

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 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 SSAPs has resulted in the presentation of the statement of changes in equity and a change in the format of presentation of cash flow statement.

#### Foreign currencies

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

#### Cash flow statements

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

#### Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans.

Besides, the standard has introduced additional disclosure requirements which have been adopted in these financial statements. The adoption of SSAP 34 has had no material impact on the financial statements.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention 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.

#### **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. 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.

#### **Investments in subsidiaries**

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

#### **Interests in jointly controlled entities**

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 interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities on acquisition less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

#### **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.

##### *Others*

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, 2002

### 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, other than assets under installation and construction in progress, are stated at cost less depreciation and any identified impairment losses.

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% – 33 $\frac{1}{3}$ %
Motor vehicles	20% – 33 $\frac{1}{3}$ %
Plant and machinery and equipment	5% – 50%

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

No provision for depreciation is made on assets under installation 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.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

#### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease. 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 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.

#### **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 loss is 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.

#### **Inventories**

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

Other than the cost of inventories of concrete products and printing materials which are 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.

#### **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.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

#### **Construction contracts** *(Continued)*

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.

#### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

#### **Foreign currencies**

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

On consolidation, the assets and liabilities of the Group's operations which are denominated in foreign currencies and which operate in The People's Republic of China ("PRC") and overseas are translated at the rates prevailing on the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **Taxation**

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 4. SEGMENT INFORMATION

#### Business segments

For management purposes, the Group is currently organised into five operating divisions – manufacturing of steel and metal products, sales of steel and metal products, construction work contracting and sales of ALC and precast concrete products, manufacturing of construction materials, 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:

#### 2002

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of ALC and precast concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>								
External sales	603,949	99,086	69,388	196,923	244,176	25,959	–	1,239,481
Inter-segment sales	9,505	157,814	–	9,937	25,806	–	(203,062)	–
<b>Total revenue</b>	<b>613,454</b>	<b>256,900</b>	<b>69,388</b>	<b>206,860</b>	<b>269,982</b>	<b>25,959</b>	<b>(203,062)</b>	<b>1,239,481</b>

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

<b>SEGMENT RESULT</b>	<b>80,765</b>	<b>(783)</b>	<b>15,214</b>	<b>14,078</b>	<b>2,566</b>	<b>56</b>	<b>139</b>	<b>112,035</b>
Amortisation of goodwill								(526)
Release of negative goodwill								413
Unallocated other operating income								12,488
Unallocated corporate expenses								(30,430)
<b>Profit from operations</b>								<b>93,980</b>

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business segments (Continued)

2002 (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 ALC and precast concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>								
Segment assets	506,562	303,928	155,393	292,610	157,982	100,302	(274,457)	1,242,320
Interest in a jointly controlled entity	-	-	-	-	-	1,257	-	1,257
Unallocated corporate assets								80,664
Consolidated total assets								1,324,241
<b>LIABILITIES</b>								
Segment liabilities	132,311	81,821	34,404	124,217	98,440	25,699	(262,617)	234,275
Unallocated corporate liabilities								509,386
Consolidated total liabilities								743,661

#### OTHER INFORMATION

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of ALC and precast concrete products HK\$'000	Manufacturing of construction materials HK\$'000	Sales of construction materials HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditures	56,082	8,302	139	49,697	467	1,753	1,287	117,727
Depreciation	9,033	740	5,894	11,273	534	15	1,202	28,691
Amortisation of goodwill	-	-	-	-	-	-	526	526
Release of negative goodwill	-	-	-	-	-	-	(413)	(413)
Allowance for (write back of)								
bad and doubtful debts, net	1,038	953	(2,872)	859	1,785	-	-	1,763
Trade and other payables written back	-	-	(716)	(1,093)	(299)	-	-	(2,108)
Loss (gain) on disposal of property, plant and equipment	1,004	-	316	(2,907)	10	-	4,099	2,522



# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business segments (Continued)

2001

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of ALC and precast 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)	–
<b>Total revenue</b>	<b>464,948</b>	<b>217,292</b>	<b>65,381</b>	<b>130,061</b>	<b>191,896</b>	<b>(61,420)</b>	<b>1,008,158</b>

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

<b>SEGMENT RESULT</b>	<b>43,595</b>	<b>7,210</b>	<b>22,779</b>	<b>6,807</b>	<b>2,009</b>	<b>65</b>	<b>82,465</b>
Amortisation of goodwill							(526)
Release of negative goodwill							403
Unallocated other operating income							8,961
Unallocated corporate expenses							(10,841)
<b>Profit from operations</b>							<b>80,462</b>

#### BALANCE SHEET

	Manufacturing of steel and metal products HK\$'000	Sales of steel and metal products HK\$'000	Construction work contracting and sales of ALC and precast 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
<b>Consolidated total assets</b>							<b>1,045,501</b>
<b>LIABILITIES</b>							
Segment liabilities	91,931	32,993	54,655	114,083	37,444	(97,223)	233,883
Unallocated corporate liabilities							301,555
<b>Consolidated total liabilities</b>							<b>535,438</b>

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 4. SEGMENT INFORMATION (Continued)

#### Business segments (Continued)

2001 (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 ALC and precast 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	53,670	2,958	1,052	81,073
Depreciation	8,412	724	5,332	7,599	787	1,208	24,062
Amortisation of goodwill	-	-	-	-	-	526	526
Release of negative goodwill	-	-	-	-	-	(403)	(403)
Allowance for (write back of)							
bad and doubtful debts, net	1,067	248	(7,131)	31	405	-	(5,380)
Write back of provision for							
severance payments	-	-	(4,830)	-	-	-	(4,830)
Write back of provision for claims	-	-	(6,898)	-	-	-	(6,898)
Loss (gain) on disposal of							
property, plant and equipment	26	(8)	283	(19)	25	45	352

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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	991,966	745,135	106,471	72,237
Other regions in the PRC	217,709	237,636	4,592	9,677
United Kingdom	13,290	15,744	605	166
Australia	6,435	5,290	(230)	(147)
Others	10,081	4,353	597	532
	1,239,481	1,008,158	112,035	82,465
Amortisation of goodwill			(526)	(526)
Release of negative goodwill			413	403
Unallocated other operating income			12,488	8,961
Unallocated corporate expenses			(30,430)	(10,841)
Profit from operations			93,980	80,462

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 4. SEGMENT INFORMATION *(Continued)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	938,279	833,242	30,368	31,054
Other regions in the PRC	361,524	191,815	55,352	2,293
United Kingdom	20,379	16,698	492	8,215
Australia	4,059	3,746	14	7
	1,324,241	1,045,501	86,226	41,569

### 5. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Claims received	–	5,708
Commission income	–	3,693
Consultancy income	–	2,850
Customs duty refund	–	2,200
Management income	508	212
Other service income	13	234
Processing income	2,005	2,142
Property manager remuneration	421	474
Rental income	4,127	3,374
Sales of metal scrap	3,061	2,604
Trade and other payables written back	2,108	–
Sundry income	5,081	4,041
Transportation income	6,705	2,048
Write back of provision for severance payments	–	4,830
	24,029	34,410

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 6. ADMINISTRATIVE EXPENSES

Included in administrative expenses is a net allowance for bad and doubtful debts of HK\$1,763,000 (2001: net write back of allowance for bad and doubtful debts HK\$5,380,000).

### 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 was written back accordingly.

### 8. PROFIT FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<hr/>		
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	3,002	2,743
Underprovision in prior years	198	319
Depreciation		
Owned assets	26,599	22,495
Assets held under finance leases	2,092	1,567
Minimum lease payments for operating leases in respect of		
Land and buildings	9,127	4,639
Plant and machinery	1,579	559
Staff costs including directors' emoluments and contributions to retirement benefits scheme	121,562	100,770
Amount capitalised in contract work	(9,174)	(12,469)
Amount capitalised in assets under installation	–	(1,762)
	<hr/> 112,388	<hr/> 86,539

Minimum lease payments for operating leases in respect of a director's and an employee's accommodation amounting to HK\$1,320,000 (2001: HK\$1,305,200) and HK\$405,000 (2001: HK\$420,000) respectively are included under staff costs.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 9. EXPENSES FOR PROPOSED INVESTMENT WRITTEN OFF

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. This amount together with other expenses of HK\$4,661,000 incurred for the acquisition have been charged to the consolidated income statement in prior year.

### 10. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	17,285	18,273
Bank borrowings not wholly repayable within five years	680	165
Finance leases	784	648
Notes payable to a shareholder	–	157
Other borrowings wholly repayable within five years	573	567
Total borrowing costs	19,322	19,810
Less: amount capitalised in assets under installation	(281)	–
	19,041	19,810

Borrowing costs capitalised during the year arose on borrowings specifically for the installation works.

### 11. LOSS ON DISPOSAL OF SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Loss on deemed disposal of interest in a subsidiary	4,500	34
Loss on disposal of a subsidiary	55	–
	4,555	34

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive	–	–
Independent non-executive	152	144
	152	144
Other emoluments:		
Executive		
Salaries and other benefits	6,383	6,509
Performance related bonus	3,400	1,300
Contributions to retirement benefits scheme	376	361
	10,159	8,170
	10,311	8,314

The directors' emoluments were within the following bands:

	2002 Number of directors	2001 Number of directors
HK\$Nil to HK\$1,000,000	2	4
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$5,500,001 – HK\$6,000,000	1	–
	5	7

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

#### (b) Employees' emoluments

The five highest paid individuals included two directors (2001: three directors), details of whose emoluments are set out above. The emoluments of the remaining three individuals (2001: two individuals), excluding commission on sales generated by the employees, are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	7,485	4,037
Contributions to retirement benefits scheme	69	58
	7,554	4,095

Their emoluments were within the following bands:

	2002 No. of employees	2001 No. of employees
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	2	1
HK\$3,000,001 – HK\$3,500,000	1	–
	3	2

### 13. TAXATION (CHARGE) CREDIT

	2002 HK\$'000	2001 HK\$'000
The (charge) credit comprises:		
Hong Kong Profits Tax		
Current year	(6,030)	(2,838)
Overprovision in respect of prior years	8	775
Taxation outsides Hong Kong		
Current year	(278)	(166)
Deferred tax ( <i>note 33</i> )	(24)	4,750
	(6,324)	2,521

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

Taxation outsides Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 14. DIVIDEND

On 26th June, 2002 a dividend of 2 HK cents per share, amounting to HK\$11,347,000 was paid to shareholders as final dividend in respect of 2001.

A dividend in respect of 2002 of 2.5 HK cents per share, amounting to HK\$14,184,000 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:

	2002 HK\$'000	2001 HK\$'000
Earnings for the purpose of basic earnings per share	41,228	34,264
Adjustment to the share of results of subsidiaries based on the effect of dilutive share options	(8)	(202)
Earnings for the purpose of diluted earnings per share	41,220	34,062
Weighted average number of ordinary shares for the purpose of basic earnings per share	567,362,500	567,322,637
Effect of dilutive share options	–	66,023
Weighted average number of ordinary shares for the purpose of diluted earnings per share	567,362,500	567,388,660

### 16. GOODWILL (NEGATIVE GOODWILL)

	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
GROSS AMOUNT			
At 1st January, 2002	5,259	(11,283)	(6,024)
Arising on acquisition of subsidiaries	38,346	(1,344)	37,002
At 31st December, 2002	43,605	(12,627)	30,978
AMORTISATION/RELEASED TO INCOME			
At 1st January, 2002	(526)	403	(123)
(Amortised) released for the year	(526)	413	(113)
At 31st December, 2002	(1,052)	816	(236)
CARRYING AMOUNTS			
At 31st December, 2002	42,553	(11,811)	30,742
At 31st December, 2001	4,733	(10,880)	(6,147)



# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 16. GOODWILL (NEGATIVE GOODWILL) (Continued)

Goodwill is amortised on straight-line basis over the estimated useful life of 10 years.

Negative goodwill is presented as a deduction from assets and is released to income on a straight-line basis over the range of 11 years to 28 years, being the remaining useful life of the non-monetary assets acquired.

### 17. INVESTMENT PROPERTIES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
At beginning of the year	46,600	46,600
Decrease on revaluation	(1,500)	–
At end of the year	45,100	46,600

The Group's investment properties comprise:

	2002	2001
	HK\$'000	HK\$'000
Properties held under medium term leases:		
In Hong Kong	42,030	43,400
Other regions in the PRC	3,070	3,200
	45,100	46,600

Investment properties situated in Hong Kong and the PRC were revalued at 31st December, 2002 by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, an independent firm of professional valuer, on an open market existing use basis. The decrease arising on revaluation of HK\$1,500,000 (2001: Nil) had 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, 2002

### 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles	Plant and machinery and equipment	Assets under installation	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
COST								
At 1st January, 2002	401,249	22,115	15,360	15,067	311,735	496	2,300	768,322
Exchange differences	722	–	18	34	421	–	–	1,195
On acquisition of subsidiaries	2,327	517	1,129	24,259	15,367	–	–	43,599
Additions	1,590	1,191	1,106	6,610	28,670	40,073	6,986	86,226
Disposals	(13,678)	(101)	(780)	(935)	(5,111)	–	–	(20,605)
On disposal of subsidiaries	–	–	–	–	(606)	–	–	(606)
Reclassification	496	–	–	–	–	(496)	–	–
<b>At 31st December, 2002</b>	<b>392,706</b>	<b>23,722</b>	<b>16,833</b>	<b>45,035</b>	<b>350,476</b>	<b>40,073</b>	<b>9,286</b>	<b>878,131</b>
DEPRECIATION								
At 1st January, 2002	215,544	14,493	11,500	10,676	170,426	–	–	422,639
Exchange differences	11	1	6	12	93	–	–	123
On acquisition of subsidiaries	415	39	506	8,351	2,787	–	–	12,098
Provided for the year	6,096	1,499	1,444	2,311	17,341	–	–	28,691
Eliminated on disposals	(2,227)	(16)	(755)	(563)	(2,402)	–	–	(5,963)
On disposal of subsidiaries	–	–	–	–	(131)	–	–	(131)
<b>At 31st December, 2002</b>	<b>219,839</b>	<b>16,016</b>	<b>12,701</b>	<b>20,787</b>	<b>188,114</b>	<b>–</b>	<b>–</b>	<b>457,457</b>
NET BOOK VALUES								
<b>At 31st December, 2002</b>	<b>172,867</b>	<b>7,706</b>	<b>4,132</b>	<b>24,248</b>	<b>162,362</b>	<b>40,073</b>	<b>9,286</b>	<b>420,674</b>
At 31st December, 2001	185,705	7,622	3,860	4,391	141,309	496	2,300	345,683

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	<b>Leasehold improvements</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE COMPANY</b>				
<b>COST</b>				
At 1st January, 2002	617	438	591	1,646
Additions	–	63	423	486
At 31st December, 2002	617	501	1,014	2,132
<b>DEPRECIATION</b>				
At 1st January, 2002	369	237	197	803
Provided for the year	124	95	132	351
At 31st December, 2002	493	332	329	1,154
<b>NET BOOK VALUES</b>				
At 31st December, 2002	124	169	685	978
At 31st December, 2001	248	201	394	843

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

	<b>THE GROUP</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Leasehold land and buildings:</b>		
Situated in Hong Kong held under medium term leases	<b>110,933</b>	125,679
Situated in other regions in the PRC held under medium term leases	<b>54,203</b>	52,949
Situated outside Hong Kong held under freehold	<b>7,731</b>	7,077
	<b>172,867</b>	185,705
<b>Construction in progress:</b>		
Situated in Hong Kong held under medium term leases	<b>2,300</b>	2,300
Situated in Hong Kong held under short term leases	<b>6,769</b>	–
Situated in other regions in the PRC held under medium term leases	<b>217</b>	–
	<b>9,286</b>	2,300
	<b>182,153</b>	188,005

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Plant and machinery of the Group includes assets carried at a cost of HK\$8,288,000 (2001: Nil) with accumulated depreciation of HK\$69,000 (2001: Nil) held for used under operating leases. Depreciation charged in respect of these assets during the year amounted to HK\$69,000 (2001: Nil).

The net book values of motor vehicles, plant and machinery and equipment and assets under installation of the Group include an amount of HK\$183,000 (2001: HK\$402,000), HK\$28,142,000 (2001: HK\$28,821,000) and HK\$2,952,000 (2001: Nil) respectively in respect of assets held under finance leases.

### 19. INVESTMENTS IN SUBSIDIARIES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	247,248	244,210

Particulars of the principal subsidiaries at 31st December, 2002 are as follows:

Name	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Advance Concord Development Limited	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	67.5%	Property holding
China Metal Technology Holdings Limited (formerly known as Golik Steel Wire Rope Limited)	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	100%	Investment holding and trading of steel and metal products
Chung Kong Printing Supplies Company Limited	Incorporated	Hong Kong	HK\$100 Ordinary shares	95%	Sales of printing materials
Dah Bang Printing Ink Manufactory Limited	Incorporated	Hong Kong	HK\$10,000 Ordinary shares HK\$10,100,000 Non-voting deferred shares**	95%	Sales of printing materials, spare parts and machines
Dah Bang Printing Supplies Limited	Incorporated	Hong Kong	HK\$2 Ordinary shares	95%	Sales of printing materials, spare parts and machines

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Daido Asia Company Limited	Incorporated	Hong Kong	HK\$2,000,000 Ordinary shares	61.11%	Sales of piles, metal products and building materials
Daido Building Materials Limited	Incorporated	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	Incorporated	Hong Kong	HK\$750,000,000 Ordinary shares	61.11%	Investment holding
Daido Group Limited	Incorporated	Bermuda	HK\$30,000,000 Ordinary shares	61.11%	Investment holding
Daido Home Finance Limited	Incorporated	Hong Kong	HK\$100,000 Ordinary shares	61.11%	Money lending
Daido Home International Limited	Incorporated	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
Daido Precast Company Limited	Incorporated	Hong Kong	HK\$2 Ordinary shares	61.11%	Manufacturing and sales of semi-precast concrete slab
Ding Cheong Limited	Incorporated	Hong Kong	HK\$500,000 Ordinary shares	55%	Sales of construction materials
Golik Concrete Limited (formerly known as Dyna Concrete Limited)	Incorporated	Hong Kong	HK\$60,000,000 Ordinary shares	100%	Construction and sales of concrete pipes and related products

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Fulwealth Metal Factory Limited*	Incorporated	Hong Kong	HK\$20,000,000 Ordinary shares	77%	Decoiling centre
Golik Finance & Investments Limited*	Incorporated	Hong Kong	HK\$5,000,000 Ordinary shares	100%	Money lending
Golik Godown Limited	Incorporated	Hong Kong	HK\$2 Ordinary shares	100%	Provision for warehouse services
Golik Metal Industrial Company Limited*	Incorporated	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	Incorporated	Hong Kong	HK\$30,000,000 Ordinary shares	61.11%	Manufacturing and sales of welded wire mesh and metal products
Golik Properties Limited*	Incorporated	Hong Kong	HK\$2 Ordinary shares	100%	Property investment
Golik Steel Company Limited	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	100%	Sales of steel bars
Heshan Hang Kei Steel Wire Manufacturing Company Limited ("Heshan Hang Kei")	Equity joint venture	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*	Incorporated	Hong Kong	HK\$2 Ordinary shares	100%	Property holding
Kam Sing Limited*	Incorporated	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ paid up registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group	Principal activities
Locusrite Limited	Incorporated	United Kingdom	£100,000 Ordinary shares	80%	Manufacturing and sales of metal products
Luenik Construction Material Company Limited	Incorporated	Hong Kong	HK\$400,000 Ordinary shares	67.5%	Sales of construction materials
Orient Smart Industrial Limited	Incorporated	Hong Kong	HK\$1,000,000 Ordinary shares	40.8%	Sales of PVC plastic products
Stahl Trading Pty Limited	Incorporated	Australia	AUS\$100 Ordinary shares	100%	Sales of steel and metal products
Tak Sun Limited	Incorporated	British Virgin Islands	US\$1 Ordinary share	61.11%	Investment holding
The Spacers & Bar Chairs Manufacturer Company Limited	Incorporated	Hong Kong	HK\$800,000 Ordinary shares	80%	Manufacturing and sales of construction materials
Tianjin Golik – No. 1 Steel Wire Rope Co., Limited	Equity joint venture	The People's Republic of China	US\$1,000,000 Registered capital	51%	Manufacturing and sales of steel wire rope for elevators
Tianjin Golik – The First PC Steel Strand Co., Limited	Equity joint venture	The People's Republic of China	RMB41,842,914 Registered capital	51%	Manufacturing and sales of prestressed steel wire
Worldlight Group Limited*	Incorporated	British Virgin Islands	US\$2 Ordinary shares	100%	Investment holding
Ytong Hong Kong Limited	Incorporated	Hong Kong	HK\$20 Ordinary shares HK\$10,000 Non-voting deferred shares**	61.11%	Installation of ALC Products

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Form of business structure	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ paid up 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	Wholly owned foreign enterprise	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	Wholly owned foreign enterprise	The People's Republic of China	US\$500,000 Registered capital	100%	Manufacturing and sales of welded wire mesh and related products
廣東水利混凝土有限公司	Equity joint venture	The People's Republic of China	RMB27,800,000 Registered capital	82%	Operating a concrete batching plant
廣州保稅區高力金屬貿易有限公司	Equity joint venture	The People's Republic of China	HK\$5,000,000 Registered capital	80%	Sales of steel and metal products
鶴山高力金屬製品有限公司	Equity joint venture	The People's Republic of China	US\$1,030,163 Registered capital	81.6%	Manufacturing and sales of steel wire products and steel ropes

\* 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.

#### 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 of Heshan Hang Kei 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, 2002

### 20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	1,257	–

Particulars of the jointly controlled entity are as follows:

Company	Form of business structure	Place of incorporation/ registration/ operation	Class of shares	Percentage of ownership attributable to the Group	Principal activities
Kunshan Rosathal Printing Ink Limited	Equity joint venture	The People's Republic of China	Registered capital	33.25%	Manufacturing and sales of printing ink

### 21. INVESTMENT IN A SECURITY

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Investment security:		
Equity security, unlisted at cost	5,000	5,000

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

### 22. LONG-TERM RECEIVABLES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Building mortgage loans ( <i>note a</i> )	581	750
Other loans ( <i>note b</i> )	19,000	15,000
Retention receivables ( <i>note c</i> )	7,477	10,938
Trade receivables ( <i>note d</i> )	1,215	1,201
	28,273	27,889
Less: amounts due within one year shown under trade and other receivables	(22,968)	(25,934)
Amounts due after one year	5,305	1,955

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 22. LONG-TERM RECEIVABLES *(Continued)*

- (a) The building mortgage loans bear interest at 3% to 4% above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2009.
- (b) The loan of HK\$15,000,000 is secured, bears interest at 4% (2001: 4% to 8%) per annum and was repayable in October 2002. The repayment was subsequently extended to October 2003. The remaining loan is unsecured, bears interest at 4% (2001: Nil) per annum and repayable up to November 2005.
- (c) The retention receivables were not yet due at the balance sheet date according to the provisions in the construction contracts and hence, no aged analysis is presented.
- (d) The amounts are aged over 120 days and are repayable by yearly instalments up to 2006.

### 23. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	113,816	54,121
Work in progress	9,068	5,990
Finished goods	122,763	82,690
Supplies	791	363
	<b>246,438</b>	<b>143,164</b>

Included above are raw materials of HK\$491,000 (2001: HK\$883,000), work in progress of HK\$824,000 (2001: HK\$495,000) and finished goods of HK\$2,888,000 (2001: HK\$3,341,000) which are carried at net realisable value.

### 24. TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from C.O.D. to 180 days to its customers.

Included in trade and other receivables are trade receivables of HK\$371,639,000 (2001: HK\$279,862,000) with an aged analysis as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	141,459	92,664
31 – 60 days	105,251	68,125
61 – 90 days	53,653	48,982
91 – 120 days	30,023	28,151
More than 120 days	41,253	41,940
	<b>371,639</b>	<b>279,862</b>

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

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

### 26. PLEDGED BANK DEPOSITS

The amounts represent deposits pledged to banks to secure bank overdrafts, bank loans repayable within one year and import loan facilities. Accordingly, the pledged bank deposits are classified as current assets.

Amounts of approximately HK\$9,787,000 were released subsequent to the balance sheet date.

### 27. BANK BALANCES AND CASH

At the balance sheet date, bank balances and cash of the Group include currency denominated in Renminbi of HK\$22,255,000 (2001: HK\$16,240,000) are considered not freely convertible into other currencies.

### 28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$75,306,000 (2001: HK\$63,958,000) with an aged analysis as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	40,512	30,910
31 – 60 days	15,459	21,078
61 – 90 days	10,529	7,896
91 – 120 days	5,726	1,557
More than 120 days	3,080	2,517
	75,306	63,958

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 29. AMOUNTS DUE TO MINORITY SHAREHOLDERS

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

### 30. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
<i>Authorised:</i>		
At 31st December, 2001 and 2002	1,800,000,000	180,000
<i>Issued and fully paid:</i>		
At 1st January, 2001	566,877,500	56,688
Issued upon the exercise of options	485,000	48
At 31st December, 2001 and 2002	567,362,500	56,736

In 2001, 485,000 ordinary shares of the Company were issued at HK\$0.24 per share upon the exercise of options by option holders.

### 31. 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.

No share option was granted during the year and there was no share option outstanding as at 31st December, 2002.

Details of movements during 2001 in the Company's share options held by a former director are as follows:

Date granted	Exercisable period (Both dates inclusive)	Exercise price	Number of share options at 1.1.2001	Exercised during the year	Lapsed during the year	Number of share options 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)	–

The options were exercised in January 2001. The market price of the shares on the exercise date is HK\$0.285.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 31. 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.

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

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

No movement in share options during the year ended 31st December, 2001.

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

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

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 32. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st January, 2001	318,050	65,891	53,509	437,450
Shares issued at premium	68	–	–	68
Net loss for the year	–	–	(881)	(881)
At 31st December, 2001	318,118	65,891	52,628	436,637
Net loss for the year	–	–	(11,872)	(11,872)
Dividend paid	–	–	(11,347)	(11,347)
At 31st December, 2002	318,118	65,891	29,409	413,418

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

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (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 account.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contributed surplus	65,891	65,891
Accumulated profits	29,409	52,628
	95,300	118,519

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 33. DEFERRED TAX

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
At beginning of the year	4,660	9,410
Exchange differences	16	—
Movement for the year ( <i>note 13</i> )	24	(4,750)
At end of the year	4,700	4,660

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

	Provided		Unprovided	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(4,881)	(4,873)	(26,753)	(31,531)
Impairment of property, plant and equipment	—	—	11,834	13,067
Taxation losses	181	213	125,711	117,788
Other timing difference	—	—	306	—
Net deferred tax (liability) asset	(4,700)	(4,660)	111,098	99,324

	Unprovided	
	2002	2001
	HK\$'000	HK\$'000

### THE COMPANY

Tax effect of timing differences because of:

Excess of tax allowances over depreciation	(80)	(71)
Taxation losses	10,375	7,680
Net deferred tax asset	10,295	7,609

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 33. DEFERRED TAX *(Continued)*

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 charge (credit), provided or unprovided, for the year are as follows:

	Provided		Unprovided	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Tax effect of timing differences because of:				
(Shortfall) excess of tax allowances over depreciation	(28)	(4,599)	(4,895)	5,440
Impairment of property, plant and equipment	–	–	1,233	1,234
Taxation losses utilised (arising)	52	(151)	(98)	5,918
Other timing difference	–	–	(172)	–
	<b>24</b>	<b>(4,750)</b>	<b>(3,932)</b>	<b>12,592</b>

During the year, unprovided deferred tax asset of HK\$7,842,000 (2001: HK\$9,015,000) were arising from acquisition of subsidiaries.



# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 34. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	21,342	16,420	–	–
Bank loans	170,525	5,118	63,750	–
Convertible note ( <i>Note</i> )	–	20,000	–	20,000
Mortgage loans	35,575	38,115	–	–
Trust receipt loans	263,864	207,382	–	–
	<b>491,306</b>	<b>287,035</b>	<b>63,750</b>	<b>20,000</b>

Analysed as:

Secured	157,932	62,964	63,750	20,000
Unsecured	333,374	224,071	–	–
	<b>491,306</b>	<b>287,035</b>	<b>63,750</b>	<b>20,000</b>

The bank borrowings are repayable  
as follows:

On demand or within one year	394,519	263,182	22,500	20,000
More than one year, but not exceeding two years	37,836	5,134	22,500	–
More than two years, but not exceeding five years	52,365	11,439	18,750	–
More than five years	6,586	7,280	–	–
	<b>491,306</b>	<b>287,035</b>	<b>63,750</b>	<b>20,000</b>
<i>Less:</i> amounts due within one year shown under current liabilities	<b>(394,519)</b>	<b>(263,182)</b>	<b>(22,500)</b>	<b>(20,000)</b>
Amounts due after one year	<b>96,787</b>	<b>23,853</b>	<b>41,250</b>	<b>–</b>

*Note*

The convertible note bore interest at 7% per annum and was fully repaid during the year.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>THE GROUP</b>				
Within one year	6,931	8,063	6,083	7,344
In the second to fifth year inclusive	13,616	9,616	12,739	8,978
	20,547	17,679	18,822	16,322
Less: future finance charges	(1,725)	(1,357)	–	–
Present value of lease obligations	18,822	16,322	18,822	16,322
Less: amounts due within one year shown under current liabilities			(6,083)	(7,344)
Amounts due after one year			12,739	8,978

It is the Group's policy to lease certain of its motor vehicles and plant and machinery and equipment under finance leases. The lease terms are ranging from 3 to 5 years. For the year ended 31st December, 2002, the average effective borrowing rates were ranging from 2.5% to 12.5% or 2% over HIBOR. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

### 36. LONG-TERM PAYABLES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Other payables	1,563	6,000	–	2,108
Less: amount due within one year shown under trade and other payable	(1,563)	(4,437)	–	(2,108)
Amount due after one year	–	1,563	–	–

The amounts are unsecured and interest-free. The amount of HK\$1,563,000 (2001: HK\$3,892,000) is repayable by instalments up to 16th April, 2003. The remaining amount of HK\$2,108,000 in 2001 was fully repaid during the year.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 37. ACQUISITION OF SUBSIDIARIES

On 30th November, 2002 and 30th December, 2002, the Group acquired a 82% and 95% interest in 廣東水利混凝土有限公司 and Dah Bang Printing Ink Manufactory Limited and its subsidiaries for a consideration of HK\$7,671,000 and HK\$54,414,000 respectively.

	2002 HK\$'000	2001 HK\$'000
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	31,501	39,504
Interest in a jointly controlled entity	1,257	—
Inventories	18,464	1,246
Trade and other receivables	57,719	28,461
Pledged bank deposits	4,241	—
Bank balances and cash	1,315	12,702
Trade and other payables	(35,842)	(61,997)
Tax payable	(3,395)	—
Bank borrowings	(43,077)	—
Bank overdrafts	(2,347)	—
Obligations under finance leases	(35)	—
Minority interests	(4,718)	—
	25,083	19,916
Goodwill	38,346	—
Negative goodwill	(1,344)	(11,283)
<b>Total consideration</b>	<b>62,085</b>	<b>8,633</b>
Satisfied by:		
Cash	6,973	4,741
Consideration payable	962	3,892
Amount due from vendor	54,150	—
	62,085	8,633
Net cash (outflow) inflow arising on acquisition:		
Cash consideration	(6,973)	(4,741)
Bank balances and cash acquired	1,315	12,702
Bank overdrafts acquired	(2,347)	—
Net (outflow) inflow of cash and cash equivalents in respect of acquisition of subsidiaries	(8,005)	7,961

The subsidiaries acquired during the year contributed approximately HK\$8.3 million (2001: HK\$24.4 million) to the Group's turnover and approximately HK\$0.6 million (2001: HK\$4.0 million) to the Group's profit from operations.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 38. DISPOSAL OF A SUBSIDIARY

	2002 HK\$'000
<b>NET ASSETS DISPOSED OF</b>	
Property, plant and equipment	475
Trade and other receivables	668
Bank balances and cash	5
Trade and other payables	(803)
Amounts due to minority shareholders	(45)
Minority interest	(135)
	165
Loss on disposals	(55)
	110
Satisfied by:	
Consideration receivable	110
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	5

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

### 39. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases and contracts of HK\$10,993,000 (2001: HK\$16,764,000).
- (ii) The consideration in respect of the disposal of property, plant and equipment of HK\$3,095,000 (2001: Nil) has not been received at the balance sheet date.
- (iii) During the year, injection from minority shareholders of HK\$14,096,000 (2001: Nil) is in form of property, plant and equipment.
- (iv) The consideration in respect of the acquisition of a subsidiary amounting to HK\$54,150,000 (2001: Nil) was satisfied by amount due from the vendor.
- (v) The consideration in respect of the acquisition of subsidiaries of HK\$962,000 (2001: HK\$3,892,000) had not been settled at the balance sheet date.
- (vi) The consideration in respect of the disposal of a subsidiary of HK\$110,000 (2001: Nil) had not been received at the balance sheet date.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 40. PLEDGE OF ASSETS

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Investment properties	45,100	46,600
Land and buildings	72,765	86,650
Furniture and fixtures	121	—
Motor vehicles	35	—
Plant and machinery and equipment	6,078	5,342
Assets under installation	5,712	—
Bank deposits	14,536	2,942
	<b>144,347</b>	<b>141,534</b>

In addition,

- (1) the Group has pledged the shares of one of its subsidiaries with a market value of HK\$51,102,000 (2001: Nil), representing the Group's 50.1% interest in this subsidiary as securities against banking facilities granted to the Group. In 2001, the Group also pledged the shares of this subsidiary with a market value of HK\$10,703,000, representing the Group's 4.69% interest in this subsidiary, to the vendor of the shares as securities against the unpaid consideration.
- (2) the Group has created a floating charge over other assets with a carrying value of HK\$15,569,000 (2001: Nil) to banks as securities against banking facilities granted to the Group.
- (3) the Group has pledged the property, plant and equipments of HK\$27,235,000 (2001: Nil) to a PRC court as securities against a court case in respect of default in repayment of bank borrowings which have been repaid before the balance sheet date. The respective pledge has been released subsequent to the balance sheet date.

At the balance sheet date, the Company had pledged bank deposits of HK\$6,408,000 (2001: Nil) to banks as securities against banking facilities granted to the Company.

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 41. CONTINGENT LIABILITIES

#### THE GROUP

Certain subsidiaries have been named as defendant in High Court actions in respect of certain injury claims from the workers with accidents occurred in 1996, 1999 and 2000. Except for the amount of one of the injury claims which still not ascertained at the date of the annual report, the injury claims for other cases amounted to HK\$17,045,000. The directors are of the opinion that the final claims are to be indemnified by main contractors of the relevant projects or covered by insurance policy of the Group, accordingly no provision has been made in the financial statements.

#### THE COMPANY

At the balance sheet date, the Company had provided corporate guarantees to the extent of HK\$990,319,000 (2001: HK\$719,550,000) to banks to secure banking facilities granted to its subsidiaries. The total facilities utilised by the subsidiaries at 31st December, 2002 amounted to HK\$390,908,000 (2001: HK\$235,291,000).

At the balance sheet date, the Company had provided corporate guarantees to the extent of HK\$12,978,000 (2001: Nil) to financial institutions to secure finance leases facilities granted to its subsidiaries. The total finance lease obligations outstanding as at 31st December, 2002 amounting to HK\$9,534,000 (2001: Nil).

### 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	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Land and buildings</b>				
Within one year	14,697	6,274	1,780	2,212
In the second to fifth year inclusive	40,694	7,679	242	1,692
After five years	23,549	4,360	—	—
	<b>78,940</b>	<b>18,313</b>	<b>2,022</b>	<b>3,904</b>
<b>Plant and machinery and equipment</b>				
Within one year	2,434	1,532	—	—
In the second to fifth year inclusive	9,000	6,294	—	—
After five years	—	1,968	—	—
	<b>11,434</b>	<b>9,794</b>	<b>—</b>	<b>—</b>

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

### 42. OPERATING LEASE COMMITMENTS (Continued)

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-three years. Leases of plant and machinery and equipment are negotiated for terms ranging from two to six 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 which fall due as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
<b>Land and buildings</b>		
Within one year	751	2,414
In the second to fifth year inclusive	510	1,513
	<b>1,261</b>	<b>3,927</b>
<b>Plant and machinery and equipment</b>		
Within one year	1,938	–
In the second to fifth year inclusive	2,157	–
	<b>4,095</b>	<b>–</b>

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

### 43. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	7,147	3,444

At the balance sheet date, certain subsidiaries of the Group had entered into agreements to invest RMB4,276,000 (2001: US\$510,000) in equity joint ventures in the PRC.

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

# Notes

## to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER, 2002

#### 44. RETIREMENT BENEFITS SCHEMES

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

For members of the MPF Scheme, the Group contributes at amount ranging from 5% to 10% of relevant payroll costs to the Scheme.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

During the year, the Group made retirement benefits scheme contributions of HK\$3,103,000 (2001: HK\$2,865,000) after forfeited contributions utilized in the Group’s ORSO Scheme of HK\$594,000 (2001: HK\$352,000).

#### 45. RELATED PARTY TRANSACTIONS

In 2001, the Group entered into the following transactions and had the following balances 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 Ltd., 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.

#### 46. SIGNIFICANT POST BALANCE SHEET EVENTS

- (i) Subsequent to the balance sheet date, the Group has released the pledge of 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.
- (ii) On 9th January, 2003, Topgain Investments Limited (“Topgain”), a non-wholly owned subsidiary of the Company entered into an agreement with Choice Master Investments Limited (“Choice Master”) pursuant to which Topgain has conditionally agreed to acquire the entire share capital of Lubrano Properties Limited at a total consideration of HK\$75,000,000. The transaction was completed on 4th March, 2003.
- (iii) On 13th March, 2003, the Group contributed US\$2,220,000 in a newly established equity joint venture in the PRC which will be engaged in the manufacturing and sales of colour coated steel products.