

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 other investments, and in accordance with Hong Kong Financial Reporting Standards.

In 2003, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Society of Accountants. The adoption of the revised SSAP 12 has resulted in a change to the accounting policy of the Group as detailed in note (m) below. The change however does not have a material effect on the financial statements.

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 share of 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.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 and 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 when, 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) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for impairment in value other than temporary in nature.

Leasehold land and buildings and improvements are depreciated over their respective lease periods using the straight-line method. Other 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 assets	20 to 25%

Major costs incurred in restoring 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 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 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 reserve.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) 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.

(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.

(l) 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.

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on property, plant and equipment and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In previous years, deferred taxation was provided at the current tax rates using the liability method in respect of all significant timing differences, principally accelerated depreciation allowances, which was expected to reverse in the foreseeable future. This accounting policy has been changed to conform with the revised SSAP 12. Such change however does not have a significant impact on the accounts.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) 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.

(o) Leased assets

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.

(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 obligation can be made.

(q) 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.

(r) 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.

(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 property, plant and equipment, other non-current assets, inventories, debtors and prepayments, 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 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Turnover	537,482	593,412	1,130,894
Other revenues	20,995	532	21,527
Operating profit	13,831	25,581	39,412
Finance costs			(5,508)
Share of profits less losses of			
Jointly controlled entities	18	6,856	6,874
Associated companies	998	—	998
Profit before taxation			41,776
Taxation			341
Profit after taxation			42,117
Minority interests	—	(1,912)	(1,912)
Profit attributable to shareholders			40,205
Segment assets	904,727	584,386	1,489,113
Jointly controlled entities	3,078	234,371	237,449
Associated companies	16,098	—	16,098
Unallocated assets			424,470
Total assets			2,167,130
Segment liabilities	122,666	167,025	289,691
Minority interests	99,697	48,194	147,891
Unallocated liabilities			315,285
Total liabilities			752,867
Capital expenditure	38,184	113,549	151,733
Depreciation	41,670	25,352	67,022
Amortisation	14,897	778	15,675

2. SEGMENT INFORMATION (Cont'd)
Year ended 31st December 2002

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 plant and equipment	—	11,303	11,303

3. TURNOVER AND OTHER REVENUES

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of construction materials	1,130,894	1,010,999
Other revenues		
Rental income	12,292	12,036
Interest income		
Unlisted investments	—	9,538
Loan to a fellow subsidiary (note 32(b))	5,169	520
Bank deposits	2,545	4,583
Deferred receivable (note 18)	1,521	1,918
Front-end fee from a fellow subsidiary	—	1,188
	21,527	29,783
	1,152,421	1,040,782

4. OPERATING PROFIT

	2003 HK\$'000	2002 HK\$'000
Operating profit is stated after crediting:		
Profit on disposal of listed investments	2,372	103
Unrealised gain of listed investments	2,180	—
Profit on disposal of plant and equipment	—	541
Write-back of additional provision for plant and equipment	—	11,303
Gain on disposal of operating rights	28,260	—
Amortisation of negative goodwill	632	631

and after charging:

Depreciation	67,022	59,908
Amortisation		
Quarry site development	1,284	846
Overburden removal costs	14,391	14,033
Operating lease rental		
Land and buildings	12,148	11,740
Plant and machinery	779	1,888
Royalty	4,275	3,076
Auditors' remuneration	979	952
Loss on disposal of plant and equipment	800	—
Cost of inventories sold	952,187	785,384
Staff costs, including Directors' remuneration	155,295	140,558
Impairment of long-term investments	2,145	561
Foreign exchange loss	920	—

5. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expense		
Bank loans and overdrafts	5,508	7,191
Finance lease obligations wholly payable within five years	—	2
	<u>5,508</u>	<u>7,193</u>

6. DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Fees	440	540
Salaries and other emoluments	3,921	1,491
Retirement benefits	259	137
	<u>4,620</u>	<u>2,168</u>

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

	Number of Directors	
	2003	2002
Nil – HK\$1,000,000	7	9
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	2	—
	<u>9</u>	<u>10</u>

Fees paid to independent non-executive Directors amounted to HK\$240,000 (2002: HK\$240,000) and no other emoluments were paid.

During the year, options to subscribe for 6,000,000 shares (2002: nil) of the Company at exercise price of HK\$0.514 per share were granted to the Directors and no options were exercised by the Directors (2002: nil).

7. MANAGEMENT EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year include two (2002: one) Directors whose emoluments are reflected in note 6 above. The emoluments of the remaining three (2002: four) individuals are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	5,575	6,801
Retirement benefits	332	377
	<u>5,907</u>	<u>7,178</u>

7. MANAGEMENT EMOLUMENTS (Cont'd)

The emoluments of these individuals fell within the following bands:

	Number of employees	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	2	1
	<u>3</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 circumstances. 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 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\$13,735,000 (2002: HK\$9,787,000), after deducting forfeitures of HK\$82,000 (2002: HK\$379,000), leaving HK\$57,000 (2002: HK\$59,000) available to reduce future contributions.

9. TAXATION CREDIT/(CHARGE)

	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries		
Hong Kong profits tax	(150)	(1,728)
Mainland China income tax	(1,578)	(4,783)
Deferred taxation (note 27(a))	<u>3,061</u>	<u>2,693</u>
	1,333	(3,818)
Jointly controlled entities		
Mainland China income tax	(848)	(558)
Associated companies		
Hong Kong profits tax	<u>(144)</u>	<u>(38)</u>
	<u>341</u>	<u>(4,414)</u>

9. TAXATION CREDIT/(CHARGE) (Cont'd)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	<u>41,776</u>	<u>69,758</u>
Tax calculated at applicable tax rate	(6,070)	(3,234)
Income under tax relief	15,260	6,284
Income not subject to tax	373	628
Expenses not deductible for tax purpose	(3,631)	(1,540)
Utilisation of previously unrecognised tax losses	4,686	3,723
Tax losses not recognised	(9,923)	(10,249)
Over/(under) provision of tax	932	(26)
Increase in tax on change in tax rate	<u>(1,286)</u>	<u>—</u>
Taxation credit/(charge)	<u>341</u>	<u>(4,414)</u>

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\$37,277,000 (2002: HK\$49,097,000).

11. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim scrip dividend with a cash option of 1 cent (2002: 1 cent) per share	12,478	12,397
Proposed final scrip dividend with a cash option of 1 cent (2002: 1 cent) per share	<u>12,690</u>	<u>12,432</u>
	<u>25,168</u>	<u>24,829</u>

The dividends have been partially settled by cash as follows:

Interim	6,197	10,968
Final	<u>—</u>	<u>10,434</u>
	<u>6,197</u>	<u>21,402</u>

The Board of Directors recommended a final scrip dividend with a cash option of 1 cent (2002: 1 cent) per share. This dividend will be accounted for as an appropriation of revenue reserve in the year ending 31st December 2004.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$40,205,000 (2002: HK\$62,328,000) and the weighted average number of 1,247,373,000 shares (2002: 1,228,986,000 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 2003 would not have a dilutive effect on the earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK\$'000	Investment properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost or valuation						
At 31st December 2002	343,697	42,000	29,324	621,718	223,062	1,259,801
Additions	5,246	—	2,709	65,723	57,609	131,287
Disposals	—	—	(50)	(18,918)	(18,357)	(37,325)
At 31st December 2003	348,943	42,000	31,983	668,523	262,314	1,353,763
Accumulated depreciation						
At 31st December 2002	38,978	—	20,643	339,569	119,665	518,855
Charge for the year	7,347	—	1,661	37,926	20,088	67,022
Disposals	—	—	(5)	(17,072)	(17,190)	(34,267)
At 31st December 2003	46,325	—	22,299	360,423	122,563	551,610
Net book value						
At 31st December 2003	302,618	42,000	9,684	308,100	139,751	802,153
At 31st December 2002	304,719	42,000	8,681	282,149	103,397	740,946

- 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 2003 on an open market value basis by Vigers Hong Kong Limited, independent professional valuers.
- Leasehold land and buildings with net book values of HK\$231,966,000 (2002: HK\$237,305,000) have been pledged to secure banking facilities.
- Other assets comprise barges, furniture and equipment and motor vehicles.
- Apart from the properties mentioned under (a) above, all other assets are carried at cost.

14. LEASEHOLD LAND AND BUILDINGS

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

	Hong Kong HK\$'000	Outside Hong Kong HK\$'000	2003 HK\$'000	2002 HK\$'000
At cost	296,935	24,068	321,003	315,757
At professional valuation 1990	27,940	—	27,940	27,940
	<u>324,875</u>	<u>24,068</u>	<u>348,943</u>	<u>343,697</u>

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 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\$490,000 (2002: HK\$501,000).

15. SUBSIDIARIES

	Company 2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1	1
Loans receivable	370,556	300,556
Amounts receivable	1,776,330	2,038,147
Amounts payable	<u>(642,053)</u>	<u>(1,166,559)</u>
	1,504,834	1,172,145
Provision	<u>(16,392)</u>	<u>(16,392)</u>
	<u>1,488,442</u>	<u>1,155,753</u>

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 36(a).

16. JOINTLY CONTROLLED ENTITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	141,913	106,373
Amounts receivable	95,536	89,954
	<u>237,449</u>	<u>196,327</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 36(b).

17. ASSOCIATED COMPANIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	16,098	15,244

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 36(c).

18. OTHER NON-CURRENT ASSETS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Deferred expenditure		
Overburden removal costs	114,366	111,564
Quarry site development	13,421	11,452
	<u>127,787</u>	<u>123,016</u>
Deferred receivable	8,147	11,020
Long-term investments		
Listed in Hong Kong	2,487	2,487
Unlisted	102,306	104,451
	<u>104,793</u>	<u>106,938</u>
	<u>240,727</u>	<u>240,974</u>
Market value of listed long-term investments	736	1,346

Deferred receivable represents advances to various contractors. The advances are secured by assets provided 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 receivables.

19. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Aggregates and sand	24,820	7,653
Concrete pipes and blocks	8,723	4,952
Cement	4,813	6,598
Spare parts	22,861	19,857
Consumables	7,499	3,565
	68,716	42,625

The carrying amount of inventories stated at net realisable value amounted to HK\$1,809,000 (2002: HK\$1,572,000).

20. DEBTORS AND PREPAYMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors (note (a))	345,050	283,080	—	—
Loan to a fellow subsidiary (note (b))	70,000	—	—	—
Other receivables	29,330	28,751	—	—
Prepayments	37,930	48,828	8	16
	482,310	360,659	8	16

- (a) The Group has established credit policies which follow local industry standards. 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:

	2003	2002
	HK\$'000	HK\$'000
Within one month	127,199	141,316
Two to three months	141,138	80,428
Four to six months	57,015	50,566
Over six months	19,698	10,770
	345,050	283,080

- (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\$219 million (2002: HK\$50 million).

21. OTHER INVESTMENTS

	Group 2003 HK\$'000	2002 HK\$'000
Listed in Hong Kong, at market value	5,150	—

22. CREDITORS AND ACCRUALS

	Group 2003 HK\$'000	2002 HK\$'000	Company 2003 HK\$'000	2002 HK\$'000
Trade creditors	138,266	104,619	—	—
Other creditors	62,794	59,670	—	—
Accrued operating expenses	82,052	92,918	1,329	1,353
Deposits received	5,811	5,194	—	—
	<u>288,923</u>	<u>262,401</u>	<u>1,329</u>	<u>1,353</u>

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

	2003 HK\$'000	2002 HK\$'000
Within one month	81,864	48,213
Two to three months	38,658	39,154
Four to six months	9,649	9,152
Over six months	8,095	8,100
	<u>138,266</u>	<u>104,619</u>

23. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	HK\$'000
Authorised:		
At 31st December 2002 and 2003	3,888,000,000	388,800
Issued and fully paid:		
At 31st December 2001	1,216,740,404	121,674
Exercise of share options	1,130,000	113
Issued as scrip dividends	25,337,411	2,534
At 31st December 2002	1,243,207,815	124,321
Issued as scrip dividends	15,726,836	1,572
At 31st December 2003	<u>1,258,934,651</u>	<u>125,893</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 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. Consideration to be paid on each grant of option is HK\$1.00. The period within which the shares to 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:

	2003	2002
At beginning of year	38,264,000	39,394,000
Granted (<i>note (a)</i>)	20,482,000	—
Exercised	—	(1,130,000)
At end of year (<i>note (b)</i>)	<u>58,746,000</u>	<u>38,264,000</u>

- (a) Share options were granted on 28th February 2003 at the exercise price of HK\$0.514 per share and expire on 28th February 2013. Consideration received was HK\$67 in respect of the share options granted during the year.

(b) Outstanding options

Exercise period	Exercise price per share HK\$	Number of share options 2003	2002
Directors			
20th May 1999 to 19th May 2008	0.5333	3,100,000	3,400,000
30th December 2000 to 29th December 2009	0.5216	4,470,000	5,006,000
1st March 2004 to 28th February 2013	0.5140	6,000,000	—
Employees and others			
20th May 1999 to 19th May 2008	0.5333	9,862,000	9,562,000
30th December 2000 to 29th December 2009	0.5216	20,832,000	20,296,000
1st March 2004 to 28th February 2013	0.5140	14,482,000	—
		<u>58,746,000</u>	<u>38,264,000</u>

25. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Land and buildings revaluation reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 31st December 2002	545,572	4,395	70	27,363	690,849	1,268,249
Changes in exchange rates	—	—	—	—	(1,881)	(1,881)
Shares issued as scrip dividends	(1,572)	—	—	—	—	(1,572)
Reserves arising on scrip dividends	—	—	—	—	8,279	8,279
Profit for the year	—	—	—	—	40,205	40,205
2002 final dividend	—	—	—	—	(12,432)	(12,432)
2003 interim dividend	—	—	—	—	(12,478)	(12,478)
At 31st December 2003	544,000	4,395	70	27,363	712,542	1,288,370
Company and subsidiaries	544,000	4,395	70	27,363	731,852	1,307,680
Jointly controlled entities	—	—	—	—	(22,756)	(22,756)
Associated companies	—	—	—	—	3,446	3,446
	544,000	4,395	70	27,363	712,542	1,288,370
At 31st December 2001	547,627	4,395	70	27,363	656,503	1,235,958
Changes in exchange rates	—	—	—	—	(309)	(309)
Premium on shares issued	479	—	—	—	—	479
Shares issued as scrip dividends	(2,534)	—	—	—	—	(2,534)
Reserves arising on scrip dividends	—	—	—	—	15,170	15,170
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	70	27,363	690,849	1,268,249
Company and subsidiaries	545,572	4,395	70	27,363	716,599	1,293,999
Jointly controlled entities	—	—	—	—	(28,342)	(28,342)
Associated companies	—	—	—	—	2,592	2,592
	545,572	4,395	70	27,363	690,849	1,268,249

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 2002	545,572	235,239	70	457,762	1,238,643
Shares issued as scrip dividends	(1,572)	—	—	—	(1,572)
Reserves arising on scrip dividends	—	—	—	8,279	8,279
Profit for the year	—	—	—	37,277	37,277
2002 final dividend	—	—	—	(12,432)	(12,432)
2003 interim dividend	—	—	—	(12,478)	(12,478)
At 31st December 2003	544,000	235,239	70	478,408	1,257,717
At 31st December 2001	547,627	235,239	70	436,338	1,219,274
Premium on shares issued	479	—	—	—	479
Shares issued as scrip dividends	(2,534)	—	—	—	(2,534)
Reserves arising on scrip dividends	—	—	—	15,170	15,170
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

Reserves of the Company available for distribution to shareholders amount to HK\$478,408,000 (2002: HK\$457,762,000).

26. LONG-TERM LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank loans				
Secured	20,800	—	20,800	—
Unsecured	190,000	—	190,000	—
	210,800	—	210,800	—
Current portion included in current liabilities	(10,000)	—	(10,000)	—
	200,800	—	200,800	—

The bank loans are repayable within the following periods:

Within one year	10,000	—	10,000	—
Between one to two years	30,800	—	30,800	—
Between two to five years	170,000	—	170,000	—
	210,800	—	210,800	—

27. NON-CURRENT LIABILITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Deferred taxation liabilities (note (a))	13,884	16,945
Negative goodwill (note (b))	768	1,400
	<u>14,652</u>	<u>18,345</u>

(a) Deferred taxation liabilities

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above liabilities shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts.

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Movements on the deferred taxation liabilities/(assets) are as follows:

	Depreciation allowance HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 31st December 2001	41,817	(21,242)	(937)	19,638
(Credit)/charge to profit and loss statement	(74)	(2,927)	308	(2,693)
At 31st December 2002	41,743	(24,169)	(629)	16,945
(Credit)/charge to profit and loss statement	2,387	(5,257)	(191)	(3,061)
At 31st December 2003	<u>44,130</u>	<u>(29,426)</u>	<u>(820)</u>	<u>13,884</u>

Deferred taxation assets of HK\$28,508,000 (2002: HK\$24,592,000) arising from unused tax losses and other temporary differences totalling of HK\$138,359,000 (2002: HK\$127,393,000) have not been recognised in the financial statements. Unused tax losses of HK\$81,162,000 (2002: HK\$75,223,000) have no expiry date and the balance will expire at various dates up to and including 2009.

(b) Negative goodwill

	Group	
	2003	2002
	HK\$'000	HK\$'000
Cost	2,663	2,663
Accumulated amortisation	<u>(1,895)</u>	<u>(1,263)</u>
At end of the year	<u>768</u>	<u>1,400</u>

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

	2003 HK\$'000	2002 HK\$'000
Operating profit	39,412	68,568
Depreciation	67,022	59,980
Write-back of additional provision for plant and equipment	—	(11,303)
Loss/(profit) on disposal of plant and equipment	800	(541)
Profit on disposal of long-term investments	—	(103)
Profit on disposal of listed investments	(2,372)	—
Unrealised gain on listed investments	(2,180)	—
Impairment of long-term investments	2,145	561
Interest income	(9,235)	(16,559)
Amortisation of deferred expenditure	15,675	14,879
Amortisation of negative goodwill	(632)	(631)
	<u>110,635</u>	<u>114,851</u>
Operating profit before working capital changes	110,635	114,851
(Increase)/decrease in inventories	(26,091)	20,454
Increase in debtors and prepayments	(51,651)	(25,210)
Increase/(decrease) in creditors and accruals	26,522	(4,461)
	<u>59,415</u>	<u>105,634</u>
Cash generated from operations	<u>59,415</u>	<u>105,634</u>

(b) Analysis of changes in financing

	Share capital and premium HK\$'000	Loans obligations HK\$'000	Minority interests HK\$'000	Total HK\$'000
As 31st December 2002	669,893	65,905	145,334	881,132
Changes in exchange rates	—	—	(304)	(304)
Minority share of profits for the year	—	—	1,912	1,912
Cash inflow from financing	—	234,895	949	235,844
	<u>669,893</u>	<u>300,800</u>	<u>147,891</u>	<u>1,118,584</u>
At 31st December 2003	<u>669,893</u>	<u>300,800</u>	<u>147,891</u>	<u>1,118,584</u>
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)
	<u>669,893</u>	<u>65,905</u>	<u>145,334</u>	<u>881,132</u>
At 31st December 2002	<u>669,893</u>	<u>65,905</u>	<u>145,334</u>	<u>881,132</u>

29. CAPITAL COMMITMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contracted but not provided for	51,339	53,616

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	
	2003	2002
	HK\$'000	HK\$'000
First year	7,339	8,199
Second to fifth years inclusive	23,743	24,517
After the fifth year	30,638	38,564
	61,720	71,280

31. OPERATING LEASE RENTAL RECEIVABLE

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
First year	11,876	12,454
Second to fifth years inclusive	39,408	47,274
After the fifth year	30,377	53,878
	81,661	113,606

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:

- Sales of aggregates to an associated company amounted to HK\$16,375,000 (2002: HK\$26,585,000). These were made at prices and terms no less than those charged to other third party customers of the Group.
- The Group receives interest income of HK\$5,169,000 (2002: HK\$520,000) in respect of loan advanced to a fellow subsidiary as detailed in note 20(b).
- Rental income from an associated company amounted to HK\$9,691,000 (2002: HK\$9,971,000) 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\$291,516,000 (2002: HK\$299,370,000), of which HK\$108,490,000 (2002: HK\$154,805,000) have been utilised.

34. HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

At 31st December 2003, the Company was a 67.25% 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. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 15th April 2004.

36. PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

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\$		
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 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
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

36 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
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
上海嘉華青松混凝土有限公司	Shanghai	US\$2,420,000	100	Manufacture, sale and distribution of ready-mixed concrete
深圳嘉華混凝土管樁有限公司	Shenzhen	US\$2,100,000	100	Manufacture, sale and distribution of concrete piles
深圳嘉華加氣混凝土有限公司	Shenzhen	US\$2,700,000	100	Manufacture, sale and distribution of autoclaved aerated concrete
Cooperative joint venture				
Beijing Shoujia Stone Co., Ltd.	Beijing	US\$1,080,000	55	Quarrying
北京嘉華高強混凝土有限公司	Beijing	US\$2,450,000	100	Manufacture, sale and distribution of ready-mixed concrete
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 service
Shanghai K. Wah Concrete Piles Co., Ltd.	Shanghai	US\$2,500,000	100	Manufacture, sale and distribution of concrete piles

36 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
Incorporated in Mainland China				
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

Issued share capital

Name of company	Principal place of operation	Number of ordinary shares	Par value per share US\$	Percentage of equity held by the Group	Principal activities
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

* Directly held by the Company

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

(b) Jointly Controlled Entities

Name of company	Principal place of operation	Registered capital	Percentage of equity held by the Group	Principal activities
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
北京首鋼嘉華建材有限公司	Beijing	RMB50,000,000	40	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
Maanshan Masteel K. Wah Concrete Co. Ltd.	Maanshan	US\$2,450,000	30	Manufacture, sale and distribution of ready-mixed concrete

(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