalised on properties under development	**(120,958)**	(68,063)
	24,518	33,392

The capitalisation rates applied to funds borrowed generally and used for the development of properties are between 7% to 8% per annum.

5. DIRECTORS' EMOLUMENTS

	Year ended 31st December 2000 HK$'000	Nine months ended 31st December 1999 HK$'000
Fees	**850**	850
Salaries and other emoluments	**9,722**	6,675
Discretionary bonuses	**645**	–
Retirement benefits	**598**	435
	11,815	7,960

The emoluments of individual directors of the Company fall within the following bands:

	Number of Directors	
	Year ended 31st December 2000	Nine months ended 31st December 1999
Nil – HK$1,000,000	**8**	8
HK$1,000,001 – HK$2,000,000	**1**	3
HK$2,000,001 – HK$3,000,000	**1**	1
HK$3,000,001 – HK$4,000,000	**2**	–
	12	12

Fees paid to independent non–executive directors amounted to HK$400,000 (1999: HK$400,000) and no other emoluments were paid.

Details of the share options granted to the directors are disclosed in note 25.

6 MANAGEMENT EMOLUMENTS

Details of the emoluments paid to one employee (1999: one employee) of the Group who, not being directors of the Company, is among the top five highest paid individuals employed by the Group (including directors of the Company and other employees of the Group) are as follows.

	Year ended 31st December 2000	Nine months ended 31st December 1999
	HK$'000	*HK$'000*
Salaries and other emoluments	**1,541**	1,081
Discretionary bonuses	**333**	–
Retirement benefits	**120**	54
	1,994	1,135

The emoluments of the individual fall within the following bands:

	Number of employees	
	Year ended 31st December 2000	Nine months ended 31st December 1999
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–
	1	1

7. RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes (1999: one scheme) in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance (ORSO) and Mandatory Provident Fund (MPF) Ordinance. All the assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF Scheme follow the MPF Ordinance while contributions to the ORSO Scheme are based on a percentage ranging from 5% to 10% (depending upon the length of employment) of the basic salary of the employee, minus the mandatory contributions to the MPF Scheme. The Group's contributions to the ORSO Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to the full vesting of the employer's contributions on the employee.

The Group also contributes to other independent retirement plans, which comply with the respective requirements of the relevant authorities, in respect of employees outside Hong Kong.

The retirement benefits scheme cost charged to the profit and loss statement during the year ended 31st December 2000 represents contributions paid and payable by the Group to the schemes and amounted to HK$8,753,000 (1999: HK$6,852,000) less forfeitures of HK$1,625,000 (1999: HK$672,000), leaving HK$100,000 (1999: HK$152,000) available at the year end to reduce future contributions.