

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

1. *General*

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are manufacturing and trading of steel and metal products and construction materials and manufacturing, trading and installation of Autoclaved Aerated Lightweight Concrete blocks and panels ("ALC Products").

2. *Significant Accounting Policies*

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared 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 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 the 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.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation deficit, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. Significant Accounting Policies (continued)

Investment properties (continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less 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 or 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
Buildings	Over the shorter of the terms of the leases, or 20 to 50 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	5% - 50%

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

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.

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Properties held for sale

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

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, welded wire mesh and other construction materials, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. Significant Accounting Policies (continued)

Leased assets and assets held under hire purchase contracts

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 and hire purchase contracts are capitalised at their fair values at the respective dates of acquisition. The corresponding liability to the lessor or hirer, net of interest charges, is included in the balance sheet as a finance lease and hire purchase obligation. Finance costs, which represent the difference between the total commitments and the fair values of the assets acquired, are charged to the income statement over the period of the relevant lease and contract 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.

On consolidation, the financial statements of subsidiaries, associates and jointly controlled entities which are denominated in currencies other than Hong Kong dollars and which operate in The People's Republic of China ("PRC") and overseas are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

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, 2000

2. *Significant Accounting Policies (continued)*

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 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

Turnover represents the net amounts received and receivable for goods sold to outsider customers and revenue generated from construction contracts. The following is an analysis of the Group's turnover and operating profit by principal activity and geographical market:

	Turnover		Operating profit (loss)	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing of steel and metal products	468,301	378,543	50,492	44,297
Trading of steel and metal products	288,193	399,684	1,966	6,520
Construction contracts and sale of ALC Products	169,932	48,938	27,746	13,397
Manufacturing of construction materials	101,472	159,486	4,924	14,443
Trading of construction materials	93,558	40,996	(1,468)	901
	1,121,456	1,027,647	83,660	79,558
Corporate overhead and miscellaneous			(16,643)	(9,519)
			67,017	70,039
By geographical market:				
Hong Kong	760,419	615,458	61,972	62,634
Other regions in the PRC	308,746	253,814	4,488	2,958
Singapore	34,132	132,035	266	1,273
Australia	12,538	19,683	294	(397)
United Kingdom	4,038	—	(3)	—
Macau	142	—	1	—
Others	1,441	6,657	(1)	3,571
	1,121,456	1,027,647	67,017	70,039

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

4. Administrative Expenses

Included in administrative expenses is a provision for bad and doubtful debts of approximately HK\$10,577,000 (1999: HK\$6,928,000).

5. Profit From Operations

	2000 HK\$'000	1999 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	2,552	1,309
Underprovision in prior years	195	595
Depreciation and amortisation		
Owned assets	21,089	13,252
Assets held under finance leases and hire purchase contracts	1,873	1,101
(Gain) loss on disposal of property, plant and equipment	(1,500)	1,310
Gain on disposal of properties held for sale	(909)	—
Operating leases rentals for:		
Land and buildings	3,218	4,614
Plant and machinery	76	486
Provision for impairment in value of a jointly controlled entity	119	—
Rental income	(2,159)	(1,142)
Staff costs including directors' emoluments and retirement benefits scheme contributions	106,591	63,793

Operating lease rentals in respect of a director's accommodation amounting to approximately HK\$1,272,000 (1999: HK\$Nil) are included under staff costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

6. Finance Costs

	2000	1999
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	21,182	15,082
Finance leases and hire purchase contracts	433	323
Notes payable to a shareholder	1,673	—
Other borrowings wholly repayable within five years	360	364
	23,648	15,769

7. Gain On Disposal Of An Associate/Subsidiaries

	2000	1999
	HK\$'000	HK\$'000
Gain on disposal of an associate	47	—
Gain on disposal of an interest in a subsidiary	2	—
Gain on disposal of subsidiaries	6,768	—
	6,817	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

8. Directors' And Employees' Emoluments

(a) Directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive	—	—
Non-executive	215	252
	215	252
Other emoluments:		
Executive		
Salaries and other benefits	10,635	6,707
Contributions to retirement benefits scheme	314	267
	10,949	6,974
	11,164	7,226

The amount disclosed above include directors' fees of HK\$125,000 (1999: HK\$122,000) payable to independent non-executive directors.

The directors' emoluments were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	5	5
HK\$1,500,001 - HK\$2,000,000	—	3
HK\$2,000,001 - HK\$2,500,000	1	—
HK\$2,500,001 - HK\$3,000,000	1	—
HK\$6,000,001 - HK\$6,500,000	1	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

8. Directors' And Employees' Emoluments (continued)

(b) Employees' emoluments

The five highest paid individuals included three directors (1999: three directors), details of whose emoluments are set out above. The emoluments of the remaining two individuals, excluding commissions on sales generated by the employees, are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits	4,612	3,451
Contributions to retirement benefits scheme	8	45
	4,620	3,496

Their emoluments were within the following bands:

	2000	1999
	No. of employees	No. of employees
HK\$1,500,001 - HK\$2,000,000	—	2
HK\$2,000,001 - HK\$2,500,000	2	—

9. Taxation

	2000	1999
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	2,930	6,042
Overprovision in prior years	(3,528)	(1,572)
Overseas taxation		
Current year	360	263
Deferred tax (Note 30)	1,000	1,964
	762	6,697

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

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of unprovided deferred tax are set out in note 30.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

10. Net Profit For The Year

Of the Group's net profit for the year of HK\$33,710,000 (1999: HK\$41,411,000), a profit of HK\$53,638,000 (1999: HK\$21,500,000) has been dealt with in the financial statements of the Company.

11. Dividend

	2000 HK\$'000	1999 HK\$'000
Dividend of HK\$Nil (1999: HK\$0.02) per share	—	11,168
Additional prior year's dividend paid on exercise of share options subsequent to the issue of the annual report	170	—
	170	11,168

12. Earnings Per Share

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

	2000 HK\$'000	1999 HK\$'000
Earnings for the purposes of basic earnings per share	33,710	41,411
Effect of interest on convertible notes	328	—
Adjustment to the share of result of subsidiaries based on the effect of dilutive share options	(12)	—
Earnings for the purposes of diluted earnings per share	34,026	41,411
Weighted average number of ordinary shares for the purposes of basic earnings per share	565,367,937	558,377,500
Effect of dilutive convertible notes	15,179,112	—
Effect of dilutive share options	1,230,408	3,008,966
Weighted average number of ordinary shares for the purposes of diluted earnings per share	581,777,457	561,386,466

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

13. Investment Properties

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
At beginning of the year	14,500	—
Additions	28,923	—
Reclassification from leasehold land and buildings	3,193	14,500
Deficit on revaluation	(16)	—
At end of the year	46,600	14,500

The Group's investment properties comprise:

	2000	1999
	HK\$'000	HK\$'000
Properties held under medium-term leases:		
— in Hong Kong	43,400	14,500
— other regions in the PRC	3,200	—
	46,600	14,500

Investment properties situated in Hong Kong and the PRC were revalued at 31st December, 2000 by Vigers Hong Kong Limited, International Property Consultants, and Sallmanns (Far East) Limited, Chartered Surveyors, respectively, both of which are independent firms of professional valuers, on an open market existing use basis. The net deficit arising on revaluation of HK\$16,000 (1999: HK\$Nil) has been charged to the consolidated income statement.

The investment properties of the Group are rented out under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

14. Property, Plant And Equipment

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Assets under installation HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st January, 2000	312,535	16,152	13,591	14,540	239,484	3,746	600,048
Exchange differences	124	—	1	7	79	—	211
On acquisition of subsidiaries	—	—	—	—	1,414	—	1,414
Additions	20,628	1,436	2,867	2,416	17,113	5,031	49,491
Disposals	—	—	(640)	(2,343)	(1,359)	—	(4,342)
Reclassification to investment properties	(3,598)	—	—	—	—	—	(3,598)
Reclassifications	—	1,150	—	—	2,596	(3,746)	—
At 31st December, 2000	329,689	18,738	15,819	14,620	259,327	5,031	643,224
DEPRECIATION AND AMORTISATION							
At 1st January, 2000	173,656	11,903	9,170	9,404	130,358	—	334,491
Exchange differences	18	—	—	3	27	—	48
On acquisition of subsidiaries	—	—	—	—	311	—	311
Provided for the year	4,916	773	1,805	2,360	13,108	—	22,962
Eliminated on disposals	—	—	(332)	(1,938)	(1,290)	—	(3,560)
Reclassification to investment properties	(405)	—	—	—	—	—	(405)
At 31st December, 2000	178,185	12,676	10,643	9,829	142,514	—	353,847
NET BOOK VALUES							
At 31st December, 2000	151,504	6,062	5,176	4,791	116,813	5,031	289,377
At 31st December, 1999	138,879	4,249	4,421	5,136	109,126	3,746	265,557

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

14. Property, Plant And Equipment (continued)

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1st January, 2000	617	333	305	1,255
Additions	—	67	—	67
At 31st December, 2000	617	400	305	1,322
DEPRECIATION				
At 1st January, 2000	123	71	61	255
Provided for the year	123	80	61	264
At 31st December, 2000	246	151	122	519
NET BOOK VALUES				
At 31st December, 2000	371	249	183	803
At 31st December, 1999	494	262	244	1,000

The net book value of leasehold land and buildings shown above comprises:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Situated in Hong Kong held under medium-term leases	96,565	79,182
Situated in other regions in the PRC held under medium-term leases	54,939	59,697
	151,504	138,879

The net book value of motor vehicles and plant and machinery of the Group includes an amount of approximately HK\$0.6 million (1999: HK\$1.4 million) and HK\$9.1 million (1999: HK\$10.6 million) respectively in respect of assets held under finance leases and hire purchase contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. Interests In Subsidiaries

	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	251,283	251,283

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

Name	Place of incorporation or registration or operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Daido Asia Company Limited	Hong Kong	HK\$2,000,000 Ordinary shares	54.79%	Trading of H-piles and building materials
Daido Building Materials Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares**	54.79%	Manufacturing of ALC Products
Daido Concrete (H.K.) Limited	Hong Kong	HK\$750,000,000 Ordinary shares	54.79%	Investment holding
Daido Construction Materials Limited	Hong Kong	HK\$200 Ordinary shares	54.79%	Investment holding
Daido Group Limited	Bermuda	HK\$30,000,000 Ordinary shares	54.79%	Investment holding
Daido Home Finance Limited	Hong Kong	HK\$100,000 Ordinary shares	54.79%	Money lending
Daido Home International Limited	Cayman Islands	HK\$225,375,000 Ordinary shares HK\$91,500,000 Preference shares***	54.79%	Investment holding, sale and installation of ALC Products

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. *Interests In Subsidiaries (continued)*

Name	Place of incorporation or registration or operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Daido Precast Company Limited	Hong Kong	HK\$2 Ordinary shares	54.79%	Manufacturing and trading of semi-precast concrete slab
Ding Cheong Limited	Hong Kong	HK\$500,000 Ordinary shares	55%	Trading of construction materials
Faithworld International Trading Limited	Hong Kong	HK\$100 Ordinary shares	55%	Trading of general products
Fulwealth Metal Factory Limited *	Hong Kong	HK\$20,000,000 Ordinary shares	85%	Decoiling Centre
Golik Godown Limited	Hong Kong	HK\$2 Ordinary shares	100%	Provision for warehouse services
Golik Metal Industrial Company Limited *	Hong Kong	HK\$10,000 Ordinary shares HK\$5,135,000 Non-voting deferred shares**	100%	Investment holding and trading of metal products
Golik Metal Manufacturing Co. Limited	Hong Kong	HK\$30,000,000 Ordinary shares	54.79%	Manufacturing and trading of welded wire mesh and metal products
Golik Properties Limited	Hong Kong	HK\$2 Ordinary shares	100%	Property investment
Golik Steel Company Limited	Hong Kong	HK\$1,000,000 Ordinary shares	100%	Trading and stocking of steel bars

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. Interests In Subsidiaries (continued)

Name	Place of incorporation or registration or operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Heshan Hang Kei Steel Wire Manufacturing Company Limited ("Heshan Hang Kei")	The People's Republic of China	US\$3,880,000 Registered capital	60% (note)	Manufacturing and sale of steel wire products and steel ropes
Jade Ocean Limited	Hong Kong	HK\$2 Ordinary shares	100%	Property holding
Locusrite Limited #	United Kingdom	£2 Ordinary shares	70%	Manufacturing and trading of metal products
Luenik Construction Material Company Limited	Hong Kong	HK\$200,000 Ordinary shares	80%	Trading of construction materials
Stahl Trading Pty Limited #	Australia	AUS\$100 Ordinary share	100%	Trading of steel and metal products
Tak Sun Limited	British Virgin Islands	US\$1 Ordinary shares	54.79%	Investment holding
The Spacers & Bar Chairs Manufacturer Company Limited	Hong Kong	HK\$800,000 Ordinary shares	80%	Manufacturing and trading of construction materials
Worldlight Group Limited *	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding
Ytong Hong Kong Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares**	54.79%	Sale and installation of ALC Products

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. *Interests In Subsidiaries (continued)*

Name	Place of incorporation or registration or operation	Issued and fully paid share capital or registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
定昌(江門)五金製品 有限公司	The People's Republic of China	HK\$3,000,000 Registered capital	55%	Manufacturing and sale of metal products
廣州高力鋼網制造 有限公司 #	The People's Republic of China	US\$500,000 Registered capital	100%	Manufacturing and trading of welded wire mesh and related products

* Subsidiaries held directly by the Company

** The deferred shares, which are not held by the Group, 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 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.

Subsidiaries not audited by Deloitte Touche Tohmatsu

Note

Under a joint venture agreement, the Group has contributed 60% of the registered capital in Heshan Hang Kei, an equity joint venture company in the PRC, with a term of 20 years commencing from 21st March, 1995. However, under a supplemental joint venture agreement, the Group will be entitled to 100% of the joint venture company's profit after deducting a fixed annual amount attributable to assets contributed by the PRC joint venture partner. On cessation of the joint venture company, the Group will be entitled to all assets other than those contributed by the PRC joint venture partner.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

16. Interest In An Associate

	THE GROUP	
	2000	1999
	HK\$'000	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.

17. Interest In A Jointly Controlled Entity

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Share of the post-acquisition reserves	—	(166)
Net amounts due from a jointly controlled entity	—	31,635
	—	31,469

The balances with the jointly controlled entity are 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	The People's Republic of China	Registered capital	17%	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:

	2000	1999
	HK\$'000	HK\$'000
Results for the year:		
Turnover	8,040	25,361
Loss from ordinary activities before taxation	(4,085)	(4,767)
Post-acquisition loss from ordinary activities before taxation attributable to the Group	(1,614)	(166)
Financial position:		
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. Investment In A Security

	THE GROUP AND THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Investment security:		
Equity security, unlisted at cost	5,000	—

In the opinion of the directors, the carrying value of the investment is at least equal to its cost.

19. Long-Term Receivables

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note a)	1,293	1,677	—	—
Retention receivables (Note b)	12,973	13,025	—	—
Building mortgage loans (Note c)	894	1,418	—	—
Other loan - unsecured (Note d)	20,000	40,000	20,000	40,000
Other loan - secured (Note e)	15,000	—	—	—
	50,160	56,120	20,000	40,000
Less: Amounts due within one year shown under trade and other receivables	(46,818)	(33,399)	(20,000)	(20,000)
	3,342	22,721	—	20,000

- (a) The amounts are aged over 120 days and are repayable by yearly instalments up to 2005.
- (b) 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.
- (c) 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.
- (d) The loan is unsecured, bears interest at commercial rate and is repayable by instalments up to 2001.
- (e) The loan is secured, bears interest at 8% per annum and is repayable in October 2001.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

20. Properties Held For Sale

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
At beginning of the year	6,600	—
On acquisition of subsidiaries	—	6,600
Disposals	(6,600)	—
At end of the year	—	6,600

21. Inventories

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	89,397	70,408
Work in progress	5,333	4,448
Finished goods	70,354	26,495
Supplies	356	216
	165,440	101,567

Included above are raw materials of HK\$625,000 (1999: HK\$875,000), work in progress of HK\$258,000 (1999: HK\$221,000) and finished goods of HK\$5,247,000 (1999: HK\$15,000) which are carried at net realisable value.

22. Trade And Other Receivables

The Group allows an credit period ranging from C.O.D. to 120 days to its customers.

Included in trade and other receivables are trade receivables of HK\$247,736,000 (1999: HK\$257,113,000) with an aged analysis as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	129,482	103,305
31 - 60 days	55,405	82,224
61 - 90 days	32,621	38,923
91 - 120 days	17,020	12,093
More than 120 days	13,208	20,568
	247,736	257,113

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

23. 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)
	(48,161)	(47,985)
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)
	(48,161)	(47,985)

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

24. Amounts Due From (To) Minority Shareholders

The amounts are unsecured, interest-free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

25. Trade And Other Payables

Included in trade and other payables are trade payables of approximately HK\$51,079,000 (1999: HK\$58,374,000) with an aged analysis as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
0 - 30 days	22,808	30,563
31 - 60 days	22,635	21,669
61 - 90 days	3,872	3,798
91 - 120 days	212	948
More than 120 days	1,552	1,396
	51,079	58,374

26. Notes Payable To A Shareholder

The notes payable are unsecured, bear interest at 6% per annum payable semi-annually in arrears and are repayable within 5 years from the date of issue of the notes. In the opinion of the directors, the notes will be repayable within one year after the balance sheet date. Accordingly, the amounts are shown under current liabilities.

27. Share Capital

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st December, 1999 and 2000	1,800,000,000	180,000
Issued and fully paid:		
At 1st January, 1998 and 1999	558,377,500	55,838
Issued upon the exercise of options	8,500,000	850
At 31st December, 2000	566,877,500	56,688

During the year, 8,500,000 ordinary shares of the Company were issued at HK\$0.24 per share upon the exercise of options by option holders.

There was no movements in the share capital of the Company during the year ended 31st December, 1999.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

28. Share Option Schemes

- (i) Pursuant to the share option scheme of the Company, adopted on 25th June, 1994, the Board of Directors of the Company may grant options to any directors or full time 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 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 scheme may not exceed 10 per cent. of the issued share capital of the Company from time to time. A summary of the movements in options during the year is as follows:

Date granted	Exercisable period (Both dates inclusive)	Exercise price	Number of share options			
			Balance at 1.1.2000	Exercised during the year	Lapsed during the year	Balance at 31.12.2000
26th November, 1997	26th May, 1998 to 25th May, 2000	HK\$1.02	10,832,450	—	(10,832,450)	—
27th November, 1998	27th May, 1999 to 26th May, 2001	HK\$0.24	11,000,000	(8,500,000)	—	2,500,000

No share option was granted during the year.

- (ii) Pursuant to the share option scheme of Daido Group Limited ("Daido") adopted on 29th August, 2000 which became effective on 10th November, 2000, the directors of Daido may grant options to any directors or employees of Daido to subscribe for shares in Daido at a price not less than 80 per cent. of the average of the closing prices of Daido'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 Daido from time to time excluding any shares issued upon the exercise of options granted pursuant to the 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 under the scheme. A summary of movements in option during the year is as follows:

Date granted	Exercisable period (Both dates inclusive)	Exercise price	Number of share options		
			Balance at 1.1.2000	Granted during the year	Balance at 31.12.2000
16th November, 2000	16th May, 2001 to 15th May, 2003	HK\$0.063	—	145,000,000	145,000,000

Total consideration of HK\$6 was received by Daido 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

29. Reserves

	Share premium HK\$'000	Revaluation reserve HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 1999	316,885	19,367	—	(152,818)	(7)	89,770	273,197
Exchange difference arising from the translation of overseas subsidiaries	—	—	—	—	18	—	18
Goodwill arising on acquisition of subsidiaries	—	—	—	(28,353)	—	—	(28,353)
Goodwill arising on acquisition of further interests in subsidiaries	—	—	—	(91)	—	—	(91)
Profit for the year	—	—	—	—	—	41,411	41,411
Dividend	—	—	—	—	—	(11,168)	(11,168)
At 31st December, 1999	316,885	19,367	—	(181,262)	11	120,013	275,014
Exchange difference arising from the translation of overseas subsidiaries	—	—	—	—	204	—	204
Goodwill arising on acquisition of subsidiaries	—	—	—	(1,734)	—	—	(1,734)
Goodwill arising on acquisition of further interests in subsidiaries	—	—	—	(5,481)	—	—	(5,481)
Shares issued at premium	1,190	—	—	—	—	—	1,190
Expenses on issue of shares	(25)	—	—	—	—	—	(25)
Profit for the year	—	—	—	—	—	33,710	33,710
Dividend	—	—	—	—	—	(170)	(170)
At 31st December, 2000	318,050	19,367	—	(188,477)	215	153,553	302,708
THE COMPANY							
At 1st January, 1999	316,885	—	77,229	—	—	(21,629)	372,485
Profit for the year	—	—	—	—	—	21,500	21,500
Dividend	—	—	(11,168)	—	—	—	(11,168)
At 31st December, 1999	316,885	—	66,061	—	—	(129)	382,817
Shares issued at premium	1,190	—	—	—	—	—	1,190
Expenses on issue of shares	(25)	—	—	—	—	—	(25)
Profit for the year	—	—	—	—	—	53,638	53,638
Dividend	—	—	(170)	—	—	—	(170)
At 31st December, 2000	318,050	—	65,891	—	—	53,509	437,450

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

29. Reserves (continued)

The retained profits of the Group in 1999 included a loss of HK\$166,000 retained by a jointly controlled entity.

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.

Surplus arising on revaluation of leasehold properties in 1994 was credited to the revaluation reserve, which is frozen upon the transfer of leasehold properties to properties held for sale. These properties held for sale were transferred to investment properties in prior year. On subsequent sale or retirement of these properties, the attributable revaluation surplus will be transferred to retained profits.

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:

- (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, as at the balance sheet date, the Company's reserves available for distribution to shareholders are as follows:

	2000	1999
	HK\$'000	HK\$'000
Contributed surplus	65,891	66,061
Retained profit (deficit)	53,509	(129)
	119,400	65,932

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

30. Deferred Tax

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
At beginning of the year	8,374	6,317
On acquisition of subsidiaries	36	93
Movement for the year (Note 9)	1,000	1,964
At end of the year	9,410	8,374

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

	Provided		Unprovided	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	9,472	8,374	24,818	17,513
Impairment of property, plant and equipment	—	—	(14,301)	(15,534)
Taxation losses	(62)	—	(113,418)	(100,055)
	9,410	8,374	(102,901)	(98,076)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

30. Deferred Tax (continued)

	Unprovided	
	2000	1999
	HK\$'000	HK\$'000
THE COMPANY		
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	68	3
Taxation losses	(5,651)	(2,401)
	(5,583)	(2,398)

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.

Deferred tax has not been provided on the valuation surplus arising on the valuation of properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

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

	Provided		Unprovided	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
Excess (shortfall) of tax allowances over depreciation	1,062	1,964	7,305	(592)
Timing difference arising from impairment of property, plant and equipment	—	—	1,233	—
Taxation losses	(62)	—	(13,363)	(1,507)
	1,000	1,964	(4,825)	(2,099)

During the year, unprovided deferred tax asset of HK\$Nil (1999: HK\$93,315,000) were arising from acquisition of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

31. Bank Borrowings

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Convertible note (Note)	20,000	20,000	20,000	20,000
Trust receipt loans	209,737	144,384	—	—
Bank overdrafts	11,472	23,721	—	—
Mortgage loans	26,279	15,765	—	—
Bank loans	2,263	25,030	—	25,030
	269,751	228,900	20,000	45,030
Analysed as:				
Secured	47,360	89,306	20,000	45,030
Unsecured	222,391	139,594	—	—
	269,751	228,900	20,000	45,030
The bank borrowings are repayable as follows:				
On demand or within one year	257,229	225,655	20,000	45,030
More than one year, but not exceeding two years	5,622	1,940	—	—
More than two years, but not exceeding five years	6,900	1,305	—	—
	269,751	228,900	20,000	45,030
Less: Amounts due within one year shown under current liabilities	(257,229)	(225,655)	(20,000)	(45,030)
Amount due after one year	12,522	3,245	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

31. Bank Borrowings (continued)

Note:

The convertible note bears interest at 7% per annum and is repayable at the earliest of:

- i) three years from the date of advance at 110% of the principal amount; or
- ii) upon a public offering, material placement or disposal of the shares (collectively referred to as the "IPO") of Fulwealth Metal Factory Limited ("Fulwealth") at the higher of 107% of the principal amount or a sum providing a yield of 10.52% per annum on the principal amount from the date of advance to date of the IPO ("IPO Redemption Amount").

In consideration for the convertible note, the bank was also granted an option to convert for the shares of Fulwealth upon the IPO occurs at the price at which the shares of Fulwealth are offered under the IPO up to the IPO Redemption Amount.

32. Obligations Under Finance Leases And Hire Purchase Contracts

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The maturity of obligations under finance leases and hire purchase contracts is as follows:				
Within one year	3,519	1,623	—	87
More than one year, but not exceeding two years	2,651	1,691	—	—
More than two years, but not exceeding five years	—	85	—	—
	6,170	3,399	—	87
Less: Amount due within one year shown under current liabilities	(3,519)	(1,623)	—	(87)
Amount due after one year	2,651	1,776	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

33. Long-Term Payable

	THE GROUP AND THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Other payable	10,541	—
Less: Amount due within one year shown under trade and other payable	(8,433)	—
Amount due after one year	2,108	—

The amount is unsecured, interest-free and repayable by 5 quarterly instalments up to 16th February, 2002.

34. Reconciliation Of Profit Before Taxation To Net Cash Inflow From Operating Activities

	2000	1999
	HK\$'000	HK\$'000
Profit before taxation	59,454	61,300
Share of results of a jointly controlled entity	1,614	166
Interest expenses	23,648	15,769
Interest income	(16,432)	(7,196)
Depreciation and amortisation	22,962	14,353
Gain on disposal of property held for sale	(909)	—
Gain on disposal of an interest in a subsidiary	(2)	—
Gain on disposal of an associate	(47)	—
(Gain) loss on disposal of property, plant and equipment	(1,500)	1,310
Gain on disposal of subsidiaries	(6,768)	(54)
Write off of amount due from an associate	7	—
Provision for impairment in value of a jointly controlled entity	119	—
Deficit on revaluation of investment properties	16	—
(Increase) decrease in rental deposits and other assets	(4,585)	166
Increase in inventories	(63,803)	(12,159)
Decrease in trade and other receivables	15,823	8,983
Increase in amounts due from customers for contract work	(122)	(12)
Increase in amounts due to customers for contract work	298	528
(Decrease) increase in trade and other payables	(8,054)	34,180
Effect of foreign exchange rate changes	5	(5)
Net cash inflow from operating activities	21,724	117,329

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

35. Acquisition Of Subsidiaries

	2000 HK\$'000	1999 HK\$'000
NET ASSETS ACQUIRED:		
Property, plant and equipment	1,103	118,221
Interest in an associate	—	7
Interest in a jointly controlled entity	—	31,672
Building mortgage loans	—	1,097
Rental deposits and other assets	—	1,489
Properties held for sale	—	6,600
Inventories	—	13,679
Trade and other receivables	799	78,795
Tax recoverable	—	189
Bank balances and cash	—	60,611
Amounts due to customers for contract work	—	(47,469)
Trade and other payables	(1,675)	(80,597)
Amount due to a minority shareholder	—	(939)
Bank borrowings	(9)	(21,417)
Obligations under finance leases	—	(156)
Tax payable	(20)	(3,385)
Minority interests	—	(90,538)
Deferred tax	(36)	(93)
	162	67,766
Goodwill	1,734	28,353
Total consideration	1,896	96,119
Satisfied by:		
Cash consideration	1,896	95,137
Consideration payable	—	982
	1,896	96,119
Net cash outflow arising on acquisition:		
Cash consideration	(1,896)	(95,137)
Bank balances and cash acquired	—	60,611
Bank overdrafts acquired	(9)	(11,444)
	(1,905)	(45,970)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

35. Acquisition Of Subsidiaries (continued)

The subsidiaries acquired during the year did not have any material effect on the cash flows of the Group.

The subsidiaries acquired in 1999 contributed approximately HK\$12.3 million to the Group's net operating cash inflows, paid approximately HK\$0.2 million in respect of net returns on investments and servicing of finance, paid approximately HK\$0.3 million in respect of taxation, paid approximately HK\$0.4 million in respect of investing activities and raised approximately HK\$0.8 million in respect of financing activities.

The subsidiaries acquired during the year contributed approximately HK\$5.7 million (1999: HK\$82.0 million) to the Group's turnover and contributed an operating profit of HK\$Nil (1999: 15.9 million).

36. Disposal Of Subsidiaries

	2000 HK\$'000	1999 HK\$'000
NET ASSETS DISPOSED OF:		
Property, plant and equipment	—	231
Interest in a jointly controlled entity	8,534	—
Trade and other receivables	2	422
Bank balances and cash	—	87
Trade and other payables	(111)	(21)
	8,425	719
Gain on disposal	6,768	54
	15,193	773
Satisfied by:		
Cash	15,193	773
Net cash inflow arising on disposal:		
Cash consideration	15,193	773
Bank balances and cash disposed of	—	(87)
	15,193	686

The subsidiaries disposed of during the year did not have any material effect on the cash flows 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.

The subsidiaries disposed of in 1999 contributed approximately HK\$0.6 million to the Group's turnover and contributed an operating profit of approximately HK\$0.1 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

37. Analysis Of Changes In Financing During The Year

	Share capital and premium HK\$'000	Mortgage loans HK\$'000	Trust receipt loans HK\$'000	Bank convertible note HK\$'000	Notes payable to a shareholder HK\$'000	Amount due to a shareholder HK\$'000	Bank loans HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Amounts due to minority shareholders HK\$'000	Minority interests HK\$'000
At 1st January, 1999	372,723	6,539	153,509	—	—	1,798	—	2,458	3,610	32,320
Acquisition of subsidiaries	—	9,973	—	—	—	—	—	156	939	90,538
Acquisition of further interests in subsidiaries	—	—	—	—	—	—	—	—	—	(9,241)
Exchange difference arising from translation of overseas subsidiaries	—	7	—	—	—	—	—	—	—	—
Share of results by minority interests	—	—	—	—	—	—	—	—	—	13,192
Dividend paid to the minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(3,260)
Inception of new finance leases and hire purchase contracts	—	—	—	—	—	—	—	2,632	—	—
New borrowings	—	1,600	14,790	20,000	—	—	25,030	—	—	—
Repayment of borrowings	—	(2,354)	(25,925)	—	—	(1,798)	—	(1,847)	(325)	—
At 31st December, 1999	372,723	15,765	142,374	20,000	—	—	25,030	3,399	4,224	123,549
Injection from minority shareholders	—	—	—	—	—	—	—	—	—	90
Disposal of interest in a subsidiary	—	—	—	—	—	—	—	—	—	347
Acquisition of further interests in subsidiaries	—	—	—	—	—	—	—	—	—	(32,579)
Exchange difference arising from translation of overseas subsidiaries	—	42	—	—	—	—	—	—	9	1
Expenses on issue of shares	(25)	—	—	—	—	—	—	—	—	—
Share issued at premium	2,040	—	—	—	—	—	—	—	—	—
Share of results by minority interests	—	—	—	—	—	—	—	—	—	24,982
Dividends paid to the minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(9,150)
Inception of new finance leases and hire purchase contracts	—	—	—	—	—	—	—	6,474	—	—
New borrowings	—	21,853	52,562	—	40,000	—	2,263	—	6,559	—
Repayment of borrowings	—	(11,381)	(4,591)	—	(17,150)	—	(25,030)	(3,703)	—	—
At 31st December, 2000	374,738	26,279	190,345	20,000	22,850	—	2,263	6,170	10,792	107,240

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

38. Major Non-Cash Transactions

- (i) The Group entered into finance leases and hire purchase contracts in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases and contracts of approximately HK\$6,474,000 (1999: HK\$2,632,000).
- (ii) The consideration in respect of the acquisition of further interests in subsidiaries of approximately HK\$10,541,000 had not been settled as at 31st December, 2000.
- (iii) During the year, investment properties of approximately HK\$27,800,000 were acquired from debtors as settlement of amounts owe from them.

39. Pledge Of Assets

As at 31st December, 2000, the Group has pledged the following assets to banks as securities for general banking facilities granted to the Group:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Investment properties	17,700	—
Land and buildings	49,592	59,400
Plant and machinery	3,851	—
Properties held for sale	—	6,600
Bank deposit (<i>note</i>)	16,094	—
	87,237	66,000

In addition, the Group has also pledged the shares of one of its subsidiaries with market value of approximately HK\$Nil (1999: HK\$205,911,000) representing the Group's 50.1% interest in this subsidiary to banks as securities for general banking facilities granted to the Group.

Note: At 31st December, 2000, the Group has pledged its bank deposit of HK\$16,094,000 as a security against the general banking facilities granted to subsidiaries. The facility utilised by the subsidiaries 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

40. Contingent Liabilities

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

- (i) The Group and the Company provided corporate guarantees to the extent of approximately HK\$Nil (1999: HK\$9,619,000) to banks to secure general banking facilities granted to former subsidiaries of the Company. The total facilities utilised by the former subsidiaries of the Company at 31st December, 2000 amounted to approximately HK\$Nil (1999: HK\$8,856,000).
- (ii) The Company provided corporate guarantees to the extent of approximately HK\$653,388,000 (1999: HK\$630,241,000) to banks to secure general banking facilities granted to its subsidiaries. The total facilities utilised by the subsidiaries at 31st December, 2000 amounted to approximately HK\$234,477,000 (1999: HK\$158,174,000).

41. Lease Commitments

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

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings				
Operating leases which expire:				
Within one year	495	678	495	—
More than one year but not exceeding five years	3,135	3,047	1,595	1,595
Over five years	722	231	—	—
	4,352	3,956	2,090	1,595
Plant and machinery				
Operating leases which expire:				
More than one year but not exceeding five years	76	—	—	—
Over five years	583	538	—	—
	659	538	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

42. Capital Commitments

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
— contracted for but not provided in the financial statements	—	214
— authorised but not contracted for	11,521	2,297
	11,521	2,511

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

43. Retirement Benefits Scheme

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. 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 in Hong Kong. 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 benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions paid or 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 approximately HK\$674,000 (1999: HK\$601,000) after forfeited contributions utilised in the Defined Contribution Scheme of approximately HK\$989,000 (1999: HK\$1,346,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

44. Related Party Transactions

- (i) During the year, the Group entered into the following transactions and had the following balances with related parties:
- (a) Issued twenty 5-year 6% notes at HK\$2,000,000 each to Golik Investments Limited ("GIL"), a substantial shareholder, for a total subscription price of HK\$40,000,000 payable in cash upon subscription.
 - (b) Interest paid and payable in respect of the notes in (a) above amounting to approximately HK\$1,673,000.
 - (c) Purchases of goods from a former jointly controlled entity of approximately HK\$2,386,000 (note).
 - (d) Notes payable to GIL at the balance sheet date amounting to HK\$22,850,000.
- (ii) In 1999, the Group entered into the following transaction and had the following balances with related parties:

	HK\$'000
(a) Management fee received from companies in which Messrs. Pang Tak Chung, Robert Keith Davies and Ho Wai Yu, Sammy are common directors until 15th December, 1999 ("related companies")	620
Rent received from related companies	844
Amounts due from the related companies at the balance sheet date	49,785

Management fee and rent received were carried out at terms mutually agreed by both parties.

- (b) Purchases of goods from a former jointly controlled entity of HK\$835,582 (note).
- (c) GIL assigned a loan together with interest made by Daido Concrete Company Limited, the former single largest shareholder of Daido, to Daido in the amount of approximately HK\$70.2 million and the related security, 4,198,250 shares of US\$1.00 each in China Pacific Limited, a subsidiary of Daido, to the Company's subsidiary, Worldlight Group Limited, for a consideration of HK\$6 million.

Note: Purchases of goods from a former jointly controlled entity were carried out at cost plus a percentage profit mark up.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

45. Post Balance Sheet Events

- (i) On 12th January, 2001, the Group disposed of a 8% interest in Fulwealth Metal Factory Limited for a consideration of approximately HK\$7,000,000.
- (ii) On 17th November, 2000 and 19th January, 2001, Daido 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, for purchase of interests in and loans due 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, were charged to the consolidated income statement.

- (iii) Subsequent to the balance sheet date, the Group has pledged 1,503,000,000 shares in one of its subsidiaries representing the Group's 50.1% interest in this subsidiary to a financial institution as securities for general banking facilities granted to the Group.