

DIRECTORS' REPORT



The directors present their annual report and the audited financial statements of the Group for the year ended 31st December, 2000 and of the Company for the period from 30th March, 2000 (date of incorporation) to 31st December, 2000.

GROUP REORGANISATION

The Company was incorporated on 30th March, 2000 in Bermuda as an exempted limited company

under the Companies Act of Bermuda. Pursuant to a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (the "Scheme"). Daido Concrete (H.K.) Limited ("DCHK") became an indirect wholly-owned subsidiary of the Company and the listing of DCHK on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") was withdrawn. Details of the Scheme were set out in the Circular dated 31st August, 2000 issued to the shareholders of DCHK. On 10th November, 2000, the shares of the Company were listed on the Stock Exchange in place of those of DCHK. Further details in respect of the Scheme are set out in note 1 to the financial statements.

The Company, DCHK and its subsidiaries (collectively the "Group") resulting from the above mentioned reorganisation is regarded as a continuity entity and accordingly the consolidated financial statements have been prepared and presented on the basis that the current group structure had been in existence throughout the eight months period ended 31st December, 1999 and the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 15 to the financial statements.

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SUBSIDIARIES

Details of the Company's subsidiaries at 31st December, 2000 are set out in note 15 to the financial statements.

During the year, the Group acquired 100% interest in Golik Metal Manufacturing Co. Limited ("GMM"), a company engaged in the business of manufacturing and trading of welded wire mesh and metal products, for a total consideration of HK\$52,000,000 of which HK\$20,000,000 was satisfied by way of the issue of a promissory note by the Group on 28th August, 2000, the completion date, repayable one year after the date of issue, bearing interest at the rate of 8% per annum.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2000 are set out in the consolidated income statement on page 29.

The directors recommend the payment of a final dividend of HK\$0.003 per share to the shareholders on the register of members on 31st May, 2001, amounting to HK\$9,000,000 and the retention of the remaining profit for the year of HK\$29,207,000.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out on page 74.

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PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment with a net book value of HK\$39.3 million through the acquisition of a subsidiary.

In addition, the Group spent approximately HK\$2.3 million to acquire machinery and equipment for the purpose of developing the manufacturing capacity in its semi-precast concrete slab business.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the authorised and issued share capital and share options of the Company since incorporation are set out in notes 26 and 27 respectively to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company and DCHK during the year.

BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group are set out in notes 23 to 25 to the financial statements.

No interest was capitalised by the Group during the year.

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DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Pang Tak Chung (<i>Chairman</i>)	(appointed on 14th June, 2000)
Mr. Akiyoshi Kubota (<i>Deputy Chairman</i>)	(appointed on 14th June, 2000)
Mr. Robert Keith Davies	(appointed on 14th June, 2000)
Mr. Ho Wai Yu, Sammy	(appointed on 14th June, 2000)
Mr. Choy Kai Sing	(appointed on 14th June, 2000)
Mr. Brian Edward Tarling	(appointed on 14th June, 2000)

Non-executive directors

Mr. Masahiro Taguchi	(appointed on 14th June, 2000)
Mr. Zheng Peng	(appointed on 14th June, 2000 and resigned on 18th December, 2000)
Mr. Ge Qin	(appointed on 18th December, 2000)

Independent non-executive directors

Mr. To Wai Keung	(appointed on 14th June, 2000)
Mr. Ha Yue Fuen, Henry	(appointed on 14th June, 2000)

In accordance with Clause 87 of the Company's Bye-Laws, Messrs. Ho Wai Yu, Sammy, Choy Kai Sing and Brian Edward Tarling retire by rotation and Mr. Ge Qin retires in accordance with Clause 86(2), and all being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for a specific term as all of the directors, including the non-executive directors and independent non-executive directors, are subject to retirement by rotation in accordance with the above Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SECURITIES

(1) Shares

At 31st December, 2000, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(i) The Company

Name of directors	Number of ordinary shares held	
	Personal interest	Corporate interest
Mr. Pang Tak Chung (Note 1)	—	1,643,828,000
Mr. Masahiro Taguchi (Note 2)	—	394,634,000
Mr. Akiyoshi Kubota (Note 3)	—	16,583,000

(ii) Golik Holdings Limited ("GHL")

Name of directors	Number of ordinary shares held	
	Personal interest	Corporate interest
Mr. Pang Tak Chung (Note 4)	32,195,000	195,646,500
Mr. Robert Keith Davies	1,544,000	—
Mr. Ho Wai Yu, Sammy	4,002,000	—

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DIRECTORS' INTERESTS IN SECURITIES *(continued)*

(1) Shares *(continued)*

(iii) Shares in a fellow subsidiary

At 31st December, 2000, Mr. Pang Tak Chung has personal and corporate interests in 5,850 and 20,000 non-voting deferred shares respectively in a fellow subsidiary, Golik Metal Industrial Company Limited ("GMI"). The corporate interest is held by World Producer Limited.

Notes:

1. The 1,643,828,000 shares are held by Worldlight Group Limited, a wholly-owned subsidiary of GHL which is owned as to 34.51% by Golik Investments Ltd. ("GIL") and as to 5.68% by Mr. Pang Tak Chung. GIL is a wholly-owned subsidiary of Golik International Group Limited. Golik International Group Limited is owned as to 38.95% by World Producer Limited, as to 52.39% by Jetworld Development Limited and as to 8.66% by Mr. Pang Tak Chung. The entire issued share capital of Jetworld Development Limited is owned by Mr. Pang Tak Chung. World Producer Limited is owned as to 75% by King World Holdings Limited and as to 25% by Pacific States Limited. The entire issued share capital of King World Holdings Limited and Pacific States Limited is owned by Mr. Pang Tak Chung and Mr. Robert Keith Davies respectively.
2. The 394,634,000 shares are held by Sankyo Sekiyu Co. Limited which is owned as to 50.38% by Mr. Masahiro Taguchi and as to 49.62% by his spouse, Mrs. Noriko Taguchi.
3. The 16,583,000 shares are held by Skyway Investment Limited which is wholly-owned by Mr. Akiyoshi Kubota and his spouse, Mrs. Chisako Kubota.
4. The 195,646,500 shares are held by GIL.

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DIRECTORS' INTERESTS IN SECURITIES (continued)

(2) Options

The directors had personal interests in share options to subscribe for shares in the Company and GHL as follows:

(i) The Company

Name of directors	Date granted	Exercisable period (Both dates inclusive)	Exercise price HK\$	Balance at 1.1.2000	Granted during the year	Number of share options		
						Lapsed during the year	Exercised during the year	Balance at 31.12.2000
Mr. Pang Tak Chung	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	—	50,000,000	—	—	50,000,000
Mr. Akiyoshi Kubota	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	—	30,000,000	—	—	30,000,000
Mr. Robert Keith Davies	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	—	20,000,000	—	—	20,000,000
Mr. Ho Wai Yu, Sammy	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	—	20,000,000	—	—	20,000,000
Mr. Choy Kai Sing	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	—	15,000,000	—	—	15,000,000

(ii) GHL

Name of directors	Date granted	Exercisable period (Both dates inclusive)	Exercise price HK\$	Balance at 1.1.2000	Granted during the year	Number of share options		
						Lapsed during the year	Exercised during the year	Balance at 31.12.2000
Mr. Pang Tak Chung	26th November, 1997	26th May, 1998 to 25th May, 2000	1.02	1,167,550	—	(1,167,550)	—	—
	27th November, 1998	27th May, 1999 to 26th May, 2001	0.24	2,000,000	—	—	(2,000,000)	—
Mr. Robert Keith Davies	26th November, 1997	26th May, 1998 to 25th May, 2000	1.02	4,832,450	—	(4,832,450)	—	—
	27th November, 1998	27th May, 1999 to 26th May, 2001	0.24	2,000,000	—	—	(2,000,000)	—
Mr. Ho Wai Yu, Sammy	26th November, 1997	26th May, 1998 to 25th May, 2000	1.02	4,832,450	—	(4,832,450)	—	—
	27th November, 1998	27th May, 1999 to 26th May, 2001	0.24	2,000,000	—	—	(2,000,000)	—

Subsequent to the balance sheet date, 485,000 share options with an exercise price of HK\$0.24 per share were exercised.

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DIRECTORS' INTERESTS IN SECURITIES *(continued)*

Save as disclosed above, none of the Company's directors or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

- (i) The Share Option Scheme adopted by the Company on 29th August, 2000 enables directors and employees of the Group to subscribe for shares in the Company, details of which are set out in note 27 to the financial statements.
- (ii) The Share Option Scheme adopted by GHL, the ultimate holding company, on 25th June, 1994 enables the directors and employees of GHL to subscribe for shares in GHL.

Save as disclosed above, at no time during the year was the Company or any of its holding companies or subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31st December, 2000.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Section headed "Connected Transactions" below, no other contract of significance to which the Company or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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CONNECTED TRANSACTIONS

In connection with the acquisition of GMM, on 6th July, 2000, DCHK and its wholly-owned subsidiary, Tak Sun Limited ("Tak Sun"), entered into an agreement (the "Agreement") with GMI, a wholly-owned subsidiary of GHL, to acquire the entire issued share capital of GMM at a consideration of HK\$52 million of which HK\$20 million was satisfied by way of the issue of a promissory note by Tak Sun.

Pursuant to the Agreement:

- (i) GMI warrants that the net tangible assets value of GMM at 31st March, 2000 shall be not less than HK\$32 million (the "NAV Guarantee") and the aggregate profit of GMM after taxation as shown in its audited income statement for the two financial years ending 31st December, 2001 shall be not less than HK\$20 million (the "Profit Guarantee").
- (ii) GMM will continue, in its normal course of business and on an arm's length basis, purchase wire rods and accessories, which are the raw materials used in the production of welded wire mesh from GHL and its subsidiaries (excluding the Group) ("GHL group companies") until August 2001 (the "Future Purchases") in order to set up new banking facilities and establish relationship with the new suppliers. The aggregate value of the Future Purchases for the two financial years ending 31st December, 2001 should not exceed the value of HK\$65 million (the "Waiver Limit"). Thereafter the terms of the Future Purchases and the Waiver Limit will be reviewed and approved by the independent shareholders at a general meeting if the Future Purchases are to be continued.

Total Future Purchases from GHL group companies from 29th August, 2000 to 31st December, 2000 amounting approximately to HK\$11 million.

Details of these transactions have been included under the Section "On-Going Transactions" in the Circular dated 3rd August, 2000 issued to the shareholders of DCHK. The independent non-executive directors had confirmed that these connected transactions have been entered into at terms which are fair and reasonable so far as the shareholders of the Company are concerned and up to the reporting period, the aggregate value of purchases by GMM from GHL group companies does not exceed the value of HK\$65 million. They had also confirmed that the NAV Guarantee has been fulfilled and in accordance with the terms of the Agreement governing such transactions.

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CONNECTED TRANSACTIONS *(continued)*

In addition, there are other on-going transactions between GHL group companies and the Group as follows:

- (i) GMM has provided guarantees of HK\$45 million to certain banking facilities of GHL group companies as part of the cross-guarantee arrangements between GMM and the GHL group companies.
- (ii) On 18th January, 2000, DCHK had entered into a licence agreement (the "Licence Agreement") with GMM. Pursuant to the Licence Agreement, DCHK agreed to grant to GMM a licence for a term of three years to occupy certain portion of land and the office areas in the office building erected at Tai Po Industrial Estate (the "Premises"). The aggregate amount of licence fee payable under the Licence Agreement was HK\$8.1 million which was determined on open market value supported by a valuation on the Premises conducted by an independent valuer. Total amount of licence fee paid to DCHK before the acquisition of GMM by the Group was HK\$1.8 million.
- (iii) During the year, the Group purchased and sold goods from/to GHL group companies amounting to approximately HK\$12 million and HK\$6.4 million respectively.

The independent non-executive directors had confirmed that these connected transactions have been entered into in the ordinary and usual course of business of the respective companies and on normal commercial terms.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 46% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 17% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 51% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 32% of the Group's total purchases.

At no time during the year did a director, an associate of a director or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) have any interest in any of the Group's five largest suppliers or customers.

DIRECTORS' REPORT

SIGNIFICANT POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 41 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

In the opinion of the directors the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the period from 10th November, 2000 (the date since which the shares of the Company were listed on the Stock Exchange) to 31st December, 2000 except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

AUDITORS

During the year, Messrs. Ernst & Young, who acted as auditors of DCHK for the past three years, resigned and Messrs. Deloitte Touche Tohmastu were appointed as auditors of DCHK and the Company. A resolution will be submitted to the forthcoming annual general meeting to re-appoint the auditors Messrs. Deloitte Touche Tohmastu.

On behalf of the Board

Pang Tak Chung
CHAIRMAN

17th April, 2001