

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

## 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 sales of steel and metal products and construction materials and manufacturing, sales and installation of autoclaved aerated lightweight concrete blocks and panels ("ALC Products").

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES

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. Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised standards has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively. The effect of this change has been to increase shareholders' funds at 1st January, 2000 by HK\$11,168,000. Comparative information has been restated to reflect this change in accounting policy.

### **Leases**

In accordance with SSAP 14 (Revised) "Leases", some amendments were introduced to the basis of accounting for operating leases and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGES IN ACCOUNTING POLICIES *(Continued)*

### Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

### Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is 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. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

## 3. 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.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

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

### **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 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.

### **Subsidiaries**

A subsidiary is an enterprise over which the Company has control, either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

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

### **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 identified impairment loss.

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

### **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.

#### *Other*

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

Commission, consultancy, management, processing and other service income are recognised when services are rendered.

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

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

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 increase or decrease 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 decrease, in which case, the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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 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 and construction in progress 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%–33⅓%
Motor vehicles	20%–33⅓%
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.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

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

### **Property, plant and equipment** *(Continued)*

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

No provision for depreciation is made on assets under installation and construction in progress 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.

### **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 date 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 value 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.

### **Inventories**

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

Other than the cost of inventories of concrete products which is calculated using the weighted average cost method, the cost of all other products of the Group is calculated using the first-in, first-out method.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

## **3. 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 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.

### **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, unless the relevant asset is carried at a revalued amount under another standard, in which case, the impairment loss is treated as a revaluation decrease under that other standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case, the reversal of the impairment loss is treated as a revaluation increase under that other standard.

# Notes to the Financial Statements

*For the year ended 31st December, 2001*

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 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.

### 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

The retirement benefit costs charged in the income statement represent the contributions payable in respect of current year to the Group's mandatory provident fund scheme.



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION

#### Business segments

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

Segment information about these businesses is presented below:

#### 2001

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>							
External sales	454,983	188,901	65,381	123,876	175,017	-	1,008,158
Inter-segment sales	9,965	28,391	-	6,185	16,879	(61,420)	-
Total revenue	464,948	217,292	65,381	130,061	191,896	(61,420)	1,008,158
<b>SEGMENT RESULT</b>	43,134	7,105	20,769	6,779	1,293	65	79,145
Amortisation of goodwill, net							(123)
Unallocated other revenue							6,898
Unallocated corporate expenses							(10,841)
Profit from operations							75,079

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION (Continued)

2001 (Continued)

#### Balance Sheet

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	313,822	244,033	163,711	202,430	93,332	(104,247)	913,081
Unallocated corporate assets							132,420
Consolidated total assets							1,045,501
<b>LIABILITIES</b>							
Segment liabilities	91,931	32,993	54,655	114,083	37,444	(97,223)	233,883
Unallocated corporate liabilities							301,555
Consolidated total liabilities							535,438

#### Other Information

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditures	2,452	21	20,920	14,166	2,958	1,052	41,569
Depreciation	8,412	724	5,332	7,599	787	1,208	24,062
Amortisation of goodwill, net	-	-	-	-	-	123	123

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION (Continued)

#### 2000

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>							
External sales	468,301	288,193	169,932	101,472	93,558	-	1,121,456
Inter-segment sales	7,010	51,381	-	13,014	22,420	(93,825)	-
Total revenue	475,311	339,574	169,932	114,486	115,978	(93,825)	1,121,456
<b>SEGMENT RESULT</b>	50,492	1,941	28,961	2,851	(610)	25	83,660
Unallocated corporate expenses							(16,643)
Profit from operations							67,017

#### Balance Sheet

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	362,252	182,511	156,355	126,453	134,048	(96,394)	865,225
Unallocated corporate assets							133,393
Consolidated total assets							998,618
<b>LIABILITIES</b>							
Segment liabilities	120,074	20,441	82,506	47,691	64,832	(116,684)	218,860
Unallocated corporate liabilities							313,122
Consolidated total liabilities							531,982

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION (Continued)

2000 (Continued)

#### Other Information

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditures	37,243	88	2,980	8,161	837	182	49,491
Depreciation	8,806	734	5,044	6,556	703	1,119	22,962

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical market		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	745,135	760,419	69,096	78,963
Other regions in the PRC	237,636	308,746	9,562	4,270
United Kingdom	15,744	4,038	160	(3)
Australia	5,290	12,538	(154)	209
Others	4,353	35,715	481	221
	<b>1,008,158</b>	<b>1,121,456</b>	<b>79,145</b>	<b>83,660</b>
Amortisation of goodwill, net			(123)	-
Unallocated other revenue			6,898	-
Unallocated corporate expenses			(10,841)	(16,643)
Profit from operations			<b>75,079</b>	<b>67,017</b>

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	833,242	767,500	31,054	43,740
Other regions in the PRC	191,815	216,941	2,293	3,253
United Kingdom	16,698	11,087	8,215	2,498
Australia	3,746	3,090	7	-
	1,045,501	998,618	41,569	49,491

### 5. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Claims received	5,708	896
Commission income	3,693	3,741
Consultancy income	2,850	-
Customs duty refund	2,200	578
Exchange gains, net	-	257
Gain on disposal of properties held for sale	-	909
Gain on disposal of property, plant and equipment	-	1,500
Management income	212	883
Other service income	234	-
Processing income	2,142	497
Property manager remuneration	474	592
Rental income	3,374	2,159
Sales of metal scrap	2,604	1,548
Sundry income	4,041	2,550
Transportation income	2,048	430
Write back of provision for severance payments	4,830	-
	34,410	16,540

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 6. ADMINISTRATIVE EXPENSES

Included in administrative expenses is a net bad debt recovery of approximately HK\$5,380,000 (2000: provision for bad and doubtful debts HK\$10,577,000).

### 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 is written back accordingly.

### 8. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill included in administrative expenses	526	-
Auditors' remuneration		
Current year	2,743	2,552
Underprovision in prior years	319	195
Depreciation		
Owned assets	22,495	21,089
Assets held under finance leases and hire purchase contracts	1,567	1,873
Loss on disposal of property, plant and equipment	352	-
Minimum lease payments for operating leases in respect of		
Land and buildings	4,639	3,218
Plant and machinery	559	76
Impairment loss recognised in respect of a jointly controlled entity	-	119
Staff costs including directors' emoluments and retirement benefits scheme contributions	100,770	134,440
Amount capitalised in contract work	(12,469)	(26,883)
Amount capitalised in assets under installation	(1,762)	(966)
	<b>86,539</b>	<b>106,591</b>
and after crediting:		
Release of negative goodwill to reduce administrative expenses	403	-

Minimum lease payments for operating leases in respect of a director's and an employee's accommodation amounting to approximately HK\$1,725,000 (2000: HK\$1,272,000) are included under staff costs.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 9. WRITTEN OFF OF EXPENSES FOR PROPOSED INVESTMENT

On 17th November, 2000 and 19th January, 2001, the Company's subsidiaries, Daido Group Limited and 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.

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 lapsed and the deposits paid amounting to a total of HK\$2,500,000 were forfeited by the vendor.

Total expenses incurred of HK\$12,711,000 in respect of the acquisition, including the forfeited deposits, have been charged to the consolidated income statement, of which, HK\$5,550,000 had been reflected in the consolidated income statement of the Group for the year ended 31st December, 2000.

### 10. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	18,273	21,182
Bank borrowings not wholly repayable within five years	165	-
Finance leases and hire purchase contracts	648	433
Notes payable to a shareholder	157	1,673
Other borrowings wholly repayable within five years	567	360
	19,810	23,648

### 11. (LOSS) GAIN ON DISPOSAL OF AN ASSOCIATE/SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
(Loss) gain on disposal of interest in a subsidiary	(34)	2
Gain on disposal of an associate	-	47
Gain on disposal of subsidiaries	-	6,768
	(34)	6,817

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	-	-
Non-executive	-	90
Independent non-executive	144	125
	<b>144</b>	<b>215</b>
Other emoluments:		
Executive		
Salaries and other benefits	7,809	10,635
Contributions to retirement benefits scheme	361	314
	<b>8,170</b>	<b>10,949</b>
	<b>8,314</b>	<b>11,164</b>

The directors' emoluments were within the following bands:

	2001 Number of directors	2000 Number of directors
HK\$Nil to HK\$1,000,000	4	5
HK\$1,500,001 – HK\$2,000,000	1	-
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	-	1
HK\$3,500,001 – HK\$4,000,000	1	-
HK\$6,000,001 – HK\$6,500,000	-	1
	<b>7</b>	<b>8</b>

No director waived any emoluments for the two years ended 31st December, 2001.



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

#### (b) Employees' emoluments

The five highest paid individuals included three directors (2000: three directors), details of whose emoluments are set out above. The emoluments of the remaining two individual (2000: two individuals), excluding commission on sales generated by the employees, are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	4,037	4,612
Contributions to retirement benefits scheme	58	8
	4,095	4,620

Their emoluments were within the following bands:

	2001 No. of employees	2000 No. of employees
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	2
	2	2

### 13. TAXATION CREDIT (CHARGE)

	2001 HK\$'000	2000 HK\$'000
The credit (charge) comprises:		
Hong Kong Profits Tax		
Current year	(2,838)	(2,930)
Overprovision in respect of prior years	775	3,528
Overseas taxation		
Current year	(166)	(360)
Deferred tax (note 31)	4,750	(1,000)
	2,521	(762)

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.

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 14. DIVIDEND

On 23rd June, 2000, a dividend of HK\$0.02 per share was paid to shareholders as the final dividend in respect of 1999.

No dividend was paid in respect of 2000.

A dividend in respect of 2001 of HK\$0.02 per share, amounting to approximately HK\$11,347,000 is proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

### 15. EARNINGS PER SHARE

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

	2001 HK\$'000	2000 HK\$'000
Earnings for the purpose of basic earnings per share	<b>34,264</b>	33,710
Effect of interest on convertible notes	-	328
Adjustment to the share of result of subsidiaries based on the effect of dilutive share options	<b>(202)</b>	(12)
Earnings for the purpose of diluted earnings per share	<b>34,062</b>	34,026
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>567,322,637</b>	565,367,937
Effect of dilutive convertible notes	-	15,179,112
Effect of dilutive share options	<b>66,023</b>	1,230,408
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>567,388,660</b>	581,777,457

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 16. GOODWILL (NEGATIVE GOODWILL)

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
GROSS AMOUNT			
Arising on acquisition of a subsidiary	–	(11,283)	(11,283)
Arising on acquisition of further interests in subsidiaries	5,259	–	5,259
At 31st December, 2001	5,259	(11,283)	(6,024)
AMORTISATION/RELEASED TO INCOME (Amortised) released for the year and at 31st December, 2001	(526)	403	(123)
CARRYING AMOUNT			
At 31st December, 2001	4,733	(10,880)	(6,147)

Negative goodwill is presented as a deduction from assets and is released to income on a straight-line basis over 28 years, being the remaining useful life of the non-monetary assets acquired.

### 17. INVESTMENT PROPERTIES

	The Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of the year	46,600	14,500
Additions	–	28,923
Reclassification from leasehold land and buildings	–	3,193
Decrease on revaluation	–	(16)
At end of the year	46,600	46,600

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 17. INVESTMENT PROPERTIES (Continued)

The Group's investment properties comprise:

	2001 HK\$'000	2000 HK\$'000
Properties held under medium term leases:		
In Hong Kong	43,400	43,400
Other regions in the PRC	3,200	3,200
	<b>46,600</b>	46,600

Investment properties situated in Hong Kong and the PRC were revalued at 31st December, 2001 by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, an independent firm of professional valuer, on an open market existing use basis. The net decrease arising on revaluation in 2000 of HK\$16,000 had been charged to the consolidated income statement.

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

### 18. 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 and equipment HK\$'000	Assets under installation HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1st January, 2001	329,689	18,738	15,819	14,620	259,327	5,031	-	643,224
Exchange differences	-	-	(4)	(13)	(98)	-	-	(115)
On acquisition of a subsidiary	64,251	264	585	73	21,100	-	-	86,273
Additions	7,812	700	852	1,635	6,828	21,442	2,300	41,569
Disposals	-	(52)	(918)	(1,248)	(411)	-	-	(2,629)
Reclassification	(503)	2,465	(974)	-	24,989	(25,977)	-	-
At 31st December, 2001	401,249	22,115	15,360	15,067	311,735	496	2,300	768,322
DEPRECIATION								
At 1st January, 2001	178,185	12,676	10,643	9,829	142,514	-	-	353,847
Exchange differences	-	-	(1)	(1)	(12)	-	-	(14)
On acquisition of a subsidiary	32,251	263	422	73	13,760	-	-	46,769
Provided for the year	5,220	1,064	1,527	1,901	14,350	-	-	24,062
Eliminated on disposals	-	(7)	(594)	(1,126)	(298)	-	-	(2,025)
Reclassification	(112)	497	(497)	-	112	-	-	-
At 31st December, 2001	215,544	14,493	11,500	10,676	170,426	-	-	422,639
NET BOOK VALUES								
At 31st December, 2001	185,705	7,622	3,860	4,391	141,309	496	2,300	345,683
At 31st December, 2000	151,504	6,062	5,176	4,791	116,813	5,031	-	289,377

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 18. 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, 2001	617	400	305	1,322
Additions	–	38	286	324
At 31st December, 2001	617	438	591	1,646
DEPRECIATION				
At 1st January, 2001	246	151	122	519
Provided for the year	123	86	75	284
At 31st December, 2001	369	237	197	803
NET BOOK VALUES				
At 31st December, 2001	248	201	394	843
At 31st December, 2000	371	249	183	803

The net book values of leasehold land and buildings and construction in progress shown above comprises:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings:		
Situated in Hong Kong held under medium term leases	125,679	96,565
Situated in other regions in the PRC held under medium term leases	52,949	54,939
Situated outside Hong Kong held under freehold	7,077	–
	185,705	151,504
Construction in progress:		
Situated in Hong Kong held under medium term leases	2,300	–
	188,005	151,504

The net book values of motor vehicles and plant and machinery and equipment of the Group include an amount of approximately HK\$0.4 million (2000: HK\$0.6 million) and approximately HK\$28.9 million (2000: HK\$9.1 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, 2001

### 19. INVESTMENTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	244,210	251,283

Particulars of the principal subsidiaries at 31st December, 2001 are as follows:

Name	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ 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	61.11%	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 **	61.11%	Manufacturing and sales of ALC Products
Daido Concrete (H.K.) Limited	Hong Kong	HK\$750,000,000 Ordinary shares	61.11%	Investment holding
Daido Group Limited	Bermuda	HK\$30,000,000 Ordinary shares	61.11%	Investment holding
Daido Home Finance Limited	Hong Kong	HK\$100,000 Ordinary shares	61.11%	Money lending
Daido Home International Limited	Cayman Islands	HK\$225,375,000 Ordinary shares HK\$91,500,000 Convertible redeemable preference shares ***	61.11%	Investment holding, sales and installation of ALC Products and sales of building materials

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ 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	61.11%	Manufacturing and sales of semi- precast concrete slab
Ding Cheong Limited	Hong Kong	HK\$500,000 Ordinary shares	55%	Sales of construction materials
Dyna Concrete Limited	Hong Kong	HK\$60,000,000 Ordinary shares	100%	Construction and sales of concrete pipes and related products
Fulwealth Metal Factory Limited *	Hong Kong	HK\$20,000,000 Ordinary shares	77%	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 sales of metal products
Golik Metal Manufacturing Co. Limited	Hong Kong	HK\$30,000,000 Ordinary shares	61.11%	Manufacturing and sales 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%	Sales of steel bars

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ 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 sales of steel wire products and steel ropes
Jade Ocean Limited	Hong Kong	HK\$2 Ordinary shares	100%	Property holding
Kam Sing Limited *	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding
Locusrite Limited #	United Kingdom	£100,000 Ordinary shares	80%	Manufacturing and sales of metal products
Luenik Construction Material Company Limited	Hong Kong	HK\$200,000 Ordinary shares	80%	Sales of construction materials
Stahl Trading Pty Limited #	Australia	AUS\$100 Ordinary shares	100%	Sales of steel and metal products
Tak Sun Limited	British Virgin Islands	US\$1 Ordinary share	61.11%	Investment holding
The Spacers & Bar Chairs Manufacturer Company Limited	Hong Kong	HK\$800,000 Ordinary shares	80%	Manufacturing and sales of construction materials
Worldlight Group Limited *	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding



# Notes to the Financial Statements

For the year ended 31st December, 2001

## 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Ytong Hong Kong Limited	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares **	61.11%	Installation of ALC Products
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 sales of metal products
廣州高力鋼網製造有限公司 #	The People's Republic of China	US\$500,000 Registered capital	100%	Manufacturing and sales 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 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 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, result in particulars of excessive length.

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.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 20. INVESTMENT IN A SECURITY

	<b>The Group and the Company</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Investment security:		
Equity security, unlisted at cost	<b>5,000</b>	5,000

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

### 21. LONG-TERM RECEIVABLES

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Building mortgage loans (note a)	<b>750</b>	894
Other loans – secured (note b)	<b>15,000</b>	15,000
Retention receivables (note c)	<b>10,938</b>	12,973
Trade receivables (note d)	<b>1,201</b>	1,293
	<b>27,889</b>	30,160
Less: amounts due within one year shown under trade and other receivables	<b>(25,934)</b>	(26,818)
Amounts due after one year	<b>1,955</b>	3,342

- (a) The building mortgage loans bear interest at 4% above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2009.
- (b) The loan is secured, bears interest at 4% (2000: 8%) per annum and is repayable in October 2002.
- (c) The retention receivables are not due at the balance sheet date according to the provisions in the construction contracts and hence, no aged analysis is presented.
- (d) The amounts are aged over 120 days and are repayable by yearly instalments up to 2005.

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 22. INVENTORIES

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	<b>54,121</b>	89,397
Work in progress	<b>5,990</b>	5,333
Finished goods	<b>82,690</b>	70,354
Supplies	<b>363</b>	356
	<b>143,164</b>	165,440

Included above are raw materials of HK\$883,000 (2000: HK\$625,000), work in progress of HK\$495,000 (2000: HK\$258,000) and finished goods of HK\$3,341,000 (2000: HK\$5,247,000) which are carried at net realisable value.

### 23. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from C.O.D. to 150 days to its customers.

Included in trade and other receivables are trade receivables of HK\$279,862,000 (2000: HK\$247,736,000) with an aged analysis as follows:

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
0 – 30 days	<b>92,664</b>	129,482
31 – 60 days	<b>68,125</b>	55,405
61 – 90 days	<b>48,982</b>	32,621
91 – 120 days	<b>28,151</b>	17,020
More than 120 days	<b>41,940</b>	13,208
	<b>279,862</b>	247,736

## Notes to the Financial Statements

For the year ended 31st December, 2001

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

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits less recognised losses	275,267	346,649
Progress payments received and receivable	(310,880)	(394,810)
	(35,613)	(48,161)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	72	134
Amounts due to customers for contract work	(35,685)	(48,295)
	(35,613)	(48,161)

### 25. AMOUNTS DUE FROM (TO) MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and are repayable on demand. The amounts due from minority shareholders were fully repaid during the year.

### 26. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$63,958,000 (2000: HK\$51,079,000) with an aged analysis as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
0 – 30 days	30,910	22,808
31 – 60 days	21,078	22,635
61 – 90 days	7,896	3,872
91 – 120 days	1,557	212
More than 120 days	2,517	1,552
	63,958	51,079

### 27. NOTES PAYABLE TO A SHAREHOLDER

The notes payable were unsecured, bore interest at 6% per annum payable semi-annually in arrears and were fully repaid during the year.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st December 2000 and 2001	1,800,000,000	180,000
Issued and fully paid:		
At 1st January, 2000	558,377,500	55,838
Issued upon the exercise of options	8,500,000	850
At 31st December, 2000	566,877,500	56,688
Issued upon the exercise of options	485,000	48
At 31st December, 2001	567,362,500	56,736

During the year, 485,000 (2000: 8,500,000) ordinary shares of the Company were issued at HK\$0.24 per share upon the exercise of options by option holders.

### 29. SHARE OPTION SCHEMES

- (i) Pursuant to the share option scheme of the Company adopted on 25th June, 1994 for the primary purpose of providing incentive to directors and eligible employees, and which will expire 10 years after the date of adoption (i.e. 26th June, 2004), the board of 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 an exercise 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 scheme represent 10% of the issued share capital of the Company from time to time. No employee may be granted options under the scheme which would enable him or her if exercise in full to subscribe for exceeding 25% of the maximum aggregate number of shares in the capital of the Company. Upon acceptance of option, the grantee shall pay HK\$1 to the Company as consideration. 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 1.1.2001	Exercised during the year	Lapsed during the year	Balance at 31.12.2001
27th November, 1998	27th May, 1999 to 26th May, 2001	HK\$0.24	2,500,000	(485,000)	(2,015,000)	-

No share option was granted during the year.

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 29. SHARE OPTION SCHEMES *(Continued)*

- (ii) Pursuant to the share option scheme of Daido Group Limited ("Daido") 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 (i.e. 30th August, 2010), the board of directors of Daido may grant options to executive directors or full time employees of Daido to subscribe for shares in Daido at an exercise price not less than 80% of the average of the closing prices of Daido'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 represent 10% of the issued share capital of Daido from time to time. No employee may be granted options under the scheme which would enable him or her if exercise in full to subscribe for exceeding 25% of the maximum aggregate number of shares in the capital of Daido. Upon acceptance of option, the grantee shall pay HK\$1 to Daido as consideration.

<b>Date granted</b>	<b>Exercisable period (Both dates inclusive)</b>	<b>Exercise price</b>	<b>Number of share options as at 1.1.2001 and 31.12.2001</b>	<b>Percentage on issued share capital of Daido</b>
16th November, 2000	16th May, 2001 to 15th May, 2003	HK\$0.063	145,000,000	4.83%

There was no movement in share options granted under the scheme during the year.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 30. RESERVES

	Share premium HK\$'000	Revaluation reserve HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP							
At 1st January, 2000							
- as previously stated	316,885	19,367	-	(181,262)	11	120,013	275,014
- prior year adjustment (note 2)	-	-	-	-	-	11,168	11,168
- as restated	316,885	19,367	-	(181,262)	11	131,181	286,182
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)
Net profit for the year	-	-	-	-	-	33,710	33,710
Dividend	-	-	-	-	-	(11,338)	(11,338)
At 31st December, 2000	318,050	19,367	-	(188,477)	215	153,553	302,708
Exchange difference arising from the translation of overseas subsidiaries	-	-	-	-	52	-	52
Realised on disposal of interest in a subsidiary to minority shareholders	-	-	-	577	-	-	577
Shares issued at premium	68	-	-	-	-	-	68
Net profit for the year	-	-	-	-	-	34,264	34,264
At 31st December, 2001	318,118	19,367	-	(187,900)	267	187,817	337,669

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 30. RESERVES (Continued)

	Share premium HK\$'000	Revaluation reserve HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
THE COMPANY							
At 1st January, 2000							
- as previously stated	316,885	-	66,061	-	-	(129)	382,817
- prior year adjustment (note 2)	-	-	11,168	-	-	-	11,168
- as restated	316,885	-	77,229	-	-	(129)	393,985
Shares issued at premium	1,190	-	-	-	-	-	1,190
Expenses on issue of shares	(25)	-	-	-	-	-	(25)
Net profit for the year	-	-	-	-	-	53,638	53,638
Dividend	-	-	(11,338)	-	-	-	(11,338)
At 31st December, 2000	318,050	-	65,891	-	-	53,509	437,450
Shares issued at premium	68	-	-	-	-	-	68
Net loss for the year	-	-	-	-	-	(881)	(881)
<b>At 31st December, 2001</b>	<b>318,118</b>	<b>-</b>	<b>65,891</b>	<b>-</b>	<b>-</b>	<b>52,628</b>	<b>436,637</b>

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 accumulated 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:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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.



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 30. RESERVES (Continued)

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

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	65,891	65,891
Accumulated profits	52,628	53,509
	<b>118,519</b>	119,400

### 31. DEFERRED TAX

	The Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of the year	9,410	8,374
On acquisition of subsidiaries	-	36
Movement for the year (note 13)	(4,750)	1,000
At end of the year	<b>4,660</b>	9,410

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

	Provided		Unprovided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(4,873)	(9,472)	(31,531)	(24,818)
Impairment of property, plant and equipment	-	-	13,067	14,301
Taxation losses	213	62	117,788	113,418
Net deferred tax (liability) asset	<b>(4,660)</b>	(9,410)	<b>99,324</b>	102,901

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 31. DEFERRED TAX (Continued)

	Unprovided	
	2001	2000
	HK\$'000	HK\$'000
THE COMPANY		
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(71)	(68)
Taxation losses	7,680	5,651
Net deferred tax asset	7,609	5,583

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 revaluation increase arising on the revaluation of properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

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

	Provided		Unprovided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
(Shortfall) excess of tax allowances over depreciation	(4,599)	1,062	5,440	7,305
Impairment of property, plant and equipment	-	-	1,234	1,233
Taxation losses	(151)	(62)	5,918	(13,363)
	(4,750)	1,000	12,592	(4,825)

During the year, unprovided deferred tax asset of HK\$9,015,000 (2000: HK\$Nil) were arising from acquisition of subsidiaries.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 32. BANK BORROWINGS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	16,420	11,472	-	-
Bank loans	5,118	2,263	-	-
Convertible note (Note)	20,000	20,000	20,000	20,000
Mortgage loans	38,115	26,279	-	-
Trust receipt loans	207,382	209,737	-	-
	<b>287,035</b>	269,751	<b>20,000</b>	20,000
Analysed as:				
Secured	62,964	47,360	20,000	20,000
Unsecured	224,071	222,391	-	-
	<b>287,035</b>	269,751	<b>20,000</b>	20,000
The bank borrowings are repayable as follows:				
On demand or within one year	263,182	257,229	20,000	20,000
More than one year, but not exceeding two years	5,134	5,622	-	-
More than two years, but not exceeding five years	11,439	6,900	-	-
More than five years	7,280	-	-	-
	<b>287,035</b>	269,751	<b>20,000</b>	20,000
Less: amounts due within one year shown under current liabilities	(263,182)	(257,229)	(20,000)	(20,000)
Amounts due after one year	<b>23,853</b>	12,522	-	-

Note:

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

- three years from the date of advance at 110% of the principal amount; or
- 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 the date of the IPO ("IPO Redemption Amount").

The convertible noteholder 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.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 33. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	Minimum lease payments		Present value of minimum lease payments	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Within one year	8,063	3,958	7,344	3,519
In the second to fifth year inclusive	9,616	2,760	8,978	2,651
	17,679	6,718	16,322	6,170
Less: future finance charges	(1,357)	(548)	-	-
Present value of lease obligations	16,322	6,170	16,322	6,170
Less: amounts due within one year shown under current liabilities			(7,344)	(3,519)
Amounts due after one year			8,978	2,651

It is the Group's policy to lease/purchase certain of its motor vehicles and plant and machinery and equipment under finance leases or hire purchase contracts. The lease/contract terms are ranging from 2 to 4 years. For the year ended 31 December 2001, the average effective borrowing rates were ranging from 5% to 7.5% or at prime rate. All leases and contracts are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under finance leases and hire purchase contracts are secured by the lessor's/hirer's charge over the leased assets.

### 34. LONG-TERM PAYABLES

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables	6,000	10,541	2,108	10,541
Less: amount due within one year shown under trade and other payable	(4,437)	(8,433)	(2,108)	(8,433)
Amount due after one year	1,563	2,108	-	2,108

The amounts are unsecured and interest-free. An amount of HK\$2,108,000 (2000: HK\$10,541,000) is repayable by instalments up to 16th February, 2002. The remaining amount of HK\$3,892,000 is repayable by instalments up to 16th April, 2003.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 35. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	53,457	59,454
Share of results of a jointly controlled entity	-	1,614
Interest income	(5,383)	(16,432)
Interest expenses	19,810	23,648
Amortisation of goodwill, net	123	-
Depreciation	24,062	22,962
Gain on disposal of property held for sale	-	(909)
Loss (gain) on disposal of interest in a subsidiary	34	(2)
Gain on disposal of an associate	-	(47)
Loss (gain) on disposal of property, plant and equipment	352	(1,500)
Gain on disposal of subsidiaries	-	(6,768)
Write off of amount due from an associate	-	7
Impairment loss recognised in respect of a jointly controlled entity	-	119
Decrease on revaluation of investment properties	-	16
Decrease (increase) in inventories	23,468	(63,803)
Decrease in trade and other receivables	8,023	11,238
Decrease (increase) in amounts due from customers for contract work	62	(122)
(Decrease) increase in amounts due to customers for contract work	(12,610)	298
Decrease in trade and other payables	(36,586)	(8,054)
Effect of foreign exchange rate changes	349	5
Net cash inflow from operating activities	75,161	21,724

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 36. ACQUISITION OF SUBSIDIARIES

On 16th October, 2001, the Group acquired a 100% interest in Dyna Concrete Limited for a consideration of HK\$8,633,000.

	2001 HK\$'000	2000 HK\$'000
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	39,504	1,103
Inventories	1,246	-
Trade and other receivables	28,461	799
Bank balances and cash	12,702	-
Trade and other payables	(61,997)	(1,675)
Bank overdrafts	-	(9)
Tax payable	-	(20)
Deferred tax	-	(36)
	19,916	162
(Negative goodwill) goodwill	(11,283)	1,734
Total consideration	8,633	1,896
Satisfied by:		
Cash	4,741	1,896
Consideration payable	3,892	-
	8,633	1,896
Net cash inflow (outflow) arising on acquisition:		
Cash	(4,741)	(1,896)
Bank balances and cash acquired	12,702	-
Bank overdrafts acquired	-	(9)
Net inflow (outflow) of cash and cash equivalents in respect of acquisition of subsidiaries	7,961	(1,905)

The subsidiaries acquired during the year contributed approximately HK\$0.2 million to the Group's net operating cash outflows and incurred approximately HK\$3.9 million for investing activities.

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

The subsidiaries acquired during the year contributed approximately HK\$24.4 million (2000: HK\$5.7 million) to the Group's turnover and approximately HK\$4.0 million (2000: HK\$Nil) to the Group's profit from operations.

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 37. DISPOSAL OF SUBSIDIARIES

	2000 HK\$'000
<b>NET ASSETS DISPOSED OF</b>	
Interest in a jointly controlled entity	8,534
Trade and other receivables	2
Trade and other payables	(111)
	8,425
Gain on disposals	6,768
	15,193
Satisfied by:	
Cash	15,193

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

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

# Notes to the Financial Statements

For the year ended 31st December, 2001

## 38. 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	Bank loans HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Amounts due to minority shareholders HK\$'000	Amount due to a shareholder HK\$'000	Minority interests HK\$'000
At 1st January, 2000	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
Acquisition of further interests in subsidiaries	-	-	-	-	-	-	-	-	-	(11,221)
Disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	-	6,425
Exchange difference arising from translation of overseas subsidiaries	-	-	-	-	-	-	-	-	-	6
Share issued at premium	116	-	-	-	-	-	-	-	-	-
Share of results by minority interests	-	-	-	-	-	-	-	-	-	21,714
Dividends paid to the minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(8,506)
Inception of new finance leases and hire purchase contracts	-	-	-	-	-	-	16,764	-	-	-
New borrowings	-	23,401	124,075	-	-	40,118	-	-	124	-
Repayment of borrowings	-	(11,565)	(107,038)	-	(22,850)	(37,263)	(6,612)	(3,560)	-	-
At 31st December, 2001	374,854	38,115	207,382	20,000	-	5,118	16,322	7,232	124	115,658



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 39. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, 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\$16,764,000 (2000: HK\$6,474,000).
- (ii) The consideration in respect of the acquisition of subsidiaries (2000: further interests in subsidiaries) of approximately HK\$3,892,000 (2000: HK\$10,541,000) had not been settled as at the balance sheet date.
- (iii) In 2000, investment properties of approximately HK\$27,800,000 were acquired from debtors as settlement of amounts owe from them.

### 40. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks as securities against the general banking facilities granted to the Group:

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Investment properties	<b>46,600</b>	17,700
Land and buildings	<b>86,650</b>	49,592
Plant and machinery and equipment	<b>5,342</b>	3,851
Bank deposits	<b>2,942</b>	16,094
	<b>141,534</b>	87,237

In addition, the Group has also pledged the shares of one of its subsidiaries with a market value of approximately HK\$10,703,000 (2000: HK\$Nil), representing the Group's 4.69% interest in this subsidiary, to the vendor of the shares as securities against the unpaid consideration.

### 41. CONTINGENT LIABILITIES

At the balance sheet date the Company had provided corporate guarantees to the extent of approximately HK\$719,550,000 (2000: HK\$653,388,000) to banks to secure general banking facilities granted to its subsidiaries. The total facilities utilised by the subsidiaries at 31st December, 2001 amounted to approximately HK\$235,291,000 (2000: HK\$234,477,000).

The Group did not have any contingent liabilities at the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 42. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee:

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

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Land and buildings</b>				
Within one year	6,274	4,352	2,212	2,090
In the second to fifth year inclusive	7,679	2,856	1,692	266
After five years	4,360	739	-	-
	<b>18,313</b>	<b>7,947</b>	<b>3,904</b>	<b>2,356</b>
<b>Plant and machinery and equipment</b>				
Within one year	1,532	659	-	-
In the second to fifth year inclusive	6,294	2,591	-	-
After five years	1,968	1,723	-	-
	<b>9,794</b>	<b>4,973</b>	<b>-</b>	<b>-</b>

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises, staff quarters and plant and machinery and equipment. Leases of office premises and staff quarters are negotiated for terms ranging from one to twenty years. Leases of plant and machinery and equipment are negotiated for terms ranging from two to ten years.

The Group as lessor:

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	2,414	1,868
In the second to fifth year inclusive	1,513	2,375
	<b>3,927</b>	<b>4,243</b>

All of the properties held have committed tenants for the next one to two years.

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 43. CAPITAL COMMITMENTS

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>3,444</b>	11,521

At the balance sheet date, the Group has entered into an agreement to establish a joint venture in the PRC, of which, the Group will contribute US\$510,000 for a 51% interest in the joint venture.

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

### 44. 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 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 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 MPF Scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions.

During the year, the Group made retirement benefits scheme contributions of approximately HK\$2,865,000 (2000: HK\$674,000) after forfeited contributions utilised in the Defined Contribution Scheme of approximately HK\$352,000 (2000: HK\$989,000).

## Notes to the Financial Statements

*For the year ended 31st December, 2001*

### 45. RELATED PARTY TRANSACTIONS

- (i) During the year, the Group entered into the following transactions with related parties:
  - (a) Full settlement of twenty 5-year 6% notes with an aggregate outstanding balance of HK\$22,850,000 to Golik Investments Limited ("GIL"), a substantial shareholder.
  - (b) Interest paid and payable in respect of the notes in (a) above amounting to approximately HK\$157,000.
  - (c) Disposed of 8% interest in Fulwealth Metal Factory Limited to minority shareholders for a consideration of HK\$7,000,000.
- (ii) In 2000, 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 GIL 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.

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

### 46. SIGNIFICANT POST BALANCE SHEET EVENTS

- (i) On 11th January, 2002, the Group contributed US\$510,000 for a 51% interest in a newly established joint venture which will be engaged in the manufacturing and sales of wire ropes.
- (ii) 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 security against the loan facilities granted to the Group.