

Notes to the Financial Statements

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 Construction Materials 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. Leasehold land and buildings and improvements are depreciated over their respective lease periods using the straight-line method. Other fixed assets are depreciated over their estimated useful lives, using the straight-line method, at the following annual rates:

Plant and machinery	5 to 25%
Other fixed 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 investment properties 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.

(h) 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.

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

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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)*

(o) Revenue recognition

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

Rental income net of any incentive 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.

(p) 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.

(q) 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. TURNOVER, OTHER REVENUES AND OPERATING PROFIT

The principal activity of the Company is investment holding. The principal activities of the subsidiaries, jointly controlled entities and associated companies are set out in note 33 to the financial statements. Revenues recognised during the year are as follows:

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Turnover		
Sale of construction materials	1,093,521	812,566
Other revenues		
Rental income	11,343	8,903
Interest income from:		
Listed investments	570	929
Unlisted investments (note 30(b))	30,603	8,428
Bank deposits	11,116	10,231
Deferred receivable	1,831	1,313
	55,463	29,804
Total revenues	1,148,984	842,370
Turnover by geographical location		
Hong Kong	844,965	659,927
Mainland China	248,556	152,639
	1,093,521	812,566
The operating profit is analysed below:		
By activity		
Sale of construction materials	161,917	144,870
Rental income	11,343	8,903
Profit on investments	1,519	1,975
Interest income	44,120	20,901
	218,899	176,649
By geographical location		
Hong Kong	243,668	183,338
Mainland China	(24,769)	(6,689)
	218,899	176,649

3. OPERATING PROFIT

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Operating profit is stated after crediting:		
Realised profit on disposal of other investments	1,519	155
Unrealised profit of other investments	—	891
	<u>1,519</u>	<u>1,046</u>
And after charging:		
Depreciation:		
Owned fixed assets	78,405	56,270
Leased fixed assets	307	215
Additional provision for fixed assets	18,840	—
Operating lease rental for land and buildings	16,238	11,145
Royalty	5,846	4,917
Amortisation		
Quarry site development	5,173	2,787
Overburden removal costs	10,322	6,246
Pre-operating expenses and other deferred expenditure	6,961	6,159
Write-off of pre-operating expenses	6,386	—
Write-off of other deferred expenditure	10,392	—
Auditors' remuneration		
Charge for the year	985	1,032
Under/(over) provision in prior years	178	(252)
Loss on disposal of fixed assets	724	8,905
Cost of inventories sold	636,253	467,387
Staff costs, including directors' remuneration	139,892	109,455
Provision for bad debts	1,356	7,753
Revaluation deficit of investment properties	6,036	—
	<u>840,131</u>	<u>615,259</u>

4. FINANCE COSTS

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Interest expenses		
Bank loans and overdrafts	23,679	16,144
Finance lease obligations wholly payable within five years	398	248
	<u>24,077</u>	<u>16,392</u>

5. DIRECTORS' REMUNERATION

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Fees	450	375
Salaries and other emoluments	3,113	2,294
Discretionary bonuses	245	160
Retirement benefits	162	114
	<u>3,970</u>	<u>2,943</u>

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	7	8
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	–
	<u>9</u>	<u>9</u>

Fees paid to independent non-executive directors amounted to HK\$150,000 (1999: HK\$125,000) and no other emoluments were paid.

No option was granted to or exercised by the directors during the year (1999: nil).

6. MANAGEMENT REMUNERATION

Details of emoluments paid to the three employees (1999: four employees) of the Group who, not being directors of the Company, are 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 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Salaries and other emoluments	4,682	4,394
Discretionary bonuses	536	324
Retirement benefits	294	241
	5,512	4,959

The emoluments of these individuals fall within the following bands:

	Year ended 31st December 2000	Number of employees Nine months ended 31st December 1999
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	–	3
HK\$1,500,001 – HK\$2,000,000	3	–
	3	4

7. RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes in Hong Kong (1999: one scheme) such as Mandatory Provident Fund (MPF) Scheme and Occupational Retirement Scheme Ordinance (ORSO) Scheme for employees depending on circumstance. The Group makes monthly contributions to the MPF Scheme equal to 5% of the employee's relevant income in compliance with the legislative requirement. The Group, where applicable, makes contributions to the ORSO Scheme at a rate equal to 5% to 10% of the employee's basic salary after deducting the contributions in respect of the MPF Scheme.

The assets of the Schemes are held separately from those of the Group in independently administrated funds. The Group's contributions to the ORSO scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The Group also contributes to retirement plans for its overseas employees at a percentage in compliance with the requirements of the respective overseas authorities.

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\$6,617,000 (1999: HK\$5,455,000) less forfeitures of HK\$1,170,000 (1999: HK\$475,000), leaving HK\$100,000 (1999: HK\$152,000) available at the year end to reduce future contributions.

8. TAXATION

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	20,600	16,947
Mainland China profits tax	751	263
Deferred taxation (note 26)	1,541	770
	<u>22,892</u>	<u>17,980</u>
Jointly controlled entities		
Mainland China profits tax	167	117
Associated companies		
Hong Kong profits tax charge/(write-back)	506	(730)
	<u>23,565</u>	<u>17,367</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the year after setting off available taxation losses brought forward.

Taxation assessable on profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which those profits arose.

There was no material unprovided deferred taxation for the year.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders, a profit of HK\$130,649,000 (1999: HK\$79,703,000) is dealt with in the financial statements of the Company.

10. DIVIDENDS

	Year ended 31st December 2000 HK\$'000	Nine months ended 31st December 1999 HK\$'000
Interim scrip dividend with a cash option, paid, of 2.5 cents per share (1999: 2 cents per share)	28,090	21,413
Final scrip dividend with a cash option, proposed, of 4 cents per share (1999: 4 cents per share)	46,066	43,289
	<u>74,156</u>	<u>64,702</u>

The dividends have been partially settled by scrip, details of which are as follows:

Interim	14,123	7,588
Final	—	21,155
	<u>14,123</u>	<u>28,743</u>

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$166,276,000 (1999: HK\$143,465,000) and the weighted average number of 1,097,402,000 shares (1999: 1,070,443,000 shares) in issue during the year.

The diluted earnings per share is not presented as the share options outstanding as at 31st December 2000 have no dilutive potential shares.