

# GOLIK



GOLIK HOLDINGS LIMITED

ANNUAL  
REPORT  
2001



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## Corporate Information

### Executive Directors

Mr. Pang Tak Chung (*Chairman*)  
Mr. Ho Wai Yu, Sammy (*Vice Chairman*)  
Mr. Robert Keith Davies

### Independent Non-Executive Directors

Mr. Li Chiu Wah, Joseph  
Mr. Yu Kwok Kan, Stephen

### Company Secretary

Mr. Ho Wai Yu, Sammy  
FAIA AHKSA MBIM

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### Head Office and Principal Place of Business

Suite 5608, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
[www.golik.com](http://www.golik.com)

### Auditors

Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### Principal Bankers

Dao Heng Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank  
Standard Chartered Bank  
CITIC Ka Wah Bank Limited

### Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### Investor and Media Relations

JOVIAN Communications Group Limited  
Room 905-906, Harbour Centre  
25 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2581 0168  
email: [jovian@joviancomm.com](mailto:jovian@joviancomm.com)

Manufacturing of  
Steel and Metal Products

- > Decoiling Centre
- > Wire Rope & Steel Wire



## STEEL AND METAL PRODUCTS



- > Trading of  
Steel and  
Metal Products

## CONSTRUCTION MATERIALS

- > Trading of  
Construction Materials



- > Manufacturing of  
Construction  
Materials

## Chairman's Statement



*“Heading towards the development of value-added steel products market in the PRC, manufacturing will remain the Group’s basis and it will keep on bringing stable return to the Group.”*

I am pleased to present the annual results of Golik Holdings Limited (“the Company”) and its subsidiaries (“the Group”) for the year ended 31st December, 2001.

### THE YEAR’S HIGHLIGHTS

#### Financial Highlights:

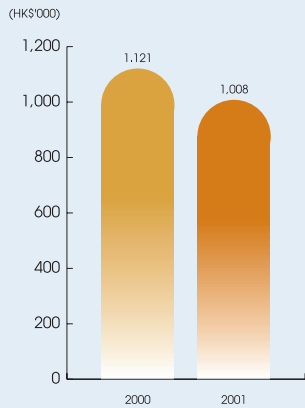
- With regard to the economic downturn during last year, turnover for the Group still recorded approximately HK\$1,008 million (2000: HK\$1,121 million), slightly decreased 10% as compared with that of the preceding year.
- Profit after taxation posted HK\$56 million, a slight decrease of 5% in comparison with that of last year. (2000: HK\$59 million)

#### Strategic Moves & Restructuring:

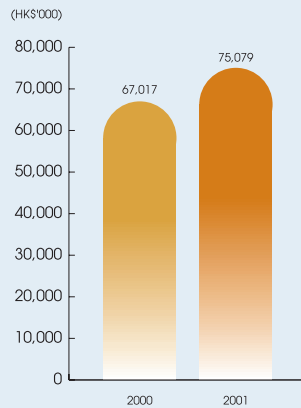
1. Heshan Hang Kei Steel Wire Manufacturing Co. Ltd. (“Heshan Hang Kei”), the Group’s subsidiary, has been awarded the “Top 10 Brand Name in China” and has successfully passed the pre-qualify supplier requirement of the “Three Gorges Dam Project”.
2. Daido Group Limited (“Daido Group”), the Group’s subsidiary, opened its Superslab Factory in August 2001, engaged in the production of Semi-Precast Slab with Lattice Girder and received favorable market responses.
3. In October 2001, the Group strategically acquired Dyna Concrete Limited (“Dyna Concrete”). Dyna Concrete is principally engaged in the business of ready mixed concrete, precast concrete pipe and concrete products. A synergy effect is created with the Company’s subsidiary company — Daido Group — achieving in diversification in suiting the government infrastructure projects.
4. During the year under review, the Group entered into an agreement with Tianjin Steel Wire and Steel Cable Group Company Limited (“Tianjin Steel Wire and Cable Group”) in the year end of 2001, establishing Tianjin Golik — No. 1 Steel Wire Rope Company Limited (“Tianjin Golik”) to further develop and manufacture high quality steel wire ropes for elevators. Tianjin Golik started its operation in January 2002.

# Chairman's Statement

**TURNOVER FOR YEAR ENDED  
 31ST DECEMBER 2000 AND 2001**

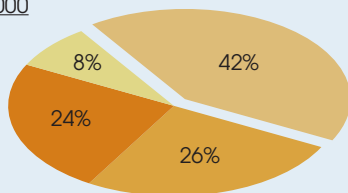


**PROFIT FROM OPERATIONS FOR YEAR ENDED  
 31ST DECEMBER 2000 AND 2001**



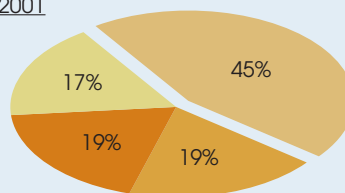
**TURNOVER BY PRODUCTS IN 2000 AND 2001**

2000



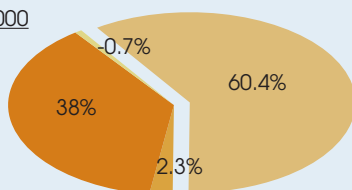
- MANUFACTURING OF STEEL AND METAL PRODUCTS
- TRADING OF STEEL AND METAL PRODUCTS
- MANUFACTURING OF CONSTRUCTION MATERIALS
- TRADING OF CONSTRUCTION MATERIALS

2001



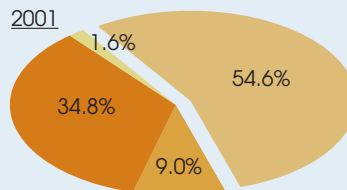
**PROFIT SEGMENT RESULT BY PRODUCTS IN 2000 AND 2001**

2000



- MANUFACTURING OF STEEL AND METAL PRODUCTS
- TRADING OF STEEL AND METAL PRODUCTS
- MANUFACTURING OF CONSTRUCTION MATERIALS
- TRADING OF CONSTRUCTION MATERIALS

2001



"The Group will continue to promote environmental friendly products and explore potential markets with an aim to maintain its position as the major supplier in the construction sector."

## Chairman's Statement



### OPERATION REVIEW

The Group made progress through stability in 2001. In the year under review, the performance of a portion of the Group's construction materials business was not as good as that of the previous year due to the global economy downturn and further reduction of public housing construction, while the steel business remained stable. On the other hand, the two acquisitions by the Group during the year injected new blood to the Group's businesses which further achieved our objective of product and business diversifications.

### Steel and Metal Products

#### 1. *Manufacturing of Steel and Metal Products*

The manufacturing of steel and metal products accounted for 45% of the Group's turnover in the year, remained as the Group's core business and delivered stable return to the Group.

- Decoiling Centre

With the launch of the newly established factory building in Tai Po Industrial Estate, the production for the year increased. However, the global weak price of steel and keen competition in the industry slightly affected the profit for the year, but the overall performance was still satisfactory.

- Steel Wire and Wire Rope

The business maintained steady. The Group further enhanced the product quality and the value-adding ability through improved techniques and upgraded facilities during the period. The Group's subsidiary, Heshan Hang Kei was awarded ISO and the "Top 10 Brand Name in China". In addition, the Group entered into agreement with Tianjin Steel Wire & Wire Rope Group in the year to set up Tianjin Golik to manufacture wire ropes for elevators. Tianjin Golik started operation since January 2002 to manufacture and supply high quality steel wire ropes for elevators that account for 30% share in the domestic market.

## Chairman's Statement

### 2. *Trading of Steel and Metal Products*

The global steel price last year plunged into the lowest in the past 20 years, hence affecting the Group's steel trading business. However, our market position was further established.

### Construction Materials

In the year under review, the business of construction materials accounted for 36% of the Group's turnover.

#### 1. *Manufacturing of Construction Materials*

Influenced by the Government's further reduction in public housing construction, the performance of a portion of the Group's construction materials business such as welded wire mesh and ALC panels was not up to the expectation.

Daido Group strives to develop the environmental friendly "Semi-Precast Concrete Slab". It was launched in the market in August 2001. Feedback was in general promising and the product has been used by the Architectural Services Department and the Housing Department.

The Group acquired Dyna Concrete in October to manufacture ready-made concrete and precast concrete pipes. Dyna Concrete together with Daido Group, subsidiary of the Group, complemented the weaknesses of both parties in terms of products and facilities, creating a synergy effect. Since the products are mainly supplied to infrastructure projects, the impact resulted from the reduction of the public housing construction was minimal.





## Chairman's Statement

### 2. *Trading of Construction Materials*

The trading business of construction materials was better than the preceding year due to the commencement of several large infrastructure projects. However, the marginal profit was still not very encouraging due to keen competition.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position is healthy and stable. As at 31st December 2001, the Group's cash and bank deposits reached HK\$124,000,000. Bank borrowings rose by 6% over prior year to approximately HK\$287,000,000.

The business operation was generally financed by the Group's internal funding. For the year, the Group maintained a healthy liquidity status with net cash inflow from operating activities amounted to approximately HK\$75,000,000 (2000: HK\$ 22,000,000).

The Group's monetary assets are principally denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rate between Hong Kong dollars and the United States dollars is fixed, together with the minimal fluctuation in exchange rate between the Hong Kong dollars and Renminbi, the Group believes its exposure to exchange risk is not material.

### CAPITAL STRUCTURE

During the year, there was no change to the share capital of the Company. The Group's operation was financed by shareholders' equity.

As at 31st December 2001, consolidated shareholders' equity reached HK\$394,000,000 and aggregated interest-bearing borrowings was approximately HK\$303,000,000. The Group's debt to equity ratio was approximately 77% (2000: 83%).

### EMPLOYMENT AND REMUNERATION POLICY

As at 31st December 2001, the total number of staff of the Group in Hong Kong and the PRC was 920. In addition to the set up of share options scheme, the Group also provided retirement benefits and Mandatory Provident Fund entitlement to Hong Kong's employees.

## Chairman's Statement

### PROSPECTS

The Group is currently heading towards the development of value-added steel products market in the PRC. Manufacturing will remain the Group's basis and it will keep on bringing stable return to the Group. Meanwhile, the Group will continue to seek opportunities to invest in value-adding steel manufacturing.

The Group endeavors to be the main supplier of comprehensive construction materials in Hong Kong and it has principally achieved its goal. The Group will carry on matching the environmental protection policies of the Government by promoting environmental friendly construction materials. It will also continue to explore the private sector and the infrastructure market with an aim to maintain its position as the major supplier in the construction sector.

Although the current business environment remains stagnant, we are prudent yet optimistic towards the future. The steady progress of the Group in the past few years regardless of the general economic situation proves that we are capable of overcoming the present difficulties. It is for certain that we can get better results once the economy rebounds.

### ACKNOWLEDGEMENTS

I would like to take this opportunity to express my sincere thanks to the staff of the Group for their dedication and hard work in the past. I would also like to thank our customers, shareholders, bankers and business associates for their unfailing support during the year. With the encouraging result last year and the effort we put in, I am looking forward to a fruitful year in 2002.

**Pang Tak Chung**

*Chairman*

Hong Kong, 15th April, 2002

## Directors of the Group

**Mr. Pang Tak Chung**, aged 53, is the chairman of the Group and founder of Golik Metal Industrial Company Limited ("Golik Metal"). He is also the chairman of Daido Group Limited ("Daido") and its subsidiaries ("Daido Group"). Mr. Pang is responsible for strategic planning, overall management and corporate development of both the Group and Daido Group. Mr. Pang has over 22 years' experience in the trading and manufacturing industry in Hong Kong and the PRC. In addition, he also has extensive experience in international trading practices.

**Mr. Ho Wai Yu, Sammy**, aged 46, is the vice chairman of the Company and finance director of the Group responsible for finance, accounting and information technology development. Mr. Ho is a fellow member of the Association of International Accountants in the United Kingdom, an associate member of the Hong Kong Society of Accountants, a member of the Institute of Management in the United Kingdom, a full member of the Hong Kong Computer Society, a founder and honorable president of the IT Accountants Association and the founder and honorable president of Hong Kong Association of Master of Business Administration. Mr. Ho is also an executive director of the Daido Group and has over 22 years' experience in finance, accounting, computing, investment and project development. Mr. Ho joined Golik Metal in 1994.

**Mr. Robert Keith Davies**, aged 45, is an executive director of the Group and Daido Group. Mr. Davies is responsible for the international trading and sales of the Group and also the management, sales and marketing of the Daido Group. Educated in England, he has worked in various management positions in the United Kingdom, Middle East, Australia as well as Hong Kong. He has extensive experience in trading practices, management of manufacturing plants and negotiation procedures. Mr. Davies has resided in Hong Kong for more than 17 years and joined Golik Metal in 1991.

**Mr. Li Chiu Wah, Joseph**, aged 44, was appointed as an independent non-executive director of the Company on 27th June, 1997. Mr. Li is a practising solicitor and a Notary Public. He was formerly a Senior Crown Counsel and has over 12 year's legal experience both in government and in private practice. He is currently the principal of Joseph Li & Co., Solicitors and Notaries in Hong Kong. He holds a Master of Laws degree from the University of London.

**Mr. Yu Kowk Kan, Stephen**, aged 45, was appointed as an independent non-executive director of the Company on 23rd July, 1997. Mr. Yu is a partner of J. K. Wong, Teh & Yu Proprietary, Certified Practising Accountants in Australia. He holds a Bachelor of Commerce Degree from the University of New South Wales. He has over 19 years' advisory experience on taxation in Australia, Hong Kong and the PRC.

## Notice of 2002 Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2002 Annual General Meeting of the Company will be held at Plaza IV, Lower Lobby, Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 7th June, 2002 at 10:45 a.m., for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and of the auditors for the year ended 31st December, 2001.
2. To declare a final dividend.
3. (a) To re-elect directors and to authorise the Board of Directors to fix their remuneration.  
 (b) To authorise the Board of Directors to appoint additional directors and to fix the maximum number of directors.
4. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.

As special business, to consider and if thought fit, pass the following resolutions as Ordinary Resolutions:

5. **“THAT**
  - (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on The Stock Exchange of Hong Kong Limited (the “SEHK”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the SEHK for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the SEHK (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;
  - (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph (a) shall be limited accordingly; and
  - (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
    - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

## Notice of 2002 Annual General Meeting

### 6. "THAT

- (a) subject to paragraph (b) below, a general mandate be and is hereby unconditionally given to the directors of the Company to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the shares in the capital of the Company (including making and granting offers, agreements and option which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter);
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph (a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:
  - (i) a rights issue where shares are offered for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory applicable to the Company);
  - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company and approved by the SEHK;
  - (iii) any issue of shares in the Company upon the exercise of subscription rights or conversion rights attaching to any warrants or any convertible notes of the Company; or
  - (iv) any scrip dividend scheme or similar arrangement implemented in accordance with the bye-laws of the Company; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; or
  - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

## Notice of 2002 Annual General Meeting

7. “**THAT** conditionally upon Resolutions Numbers 5 and 6 being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares in the capital of the Company pursuant to Resolution Number 6, be and is hereby extended by the addition to the nominal value of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution Number 5, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution.”

As special business, to consider and, if thought fit, pass the following resolution as Special Resolution:

8. “**THAT** subject to the approval of the Registrar of Companies in Hong Kong, 「高力集團有限公司」 be adopted as the Chinese name of the Company and be registered in Hong Kong.”

By Order of the Board  
**Ho Wai Yu, Sammy**  
*Company Secretary*

Hong Kong, 15th April, 2002

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect such shares shall alone be entitled to vote in respect thereof.
- (3) To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy or of such power of attorney or authority thereof must be deposited at the Company’s branch share registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting.
- (4) The register of members of the Company will be closed from Wednesday, 5th June, 2002 to Friday, 7th June, 2002, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 4th June, 2002.

## Directors' Report



The directors present their annual report and the audited financial statements for the year ended 31st December, 2001.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 19 to the financial statements.

### SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2001 are set out in note 19 to the financial statements.

During the year, the Group acquired a 100% interest in Dyna Concrete Limited for a consideration of approximately HK\$8.6 million.

In addition, the Group acquired an additional 6.32% interest in Daido Group Limited ("Daido") and 10% interest in Golik Technology Limited for a consideration of approximately HK\$15.2 million and HK\$1.3 million respectively and disposed of 8% interest in Fulwealth Metal Factory Limited to minority shareholders for a consideration of approximately HK\$7 million.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the consolidated income statement on page 23.

The directors recommend the payment of a final dividend of HK\$0.02 per share, amounting to approximately HK\$11,347,000 to the shareholders of the Company whose names appear on the register of members on 7th June, 2002 and the retention of the remaining profit for the year.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 74 of the annual report.

## **INVESTMENT PROPERTIES**

Details of the investment properties of the Group are set out in note 17 to the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$42 million.

In addition, the Group acquired property, plant and equipment with a net book value of approximately HK\$40 million through the acquisition of a subsidiary.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 18 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of the movements in the authorised and issued share capital and share options of the Company during the year are set out in notes 28 and 29 respectively to the financial statements.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **BORROWINGS**

Details of notes payable to a shareholder, bank borrowings and obligations under finance leases and hire purchase contracts of the Group are set out in notes 27, 32 and 33 respectively to the financial statements.

No interest was capitalised by the Group during the year.



## Directors' Report

### DIRECTORS

The directors of the Company during the year and up to the date of this report are:

#### Executive directors

Mr. Pang Tak Chung (*Chairman*)  
 Mr. Ho Wai Yu, Sammy (*Vice Chairman*)  
 Mr. Robert Keith Davies

#### Non-executive directors

Madam Song Tao (retired on 31st May, 2001)  
 Mr. Song Zuoxing (retired on 31st May, 2001)

#### Independent non-executive directors

Mr. Li Chiu Wah, Joseph  
 Mr. Yu Kwok Kan, Stephen

In accordance with Clauses 86(2) and 87 of the Company's Bye-Laws, Mr. Ho Wai Yu, Sammy retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for a specific term. All directors (including non-executive directors and independent non-executive directors) are subject to retirement by rotation in accordance with the Company's Bye-Laws.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Directors' Report

### DIRECTORS' INTERESTS IN SECURITIES

#### (1) Shares

At 31st December, 2001, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the registers kept by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

| Name of directors                  | Number of ordinary shares held |                    |
|------------------------------------|--------------------------------|--------------------|
|                                    | Personal interest              | Corporate interest |
| Mr. Pang Tak Chung ( <i>Note</i> ) | 135,195,000                    | 195,646,500        |
| Mr. Ho Wai Yu, Sammy               | 7,296,000                      | -                  |
| Mr. Robert Keith Davies            | 1,544,000                      | -                  |

*Note:* The 195,646,500 shares are held by Golik Investments Ltd. ("GIL"). GIL is a wholly-owned subsidiary of Golik International Group Limited ("GIGL"). GIGL is owned as to 38.95% by World Producer Limited, as to 52.39% by Jetworld Development Limited and as to 8.66% by Mr. Pang Tak Chung. The entire issued share capital of Jetworld Development Limited is owned by Mr. Pang Tak Chung. World Producer Limited is owned as to 75% by King World Holdings Limited and as to 25% by Pacific States Limited. The entire issued share capital of King World Holdings Limited and Pacific States Limited is owned by Mr. Pang Tak Chung and Mr. Robert Keith Davies respectively.

#### (2) Options

The directors had personal interests in share options to subscribe for shares in the Company and Daido as follows:

##### (i) *The Company*

No share option was granted to or exercised by any of the Company's directors under the scheme during the year and there was no share option outstanding as at 31st December, 2001.

## Directors' Report

### DIRECTORS' INTERESTS IN SECURITIES (Continued)

(ii) *Daido*

| Name of directors          | Date granted        | Exercisable period<br>(Both dates inclusive) | Exercise<br>price<br>HK\$ | Number of<br>share options<br>as at 1.1.2001<br>and<br>31.12.2001 |
|----------------------------|---------------------|--|---------------------------|---|
| Mr. Pang Tak Chung         | 16th November, 2000 | 16th May, 2001<br>to 15th May, 2003          | 0.063                     | 50,000,000  |
| Mr. Ho Wai Yu,<br>Sammy    | 16th November, 2000 | 16th May, 2001<br>to 15th May, 2003          | 0.063                     | 20,000,000  |
| Mr. Robert Keith<br>Davies | 16th November, 2000 | 16th May, 2001<br>to 15th May, 2003          | 0.063                     | 20,000,000  |

Details of the Share Option Schemes are set out in note 29 to the financial statements.

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

### (3) Shares in subsidiaries

At 31st December, 2001, Mr. Pang Tak Chung has personal and corporate interests in 5,850 and 20,000 non-voting deferred shares respectively in Golik Metal Industrial Company Limited ("GMI"). The corporate interest is held by World Producer Limited. In addition, Mr. Ho Wai Yu, Sammy has personal interest of 440,000 shares in Daido.

Save as disclosed above, none of the Company's directors or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests in Securities" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31st December, 2001.

## Directors' Report

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in paragraph 2 of the section headed "Connected Transactions" below, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### CONNECTED TRANSACTIONS

- (1) The Group disposed of 8% interest in Fulweath Metal Factory Limited to minority shareholders for a consideration of approximately HK\$7,000,000. Details of this transaction had been included in the announcement of the Company dated 12th January, 2001.

The independent non-executive directors of the Company had reviewed and approved the above transaction and confirmed that such transaction had been carried out on normal commercial terms and at an arm's length basis.

- (2) During the year, the Group repaid the 6% notes with an aggregate outstanding balance of HK\$22,850,000 to GIL.

### CONNECTED TRANSACTIONS WITH NON-WHOLLY OWNED SUBSIDIARIES

- (1) In 2000, Golik Metal Manufacturing Co. Limited ("GMM"), a non-wholly owned subsidiary was disposed of to Daido in pursuant to the agreement (the "Agreement") entered into between GMI, a wholly owned subsidiary, Daido Concrete (H.K.) Limited and Tak Sun Limited ("Tak Sun"), both of which are wholly owned subsidiaries of Daido.

Pursuant to the Agreement:

- (i) GMI warrants that the net tangible assets value of GMM at 31st March, 2000 shall be not less than HK\$32 million (the "NAV Guarantee") and the aggregate profit of GMM after taxation as shown in its audited income statement for the two financial years ended 31st December, 2001 shall be not less than HK\$20 million (the "Profit Guarantee").

At 31st December, 2001, approximately HK\$7.6 million is payable to Tak Sun by GMI for the shortfall of the Profit Guarantee in accordance with the terms of the Agreement.

- (ii) GMM will continue, in its normal course of business and at an arm's length basis, purchase wire rods and accessories, which are the raw materials used in the production of welded wire mesh from GMI until August 2001 (the "Purchases") in order to set up new banking facilities and establish relationship with the new suppliers. The aggregate value of the Purchases for the two financial years ended 31st December, 2001 should not exceed the value of HK\$65 million (the "Waiver Limit"). Thereafter, the terms of the Purchases and the Waiver Limit will be reviewed and approved by the independent shareholders at a general meeting if the Purchases are to be continued.

Total Purchases from GMI for the period from 29th August, 2000 to 31st December, 2001 amounting approximately to HK\$17 million, of which, HK\$11 million are for the period from 29th August, 2000 to 31st December, 2000.

**CONNECTED TRANSACTIONS WITH NON-WHOLLY OWNED SUBSIDIARIES** *(Continued)*

Details of these transactions have been included under the Section "On-Going Transactions" in the Circular dated 3rd August, 2000 issued to the shareholders of the Company.

The independent non-executive directors of the Company had reviewed and approved the above transactions and confirmed that such transactions had been carried out (a) on normal commercial terms; (b) in the ordinary and usual course of business of GMM and GMI; (c) on terms that are fair and reasonable and no less favourable than terms available to GMM from third parties so far as the shareholders of the Company are concerned; and (d) up to 31st December, 2001, the aggregate value of the transactions does not exceed the Waiver Limit granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out in the Circular.

- (2) Daido Asia Company Limited ("DACL"), a non-wholly owned subsidiary, has rented from Golik Godown Limited ("GGL"), a wholly owned subsidiary, a warehouse for storage of its products. The total amount including rent and infreight charges paid to GGL by DACL for the year was approximately HK\$3 million.

Details of these transactions have been included in the announcement of the Company dated 18th September, 2001 (the "Announcement").

The independent non-executive directors of the Company had reviewed and approved the above transactions and confirmed that such transactions had been carried out (a) in the ordinary and usual course of business of DACL and GGL; (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; (c) in accordance with the terms of the agreements governing such transactions; and (d) the aggregate amount of the transactions does not exceed the limit of HK\$7.5 million granted by the Stock Exchange as set out in the Announcement.

- (3) In addition to the above, during the year, the following transactions have been carried out between GMI and its subsidiaries ("GMI Group") and Daido and its subsidiaries ("Daido Group"):

|  | <i>HK\$'000</i> |
|--|-----------------|
| Sales of goods to Daido Group by GMI Group       | 6,516           |
| Purchases of goods from Daido Group by GMI Group | 2,760           |
| Interest received from Daido Group by GMI Group  | 1,048           |

## Directors' Report

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2001, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 43% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 12% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have any interest in any of the Group's five largest customers or suppliers.

### SIGNIFICANT POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 46 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

### AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Pang Tak Chung**  
*Chairman*

15th April, 2002

## Auditors' Report

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

#### **TO THE MEMBERS OF GOLIK HOLDINGS LIMITED** *(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 23 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
15th April, 2002

## Consolidated Income Statement

For the year ended 31st December, 2001

|   | Notes | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|---|-------|-------------------------|-------------------------|
| Turnover  | 4     | 1,008,158               | 1,121,456               |
| Cost of sales   |       | <u>(845,618)</u>        | <u>(929,989)</u>        |
| Gross profit  |       | 162,540                 | 191,467                 |
| Other revenue   | 5     | 34,410                  | 16,540                  |
| Selling and distribution costs                          |       | (32,810)                | (22,757)                |
| Administrative expenses                                 | 6     | (95,484)                | (118,217)               |
| Other operating expenses                                |       | (475)                   | (16)                    |
| Write back of provision for claims                      | 7     | <u>6,898</u>            | <u>-</u>                |
| Profit from operations                                  | 8     | 75,079                  | 67,017                  |
| Written off of expenses for proposed investment         | 9     | (7,161)                 | (5,550)                 |
| Finance costs   | 10    | (19,810)                | (23,648)                |
| Interest income   |       | 5,383                   | 16,432                  |
| (Loss) gain on disposal of an associate/subsidiaries    | 11    | (34)                    | 6,817                   |
| Share of results of a jointly controlled entity         |       | <u>-</u>                | <u>(1,614)</u>          |
| Profit before taxation                                  |       | 53,457                  | 59,454                  |
| Taxation credit (charge)                                | 13    | <u>2,521</u>            | <u>(762)</u>            |
| Profit after taxation                                   |       | 55,978                  | 58,692                  |
| Minority interests                                      |       | <u>(21,714)</u>         | <u>(24,982)</u>         |
| Net profit for the year                                 |       | <u>34,264</u>           | <u>33,710</u>           |
| Dividend proposed of HK\$0.02 (2000: HK\$Nil) per share | 14    | <u>11,347</u>           | <u>-</u>                |
| Earnings per share                                      | 15    |                         |                         |
| Basic   |       | <u>6.04 cents</u>       | <u>5.96 cents</u>       |
| Diluted   |       | <u>6.00 cents</u>       | <u>5.85 cents</u>       |



## Consolidated Balance Sheet

At 31st December, 2001

|  | Notes | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|--|-------|-------------------------|-------------------------|
| <b>Non-current Assets</b>                                    |       |                         |                         |
| Negative goodwill  | 16    | (6,147)                 | -                       |
| Investment properties  | 17    | 46,600                  | 46,600                  |
| Property, plant and equipment                                | 18    | 345,683                 | 289,377                 |
| Investment in a security                                     | 20    | 5,000                   | 5,000                   |
| Long-term receivables  | 21    | 1,955                   | 3,342                   |
| Rental deposits and other assets                             |       | 1,251                   | 5,908                   |
|  |       | <u>394,342</u>          | <u>350,227</u>          |
| <b>Current Assets</b>  |       |                         |                         |
| Inventories  | 22    | 143,164                 | 165,440                 |
| Trade and other receivables                                  | 23    | 383,647                 | 359,245                 |
| Amounts due from customers for contract work                 | 24    | 72                      | 134                     |
| Amounts due from minority shareholders                       | 25    | -                       | 233                     |
| Tax recoverable  |       | 354                     | 1,510                   |
| Pledged bank deposits  | 40    | 2,942                   | 16,094                  |
| Bank balances and cash                                       |       | 120,980                 | 105,735                 |
|  |       | <u>651,159</u>          | <u>648,391</u>          |
| <b>Current Liabilities</b>                                   |       |                         |                         |
| Amounts due to customers for contract work                   | 24    | 35,685                  | 48,295                  |
| Trade and other payables                                     | 26    | 181,388                 | 162,241                 |
| Amounts due to minority shareholders                         | 25    | 7,232                   | 10,792                  |
| Amount due to a shareholder                                  |       | 124                     | -                       |
| Notes payable to a shareholder                               | 27    | -                       | 22,850                  |
| Tax payable  |       | 1,429                   | 365                     |
| Bank borrowings  | 32    | 263,182                 | 257,229                 |
| Obligations under finance leases and hire purchase contracts | 33    | 7,344                   | 3,519                   |
|  |       | <u>496,384</u>          | <u>505,291</u>          |
| <b>Net Current Assets</b>                                    |       | <u>154,775</u>          | <u>143,100</u>          |
|  |       | <u>549,117</u>          | <u>493,327</u>          |

## Consolidated Balance Sheet

At 31st December, 2001

|  | Notes | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|--|-------|-------------------------|-------------------------|
| <b>Capital and Reserves</b>                                  |       |                         |                         |
| Share capital  | 28    | 56,736                  | 56,688                  |
| Reserves   | 30    | <u>337,669</u>          | <u>302,708</u>          |
|  |       | <u>394,405</u>          | <u>359,396</u>          |
| <b>Minority interests</b>                                    |       |                         |                         |
|  |       | <u>115,658</u>          | <u>107,240</u>          |
| <b>Non-current Liabilities</b>                               |       |                         |                         |
| Deferred tax   | 31    | 4,660                   | 9,410                   |
| Bank borrowings  | 32    | 23,853                  | 12,522                  |
| Obligations under finance leases and hire purchase contracts | 33    | 8,978                   | 2,651                   |
| Long-term payables   | 34    | <u>1,563</u>            | <u>2,108</u>            |
|  |       | <u>39,054</u>           | <u>26,691</u>           |
|  |       | <u>549,117</u>          | <u>493,327</u>          |

The financial statements on pages 23 to 73 were approved and authorised for issue by the Board of Directors on 15th April, 2002 and are signed on its behalf by:

**Pang Tak Chung**  
Chairman

**Ho Wai Yu, Sammy**  
Vice Chairman

## Balance Sheet

At 31st December, 2001

|                                  | Notes | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|----------------------------------|-------|-------------------------|-------------------------|
| <b>Non-current Assets</b>        |       |                         |                         |
| Property, plant and equipment    | 18    | 843                     | 803                     |
| Investments in subsidiaries      | 19    | 244,210                 | 251,283                 |
| Investment in a security         | 20    | 5,000                   | 5,000                   |
| Rental deposits and other assets |       | 672                     | 709                     |
|                                  |       | <u>250,725</u>          | <u>257,795</u>          |
| <b>Current Assets</b>            |       |                         |                         |
| Other receivables                |       | 56,528                  | 57,780                  |
| Amounts due from subsidiaries    |       | 213,486                 | 239,536                 |
| Bank balances and cash           |       | 448                     | 428                     |
|                                  |       | <u>270,462</u>          | <u>297,744</u>          |
| <b>Current Liabilities</b>       |       |                         |                         |
| Other payables                   |       | 2,917                   | 11,505                  |
| Amounts due to subsidiaries      |       | 4,897                   | 4,938                   |
| Notes payable to a shareholder   | 27    | -                       | 22,850                  |
| Bank borrowings                  | 32    | 20,000                  | 20,000                  |
|                                  |       | <u>27,814</u>           | <u>59,293</u>           |
| <b>Net Current Assets</b>        |       |                         |                         |
|                                  |       | <u>242,648</u>          | <u>238,451</u>          |
|                                  |       | <u>493,373</u>          | <u>496,246</u>          |
| <b>Capital and Reserves</b>      |       |                         |                         |
| Share capital                    | 28    | 56,736                  | 56,688                  |
| Reserves                         | 30    | 436,637                 | 437,450                 |
|                                  |       | <u>493,373</u>          | <u>494,138</u>          |
| <b>Non-current Liabilities</b>   |       |                         |                         |
| Long-term payables               | 34    | -                       | 2,108                   |
|                                  |       | <u>493,373</u>          | <u>496,246</u>          |

**Pang Tak Chung**  
Chairman

**Ho Wai Yu, Sammy**  
Vice Chairman

## Consolidated Statement of Recognised Gains and Losses

*For the year ended 31st December, 2001*

|   | <u>2001</u><br><i>HK\$'000</i> | <u>2000</u><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| Exchange difference arising on translation of overseas operations not recognised in the consolidated income statement   | 52                             | 204                            |
| Net profit for the year   | <u>34,264</u>                  | <u>33,710</u>                  |
| Total recognised gains  | 34,316                         | 33,914                         |
| Elimination against reserves of goodwill arising on acquisition of subsidiaries   | <u>-</u>                       | <u>(7,215)</u>                 |
|   | <u>34,316</u>                  | <u>26,699</u>                  |
| Prior period adjustment arising from adoption of Statement of Standard Accounting Practice No. 9 (see note 2)<br>- increase in accumulated profits at 1st January, 2000 |                                | <u>11,168</u>                  |

## Consolidated Cash Flow Statement

*For the year ended 31st December, 2001*

|   | Notes | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|---|-------|-------------------------|-------------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES   | 35    | <u>75,161</u>           | <u>21,724</u>           |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE   |       |                         |                         |
| Interest paid   |       | (21,827)                | (21,969)                |
| Interest received   |       | 2,484                   | 20,009                  |
| Dividends paid to the minority shareholders of subsidiaries                                 |       | (8,506)                 | (9,150)                 |
| Dividend paid   |       | <u>-</u>                | <u>(11,329)</u>         |
| NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE                       |       | <u>(27,849)</u>         | <u>(22,439)</u>         |
| TAXATION  |       |                         |                         |
| Hong Kong Profits Tax paid  |       | (405)                   | (6,184)                 |
| Overseas taxation paid  |       | (433)                   | (331)                   |
| Hong Kong Profits Tax refunded  |       | <u>829</u>              | <u>458</u>              |
| NET CASH OUTFLOW FROM TAXATION  |       | <u>(9)</u>              | <u>(6,057)</u>          |
| INVESTING ACTIVITIES  |       |                         |                         |
| Purchase of property, plant and equipment   |       | (20,242)                | (37,966)                |
| Acquisition of further interests in subsidiaries from minority shareholders                 |       | (16,480)                | (6,502)                 |
| Payment of deferred consideration on acquisition of interest in subsidiaries                |       | (8,433)                 | -                       |
| Decrease (increase) in pledged bank deposits  |       | 13,152                  | (16,094)                |
| Net inflow (outflow) of cash and cash equivalents in respect of acquisition of subsidiaries | 36    | 7,961                   | (1,905)                 |
| Proceeds from disposal of interest in a subsidiary to minority shareholders                 |       | 6,968                   | 349                     |
| Proceeds from disposal of property, plant and equipment                                     |       | 252                     | 2,282                   |
| Repayment of (advances to) minority shareholders  |       | 233                     | (233)                   |
| Advances of loan  |       | -                       | (15,000)                |
| Acquisition of investment in a security   |       | -                       | (5,000)                 |
| Purchase of investment properties   |       | -                       | (1,123)                 |
| Proceeds from disposal of subsidiaries, net of cash and cash equivalents disposed of        | 37    | -                       | 15,193                  |
| Proceeds from disposal of properties held for sale  |       | -                       | 6,255                   |
| Amount advanced from a jointly controlled entity  |       | -                       | 187                     |
| Proceeds from disposal of an associate  |       | <u>-</u>                | <u>47</u>               |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES  |       | <u>(16,589)</u>         | <u>(59,510)</u>         |

## Consolidated Cash Flow Statement

For the year ended 31st December, 2001

|   | Note | 2001<br><u>HK\$'000</u> | 2000<br><u>HK\$'000</u> |
|---|------|-------------------------|-------------------------|
| NET CASH INFLOW (OUTFLOW) BEFORE FINANCING                                |      | <u>30,714</u>           | <u>(66,282)</u>         |
| FINANCING   | 38   |                         |                         |
| Proceeds from issue of shares   |      | 116                     | 2,040                   |
| Expenses on issue of shares   |      | -                       | (25)                    |
| Mortgage loans raised   |      | 23,401                  | 21,853                  |
| Repayment of mortgage loans   |      | (11,565)                | (11,381)                |
| Net borrowing of trust receipt loans                                      |      | 17,037                  | 47,971                  |
| Notes issued to a shareholder   |      | -                       | 40,000                  |
| Repayment of notes payable to a shareholder                               |      | (22,850)                | (17,150)                |
| Bank loans raised   |      | 40,118                  | 2,263                   |
| Repayment of bank loans   |      | (37,263)                | (25,030)                |
| Repayment of obligations under finance leases and hire purchase contracts |      | (6,612)                 | (3,703)                 |
| (Repayment of) advance from minority shareholders                         |      | (3,560)                 | 6,559                   |
| Advance from a shareholder  |      | 124                     | -                       |
| Injection from minority shareholders                                      |      | -                       | 90                      |
| NET CASH (OUTFLOW) INFLOW FROM FINANCING                                  |      | <u>(1,054)</u>          | <u>63,487</u>           |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                          |      | 29,660                  | (2,795)                 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR                        |      | 74,871                  | 77,676                  |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES                                   |      | 29                      | (10)                    |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR                              |      | <u>104,560</u>          | <u>74,871</u>           |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS                     |      |                         |                         |
| Bank balances and cash  |      | 120,980                 | 105,735                 |
| Bank overdrafts   |      | (16,420)                | (11,472)                |
| Trust receipt loans   |      | -                       | (19,392)                |
|   |      | <u>104,560</u>          | <u>74,871</u>           |

## 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,<br>or 20 to 50 years |
| Leasehold improvements            | Over the shorter of the terms of the leases<br>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.

## 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<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--------------------------------|---|---|--|--|--|---------------------------------|---------------------------------|
| <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<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|-----------------------------------|---|---|--|--|--|---------------------------------|---------------------------------|
| <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<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Unallocated<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|----------------------------------|---|---|--|--|--|--------------------------------|---------------------------------|
| 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<br>of goodwill, net | -   | -   | -  | -  | -  | 123                            | 123                             |



## Notes to the Financial Statements

For the year ended 31st December, 2001

### 4. SEGMENT INFORMATION (Continued)

#### 2000

|                                | Manufacturing<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--------------------------------|---|---|--|--|--|---------------------------------|---------------------------------|
| <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<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|--------------------------------------|---|---|--|--|--|---------------------------------|---------------------------------|
| <b>ASSETS</b>                        |   |   |  |  |  |                                 |                                 |
| Segment assets                       | 362,252   | 182,511   | 156,355  | 126,453  | 134,048  | (96,394)                        | 865,225                         |
| Unallocated<br>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<br>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<br>of steel<br>and metal<br>products<br><i>HK\$'000</i> | Sales of<br>steel<br>and metal<br>products<br><i>HK\$'000</i> | Construction<br>work<br>contracting<br>and sales<br>of concrete<br>products<br><i>HK\$'000</i> | Manufacturing<br>of construction<br>materials<br><i>HK\$'000</i> | Sales of<br>construction<br>materials<br><i>HK\$'000</i> | Unallocated<br><i>HK\$'000</i> | Consolidated<br><i>HK\$'000</i> |
|----------------------|---|---|--|--|--|--------------------------------|---------------------------------|
| 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<br>geographical market |                         | Contribution to<br>profit from operations |                         |
|--------------------------------|-----------------------------------|-------------------------|---|-------------------------|
|                                | 2001<br><i>HK\$'000</i>           | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i>                   | 2000<br><i>HK\$'000</i> |
| Hong Kong                      | <b>745,135</b>                    | 760,419                 | <b>69,096</b>                             | 78,963                  |
| Other regions in the PRC       | <b>237,636</b>                    | 308,746                 | <b>9,562</b>                              | 4,270                   |
| United Kingdom                 | <b>15,744</b>                     | 4,038                   | <b>160</b>                                | (3)                     |
| Australia                      | <b>5,290</b>                      | 12,538                  | <b>(154)</b>                              | 209                     |
| Others                         | <b>4,353</b>                      | 35,715                  | <b>481</b>                                | 221                     |
|                                | <b>1,008,158</b>                  | 1,121,456               | <b>79,145</b>                             | 83,660                  |
| Amortisation of goodwill, net  |                                   |                         | <b>(123)</b>                              | -                       |
| Unallocated other revenue      |                                   |                         | <b>6,898</b>                              | -                       |
| Unallocated corporate expenses |                                   |                         | <b>(10,841)</b>                           | (16,643)                |
| Profit from operations         |                                   |                         | <b>75,079</b>                             | 67,017                  |

## 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                              | 2000           | 2001   | 2000          |
|                          | HK\$'000                          | HK\$'000       | HK\$'000   | 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  | -             |
|                          | <b>1,045,501</b>                  | <b>998,618</b> | <b>41,569</b>  | <b>49,491</b> |

### 5. OTHER REVENUE

|   | 2001          | 2000          |
|---|---------------|---------------|
|   | HK\$'000      | 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         | -             |
|   | <b>34,410</b> | <b>16,540</b> |

## 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          | 2000     |
|--|---------------|----------|
|  | HK\$'000      | 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> | 106,591  |
| 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<br>HK\$'000 | 2000<br>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              |
|  | <b>19,810</b>    | <b>23,648</b>    |

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

|   | 2001<br>HK\$'000 | 2000<br>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            |
|   | <b>(34)</b>      | <b>6,817</b>     |

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

|   | 2001<br>HK\$'000 | 2000<br>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<br>Number of<br>directors | 2000<br>Number of<br>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<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Salaries and other benefits                 | 4,037                   | 4,612                   |
| Contributions to retirement benefits scheme | 58                      | 8                       |
|   | <b>4,095</b>            | 4,620                   |

Their emoluments were within the following bands:

|                               | 2001<br><i>No. of<br/>employees</i> | 2000<br><i>No. of<br/>employees</i> |
|-------------------------------|-------------------------------------|-------------------------------------|
| HK\$1,500,001 – HK\$2,000,000 | 1                                   | –                                   |
| HK\$2,000,001 – HK\$2,500,000 | 1                                   | 2                                   |
|                               | <b>2</b>                            | 2                                   |

### 13. TAXATION CREDIT (CHARGE)

|   | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| 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)                 |
|   | <b>2,521</b>            | (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<br>HK\$'000   | 2000<br>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<br><i>HK\$'000</i> | Negative<br>goodwill<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-----------------------------|---|--------------------------|
| <b>GROSS AMOUNT</b>   |                             |   |                          |
| Arising on acquisition of a subsidiary  | -                           | (11,283)                                | (11,283)                 |
| Arising on acquisition of further interests<br>in subsidiaries  | 5,259                       | -                                       | 5,259                    |
| At 31st December, 2001  | 5,259                       | (11,283)                                | (6,024)                  |
| <b>AMORTISATION/RELEASED TO INCOME</b><br>(Amortised) released for the year and<br>at 31st December, 2001 |                             |   |                          |
|   | (526)                       | 403                                     | (123)                    |
| <b>CARRYING AMOUNT</b>  |                             |   |                          |
| 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<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| 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<br>HK\$'000 | 2000<br>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>    | <b>46,600</b>    |

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<br>land and<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Furniture<br>and<br>fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Plant and<br>machinery<br>and<br>equipment<br>HK\$'000 | Assets<br>under<br>installation<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>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<br>improvements<br><i>HK\$'000</i> | Furniture<br>and<br>fixtures<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|------------------------|--|---|--------------------------------------|--------------------------|
| 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<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| Leasehold land and buildings:   |                         |                         |
| Situated in Hong Kong held under medium term leases                   | <b>125,679</b>          | 96,565                  |
| Situated in other regions in the PRC held<br>under medium term leases | <b>52,949</b>           | 54,939                  |
| Situated outside Hong Kong held under freehold                        | <b>7,077</b>            | -                       |
|   | <b>185,705</b>          | 151,504                 |
| Construction in progress:   |                         |                         |
| Situated in Hong Kong held under medium term leases                   | <b>2,300</b>            | -                       |
|   | <b>188,005</b>          | 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<br>HK\$'000 | 2000<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Unlisted shares, at cost | <b>244,210</b>   | 251,283          |

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

| Name                                   | Place of incorporation/<br>registration/<br>operation | Issued and fully paid<br>share capital/<br>registered capital  | Proportion of<br>nominal value of<br>issued capital/<br>registered capital<br>held by the Group | Principal activities  |
|--|---|--|---|---|
| Daido Asia<br>Company Limited          | Hong Kong   | HK\$2,000,000<br>Ordinary shares   | 61.11%  | Sales of piles, metal<br>products and<br>building materials   |
| Daido Building<br>Materials Limited    | Hong Kong   | HK\$20<br>Ordinary shares<br>HK\$10,000<br>Non-voting<br>deferred shares **                                | 61.11%  | Manufacturing and<br>sales of ALC<br>Products   |
| Daido Concrete<br>(H.K.) Limited       | Hong Kong   | HK\$750,000,000<br>Ordinary shares   | 61.11%  | Investment holding  |
| Daido Group Limited                    | Bermuda   | HK\$30,000,000<br>Ordinary shares  | 61.11%  | Investment holding  |
| Daido Home Finance<br>Limited          | Hong Kong   | HK\$100,000<br>Ordinary shares   | 61.11%  | Money lending   |
| Daido Home<br>International<br>Limited | Cayman Islands  | HK\$225,375,000<br>Ordinary shares<br>HK\$91,500,000<br>Convertible<br>redeemable<br>preference shares *** | 61.11%  | Investment holding,<br>sales and<br>installation<br>of ALC Products<br>and sales of<br>building materials |

## Notes to the Financial Statements

For the year ended 31st December, 2001

### 19. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name  | Place of incorporation/<br>registration/<br>operation | Issued and fully paid<br>share capital/<br>registered capital                      | Proportion of<br>nominal value of<br>issued capital/<br>registered capital<br>held by the Group | Principal activities  |
|---|---|--|---|---|
| Daido Precast<br>Company Limited            | Hong Kong   | HK\$2<br>Ordinary shares   | 61.11%  | Manufacturing and<br>sales of semi-<br>precast concrete<br>slab         |
| Ding Cheong Limited                         | Hong Kong   | HK\$500,000<br>Ordinary shares   | 55%   | Sales of construction<br>materials                                      |
| Dyna Concrete Limited                       | Hong Kong   | HK\$60,000,000<br>Ordinary shares  | 100%  | Construction and<br>sales of concrete<br>pipes and related<br>products  |
| Fulwealth Metal<br>Factory Limited *        | Hong Kong   | HK\$20,000,000<br>Ordinary shares  | 77%   | Decoiling centre  |
| Golik Godown Limited                        | Hong Kong   | HK\$2<br>Ordinary shares   | 100%  | Provision for<br>warehouse services                                     |
| Golik Metal Industrial<br>Company Limited * | Hong Kong   | HK\$10,000<br>Ordinary shares<br>HK\$5,135,000<br>Non-voting<br>deferred shares ** | 100%  | Investment holding<br>and sales of metal<br>products                    |
| Golik Metal<br>Manufacturing<br>Co. Limited | Hong Kong   | HK\$30,000,000<br>Ordinary shares  | 61.11%  | Manufacturing and<br>sales of welded<br>wire mesh and<br>metal products |
| Golik Properties Limited                    | Hong Kong   | HK\$2<br>Ordinary shares   | 100%  | Property investment   |
| Golik Steel<br>Company Limited              | Hong Kong   | HK\$1,000,000<br>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/<br>registration/<br>operation | Issued and<br>fully paid<br>share capital/<br>registered capital | Proportion of<br>nominal value of<br>issued capital/<br>registered capital<br>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<br>Registered capital                              | 60%<br>(note)   | Manufacturing and sales of steel wire products and steel ropes |
| Jade Ocean Limited   | Hong Kong   | HK\$2<br>Ordinary shares   | 100%  | Property holding   |
| Kam Sing Limited *   | British Virgin Islands                                | US\$2<br>Ordinary shares   | 100%  | Investment holding   |
| Locusrite Limited #  | United Kingdom  | £100,000<br>Ordinary shares                                      | 80%   | Manufacturing and sales of metal products                      |
| Luenik Construction Material Company Limited                                 | Hong Kong   | HK\$200,000<br>Ordinary shares                                   | 80%   | Sales of construction materials                                |
| Stahl Trading Pty Limited #  | Australia   | AUS\$100<br>Ordinary shares                                      | 100%  | Sales of steel and metal products                              |
| Tak Sun Limited  | British Virgin Islands                                | US\$1<br>Ordinary share  | 61.11%  | Investment holding   |
| The Spacers & Bar Chairs Manufacturer Company Limited                        | Hong Kong   | HK\$800,000<br>Ordinary shares                                   | 80%   | Manufacturing and sales of construction materials              |
| Worldlight Group Limited *   | British Virgin Islands                                | US\$2<br>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/<br>registration/<br>operation | Issued and fully paid share capital/<br>registered capital                  | Proportion of nominal value of issued capital/<br>registered capital held by the Group | Principal activities   |
|-------------------------|---|---|--|--|
| Ytong Hong Kong Limited | Hong Kong   | HK\$20<br>Ordinary shares<br>HK\$10,000<br>Non-voting<br>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<br>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<br>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

|                                   | The Group and<br>the Company |                  |
|-----------------------------------|------------------------------|------------------|
|                                   | 2001<br>HK\$'000             | 2000<br>HK\$'000 |
| 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

|  | The Group        |                  |
|--|------------------|------------------|
|  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| 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<br>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

|                  | The Group        |                  |
|------------------|------------------|------------------|
|                  | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Raw materials    | 54,121           | 89,397           |
| Work in progress | 5,990            | 5,333            |
| Finished goods   | 82,690           | 70,354           |
| Supplies         | 363              | 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:

|                    | The Group        |                  |
|--------------------|------------------|------------------|
|                    | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| 0 - 30 days        | 92,664           | 129,482          |
| 31 - 60 days       | 68,125           | 55,405           |
| 61 - 90 days       | 48,982           | 32,621           |
| 91 - 120 days      | 28,151           | 17,020           |
| More than 120 days | 41,940           | 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

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

### 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:

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

### 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<br>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<br>(Both dates inclusive) | Exercise price | Number of share options |                              |                           |                          |
|---------------------|--|----------------|-------------------------|------------------------------|---------------------------|--------------------------|
|                     |  |                | Balance at<br>1.1.2001  | Exercised during<br>the year | Lapsed during<br>the year | Balance at<br>31.12.2001 |
| 27th November, 1998 | 27th May, 1999 to<br>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<br/>(Both dates inclusive)</b> | <b>Exercise<br/>price</b> | <b>Number of share<br/>options as at<br/>1.1.2001<br/>and 31.12.2001</b> | <b>Percentage<br/>on issued<br/>share capital<br/>of Daido</b> |
|---------------------|--|---------------------------|--|--|
| 16th November, 2000 | 16th May, 2001 to<br>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<br>premium<br>HK\$'000 | Revaluation<br>reserve<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Goodwill<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>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<br>(note 2)  | -                            | -                                  | -                                  | -                               | -                               | 11,168                             | 11,168            |
| - as restated  | 316,885                      | 19,367                             | -                                  | (181,262)                       | 11                              | 131,181                            | 286,182           |
| Exchange difference<br>arising from the<br>translation of overseas<br>subsidiaries | -                            | -                                  | -                                  | -                               | 204                             | -                                  | 204               |
| Goodwill arising on<br>acquisition of subsidiaries                                 | -                            | -                                  | -                                  | (1,734)                         | -                               | -                                  | (1,734)           |
| Goodwill arising on<br>acquisition of further<br>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<br>arising from the<br>translation of overseas<br>subsidiaries | -                            | -                                  | -                                  | -                               | 52                              | -                                  | 52                |
| Realised on disposal<br>of interest in a subsidiary<br>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<br>premium<br>HK\$'000 | Revaluation<br>reserve<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Goodwill<br>reserve<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>(losses)<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------|------------------------------|------------------------------------|------------------------------------|---------------------------------|---------------------------------|--|-------------------|
| THE COMPANY                         |                              |                                    |                                    |                                 |                                 |  |                   |
| At 1st January, 2000                |                              |                                    |                                    |                                 |                                 |  |                   |
| - as previously stated              | 316,885                      | -                                  | 66,061                             | -                               | -                               | (129)  | 382,817           |
| - prior year adjustment<br>(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:

- (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.

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

### 31. DEFERRED TAX

|                                 | The Group               |                         |
|---------------------------------|-------------------------|-------------------------|
|                                 | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| 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<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| 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<br>HK\$'000 | 2000<br>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<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>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<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Bank overdrafts                  | 16,420           | 11,472           | -                | -                |
| Bank loans                       | 5,118            | 2,263            | -                | -                |
| Convertible note ( <i>Note</i> ) | 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,<br>but not exceeding two years                      | 5,134          | 5,622     | -             | -        |
| More than two years,<br>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<br>one year shown under<br>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:

- (i) three years from the date of advance at 110% of the principal amount; or
- (ii) upon a public offering, material placement or disposal of the shares (collectively referred to as the "IPO") of Fulwealth Metal Factory Limited ("Fulwealth"), at the higher of 107% of the principal amount or a sum providing a yield of 10.52% per annum on the principal amount from the date of advance to 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<br>HK\$'000       | 2000<br>HK\$'000 | 2001<br>HK\$'000                        | 2000<br>HK\$'000 |
| THE GROUP   |                        |                  |   |                  |
| Within one year   | <b>8,063</b>           | 3,958            | <b>7,344</b>                            | 3,519            |
| In the second to fifth year inclusive                             | <b>9,616</b>           | 2,760            | <b>8,978</b>                            | 2,651            |
|   | <b>17,679</b>          | 6,718            | <b>16,322</b>                           | 6,170            |
| Less: future finance charges                                      | <b>(1,357)</b>         | (548)            | -                                       | -                |
| Present value of lease obligations                                | <b>16,322</b>          | 6,170            | <b>16,322</b>                           | 6,170            |
| Less: amounts due within one year shown under current liabilities |                        |                  | <b>(7,344)</b>                          | (3,519)          |
| Amounts due after one year  |                        |                  | <b>8,978</b>                            | 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<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Other payables   | <b>6,000</b>     | 10,541           | <b>2,108</b>     | 10,541           |
| Less: amount due within one year shown under trade and other payable | <b>(4,437)</b>   | (8,433)          | <b>(2,108)</b>   | (8,433)          |
| Amount due after one year  | <b>1,563</b>     | 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<br>HK\$'000 | 2000<br>HK\$'000 |
|--|------------------|------------------|
| Profit before taxation   | <b>53,457</b>    | 59,454           |
| Share of results of a jointly controlled entity                      | -                | 1,614            |
| Interest income  | <b>(5,383)</b>   | (16,432)         |
| Interest expenses  | <b>19,810</b>    | 23,648           |
| Amortisation of goodwill, net  | <b>123</b>       | -                |
| Depreciation   | <b>24,062</b>    | 22,962           |
| Gain on disposal of property held for sale                           | -                | (909)            |
| Loss (gain) on disposal of interest in a subsidiary                  | <b>34</b>        | (2)              |
| Gain on disposal of an associate                                     | -                | (47)             |
| Loss (gain) on disposal of property, plant and equipment             | <b>352</b>       | (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                                   | <b>23,468</b>    | (63,803)         |
| Decrease in trade and other receivables                              | <b>8,023</b>     | 11,238           |
| Decrease (increase) in amounts due from customers for contract work  | <b>62</b>        | (122)            |
| (Decrease) increase in amounts due to customers for contract work    | <b>(12,610)</b>  | 298              |
| Decrease in trade and other payables                                 | <b>(36,586)</b>  | (8,054)          |
| Effect of foreign exchange rate changes                              | <b>349</b>       | 5                |
| Net cash inflow from operating activities                            | <b>75,161</b>    | 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<br>HK\$'000 | 2000<br>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)             |
|  | <b>19,916</b>    | 162              |
| (Negative goodwill) goodwill   | <b>(11,283)</b>  | 1,734            |
| Total consideration  | <b>8,633</b>     | 1,896            |
| Satisfied by:  |                  |                  |
| Cash   | 4,741            | 1,896            |
| Consideration payable  | 3,892            | -                |
|  | <b>8,633</b>     | 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<br>in respect of acquisition of subsidiaries | <b>7,961</b>     | (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<br>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<br>capital<br>and<br>premium | Mortgage<br>loans | Trust<br>receipt<br>loans | Bank<br>convertible<br>note | Notes<br>payable<br>to a<br>shareholder | Bank<br>loans | Obligations<br>under<br>finance<br>leases<br>and hire<br>purchase<br>contracts | Amounts<br>due to<br>minority<br>shareholders | Amount<br>due to a<br>shareholder | Minority<br>interests |
|--|------------------------------------|-------------------|---------------------------|-----------------------------|---|---------------|--|---|-----------------------------------|-----------------------|
|  | HK\$'000                           | HK\$'000          | HK\$'000                  | HK\$'000                    | HK\$'000                                | HK\$'000      | HK\$'000   | HK\$'000                                      | HK\$'000                          | 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<br>in subsidiaries                      | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | (32,579)              |
| Exchange difference arising from<br>translation of overseas subsidiaries | -                                  | 42                | -                         | -                           | -                                       | -             | -  | 9   | -                                 | 1                     |
| Expenses on issue of shares  | (25)                               | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | -                     |
| Share issued at premium  | 2,040                              | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | -                     |
| Share of results by minority<br>interests                                | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | 24,982                |
| Dividends paid to the minority<br>shareholders of subsidiaries           | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | (9,150)               |
| Inception of new finance leases<br>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<br>in subsidiaries                      | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | (11,221)              |
| Disposal of interest in a subsidiary                                     | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | 6,425                 |
| Exchange difference arising from<br>translation of overseas subsidiaries | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | 6                     |
| Share issued at premium  | 116                                | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | -                     |
| Share of results by minority<br>interests                                | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | 21,714                |
| Dividends paid to the minority<br>shareholders of subsidiaries           | -                                  | -                 | -                         | -                           | -                                       | -             | -  | -   | -                                 | (8,506)               |
| Inception of new finance leases<br>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:

|                                   | The Group        |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| Investment properties             | 46,600           | 17,700           |
| Land and buildings                | 86,650           | 49,592           |
| Plant and machinery and equipment | 5,342            | 3,851            |
| Bank deposits                     | 2,942            | 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<br>HK\$'000 | 2000<br>HK\$'000 | 2001<br>HK\$'000 | 2000<br>HK\$'000 |
| <b>Land and buildings</b>                    |                  |                  |                  |                  |
| Within one year                              | <b>6,274</b>     | 4,352            | <b>2,212</b>     | 2,090            |
| In the second to fifth year<br>inclusive     | <b>7,679</b>     | 2,856            | <b>1,692</b>     | 266              |
| After five years                             | <b>4,360</b>     | 739              | -                | -                |
|  | <b>18,313</b>    | 7,947            | <b>3,904</b>     | 2,356            |
| <b>Plant and machinery<br/>and equipment</b> |                  |                  |                  |                  |
| Within one year                              | <b>1,532</b>     | 659              | -                | -                |
| In the second to fifth year<br>inclusive     | <b>6,294</b>     | 2,591            | -                | -                |
| After five years                             | <b>1,968</b>     | 1,723            | -                | -                |
|  | <b>9,794</b>     | 4,973            | -                | -                |

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

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

|  | The Group               |                         |
|--|-------------------------|-------------------------|
|  | 2001<br><i>HK\$'000</i> | 2000<br><i>HK\$'000</i> |
| 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.

## Financial Summary

|   | Year ended 31st December, |                  |                  |                  | 2001<br>HK\$'000 |
|---|---------------------------|------------------|------------------|------------------|------------------|
|   | 1997<br>HK\$'000          | 1998<br>HK\$'000 | 1999<br>HK\$'000 | 2000<br>HK\$'000 |                  |
| <b>RESULTS</b>                                  |                           |                  |                  |                  |                  |
| Turnover  |                           |                  |                  |                  |                  |
| Continuing operations                           | 749,163                   | 929,422          | 1,027,647        | 1,121,456        | <b>1,008,158</b> |
| Discontinued operations                         | 382,246                   | 128,380          | -                | -                | -                |
|   | <b>1,131,409</b>          | <b>1,057,802</b> | <b>1,027,647</b> | <b>1,121,456</b> | <b>1,008,158</b> |
| Operating profit                                |                           |                  |                  |                  |                  |
| Continuing operations                           | 72,091                    | 74,232           | 77,235           | 84,716           | <b>73,267</b>    |
| Discontinued operations                         | (1,147)                   | (7,780)          | -                | -                | -                |
| Finance costs                                   | (26,909)                  | (31,210)         | (15,769)         | (23,648)         | <b>(19,810)</b>  |
| Share of results of an associate                | (55)                      | (18)             | -                | -                | -                |
| Share of results of a jointly controlled entity | -                         | -                | (166)            | (1,614)          | -                |
| Profit before taxation                          | 43,980                    | 35,224           | 61,300           | 59,454           | <b>53,457</b>    |
| Taxation  | (7,007)                   | (6,915)          | (6,697)          | (762)            | <b>2,521</b>     |
| Profit after taxation                           | 36,973                    | 28,309           | 54,603           | 58,692           | <b>55,978</b>    |
| Minority interests                              | (5,396)                   | (7,981)          | (13,192)         | (24,982)         | <b>(21,714)</b>  |
| Net profit for the year                         | 31,577                    | 20,328           | 41,411           | 33,710           | <b>34,264</b>    |

## ASSETS AND LIABILITIES

|                     | At 31st December,<br>(Restated) |                  |                  |                  | 2001<br>HK\$'000 |
|---------------------|---------------------------------|------------------|------------------|------------------|------------------|
|                     | 1997<br>HK\$'000                | 1998<br>HK\$'000 | 1999<br>HK\$'000 | 2000<br>HK\$'000 |                  |
| Total assets        | 926,152                         | 604,746          | 918,935          | 998,618          | <b>1,045,501</b> |
| Total liabilities   | (630,553)                       | (243,391)        | (453,366)        | (531,982)        | <b>(535,438)</b> |
| Minority interests  | (29,997)                        | (32,320)         | (123,549)        | (107,240)        | <b>(115,658)</b> |
| Shareholders' funds | 265,602                         | 329,035          | 342,020          | 359,396          | <b>394,405</b>   |

*Note:* The summary of assets and liabilities for the Group at 31st December, 1999 has been extracted from the Company's annual report after restatement to reflect the effect of the prior period adjustments on adoption of SSAP 9 (Revised) in respect of dividend proposed or declared after the balance sheet date.