

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain properties and in accordance with accounting principles generally accepted in Hong Kong.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(b) Basis of 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 attributable share of post-acquisition results and reserves of its jointly controlled entities and associated companies.

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

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill or negative goodwill which remains unamortised, including those previously taken directly to reserves.

All significant inter-company transactions and balances between group companies are eliminated.

(c) Subsidiaries

A company is a subsidiary in which the Group directly or indirectly, holds more than 50% of the issued equity capital for the long-term, or controls more than 50% of the voting power, or controls the composition of the Board of Directors.

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 impairment 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.

Jointly controlled entities are accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss statement and the Group's share of net assets is included in the consolidated balance sheet.

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.

Associated companies are accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss statement and the Group's share of net assets is included in the consolidated balance sheet.

(f) Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the net assets of the acquired subsidiaries, jointly controlled entities or associated companies at the effective date of acquisition.

Goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight-line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill is reviewed annually and provision is only made where, in the opinion of the Directors, there is impairment in value other than temporary in nature.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss statement in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

(g) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and provision for significant permanent impairment in values.

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. When the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amounts.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, 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.

(i) Leased assets

Assets leased from third parties under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are classified as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments, derived by discounting them at the interest rate implicit in the lease, is capitalised as a fixed asset; the corresponding obligations, net of finance charges, is included under long-term liabilities. Assets held under finance leases are depreciated on the basis described in note (g) above. Gross rental payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases.

Leases where a significant portion of the risk and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases 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.

(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

Securities intended to be held for identified long-term purpose or strategic reason are included in the balance sheet under non-current assets and are carried at cost less provision. 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 investment will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss statement and is written back to profit and loss statement when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Securities which are acquired principally for the purpose of generating a profit from short-term fluctuation in prices are included in the balance sheet under current assets and are carried at fair value. The net unrealised gains or losses arising from the changes in fair value of investments are recognised in the profit and loss statement. Profits or losses on disposal of 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) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Restructuring provisions mainly comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the number of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance. Any fixed assets that are no longer required for their original use are transferred to current assets and carried at the lower of the carrying amount or estimated net realisable value.

(n) Deferred taxation

Deferred taxation is provided at the current rate of taxation using 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 asset is expected to be payable or recoverable in the foreseeable future.

(o) Foreign currencies

Transactions in foreign currencies during the year 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 are dealt with in the profit and loss statement.

Profit and loss statements of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments in these subsidiaries, jointly controlled entities and associated companies are taken directly to reserves.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(p) Employee benefits**

Contributions to defined contribution retirement benefit schemes are charged to the profit and loss statement in the year to which the contributions relate.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the contribution can be made.

(q) Revenue recognition

Sales of construction materials are recognised when the goods are delivered and legal 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.

Dividend income is recognised when the right to receive payment is certain.

(r) Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare the asset 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.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances deposits with banks and financial institutions repayable within three months from the date of placement less bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

2. SEGMENT INFORMATION

The Group is principally engaged in the manufacture, sale and distribution of construction materials. There is no other significant identifiable separate business. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by geographical segments and a separate business segment is not relevant. Segment assets consist primarily of fixed assets, other non-current assets, inventories, debtors and other receivables, and mainly exclude investments. Segment liabilities comprise mainly creditors and accruals. Sales are based on the country in which the customers are located.

A summary of the geographical segments is set out as follows:

Year ended 31st December 2002

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Turnover	553,060	457,939	1,010,999
Other revenues	29,225	558	29,783
Operating profit	50,495	18,073	68,568
Finance costs			(7,193)
Share of profits less losses of			
Jointly controlled entities	1,968	2,471	4,439
Associated companies	3,944	—	3,944
Profit before taxation			69,758
Taxation			(4,414)
Profit after taxation			65,344
Minority interests	—	(3,016)	(3,016)
Profit attributable to shareholders			62,328
Segment assets	882,685	395,581	1,278,266
Jointly controlled entities	3,009	193,318	196,327
Associated companies	15,244	—	15,244
Unallocated assets			395,916
Total assets			1,885,753
Segment liabilities	150,628	113,173	263,801
Minority interests	99,720	45,614	145,334
Unallocated liabilities			84,048
Total liabilities			493,183
Capital expenditure	54,971	99,657	154,628
Depreciation	42,479	17,501	59,980
Amortisation	14,879	—	14,879
Write-back of additional provision for fixed assets	—	11,303	11,303

2. SEGMENT INFORMATION (Cont'd)

Year ended 31st December 2001

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Turnover	721,075	361,540	1,082,615
Other revenues	48,117	867	48,984
Operating profit	139,926	9,120	149,046
Finance costs			(16,929)
Share of profits less losses of			
Jointly controlled entities	(157)	2,095	1,938
Associated companies	370	(6,380)	(6,010)
Profit before taxation			128,045
Taxation			(14,410)
Profit after taxation			113,635
Minority interests	1	(835)	(834)
Profit attributable to shareholders			112,801
Segment assets	921,741	262,771	1,184,512
Jointly controlled entities	1,297	176,521	177,818
Associated companies	14,738	71,295	86,033
Unallocated assets			613,726
Total assets			2,062,089
Segment liabilities	175,608	93,285	268,893
Minority interests	87,676	37,871	125,547
Unallocated liabilities			310,017
Total liabilities			704,457
Capital expenditure	62,217	18,279	80,496
Depreciation	56,524	18,097	74,621
Amortisation	11,815	—	11,815

3. TURNOVER AND OTHER REVENUES

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of construction materials	1,010,999	1,082,615
Other revenues		
Rental income	12,036	11,963
Interest income		
Unlisted investments (note 32(b))	9,538	25,415
Loan to a fellow subsidiary (note 32(c))	520	—
Bank deposits	4,583	9,688
Deferred receivable (note 18)	1,918	1,918
Front-end fee from a fellow subsidiary (note 32(c))	1,188	—
	29,783	48,984
Total revenues	1,040,782	1,131,599

4. OPERATING PROFIT

	2002 HK\$'000	2001 HK\$'000
Operating profit is stated after crediting:		
Profit on disposal of long-term listed investments	103	6,583
Profit on disposal of fixed assets	541	—
Write-back of additional provision for fixed assets	11,303	—
Amortisation of negative goodwill	631	632
and after charging:		
Depreciation		
Owned fixed assets	59,908	74,334
Leased fixed assets	72	287
Amortisation		
Quarry site development	846	1,494
Overburden removal costs	14,033	10,321
Operating lease rental		
Land and buildings	11,740	18,808
Plant and machinery	1,888	—
Royalty	3,076	4,944
Auditors' remuneration	952	1,086
Loss on disposal of fixed assets	—	1,792
Cost of inventories sold	785,384	778,444
Staff costs, including directors' remuneration	140,558	148,405
Unrealised loss on long-term investments	561	3,850
Revaluation deficit of investment properties	—	2,000

5. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest expenses		
Bank loans and overdrafts	7,191	16,766
Finance lease obligations wholly repayable within five years	<u>2</u>	<u>163</u>
	<u>7,193</u>	<u>16,929</u>

6. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Fees	540	490
Salaries and other emoluments	1,491	2,600
Retirement benefits	<u>137</u>	<u>158</u>
	<u>2,168</u>	<u>3,248</u>

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

	Number of Directors 2002	2001
Nil to HK\$1,000,000	9	7
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>1</u>
	<u>10</u>	<u>9</u>

Fees paid to independent non-executive directors amounted to HK\$240,000 (2001: HK\$240,000) and no other emoluments were paid.

No options were granted to or exercised by the directors during the year ended 31st December 2002 (2001: nil).

7. MANAGEMENT EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year include one (2001: one) director whose emoluments are reflected in note 6 above. The emoluments of the remaining four (2001: four) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	6,801	6,438
Retirement benefits	377	373
	<u>7,178</u>	<u>6,811</u>

The emoluments of these individuals fell within the following bands:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	—	—
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	1
	<u>4</u>	<u>4</u>

8. RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes in Hong Kong under the 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 Group's contributions to the ORSO Scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

The employees in the Mainland China participate in various pension plans organised by the relevant municipal and provincial government under which the Group is required to make monthly defined contributions to these plans at rates ranging from 8% to 22.5%, dependent upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

The costs of the retirement benefit schemes charged to the profit and loss statement during the year comprise contributions to the schemes of HK\$9,787,000 (2001: HK\$8,745,000), after deducting forfeitures of HK\$379,000 (2001: HK\$579,000), leaving HK\$59,000 (2001: HK\$36,000) available to reduce future contributions.

9. TAXATION

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	1,728	11,863
Mainland China profits tax	4,783	2,576
Deferred taxation (<i>note 27(a)</i>)	(2,693)	(708)
	<u>3,818</u>	<u>13,731</u>
Jointly controlled entities		
Mainland China profits tax	558	161
Associated companies		
Hong Kong profits tax	38	518
	<u>4,414</u>	<u>14,410</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 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.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$49,097,000 (2001: HK\$27,867,000).

11. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim scrip dividend with a cash option of 1 cent (2001: 1.5 cents) per share	12,397	17,910
Proposed final scrip dividend with a cash option of 1 cent (2001: 2.5 cents) per share	12,432	30,446
	<u>24,829</u>	<u>48,356</u>
The dividends have been partially settled by cash as follows:		
Interim	10,968	8,797
Final	—	16,705
	<u>10,968</u>	<u>25,502</u>

The Board of Directors recommended a final scrip dividend with a cash option of 1 cent (2001: 2.5 cents) per share. This dividend will be accounted for as an appropriation of revenue reserves in the year ending 31st December 2003.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$62,328,000 (2001: HK\$112,801,000) and the weighted average number of 1,228,986,000 shares (2001: 1,176,638,000 shares) in issue during the year.

The diluted earnings per share is not presented as the exercise of the share options outstanding as at 31st December 2002 would not have a dilutive effect on the earnings per share.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost or valuation						
At 31st December 2001	334,533	42,000	36,979	605,762	167,478	1,186,752
Additions	12,459	—	1,891	36,537	67,205	118,092
Reclassification	(2,516)	—	(9,179)	11,808	(113)	—
Disposals	(779)	—	(367)	(32,389)	(11,508)	(45,043)
At 31st December 2002	343,697	42,000	29,324	621,718	223,062	1,259,801
Accumulated depreciation						
At 31st December 2001	33,074	—	22,062	341,941	114,177	511,254
Charge for the year	6,984	—	2,020	35,588	15,388	59,980
Reclassification	(918)	—	(3,436)	4,354	—	—
Disposals	(162)	—	(3)	(31,011)	(9,900)	(41,076)
Write-back of additional provision	—	—	—	(11,303)	—	(11,303)
At 31st December 2002	38,978	—	20,643	339,569	119,665	518,855
Net book value						
At 31st December 2002	304,719	42,000	8,681	282,149	103,397	740,946
At 31st December 2001	301,459	42,000	14,917	263,821	53,301	675,498

- (a) Leasehold land and buildings are stated at cost or valuation less depreciation as detailed in note 14. Investment properties held under medium term leases in Hong Kong were valued at 31st December 2002 on an open market value basis by Vigers Hong Kong Limited, independent professional valuers.
- (b) Land and buildings with net book values of HK\$237,305,000 (2001: HK\$242,643,000) have been pledged to various banking institutions to secure banking facilities. No plant and machinery have been pledged to banking institutions to secure banking facilities (2001: HK\$111,398,000).
- (c) Other fixed assets comprise barges, furniture and equipment and motor vehicles.
- (d) There were no fixed assets held under finance leases (2001: The aggregate net book values of assets were HK\$72,000).
- (e) Apart from the properties mentioned under (a) above, all other assets are carried at cost.

14. LEASEHOLD LAND AND BUILDINGS

Leasehold land and buildings held under medium term leases are as follows:

	Hong Kong HK\$'000	Outside Hong Kong HK\$'000	2002 HK\$'000	2001 HK\$'000
At cost	296,935	18,822	315,757	306,533
At professional valuation 1990	27,940	—	27,940	28,000
	324,875	18,822	343,697	334,533

Certain land and buildings in Hong Kong were revalued as at 31st March 1990 on an open market basis by Jones Lang LaSalle Ltd, independent professional valuers. Subsequent revaluations of this property are not required to be made in accordance with paragraph 80 of Hong Kong Statement of Standard Accounting Practice 17 — Property, Plant and Equipment. Had this property been carried at cost, its carrying amount would have been HK\$501,000 (2001: HK\$565,000).

15. SUBSIDIARIES

	Company 2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	1	1
Loans receivable	300,556	300,556
Amounts receivable	2,038,147	1,622,453
Amounts payable	(1,166,559)	(1,002,940)
	1,172,145	920,070
Provision	(16,392)	(16,392)
	1,155,753	903,678

The loans receivable are unsecured, carry interest at prevailing market interest rate and have no fixed terms of repayment. The amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

Details of the subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 35.

16. JOINTLY CONTROLLED ENTITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	106,373	92,473
Amounts receivable	89,954	85,345
	<u>196,327</u>	<u>177,818</u>

The amounts receivable are unsecured, interest free and have no fixed terms of repayment.

Details of jointly controlled entities which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 35.

17. ASSOCIATED COMPANIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	15,244	86,033

Details of associated companies which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 35.

18. OTHER NON-CURRENT ASSETS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Deferred expenditure		
Overburden removal costs	111,564	94,077
Quarry site development	11,452	7,282
	<u>123,016</u>	<u>101,359</u>
Deferred receivable	<u>11,020</u>	<u>9,127</u>
Long-term investments		
Listed in Hong Kong	2,487	—
Unlisted	104,451	31,223
	<u>106,938</u>	<u>31,223</u>
	<u>240,974</u>	<u>141,709</u>
Market value of long-term listed investments	<u>1,346</u>	<u>—</u>

Deferred receivable represents advances to various contractors for the delivery of concrete to customers. The advances are secured by the vehicles operated by the contractors, carry interest at prevailing market rate and are repayable by monthly instalments up to 2008. The current portion of the receivable is included under other receivable.

19. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Aggregates and sand	7,653	26,760
Concrete pipes and blocks	4,952	4,802
Cement	6,598	4,492
Spare parts	19,857	23,907
Consumables	3,565	3,118
	<u>42,625</u>	<u>63,079</u>

The carrying amounts of inventories stated at net realisable value amounted to HK\$1,572,000 (2001: HK\$1,184,000).

20. DEBTORS AND PREPAYMENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors (note a)	283,080	250,022	—	—
Loan to a fellow subsidiary (note b)	—	—	—	—
Other receivable	28,751	39,840	—	—
Prepayments	48,828	45,587	16	9,117
	<u>360,659</u>	<u>335,449</u>	<u>16</u>	<u>9,117</u>

- (a) The Group has established credit policies which follow local industry standard. The Group normally allows an approved credit period ranging from 30 to 60 days for customers in Hong Kong and 120 to 180 days for customers in Mainland China. These are subject to periodic reviews by management.

The aging analysis of the Group's trade debtors based on the invoice dates and net of provision for bad and doubtful debts is as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one month	141,316	94,155
Two to three months	80,428	110,361
Four to six months	50,566	31,270
Over six months	10,770	14,236
	<u>283,080</u>	<u>250,022</u>

- (b) In July 2002, the Group granted a guaranteed unsecured revolving loan facility of HK\$330 million to a fellow subsidiary. The loan carries interest at 2.38% per annum above three-month HIBOR, with maturity of three years and an option to extend the maturity for further one or two years. The maximum loan outstanding during the year was HK\$50 million.

21. OTHER INVESTMENTS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Floating rate notes, at cost	—	280,000	—	280,000

The floating rate notes were issued by the Company's ultimate holding company and carried interest at 4.5% per annum above six-month HIBOR. The notes were fully redeemed on 27th June 2002.

22. CREDITORS AND ACCRUALS

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	104,619	93,642	—	—
Other creditors	59,670	52,784	—	—
Accrued operating expenses	92,918	112,107	1,353	1,095
Deposits received	5,194	8,329	—	—
	<u>262,401</u>	<u>266,862</u>	<u>1,353</u>	<u>1,095</u>

The aging analysis of the Group's trade creditors based on the invoice dates is as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one month	48,213	44,186
Two to three months	39,154	27,560
Four to six months	9,152	14,836
Over six months	8,100	7,060
	<u>104,619</u>	<u>93,642</u>

23. SHARE CAPITAL

	2002		2001	
	Ordinary shares of HK\$0.10 each	HK\$'000	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:				
At beginning of the year	3,888,000,000	388,800	2,888,000,000	288,800
Increase during the year	—	—	1,000,000,000	100,000
At end of the year	<u>3,888,000,000</u>	<u>388,800</u>	<u>3,888,000,000</u>	<u>388,800</u>
Issued and fully paid:				
At beginning of the year	1,216,740,404	121,674	1,151,656,667	115,166
Exercise of share options	1,130,000	113	100,000	10
Issued as scrip dividends	25,337,411	2,534	64,983,737	6,498
At end of the year	<u>1,243,207,815</u>	<u>124,321</u>	<u>1,216,740,404</u>	<u>121,674</u>

24. SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for ordinary shares in the Company are granted to selected executives. At the Annual General Meeting of the Company held on 30th May 2002, the shareholders approved the adoption of a new share option scheme and termination of the then existing share option scheme (which was adopted on 23rd June 2000), whereas options granted under the old scheme remain effective. Under the new scheme, share options may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Consideration to be paid on each grant of option is HK\$1.00. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than 10 years from the date of grant of the option.

Movements in the number of share options outstanding during the year are as follows:

	2002	2001
At beginning of year	39,394,000	39,494,000
Exercised (note a)	(1,130,000)	(100,000)
At end of year (note b)	<u>38,264,000</u>	<u>39,394,000</u>

(a) Options exercised during the year

Exercise date	Exercise price HK\$	Number of shares issued
8th March 2002	0.5216	50,000
25th April 2002	0.5333	200,000
25th April 2002	0.5216	650,000
9th May 2002	0.5216	180,000
10th May 2002	0.5216	50,000
		<u>1,130,000</u>

(b) Outstanding options

Exercise period	Option price per share HK\$	Number of share options 2002	2001
Directors			
20th May 1999 to 19th May 2008	0.5333	3,400,000	3,400,000
30th December 2000 to 29th December 2009	0.5216	5,006,000	5,006,000
Other employees			
20th May 1999 to 19th May 2008	0.5333	9,562,000	9,762,000
30th December 2000 to 29th December 2009	0.5216	<u>20,296,000</u>	<u>21,226,000</u>
		<u>38,264,000</u>	<u>39,394,000</u>

24. SHARE OPTION SCHEME (Cont'd)

(b) Outstanding options (Cont'd)

All the above options are 100% vested at the beginning and the end of the year.

Subsequent to the balance sheet date, options to subscribe for 20,482,000 shares at the option price of HK\$0.514 per share were granted to Directors, advisor and employees of the Company and its affiliates.

25. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 31st December 2001	547,627	4,395	27,363	70	656,503	1,235,958
Changes in exchange rates	—	—	—	—	(309)	(309)
Premium on shares issued	479	—	—	—	—	479
Share issued as scrip dividends	(2,534)	—	—	—	15,170	12,636
Profit for the year	—	—	—	—	62,328	62,328
2001 final dividend	—	—	—	—	(30,446)	(30,446)
2002 interim dividend	—	—	—	—	(12,397)	(12,397)
At 31st December 2002	545,572	4,395	27,363	70	690,849	1,268,249
Company and subsidiaries	545,572	4,395	27,363	70	716,599	1,293,999
Jointly controlled entities	—	—	—	—	(28,342)	(28,342)
Associated companies	—	—	—	—	2,592	2,592
	545,572	4,395	27,363	70	690,849	1,268,249
At 31st December 2000	554,083	4,395	27,363	70	575,731	1,161,642
Changes in exchange rates	—	—	—	—	38	38
Premium on shares issued	42	—	—	—	—	42
Share issued as scrip dividends	(6,498)	—	—	—	31,909	25,411
Profit for the year	—	—	—	—	112,801	112,801
2000 final dividend	—	—	—	—	(46,066)	(46,066)
2001 interim dividend	—	—	—	—	(17,910)	(17,910)
At 31st December 2001	547,627	4,395	27,363	70	656,503	1,235,958
Company and subsidiaries	547,627	4,395	27,363	70	696,399	1,275,854
Jointly controlled entities	—	—	—	—	(32,203)	(32,203)
Associated companies	—	—	—	—	(7,693)	(7,693)
	547,627	4,395	27,363	70	656,503	1,235,958

25. RESERVES (Cont'd)
Company

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Revenue reserves HK\$'000	Total HK\$'000
At 31st December 2001	547,627	235,239	70	436,338	1,219,274
Premium on shares issued	479	—	—	—	479
Share issued as scrip dividends	(2,534)	—	—	15,170	12,636
Profit for the year	—	—	—	49,097	49,097
2001 final dividend	—	—	—	(30,446)	(30,446)
2002 interim dividend	—	—	—	(12,397)	(12,397)
At 31st December 2002	545,572	235,239	70	457,762	1,238,643
At 31st December 2000	554,083	235,239	70	440,538	1,229,930
Premium on shares issued	42	—	—	—	42
Share issued as scrip dividends	(6,498)	—	—	31,909	25,411
Profit for the year	—	—	—	27,867	27,867
2000 final dividend	—	—	—	(46,066)	(46,066)
2001 interim dividend	—	—	—	(17,910)	(17,910)
At 31st December 2001	547,627	235,239	70	436,338	1,219,274

Reserves of the Company available for distribution to shareholders amount to HK\$457,762,000 (2001: HK\$436,338,000).

26. LONG-TERM LIABILITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank loans				
Secured	—	62,167	—	29,167
Unsecured	—	38,750	—	38,750
Obligations under finance leases wholly payable within five years	—	638	—	—
	—	101,555	—	67,917
Current portion included in current liabilities	—	(101,555)	—	(67,917)
	—	—	—	—

27. NON-CURRENT LIABILITIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Deferred taxation (<i>note a</i>)	16,945	19,638
Negative goodwill (<i>note b</i>)	1,400	2,031
	<u>18,345</u>	<u>21,669</u>

(a) Deferred taxation

	Group	
	2002	2001
	HK\$'000	HK\$'000
At beginning of the year	19,638	20,346
Transfer from profit and loss statement (<i>note 9</i>)	(2,693)	(708)
At end of the year	<u>16,945</u>	<u>19,638</u>
Provided in the financial statements in respect of:		
Accelerated depreciation allowances	41,743	41,817
Other timing differences	(24,798)	(22,179)
	<u>16,945</u>	<u>19,638</u>

The revaluation surplus or deficit arising from the revaluation of the Group's land and buildings and investment property does not constitute timing differences for Hong Kong profits tax purposes because they are held for the long-term and any gains or losses would not be subject to Hong Kong profits tax.

There is no other material unprovided deferred taxation at the balance sheet date.

(b) Negative goodwill

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cost		
At beginning of the year	2,663	—
Arising from acquisition of additional interest in a subsidiary	—	2,663
At end of the year	<u>2,663</u>	<u>2,663</u>
Accumulated amortisation	(1,263)	(632)
	<u>1,400</u>	<u>2,031</u>

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT
(a) Reconciliation of operating profit to cash generated from operations

	2002 HK\$'000	2001 HK\$'000
Operating profit	68,568	149,046
Depreciation	59,980	74,621
Write-back of additional provision for fixed assets	(11,303)	—
(Profit)/loss on disposal of fixed assets	(541)	1,792
Profit on disposal of long-term listed investments	(103)	(6,583)
Unrealised loss on long-term investments	561	3,850
Revaluation deficit of investment properties	—	2,000
Interest income	(16,559)	(37,021)
Amortisation of deferred expenditure	14,879	11,815
Amortisation of negative goodwill	(631)	(632)
	<u>114,851</u>	<u>198,888</u>
Operating profit before working capital changes	114,851	198,888
Decrease/(increase) in inventories	20,454	(7,507)
(Increase)/decrease in debtors and prepayments	(25,210)	53,594
Decrease in creditors and accruals	(4,461)	(29,954)
	<u>105,634</u>	<u>215,021</u>

(b) Analysis of changes in financing

	Share capital and premium HK\$'000	Loans and finance lease obligations HK\$'000	Minority interests HK\$'000	Total HK\$'000
As 31st December 2001	669,301	285,245	125,547	1,080,093
Changes in exchange rates	—	—	(36)	(36)
Minority share of profits for the year	—	—	3,016	3,016
Cash inflow/(outflow) from financing	592	(219,340)	16,807	(201,941)
At 31st December 2002	<u>669,893</u>	<u>65,905</u>	<u>145,334</u>	<u>881,132</u>
As 31st December 2000	669,249	290,222	128,543	1,088,014
Changes in exchange rates	—	—	(95)	(95)
Purchase of additional interest in a subsidiary	—	—	(13,994)	(13,994)
Minority share of profits for the year	—	—	834	834
Cash inflow/(outflow) from financing	52	(4,977)	10,259	5,334
At 31st December 2001	<u>669,301</u>	<u>285,245</u>	<u>125,547</u>	<u>1,080,093</u>

29. CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	<u>53,616</u>	<u>38,531</u>

In addition, the Group has undertaken to invest HK\$73,692,000 (2001: HK\$78,325,000) in certain investee companies under long-term investments (note 18) which are engaged in high technology projects.

30. OPERATING LEASE COMMITMENTS

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	Group	
	2002	2001
	HK\$'000	HK\$'000
First year	8,199	6,879
Second to fifth years inclusive	24,517	22,124
After the fifth year	<u>38,564</u>	<u>39,541</u>
	<u>71,280</u>	<u>68,544</u>

31. OPERATING LEASE RENTAL RECEIVABLE

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	Group	
	2002	2001
	HK\$'000	HK\$'000
First year	12,454	11,844
Second to fifth years inclusive	47,274	47,742
After the fifth year	<u>53,878</u>	<u>65,864</u>
	<u>113,606</u>	<u>125,450</u>

32. RELATED PARTY TRANSACTIONS

Significant related party transactions carried out in the normal course of the Group's business activities during the year are as follows:

- (a) Sales of aggregates to an associated company amounted to HK\$26,585,000 (2001: HK\$24,620,000). These were made at prices and terms no less than those charged to other third party customers of the Group.
- (b) The Company receives interest income of HK\$9,538,000 (2001: HK\$25,415,000) in respect of the floating rate notes as detailed in note 21.
- (c) The Group receives interest income of HK\$520,000 (2001: nil) and front-end fee of HK\$1,188,000 (2001: nil) in respect of loan advanced to a fellow subsidiary as detailed in note 20(b).
- (d) Rental income from an associated company amounted to HK\$9,971,000 (2001: HK\$9,557,000) based on the terms of rental agreement between the parties.

33. CONTINGENT LIABILITIES

The Company has executed guarantees in favour of banks in respect of facilities granted to subsidiaries amounting to HK\$299,370,000 (2001: HK\$372,093,000), of which HK\$154,805,000 (2001: HK\$281,483,000) have been utilised.

34. HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

At 31st December 2002, the Company was a 67.5% owned subsidiary of Sutimar Enterprises Limited, incorporated in the British Virgin Islands, which is a wholly owned subsidiary of K. Wah International Holdings Limited, incorporated in Bermuda.

The Directors regard K. Wah International Holdings Limited as being the ultimate holding company.

35 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

The Directors are of the opinion that a complete list of the particulars of all the subsidiaries, jointly controlled entities and associated companies will be of excessive length and therefore the following list contains only the particulars of the subsidiaries, jointly controlled entities and associated companies which materially affect the results or assets of the Group.

(a) Subsidiaries

Name of company	Principal place of operation	Number of ordinary shares	Issued share capital Number of non-voting deferred shares	Par value per share HK\$	Percentage of equity held by the Group	Principal activities
Incorporated in Hong Kong						
Barichon Limited	Hong Kong	3,000,000	—	1	99.93	Sale and distribution of concrete pipes
Brighten Lion Limited	Hong Kong	2	—	1	100	Provision of finance
Chelsfield Limited	Hong Kong	2,111,192	—	10	100	Investment holding
Citifair Asia Limited	Hong Kong	10	—	1	100	Investment holding
Construction Materials Limited	Hong Kong	30,000	—	10	100	Sale of aggregates
Doran (Hong Kong) Limited	Hong Kong	1,000	—	10	100	Sale and distribution of concrete pipes
K. Wah Block Company Limited	Zhuhai	7,500	—	10	100	Manufacture of precast concrete products
K. Wah Concrete Company Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of ready-mixed concrete
K. Wah Construction Materials (Hong Kong) Limited	Hong Kong	2	2	10	100	Provision of management services
K. Wah Construction Products Limited	Hong Kong	2	1,000	100	100	Manufacture, sale and distribution of concrete products
K. Wah Materials Limited	Hong Kong	28,080,002	—	1	100	Trading
K. Wah Quarry Company Limited	Hong Kong	2	100,000	100	100	Sale of aggregates
K. Wah Stones (Zhu Hai) Company Limited	Zhuhai	2	1,000	10	100	Quarrying
K. Wah Trading and Development Limited	Hong Kong	2	2	10	100	Trading
KWP Quarry Co. Limited	Hong Kong	9,000,000	—	1	63.5	Quarrying

35 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Cont'd)

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Issued share capital			Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Number of non-voting deferred shares	Par value per share HK\$		
Lightway Limited	Hong Kong	2	2	1	100	Property investment
Master Target Limited	Hong Kong	2	—	1	100	Investment holding
Quanturn Limited	Hong Kong	2	—	1	100	Equipment leasing
Rainbow Country Limited	Hong Kong	2	—	1	100	Investment holding
Rainbow Mark Limited	Hong Kong	100	—	1	95	Investment holding
Rainbow States Limited	Hong Kong	2	—	1	100	Investment holding
Star Home Limited	Hong Kong	2	—	1	100	Investment holding
Triconville Investments Limited	Hong Kong	10	—	1	100	Investment holding

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
Doran Construction Products (Shenzhen) Co., Ltd.	Shenzhen	HK\$10,000,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Construction Products (Shenzhen) Co., Ltd.	Shenzhen	US\$1,290,000	100	Manufacture, sale and distribution of concrete pipes
K. Wah Consultancy (Guangzhou) Co., Ltd.	Guangzhou	HK\$1,560,000	100	Provision of management services
K. Wah Consultancy (Shanghai) Co., Ltd.	Shanghai	US\$350,000	100	Provision of management services
K. Wah Quarry (Huzhou) Co., Ltd.	Huzhou	US\$4,250,000	100	Quarrying

35 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Cont'd)

(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
Cooperative joint venture				
Beijing Shoujia Stone Co., Ltd.	Beijing	US\$1,080,000	55	Quarrying
K. Wah (Huangpi) Quarry Company Limited, Guangzhou	Guangzhou	US\$4,900,000	100	Quarrying
K. Wah Materials (Huidong) Limited	Huidong	US\$2,800,000	100	Quarrying
Nanjing K. Wah Concrete Co., Ltd.	Nanjing	US\$1,330,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Beicai Concrete Co., Ltd.	Shanghai	RMB31,500,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiajian Concrete Co., Ltd.	Shanghai	RMB17,400,000	60	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jia Shen Concrete Co., Ltd.	Shanghai	RMB4,400,000	100	Manufacture, sale and distribution of ready-mixed concrete
Shanghai K. Wah Concrete Co., Ltd.	Shanghai	RMB10,000,000	100	Manufacture, sale and distribution of ready-mixed concrete and provision of quality assurance services
Shanghai K. Wah Concrete Piles Co., Ltd.	Shanghai	US\$2,500,000	100	Manufacture, sale and distribution of concrete piles
Equity joint venture				
Shanghai Ganghui Concrete Co., Ltd.	Shanghai	US\$4,000,000	60	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Jiafu Concrete Co., Ltd.	Shanghai	US\$1,400,000	55	Manufacture, sale and distribution of ready-mixed concrete
Shanghai Xin Cai Concrete Co., Ltd.	Shanghai	US\$2,100,000	99	Manufacture, sale and distribution of ready-mixed concrete

35 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES
(Cont'd)
(a) Subsidiaries (Cont'd)

Name of company	Principal place of operation	Issued share capital		Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share US\$		
Incorporated in the British Virgin Islands					
Eternal Profits International Limited	Hong Kong	10	1	100	Property investment
Fairlight Investments Limited	Hong Kong	10	1	100*	Investment holding
High Regard Investments Limited	Hong Kong	20	1	100	Investment holding
K. Wah Trading Company Limited	Cook Islands	1	1	100	Trading
Latent Developments Limited	Hong Kong	10	1	100	Investment holding
Profit Access Investments Limited	Hong Kong	10	1	100	Investment holding
Prosperous Fields Limited	Hong Kong	10	1	100	Investment holding
Taksin Profits Limited	Hong Kong	17	1	100	Investment holding
Woodland Assets Limited	Hong Kong	10	1	100	Investment holding

* Wholly owned and directly held by the Company

(b) Jointly Controlled Entities

Name of company	Principal place of operation	Issued share capital		Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share HK\$		
Incorporated in Hong Kong					
International Precast Systems Limited	Hong Kong	22,785,000	1	49.12	Manufacture, sale and distribution of precast concrete products

Registered capital
Incorporated in Mainland China

Anhui Masteel K. Wah New Building Materials Co., Ltd.	Maanshan	US\$4,290,000	30	Manufacture, sale and distribution of slag
Guangzhou K. Wah Nanfang Cement Limited	Guangzhou	RMB100,000,000	50	Manufacture, sale and distribution of cement
Shanghai Bao Jia Concrete Co., Ltd.	Shanghai	US\$4,000,000	50	Manufacture, sale and distribution of ready-mixed concrete

35 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (Cont'd)

(c) Associated Companies

Name of company	Principal place of operation	Issued share capital		Percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share HK\$		
Incorporated in Hong Kong					
Tarmac Asphalt Hong Kong Limited	Hong Kong	1,100,000	10	20	Manufacture, sale and distribution and laying of asphalt