

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 1. CORPORATE REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated on 30th March, 2000 in Bermuda as an exempt company under the Companies Act of Bermuda. Pursuant to a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance (the "Scheme") the Company became the holding company of Daido Concrete (H.K.) Limited ("DCHK") on 10th November, 2000. On the same date, the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in place of the shares of DCHK. The Company's ultimate holding company is Golik Holdings Limited, a company which is also incorporated in Bermuda and with its shares listed on the Stock Exchange.

The principal steps of the Scheme were as follows:

- (a) the Scheme was approved by a majority in number, representing three-fourths in value of the shareholders voting in person or by proxy at a meeting convened at the direction of the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court") on 12th October, 2000;
- (b) the Scheme sanctioned by the Court on 7th November, 2000, a copy of the order of the Court as required by Section 166 of the Companies Ordinance was delivered to the Registrar of the Companies in Hong Kong for registration;
- (c) the Bermuda Monetary Authority granted permission for, among other things, the issue of shares pursuant to the Scheme and the issue of the shares which may fall to be issued pursuant to the exercise of share options to be granted under the share option scheme;
- (d) the shareholders of DCHK received shares of the Company in exchange for the shares of DCHK on a one for one basis;
- (e) the Listing Committee of the Stock Exchange granted the listing of, and permission to deal in, the shares of the Company on 10th November, 2000; and
- (f) the listing of the shares of DCHK on the Stock Exchange was withdrawn and simultaneously the shares of the Company was listed on the Stock Exchange by way of introduction.

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.

The principal activities of the Group are manufacturing, trading and installation of autoclaved aerated lightweight concrete blocks and panels ("ALC Products"), manufacturing and trading of welded wire mesh, cold drawn wire and expanded metal products and trading of H-piles.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 1. CORPORATE REORGANISATION AND BASIS OF PREPARATION *(continued)*

The financial statements for the prior period cover the eight months period ended 31st December, 1999 because the directors of DCHK determined to bring the balance sheet date into line with that of the ultimate holding company. The corresponding amounts shown for the income statement, cash flows and related notes cover the eight months period from 1st May, 1999 to 31st December, 1999 and therefore may not be comparable with amounts shown for the current year.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

### **Goodwill**

Goodwill arising on consolidation which represents the excess of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary, is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the separable net assets at the date of acquisition over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of an investment in an associate or a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate or the jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for subsidiary.

On disposal of investments in subsidiaries, associates or jointly controlled entities, the attributable amount of goodwill or negative goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiaries, associates or jointly controlled entities.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiaries that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

### Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

### Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in jointly controlled entities is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

#### *Construction contracts*

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract can be estimated reliably, revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

#### *Other*

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties or assets held under operating leases, is recognised on a straight line basis over the relevant lease term.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation or amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment other than assets under installation over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the terms of the leases
Industrial buildings	Over the shorter of the terms of the leases, or 20 to 25 years
Leasehold improvements	Over the shorter of the terms of the leases or 10 years
Motor vehicles	20% - 33 $\frac{1}{3}$ %
Furniture and fixtures	10% - 33 $\frac{1}{3}$ %
Machinery and equipment	5% - 50%

No provision for depreciation is made on assets under installation until such time as the installation work of the relevant assets are completed and put into use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

#### Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined at the actual or estimated selling price less related costs of marketing and selling.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Inventories**

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories of ALC Products comprises direct materials and, where applicable, direct labour costs and those production overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method.

The cost of H-piles, metal products and welded wire mesh, which comprises cost of purchases and, where applicable, direct labour costs, sub-contractors' costs and those production overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method.

Net realisable value represents the expected selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the respective dates of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight line basis over the relevant lease term.

### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation

The charge for taxation is based on the results for the year/period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed, but not yet paid by the customer, are included in the balance sheet within trade and other receivables.

### Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

### Retirement benefits scheme/mandatory provident fund scheme

The pension costs charged in the income statement represent the amount of contributions payable in respect of current year/period to the Group's defined contribution scheme/mandatory provident fund scheme.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 3. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and operating profit (loss) analysed by principal activity were as follows:

	Turnover		Operating profit (loss)	
	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Continuing operations				
Construction work contracting and sale of ALC Products	169,932	157,537	27,746	25,133
Trading of H-piles	44,147	—	386	—
Manufacturing and trading of welded wire mesh and metal products	27,247	—	2,563	—
	241,326	157,537	30,695	25,133
Discontinued operations				
Manufacturing and trading of concrete and spiral pipes	2,391	—	328	—
Operations to be discontinued				
Manufacturing and trading of concrete and spiral pipes	—	3,503	—	(44,439)
	243,717	161,040	31,023	(19,306)

All of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and profit (loss) from operations are derived from Hong Kong.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 4. OTHER REVENUE

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Exchange gains, net	234	—
Gain on disposal of golf club debentures	—	3,663
Gain on disposal of properties held for sale	909	—
Gain on disposal of property, plant and equipment	1,080	—
Property manager remuneration	592	605
Licence fee income	1,800	151
Sundry income	207	461
	<b>4,822</b>	<b>4,880</b>

### 5. PROVISION FOR RESTRUCTURING FEES

During the period from 1st May, 1999 to 31st December, 1999, the Group underwent a financial restructuring pursuant to several restructuring agreements between its bankers, convertible noteholders and other financial creditors. Upon the completion of the financial restructuring, the Group was successfully acquired by Worldlight Group Limited, a wholly-owned subsidiary of Golik Holdings Limited.

Restructuring fees provided in respect of the above restructuring activities amounting approximately HK\$19 million.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 6. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging:

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Provision for severance payments	—	12,916
Other staff costs including directors' emoluments and retirement benefits scheme contributions	47,465	54,750
<b>Total staff costs</b>	<b>47,465</b>	<b>67,666</b>
Auditors' remuneration	1,368	1,000
Depreciation and amortisation		
Owned assets	6,987	5,057
Assets held under finance leases	372	67
Exchange losses, net	—	11,708
Loss on disposal of property, plant and equipment	—	1,976
Operating leases rentals for plant and machinery	76	50
Provision for doubtful debts	7,672	5,778
Provision for properties held for sale	—	1,400
Provision for inventory obsolescence	1,844	4,616
Provision for impairment in value of a jointly-controlled entity	119	1,593

Operating lease rentals amounting to HK\$428,000 (1.5.1999 to 31.12.1999: HK\$396,000) in respect of director's accommodation is included in other staff costs.

The income and expenses items attributable to the discontinued operations are insignificant.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 7. FINANCE COSTS

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Interest on bank and other loans wholly repayable within five years	315	32,125
Interest on shareholders' loan	—	2,335
Interest on promissory note	552	—
Interest on finance leases	84	23
Interest on convertible notes	—	645
Provision for liabilities in respect of interests accrual for bank facilities	—	4,615
	951	39,743

### 8. GAIN ON DISPOSAL OF AN ASSOCIATE/SUBSIDIARIES

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Gain on disposal of an associate	47	—
Gain on disposal of subsidiaries	6,768	—
	6,815	—

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 9. DISCONTINUED OPERATIONS

Pursuant to the resolution passed by the board of directors of DCHK on 17th December, 1999 and 31st March, 2000, the board resolved to cease the operations in the manufacturing and trading of concrete piles, and intended to dispose of the Group's interest in a subsidiary which carried out the trading of spiral pipes during the year. These operations are carried out by DCHK and one of its indirectly-owned subsidiaries. These activities were discontinued during the year and was disclosed as "operations to be discontinued" in prior period's financial statements.

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Fees:		
Executive	—	—
Non-executive	120	—
Independent non-executive	160	80
	<b>280</b>	<b>80</b>
Other emoluments:		
Executive		
Salaries and other benefits	4,523	1,939
Contributions to retirement benefits scheme	13	—
	<b>4,536</b>	<b>1,939</b>
	<b>4,816</b>	<b>2,019</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

#### (a) Directors' emoluments (continued)

The directors' emoluments were within the following bands:

	1.1.2000 to 31.12.2000 Number of directors	1.5.1999 to 31.12.1999 Number of directors
HK\$Nil to HK\$1,000,000	9	11
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	—	—
HK\$2,000,001 - HK\$2,500,000	1	—
	11	12

No director waived any emoluments for the year ended 31st December, 2000 and the period ended 31st December, 1999.

#### (b) Employees' emoluments

The five highest paid individuals included two directors (1.5.1999 to 31.12.1999: two directors), details of whose emoluments are set out above. The emoluments of the remaining three individuals (1.5.1999 to 31.12.1999: three individuals), are as follows:

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Salaries and other benefits	2,957	1,868
Contributions to retirement benefits scheme	17	—
	2,974	1,868

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

#### (b) Employees' emoluments (continued)

Their emoluments were within the following bands:

	1.1.2000 to 31.12.2000 No. of employees	1.5.1999 to 31.12.1999 No. of employees
HK\$Nil to HK\$1,000,000	2	3
HK\$1,000,001 - HK\$1,500,000	1	—
	<b>3</b>	<b>3</b>

### 11. TAXATION CREDIT

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Hong Kong Profits Tax		
Current year	(42)	—
Overprovision in prior years	2,899	3
Deferred tax (Note 29)	505	—
	<b>3,362</b>	<b>3</b>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Details of deferred tax are set out in note 29.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 12. NET PROFIT (LOSS) FOR THE YEAR/PERIOD

Of the Group's net profit for the year of HK\$38,207,000, a profit of HK\$10,000,000 has been dealt with in the financial statements of the Company.

### 13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	38,207	(60,252)
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,000,000,000	799,434,765
Effect of dilutive share options	5,095,666	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,005,095,666	799,434,765

No diluted loss per share is presented for the period from 1st May, 1999 to 31st December, 1999 as no diluting events existed during the period.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$'000	Industrial buildings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Assets under installation HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
COST								
At 1st January, 2000	52,212	144,705	14,520	1,628	6,377	134,583	—	354,025
On acquisition of a subsidiary	—	—	2,437	1,700	597	44,164	—	48,898
Additions	—	286	73	207	37	88	4,874	5,565
Disposals	—	—	—	(270)	(515)	(557)	—	(1,342)
At 31st December, 2000	52,212	144,991	17,030	3,265	6,496	178,278	4,874	407,146
ACCUMULATED DEPRECIATION AND AMORTISATION								
At 1st January, 2000	42,256	121,468	11,007	1,108	4,852	92,971	—	273,662
On acquisition of a subsidiary	—	—	162	1,055	297	8,084	—	9,598
Provided for the year	247	1,364	430	366	379	4,573	—	7,359
Eliminated on disposals	—	—	—	(270)	(252)	(557)	—	(1,079)
At 31st December, 2000	42,503	122,832	11,599	2,259	5,276	105,071	—	289,540
NET BOOK VALUES								
At 31st December, 2000	9,709	22,159	5,431	1,006	1,220	73,207	4,874	117,606
At 31st December, 1999	9,956	23,237	3,513	520	1,525	41,612	—	80,363

The leasehold land and industrial buildings of the Group are situated in Hong Kong and are held under medium term leases.

The net book value of motor vehicles and machinery and equipment of the Group includes HK\$17,000 (1999: HK\$117,000) and HK\$3,836,000 (1999: HK\$Nil) respectively in respect of assets held under finance leases.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 15. INVESTMENTS IN SUBSIDIARIES

	HK\$'000
Unlisted shares, at cost	123,239

Particulars of the subsidiaries at 31st December, 2000 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
CPL Trading (H.K.) Limited	Hong Kong	HK\$10,000 Ordinary shares	—	100%	Inactive
Daido Asia Company Limited	Hong Kong	HK\$2,000,000 Ordinary shares	—	100%	Trading of H-piles and building materials
Daido Building Materials Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares	—	100%	Manufacturing of ALC Products
Daido (BVI) Limited	British Virgin Islands	US\$2 Ordinary shares	100%	—	Investment holding
Daido Concrete (H.K.) Limited	Hong Kong	HK\$750,000,000 Ordinary shares	—	100%	Investment holding
Daido Construction Materials Limited	Hong Kong	HK\$200 Ordinary shares	—	100%	Investment holding
Daido Home Finance Limited	Hong Kong	HK\$100,000 Ordinary shares	—	100%	Money lending
Daido Home International (B.V.I.) Limited	British Virgin Islands	US\$2 Ordinary shares	—	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 15. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Daido Home International Limited	Cayman Islands	HK\$225,375,000 Ordinary shares HK\$91,500,000 Preference shares	—	100%	Investment holding, sale and installation of ALC Products
Daido Nominees Limited (Formerly known as Kenton Investment Limited)	Hong Kong	HK\$100,000 Ordinary shares	—	100%	Provision of secretarial services to group companies
Daido Precast Company Limited	Hong Kong	HK\$2 Ordinary shares	—	100%	Manufacturing and trading of semi-precast concrete slab
Eastcom Holdings Limited	British Virgin Islands	US\$1 Ordinary share	—	100%	Investment holding
Edaido.com Limited	Hong Kong	HK\$2 Ordinary shares	—	100%	Inactive
Genius Project Development Company Limited	Hong Kong	HK\$10,000 Ordinary shares	—	100%	Property development
Golik Metal Manufacturing Co. Limited	Hong Kong	HK\$30,000,000 Ordinary shares	—	100%	Manufacturing and trading of welded wire mesh and metal products
Puriton Enterprises Limited	British Virgin Islands	HK\$100 Ordinary shares	—	100%	Inactive

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 15. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Tak Sun Limited	British Virgin Islands	US\$1 Ordinary shares	—	100%	Investment holding
Ytong Hong Kong Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares	—	100%	Sale and installation of ALC Products

The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

The convertible redeemable preference shares of Daido Home International Limited carry 2% dividend per annum and have the right to receive notice of, attend, speak and vote at meetings of members only for those circumstances as mentioned in the Articles of Association of the respective company.

Except for the convertible redeemable preference shares of Daido Home International Limited, none of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

### 16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	—	—
Amount due from an associate	—	7
	—	7

The balance with the associate was unsecured, interest-free and written off after the interest in the associate was disposed of during the year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	91,383
Share of the post-acquisition reserves	—	(58,284)
	—	33,099
Due from a jointly controlled entity	—	15,418
	—	48,517
Provision for impairment in value	—	(17,011)
	—	31,506

The balances with the jointly controlled entity were unsecured, interest-free and fully settled after the interest in the jointly controlled entity was disposed of during the year.

Particulars of the jointly controlled entity are as follows:

Company	Business structure	Place of incorporation and operations	Class of shares	Percentage of ownership attributable to the Group	Principal activities
Zhongshan Huari Steel Pipe Co., Ltd.	Incorporated	PRC	Registered capital	34%	Manufacturing of steel and water pipes

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The following details have been extracted from the unaudited financial statements of the jointly controlled entity:

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Results for the year/period		
Turnover	8,040	14,272
Loss from ordinary activities before taxation	4,085	2,221
Financial position:		
	2000 HK\$'000	1999 HK\$'000
Non-current assets	—	68,671
Current assets	—	11,299
Current liabilities	—	(4,762)
Non-current liabilities	—	(116,065)
Net liabilities	—	(40,857)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 18. LONG-TERM RECEIVABLES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Building mortgage loans (Note a)	894	1,418
Other loan (Note b)	15,000	—
Retention receivables (Note c)	12,973	13,025
	28,867	14,443
Less: Amounts due within one year included in trade and other receivables	(26,818)	(645)
	2,049	13,798

- (a) The building mortgage loans bear interest at 4% above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2011.
- (b) The loan is secured, bears interest at 8% per annum and repayable in October 2001.
- (c) The retention receivables have not yet been due at the balance sheet date according to the provisions in the construction contracts and hence no aged analysis is presented.

### 19. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	11,683	3,187
Work in progress	673	140
Finished goods	19,207	3,415
Supplies	356	216
	31,919	6,958

All of the inventories were carried at cost.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 20. TRADE AND OTHER RECEIVABLES

The Group allows an credit period ranging from 15 to 45 days to its customers.

Included in trade and other receivables are trade receivables of HK\$38,989,000 (1999: HK\$44,517,000) with an aged analysis as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	15,792	22,810
31 - 60 days	13,306	13,708
61 - 90 days	6,227	5,616
91 - 120 days	1,230	1,252
More than 120 days	2,434	1,131
	<b>38,989</b>	<b>44,517</b>

### 21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits		
less foreseeable losses	346,649	274,864
Progress payments received and receivable	(394,810)	(322,849)
	<b>(48,161)</b>	<b>(47,985)</b>

Analysed for reporting purposes as:

Amounts due from customers for contract work	134	12
Amounts due to customers for contract work	(48,295)	(47,997)
	<b>(48,161)</b>	<b>(47,985)</b>

As 31st December, 2000, advances received from customers for contract work amounted to HK\$Nil (1999: HK\$240,000).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$15,595,000 (1999: HK\$3,143,000) with an aged analysis as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	431	3,143
31 - 60 days	14,991	—
61 - 90 days	165	—
91 - 120 days	—	—
More than 120 days	8	—
	15,595	3,143

### 23. PROMISSORY NOTE DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, bears interest at 8% per annum and repayable in August 2001.

### 24. BANK BORROWINGS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Unsecured bank borrowings:		
Trust receipt loans	4,558	—
Bank overdrafts	2,063	12,269
	6,621	12,269



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 25. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
The maturity of obligations under finance leases is as follows:		
Within one year	1,194	112
More than one year, but not exceeding two years	582	27
	1,776	139
Less: Amount due within one year shown under current liabilities	(1,194)	(112)
Amount due after one year	582	27

### 26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised:		
At 30th March, 2000	10,000,000	100
Increased on 8th November, 2000	4,990,000,000	49,900
At 31st December, 2000	5,000,000,000	50,000
Issued and fully paid:		
Issued on 14th June, 2000	10,000,000	100
Issued on 8th November, 2000	2,990,000,000	29,900
At 31st December, 2000	3,000,000,000	30,000

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 26. SHARE CAPITAL (continued)

Movements in the share capital of the Company pursuant to the Scheme (see note 1) and since the date of incorporation are as follows:

- (a) The Company was incorporated on 30th March, 2000 with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each, all of which had been issued and credited as nil paid on 14th June, 2000.
- (b) Prior to the effective date of the Scheme (note 1), the authorised share capital of the Company was increased to HK\$50,000,000 divided into 5,000,000,000 shares of HK\$0.01 each by the creation of an additional 4,990,000,000 new shares.
- (c) On 8th November, 2000, 2,990,000,000 new shares of HK\$0.01 each were issued, and the 10,000,000 existing shares issued on 14th June, 2000 were transferred and credited as fully paid to exchange for the shares of DCHK on a one for one basis. The excess of the nominal value between the shares of DCHK and the Company was credited to the capital reserve.

Balance of the share capital for 1999 represented issued share capital of DCHK of 3,000,000,000 ordinary shares of HK\$0.25 each.

Pursuant to the group restructuring completed on 5th November, 1999, the authorised share capital of DCHK was increased from HK\$70,000,000 to HK\$1,000,000,000 by the creation of an additional 3,720,000,000 new ordinary shares of HK\$0.25 each in the capital of DCHK and the issued share capital was increased to HK\$750,000,000 by the issuance of 2,852,584,564 shares of HK\$0.25 each in the capital of DCHK.

### 27. SHARE OPTION SCHEMES

Pursuant to the Share Option Scheme (the "Option Scheme") of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000, the directors of the Company may grant options to any directors or employees of the Group to subscribe for shares in the Company at a price not less than 80 per cent. of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer date or the nominal value of the shares, whichever is the greater. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10 per cent. of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the Option Scheme. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25 per cent. of the aggregate number of shares subject to the Option Scheme.

Date granted	Exercisable period (Both dates inclusive)	Exercise price HK\$	Number of share options at 31.12.2000
16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	145,000,000

Total consideration of HK\$6 was received by the Company for options granted during the year. No share option was exercised during the year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 28. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Capital reserve HK\$'000	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
At 1st May, 1999	161,937	—	29	—	(1,142,292)	(980,326)
Share premium arising on issue of shares	409,334	—	—	—	—	409,334
Loss for the period	—	—	—	—	(60,252)	(60,252)
At 1st January, 2000	571,271	—	29	—	(1,202,544)	(631,244)
Goodwill arising on acquisition of a subsidiary	—	—	(18,670)	—	—	(18,670)
Transfer to capital reserve and cancellation of share premium of DCHK pursuant to the Scheme	(571,271)	—	—	571,271	—	—
Capital reserve arising pursuant to the Scheme	—	—	—	720,000	—	720,000
Profit for the year	—	—	—	—	38,207	38,207
Dividend	—	—	—	—	(9,000)	(9,000)
At 31st December, 2000	—	—	(18,641)	1,291,271	(1,173,337)	99,293
<b>THE COMPANY</b>						
Surplus created pursuant to the Scheme	—	93,239	—	—	—	93,239
Profit for the period	—	—	—	—	10,000	10,000
Dividend	—	—	—	—	(9,000)	(9,000)
At 31st December, 2000	—	93,239	—	—	1,000	94,239

The accumulated losses of the Group include HK\$Nil (1999: HK\$297,000) retained by an associate of the Group and HK\$Nil (1999: HK\$58,284,000) retained by its jointly controlled entity.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 28. RESERVES (continued)

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	HK\$'000
Contributed surplus	93,239
Retained profits	1,000
	94,239

### 29. DEFERRED TAX

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
At beginning of the year/period	93	93
On acquisition of a subsidiary	6,156	—
Movement for the year/period (Note 11)	(505)	—
At end of the year/period	5,744	93

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 29. DEFERRED TAX (continued)

At the balance sheet date, the major components of the deferred tax asset (liability), provided and unprovided, are as follows:

	Provided		Unprovided	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	5,744	93	(23,785)	(16,511)
Impairment of property, plant and equipment	—	—	14,301	15,534
Taxation losses	—	—	102,812	94,292
	<b>5,744</b>	<b>93</b>	<b>93,328</b>	<b>93,315</b>

The deferred tax asset primarily relating to taxation losses has not been recognised in the financial statements as it is uncertain that the resulting deferred tax asset will be realised in the future.

The components of the deferred tax charge (credit), provided or unprovided, for the year/period are as follows:

	Provided		Unprovided	
	1.1.2000	1.5.1999	1.1.2000	1.5.1999
	to	to	to	to
	31.12.2000	31.12.1999	31.12.2000	31.12.1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
(Shortfall) excess of tax allowances over depreciation	(505)	—	7,274	(3,454)
Impairment of property, plant and equipment	—	—	1,233	5,997
Taxation losses	—	—	(8,520)	26,246
	<b>(505)</b>	<b>—</b>	<b>(13)</b>	<b>28,789</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 30. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1.1.2000 to 31.12.2000 HK\$'000	1.5.1999 to 31.12.1999 HK\$'000
Profit (loss) before taxation	34,866	(58,313)
Share of results of a jointly-controlled entity	1,614	1,251
Interest income	(5,143)	(1,987)
Interest expense	951	39,743
Depreciation and amortisation	7,359	5,124
(Gain) loss on disposal of property, plant and equipment	(1,080)	1,976
Write-back of provision for amount due from a jointly-controlled entity	—	(75)
Gain on disposal of golf club debentures	—	(3,663)
Gain on disposal of properties held for sale	(909)	—
Gain on disposal of subsidiaries	(6,768)	—
Gain on disposal of an associate	(47)	—
Provision for impairment in value of a jointly controlled entity	119	1,593
Provision for properties held for sale	—	1,400
Amount due to an associate written off	7	—
Decrease in amounts due to fellow subsidiaries	(3,007)	—
Exchange loss on convertible notes	—	578
Exchange loss on shareholders' loans	—	10,625
Exchange gain on bills payable	—	(324)
(Increase) decrease in inventories	(10,787)	1,621
Decrease (increase) in trade receivables	19,613	(3,125)
Increase in other receivables	(3,806)	(50)
Increase in trade payables	11,387	26,031
(Decrease) increase in other payables	(10,590)	19,839
<b>Net cash inflow from operating activities</b>	<b>33,779</b>	<b>42,244</b>

Net cash flow in respect of discontinued activities for the year ended 31st December, 2000 and for period ended 31st December, 1999 are insignificant.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 31. ACQUISITION OF A SUBSIDIARY

	2000 HK\$'000
NET ASSETS ACQUIRED	
Property, plant and equipment	39,300
Inventories	14,174
Trade receivables	14,085
Other receivables	1,069
Amounts due from fellow subsidiaries	234
Bank balances	256
Bank overdrafts	(1,885)
Trade payables	(1,065)
Other payables	(331)
Amounts due to fellow subsidiaries	(22,683)
Tax liabilities	(690)
Obligations under finance leases	(2,108)
Deferred tax	(6,156)
	34,200
Goodwill	18,670
Total consideration	52,870
Satisfied by:	
Cash	32,000
Legal costs incurred	870
	32,870
Promissory note payable	20,000
	52,870
Net cash outflow arising on acquisition:	
Cash	(32,870)
Bank balances and cash acquired	256
Bank overdrafts acquired	(1,885)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	(34,499)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 31. ACQUISITION OF A SUBSIDIARY *(continued)*

The subsidiary acquired during the year contributed HK\$1,673,000 to the Group's net operating cash flows, paid HK\$141,000 in respect of the net returns on investments and servicing of finance, paid HK\$1,247,000 in respect of taxation, raised HK\$44,000 for investing activities and raised HK\$662,000 in respect of financing activities.

The subsidiary acquired during the year contributed HK\$27,247,000 to the Group's turnover, and HK\$2,563,000 to the Group's profit from operations.

### 32. DISPOSAL OF SUBSIDIARIES

	2000 HK\$'000
NET ASSETS DISPOSED OF	
Interest in a jointly controlled entity	8,758
Amount due to jointly controlled entity	(224)
Other receivables	2
Other payables	(111)
	8,425
Gain on disposal	6,768
	15,193
Satisfied by:	
Cash consideration	15,193
	15,193

The subsidiaries disposed of during the year did not have any material effect on the cashflow of the Group.

The subsidiaries disposed of during the year did not have any material effect on the turnover and the operating profit of the Group.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium account HK\$'000	Convertible notes HK\$'000	Loans and lease obligations HK\$'000	Minority interests HK\$'000	Trust receipt loans HK\$'000
At 1st May, 1999	198,791	84,886	472,185	113,058	—
Net cash inflow (outflow) from financing	—	—	(23,872)	—	—
Discharge of preference share dividends	—	—	—	(7,320)	—
Share of profit for the period	—	—	—	1,942	—
Acquisition of further interest in a subsidiary	—	—	—	(82,381)	—
Allotment and issuance of shares	1,122,480	—	—	—	—
Discharge of indebtedness	—	(85,464)	(448,174)	—	—
Effect of foreign exchange differences	—	578	—	—	—
At 1st January, 2000	1,321,271	—	139	25,299	—
Net cash inflow (outflow) from financing	—	—	(471)	—	4,558
Share of profit for the year	—	—	—	21	—
Acquisition of further interest in a subsidiary	—	—	—	(4,305)	—
Acquisition of a subsidiary	—	—	2,108	—	—
Transfer to capital reserve pursuant to group reorganisation	(1,291,271)	—	—	—	—
Acquisition of minority interests	—	—	—	(21,015)	—
At 31st December, 2000	30,000	—	1,776	—	4,558

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 34. MAJOR NON CASH TRANSACTIONS

The consideration in respect of the acquisition of a subsidiary are satisfied by cash consideration of HK\$32 million and issue of a promissory note of HK\$20 million payable in August 2001.

Pursuant to the restructuring agreements entered into between DCHK and its subsidiaries, its bankers, convertible noteholders and other financial creditors, the following transactions or liabilities were carried out or fully discharged during the period from 1st May, 1999 to 31st December, 1999:

- (a) total liabilities of HK\$553,638,000 due to convertible noteholders and other financial creditors were fully discharged;
- (b) preference shares dividends payable of HK\$7,320,000 was fully discharged; and
- (c) 30,500,000 ordinary shares and 91,500,000 preference shares of Daido Home International Limited (“DHIL”) were transferred to the Group by issuance of ordinary shares of DCHK to the preference shareholders of DHIL.

### 35. PLEDGE OF ASSETS

At 31st December, 2000, the Group has pledged its bank deposit of HK\$15,931,000 as a security against the general banking facilities granted to a subsidiary. The facility utilised by the subsidiary as at 31st December, 2000 amounted to HK\$Nil and, in the opinion of the directors, the deposit pledged will be uplifted in the near future.

### 36. CONTINGENT LIABILITIES

#### THE GROUP

One of the subsidiaries, Golik Metal Manufacturing Co. Limited, (“GMM”) and a fellow subsidiary of the Group provided cross corporate guarantees to the extent of HK\$45,000,000 (1999: HK\$Nil) to banks to secure general banking facilities granted to GMM and that fellow subsidiary. The total facilities utilised by that fellow subsidiary at 31st December, 2000 amounted to approximately HK\$28,272,000.

#### THE COMPANY

The Company provided corporate guarantees to the extent of approximately HK\$51,197,000 to banks to secure general banking facilities granted to a subsidiary. No facility was utilised by the subsidiary at 31st December, 2000.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 37. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable in the following year under non-cancellable operating leases as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Land and buildings		
Operating leases which expire:		
Within one year	—	264
More than one year but not exceeding five years	420	—
	420	264
Plant and machinery		
Operating leases which expire more than one year but not exceeding five years	76	76

The Company did not have any lease commitments at the balance sheet date.

### 38. CAPITAL COMMITMENTS

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	11,521	—

The Company did not have any capital commitments at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 39. RETIREMENT BENEFITS SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefits scheme (“Defined Contribution Scheme”) for its qualifying employees. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund scheme (“MPF Scheme”) for all employees and the original Defined Contribution Scheme cancelled accordingly. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefits scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits scheme contributions of HK\$104,000 (1.5.1999 to 31.12.1999: HK\$473,000) after forfeited contributions utilised in the Defined Contribution Scheme of HK\$745,000 (1.5.1999 to 31.12.1999: HK\$75,000).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

### 40. RELATED PARTY TRANSACTIONS

- (i) During the year/period, the Group entered into the following transactions with related parties:

		1.1.2000	1.5.1999
		to	to
	<i>Notes</i>	31.12.2000	31.12.1999
		<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses paid to a former substantial shareholder of the Group	(a)	—	2,335
Purchases of goods from a former jointly controlled entity	(b)	2,386	2,692
Purchases of goods from fellow subsidiaries	(b)	12,038	—
Sales of goods to fellow subsidiaries	(b)	6,425	—
Management fee income received from a former jointly controlled entity	(c)	—	368
Licence fee income received from a fellow subsidiary	(d)	1,800	—
Transportation fee to a fellow subsidiary	(e)	606	—
Amounts due from (to) related parties at the balance sheet date			
Fellow subsidiaries		(19,238)	204
Associate		—	7
Jointly controlled entity		—	(37)

*Notes:*

- (a) Interest expenses was calculated at 0.375% per annum over the Prime Rate in Japan.
- (b) Purchases and sales of goods were carried out at cost plus a percentage profit mark up.
- (c) Management fee was charged at HK\$65,000 per month. Such service was terminated on 15th October, 1999.
- (d) Licence fee income was charged at HK\$225,000 per month.
- (e) Transportation fee was charged at agreed price per ton.
- (ii) The Group acquired a subsidiary from a fellow subsidiary at consideration of HK\$52 million. The consideration was determined with reference to the unaudited net assets value of the subsidiary acquired at 31st March, 2000.
- (iii) GMM and a fellow subsidiary of the Group provided cross corporate guarantees to the extent of HK\$45 million (1999: HK\$Nil) to banks to secure general banking facilities granted to GMM and that fellow subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

## 41. SIGNIFICANT POST BALANCE SHEET EVENTS

On 17th November, 2000 and 19th January, 2001, the Company and its wholly-owned subsidiary, Eastcom Holdings Limited, entered into agreements (the "Acquisition Agreements") with the Liquidators of Siu Fung Ceramics Holdings Limited and its subsidiaries ("Siu Fung Group"), for purchase of interests in and loans due to Siu Fung Group from certain joint venture companies.

Pursuant to the joint announcement dated 21st March, 2001, the Acquisition Agreements have not been completed due to non-fulfillment of the conditions precedent relating to the due diligence exercise, the waivers on all the pre-emptive rights from the other joint venture partners and the transfer of the interests of the joint venture companies. Accordingly, the Acquisition Agreements have been lapsed and the deposits paid of HK\$2,500,000 was forfeited by the vendor.

Total expenses incurred of HK\$5,550,000 in respect of the acquisition, including the forfeited deposit, was charged to the income statement.

## 42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.