

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s ultimate holding company is GHL, a company which is also incorporated in Bermuda and with its shares listed on the Stock Exchange.

The principal activities of the Group are manufacturing, sales and installation of autoclaved aerated lightweight concrete blocks and panels (“ALC Products”), manufacturing and sales of welded wire mesh, metal products and semi-precast concrete slab and sales of piles.

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been acquired.

### Foreign currencies

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the year. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group’s exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash flow statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received, interest paid and dividends paid, which were previously presented under a separate heading, are classified as investing and financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

### Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 3. 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 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life of 10 years. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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

#### *Others*

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.

### Property, plant and equipment

Property, plant and equipment, other than assets under installation, are stated at cost less depreciation and impairment losses, if any.

Depreciation is provided to write off the cost of items 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
Furniture and fixtures	10% – 33 $\frac{1}{3}$ %
Motor vehicles	20% – 33 $\frac{1}{3}$ %
Plant and machinery and equipment	5% – 50%

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.

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

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

#### **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 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 value 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 annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

#### **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 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.

#### **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 amounts 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 amounts due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet as advances received. Amounts billed for work performed but not yet paid by the customers, are included in the balance sheet within trade and other receivables.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Retirement benefit costs**

Payments to defined contribution retirement benefit plan/the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Taxation**

The charge for taxation is based on the results for the year 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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 4. SEGMENT INFORMATION

### Business segments

For management purposes, the Group is currently organised into three operating divisions – construction work contracting and sales of concrete products, sales of steel products and manufacturing and sales of metal products. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2002

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External sales	69,388	23,803	65,443	–	158,634
Inter-segment sales	–	–	4,270	(4,270)	–
<b>Total revenue</b>	<b>69,388</b>	<b>23,803</b>	<b>69,713</b>	<b>(4,270)</b>	<b>158,634</b>
Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.					
SEGMENT RESULT	15,214	947	5,463	–	21,624
Unallocated corporate revenue					1,514
Unallocated corporate expenses					(3,483)
<b>Profit from operations</b>					<b>19,655</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 4. SEGMENT INFORMATION *(Continued)*

### BALANCE SHEET

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	155,393	1,422	72,112	228,927
Unallocated corporate assets				920
<b>Consolidated total assets</b>				<b>229,847</b>
<b>LIABILITIES</b>				
Segment liabilities	34,404	1,044	3,632	39,080
Unallocated corporate liabilities				14,858
<b>Consolidated total liabilities</b>				<b>53,938</b>

### OTHER INFORMATION

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditures	139	–	1,313	–	1,452
Depreciation	5,894	–	4,823	–	10,717
Loss (gain) on disposal of Property, plant and equipment	316	–	(65)	–	251
Allowance for bad and doubtful debts	180	9	200	–	389
Write back of allowance for bad and doubtful debts	(3,052)	–	(12)	–	(3,064)
Trade and other payables written back	(716)	(299)	–	(1,093)	(2,108)

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 4. SEGMENT INFORMATION (Continued)

2001

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales	65,381	82,331	51,458	–	199,170
Inter-segment sales	–	–	2,943	(2,943)	–
<b>Total revenue</b>	<b>65,381</b>	<b>82,331</b>	<b>54,401</b>	<b>(2,943)</b>	<b>199,170</b>

Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.

<b>SEGMENT RESULT</b>	<b>22,779</b>	<b>2,789</b>	<b>4,287</b>	<b>(185)</b>	<b>29,670</b>
Unallocated corporate revenue					7,539
Unallocated corporate expenses					(2,786)
<b>Profit from operations</b>					<b>34,423</b>

### BALANCE SHEET

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	163,711	15,203	74,400	253,314
Unallocated corporate assets				501
<b>Consolidated total assets</b>				<b>253,815</b>
<b>LIABILITIES</b>				
Segment liabilities	54,655	1,007	5,862	61,524
Unallocated corporate liabilities				25,738
<b>Consolidated total liabilities</b>				<b>87,262</b>



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 4. SEGMENT INFORMATION *(Continued)*

### OTHER INFORMATION

	Construction work contracting and sales of concrete products <i>HK\$'000</i>	Sales of steel products <i>HK\$'000</i>	Manufacturing and sales of metal products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditures	20,920	–	1,364	–	22,284
Depreciation	5,332	–	4,683	–	10,015
Loss on disposal of property, plant and equipment	283	3	24	–	310
Allowance for bad and doubtful debts	4,475	4	–	–	4,479
Allowance for inventories	353	–	–	–	353
Write back of allowance for bad and doubtful debts	(11,606)	–	–	(167)	(11,773)
Write back of provision for restructuring fees	(811)	–	–	–	(811)
Write back of provision for severance payments	(4,830)	–	–	–	(4,830)
Write back of provision for claims	(6,898)	–	–	–	(6,898)

### Geographical segments

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

More than 90% of the Group's assets are located in Hong Kong and more than 90% of additions to property, plant and equipment during the year are incurred in Hong Kong.

## 5. OTHER OPERATING INCOME

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Claims received	176	4,397
Exchange gains, net	142	–
Other service income	13	234
Property manager remuneration	421	474
Sales of tools and materials	451	60
Sundry income	107	3
Trade and other payables written back	2,108	–
	<b>3,418</b>	<b>5,168</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 6. WRITE BACK OF PROVISION FOR RESTRUCTURING FEES/SEVERANCE PAYMENTS

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 in last year, the excess amounts provided were written back accordingly.

## 7. WRITE BACK OF PROVISION FOR CLAIMS

The amount represented the reversal of a warranty provision in respect of trading of concrete products and property development businesses in prior periods. As the warranty period has lapsed, the amount was written back accordingly.

## 8. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Auditors' remuneration	1,146	1,194
Depreciation		
Owned assets	9,400	9,234
Assets held under finance leases	1,317	781
Exchange losses, net	–	167
Loss on disposal of property, plant and equipment	251	310
Minimum lease payments for operating leases in respect of plant and machinery	74	84
Allowance for inventories	–	353
Staff costs	47,151	47,059
Amount capitalised in contract work	(9,174)	(12,469)
Amount capitalised in assets under installation	–	(1,762)
	37,977	32,828

Minimum lease payments for operating leases in respect of a director's accommodation amounting to approximately HK\$380,000 (2001: HK\$420,000) are included under staff costs.

## 9. EXPENSES FOR PROPOSED INVESTMENT WRITTEN OFF

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 the purchase of interests in and loans due to Siu Fung Group from certain joint venture companies.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 9. EXPENSES FOR PROPOSED INVESTMENT WRITTEN OFF *(Continued)*

Pursuant to the joint announcement dated 21st March, 2001, the Acquisition Agreements had 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 lapsed and the deposits paid amounting to a total of HK\$2,500,000 were forfeited by the vendor. This amount together with other expenses of HK\$4,661,000 incurred for the acquisition have been charged to the consolidated income statement in prior year.

## 10. FINANCE COSTS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank and other loans wholly repayable within five years	407	823
Interest on promissory note	–	1,048
Interest on finance leases	601	426
	<b>1,008</b>	<b>2,297</b>

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:		
Executive	–	–
Non-executive	120	120
Independent non-executive	360	160
	<b>480</b>	<b>280</b>
Other emoluments:		
Executive		
Salaries and other benefits	3,506	3,296
Contributions to retirement benefits scheme	81	83
	<b>3,587</b>	<b>3,379</b>
	<b>4,067</b>	<b>3,659</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

The directors' emoluments were within the following bands:

	2002 Number of directors	2001 Number of directors
HK\$Nil to HK\$1,000,000	8	9
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	1	–
	<b>10</b>	<b>10</b>

No director waived any emoluments for the two years ended 31st December, 2002.

### (b) Employees' emoluments

The five highest paid individuals included two directors (2001: two directors), details of whose emoluments are set out above. The emoluments of the remaining three individuals (2001: three individuals), are as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	2,984	2,643
Contributions to retirement benefits scheme	96	104
	<b>3,080</b>	<b>2,747</b>

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
HK\$Nil to HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	1
	<b>3</b>	<b>3</b>

# Notes to the Financial Statements

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## 12. TAXATION

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The (charge) credit comprises:		
Hong Kong Profits Tax		
Current year	–	(147)
(Under) overprovision in respect of prior years	(291)	246
Deferred tax ( <i>note 26</i> )	–	4,595
	<b>(291)</b>	<b>4,694</b>

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

## 13. DIVIDEND

On 26th June, 2002, a dividend of HK\$0.003 per share was paid to shareholders as the final dividend in respect of 2001.

A dividend in respect of 2002 of HK\$0.003 per share, amounting to HK\$9,000,000 is proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 14. EARNINGS PER SHARE

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share	18,356	29,659
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,000,000,000	3,000,000,000
Effect of dilutive share options	2,447,781	37,498,358
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,002,447,781	3,037,498,358

# Notes to the Financial Statements

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## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$'000	Industrial buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery and equipment HK\$'000	Assets under installation HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
<b>COST</b>								
At 1st January, 2002	52,212	144,991	19,790	4,993	2,859	203,473	–	428,318
Additions	–	–	324	15	661	306	146	1,452
Disposals	–	–	(4)	(2)	(97)	(1,539)	–	(1,642)
At 31st December, 2002	52,212	144,991	20,110	5,006	3,423	202,240	146	428,128
<b>DEPRECIATION</b>								
At 1st January, 2002	42,750	124,196	12,916	4,649	2,354	111,924	–	298,789
Provided for the year	247	1,364	1,181	134	386	7,405	–	10,717
Eliminated on disposals	–	–	(1)	(2)	(55)	(658)	–	(716)
At 31st December, 2002	42,997	125,560	14,096	4,781	2,685	118,671	–	308,790
<b>NET BOOK VALUES</b>								
At 31st December, 2002	9,215	19,431	6,014	225	738	83,569	146	119,338
At 31st December, 2001	9,462	20,795	6,874	344	505	91,549	–	129,529

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

The net book values of plant and machinery and equipment of the Group include HK\$19,923,000 (2001: HK\$24,109,000) in respect of assets held under finance leases.

# Notes to the Financial Statements

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## 16. INVESTMENTS IN SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	123,431	123,431

Particulars of the principal subsidiaries at 31st December, 2002 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	
Daido Asia Company Limited	Hong Kong	HK\$2,000,000 Ordinary shares	–	100%	Sales of piles, metal products and building materials
Daido Building Materials Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares *	–	100%	Manufacturing and sales of ALC Products
Daido Concrete (H.K.) Limited	Hong Kong	HK\$750,000,000 Ordinary shares	–	100%	Investment holding
Daido Home Finance Limited	Hong Kong	HK\$100,000 Ordinary shares	–	100%	Money lending
Daido Home International Limited	Cayman Islands	HK\$225,375,000 Ordinary shares HK\$91,500,000 Convertible redeemable preference shares **	–	100%	Investment holding, sales and installation of ALC Products and sales of building materials
Daido Precast Company Limited	Hong Kong	HK\$2 Ordinary shares	–	100%	Manufacturing and sales of semi-precast concrete slab
Genius Project Development Company Limited	Hong Kong	HK\$10,000 Ordinary shares	–	100%	Provision of property management services
Golik Metal Manufacturing Co. Limited	Hong Kong	HK\$30,000,000 Ordinary shares	–	100%	Manufacturing and sales of welded wire mesh and metal products

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 16. 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 share	–	100%	Investment holding
Ytong Hong Kong Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares *	–	100%	Installation of ALC Products

\* The deferred shares practically carry no right to dividend 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 its Articles of Association.

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

## 17. LONG-TERM RECEIVABLES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Building mortgage loans (note a)	581	750
Other loan - secured (note b)	15,000	15,000
Retention receivables (note c)	7,477	10,938
	<b>23,058</b>	<b>26,688</b>
Less: amounts due within one year included in trade and other receivables	(19,619)	(25,934)
Amounts due after one year	<b>3,439</b>	<b>754</b>

### Notes:

- The building mortgage loans bear interest at 3% to 4% above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2009.
- The loan is secured, bears interest at 4% (2001: 4% to 8%) per annum and was repayable in October 2002. The repayment was subsequently extended to October 2003.
- The retention receivables were not yet due at the balance sheet date according to the provisions in the construction contracts and hence, no aged analysis is presented.



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 18. INVENTORIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	7,242	5,126
Work in progress	899	1,374
Finished goods	9,324	9,067
Supplies	617	363
	<b>18,082</b>	<b>15,930</b>

Finished goods amounting to HK\$1,144,000 (2001: HK\$2,250,000) are carried at net realisable value.

## 19. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$26,072,000 (2001: HK\$30,830,000) with an aged analysis as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 30 days	15,839	16,833
31 – 60 days	5,207	7,976
61 – 90 days	2,176	3,023
91 – 120 days	1,033	1,142
More than 120 days	1,817	1,856
	<b>26,072</b>	<b>30,830</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits less recognised losses	158,139	275,267
Progress payments received and receivable	(180,021)	(310,880)
	(21,882)	(35,613)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	79	72
Amounts due to customers for contract work	(21,961)	(35,685)
	(21,882)	(35,613)

## 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$4,979,000 (2001: HK\$4,406,000) with an aged analysis as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	3,509	2,404
31 – 60 days	1,168	1,433
61 – 90 days	215	381
91 – 120 days	–	124
More than 120 days	87	64
	4,979	4,406

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>THE GROUP</b>				
Within one year	4,482	5,839	4,080	5,227
In the second to fifth year inclusive	5,358	9,519	5,084	8,888
	9,840	15,358	9,164	14,115
Less: future finance charges	(676)	(1,243)	–	–
<b>Present value of lease obligations</b>	<b>9,164</b>	<b>14,115</b>	<b>9,164</b>	<b>14,115</b>
Less: amounts due within one year shown under current liabilities			(4,080)	(5,227)
<b>Amounts due after one year</b>			<b>5,084</b>	<b>8,888</b>

It is the Group's policy to lease certain of its motor vehicles and plant and machinery and equipment under finance leases. The average lease term is 3 years. For the year ended 31st December, 2002, the average effective borrowing rates were ranging from 2.5% to 5.75% or 2% over HIBOR. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 23. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st December, 2001 and 2002	5,000,000,000	50,000
Issued and fully paid:		
At 31st December, 2001 and 2002	3,000,000,000	30,000

There was no movement in share capital of the Company for each of the two years ended 31st December, 2002.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 24. SHARE OPTION SCHEME

Pursuant to the Share Option Scheme (the “Option Scheme”) of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000 for the primary purpose of providing incentive to directors and eligible employees, and which will expire 10 years after the date of adoption, the directors of the Company may grant options to executive directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company’s shares on the five trading days immediately preceding the offer of the options 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 Option Scheme may not exceed 10% 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% of the aggregate number of shares under the Option Scheme. Upon acceptance of option, the grantee shall pay HK\$1 to the Company as consideration.

The directors noted that an announcement was issued by the Stock Exchange on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities – Share Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and that such amendments became effective on 1st September, 2001.

Prior to 1st September, 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company’s shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the existing Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the Scheme.

Details of movements during the year in the Company’s share options held by employees (including directors) are as follows:

Date granted	Exercisable period (Both dates inclusive)	Exercise price	Number of share options at 1.1.2002	Lapsed during the year	Number of share options at 31.12.2002	Percentage on issued share capital of the Company
16th November, 2000	16th May, 2001 to 15th May, 2003	HK\$0.063	145,000,000	(10,000,000)	135,000,000	4.5%

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 25. RESERVES

	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
As 1st January, 2001	93,239	10,000	103,239
Net loss for the year	–	(14)	(14)
Dividend	–	(9,000)	(9,000)
At 1st January, 2002	93,239	986	94,225
Net profit for the year	–	8,963	8,963
Dividend	–	(9,000)	(9,000)
At 31st December, 2002	93,239	949	94,188

*Note:*

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 1981 of Bermuda (as amended), 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:

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

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contributed surplus	93,239	93,239
Retained profits	949	986
	<b>94,188</b>	<b>94,225</b>

## 26. DEFERRED TAX

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At beginning of the year	1,149	5,744
Movement for the year ( <i>note 12</i> )	–	(4,595)
At end of the year	1,149	1,149

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 26. DEFERRED TAX (Continued)

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

	Provided		Unprovided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(1,149)	(1,149)	(24,431)	(29,319)
Impairment of property, plant and equipment	–	–	11,834	13,067
Taxation losses	–	–	90,176	92,249
<b>Net deferred tax (liability) asset</b>	<b>(1,149)</b>	<b>(1,149)</b>	<b>77,579</b>	<b>75,997</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 (credit) charge, provided or unprovided, for the year are as follows:

	Provided		Unprovided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
(Shortfall) excess of tax allowances over depreciation	–	(4,595)	(4,888)	5,534
Impairment of property, plant and equipment	–	–	1,233	1,234
Taxation losses utilised	–	–	2,073	10,563
	–	(4,595)	(1,582)	17,331

The Company did not have any material unprovided deferred tax at the balance sheet date.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of approximately HK\$589,000 (2001: HK\$14,507,000). In prior year, other payables amounting to HK\$2,100,000 were settled by inception of a finance lease.

## 28. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged its bank deposit of HK\$Nil (2001: HK\$434,000) as a security against the general banking facilities granted to a subsidiary. No facility was utilised by the subsidiary at the balance sheet date.

## 29. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

- (i) Certain subsidiaries have been named as defendant in High Court actions in respect of certain injury claims from the workers with accidents occurred in 1999 and 2000. Except for the amount of one of the injury claims which still not ascertained at the date of the annual report, the injury claims for other cases amounted to approximately HK\$8,000,000. The directors are of the opinion that the final claims are to be indemnified by main contractors of the relevant projects or covered by insurance policy of the Group, accordingly no provision has been made in the financial statements.
- (ii) The Company provided corporate guarantees to the extent of approximately HK\$76,197,000 (2001: HK\$76,197,000) to banks to secure general banking facilities granted to certain subsidiaries. The total facilities utilised by the subsidiaries at 31st December, 2002 amounted to approximately HK\$2,289,000 (2001: HK\$7,253,000).
- (iii) The Company provided corporate guarantees to the extent of approximately HK\$15,097,000 (2001: HK\$14,508,000) to finance institutions to secure finance lease facilities granted to its certain subsidiaries. The total facilities utilised by the subsidiaries at 31st December, 2002 amounted to approximately HK\$8,967,000 (2001: HK\$12,191,000).

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
<b>Land and buildings</b>		
Within one year	324	158
In the second to fifth year inclusive	41	–
	<b>365</b>	<b>158</b>
<b>Plant and machinery and equipment</b>		
Within one year	52	76
In the second to fifth year inclusive	193	25
	<b>245</b>	<b>101</b>

Leases are negotiated for terms ranging from two to five years with fixed rentals over the terms of the leases.

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

## 31. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the “ORSO Scheme”) and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The original ORSO Scheme operated by the Group were cancelled accordingly except for the ORSO Scheme operated by GMM. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were switched to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntary contributes 1% to 5%, depends on the year of service of the employee, to the MPF Scheme.

Where there are employees who leave the ORSO Scheme and MPF Scheme prior to vesting fully in the contributions, the market value of the unvested portion will be refunded to the Group.

The total cost charged to the income statement of HK\$1,263,000 (2001: HK\$1,630,000) represents contributions payable to the MPF Scheme, after forfeited contributions utilised in the ORSO Scheme and MPF Scheme of HK\$594,000 (2001: HK\$223,000), by the Group in respect of the current accounting year.



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

## 32. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Purchases of goods from fellow subsidiaries	<i>(a)</i>	2,158	6,516
Sales of goods to fellow subsidiaries	<i>(a)</i>	4,662	2,760
Rent and infreight charges paid to a fellow subsidiary	<i>(b)</i>	38	3,027
Promissory note interest paid to a fellow subsidiary	<i>(c)</i>	–	1,048
Amounts due from fellow subsidiaries		791	1,090
Amounts due to fellow subsidiaries		202	3,657
Amount due to a shareholder of the ultimate holding company		–	124

*Notes:*

- (a) Purchases and sales of goods were carried out at cost plus a percentage profit mark up.
- (b) Rent and infreight charges was charged at agreed price per ton.
- (c) During the year ended 31st December, 2000, the Group acquired a subsidiary from a fellow subsidiary at a consideration of HK\$52 million, of which, HK\$32 million was satisfied by cash and HK\$20 million was satisfied by the issuance of a promissory note bears interest at 8% per annum. The promissory note was fully repaid in August 2001.
- (ii) At 31st December, 2001, compensation of approximately HK\$7.6 million was payable to the Group by GMI, a wholly-owned subsidiary of GHL, for the shortfall of the minimum profit guarantee in accordance with the terms of the agreement in respect of the acquisition of a subsidiary from GMI. The amount has been fully repaid during the year.

## 33. POST BALANCE SHEET EVENTS

On 9th January, 2003, Topgain Investments Limited (“Topgain”), a wholly-owned subsidiary of the Company entered into an agreement with Choice Master Investments Limited (“Choice Master”) pursuant to which Topgain has agreed to acquire the entire share capital of Lubrano Properties Limited from Choice Master at a total consideration of HK\$75,000,000. The transaction was completed on 4th March, 2003.