

DAIDO



DAIDO GROUP LIMITED

INTERIM
REPORT
2002

CORPORATE INFORMATION

Executive Directors

Mr. Pang Tak Chung (*Chairman*)
Mr. Akiyoshi Kubota (*Deputy Chairman*)
Mr. Ho Wai Yu, Sammy
Mr. Robert Keith Davies
Mr. Choy Kai Sing
Mr. Brian Edward Tarling

Non-Executive Directors

Mr. Masahiro Taguchi
Mr. Ge Qin

Independent Non-Executive Directors

Mr. To Wai Keung
Mr. Ha Yue Fuen, Henry

Company Secretary

Mr. Ho Wai Yu, Sammy
FCCA FAIA AHKSA MBIM

Registered Office

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2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

3 Dai Shing Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong
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Auditors

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

Principal Bankers

Dao Heng Bank Limited
Hang Seng Bank Limited
Standard Chartered Bank

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
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Investor and Media Relations

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INTERIM RESULTS

The Board of Directors of Daido Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

Condensed Consolidated Income Statement

	Notes	Six months ended 30th June,	
		2002 HK\$'000	2001 HK\$'000
Turnover	3	87,871	113,125
Cost of sales		(61,835)	(85,897)
Gross profit		26,036	27,228
Other revenue		1,058	2,728
Selling and distribution costs		(3,655)	(4,415)
Administrative expenses		(13,045)	(13,592)
Allowance for bad and doubtful debts		(97)	(4,218)
Write back of allowance for obsolete inventories		-	168
Write back of allowance for bad and doubtful debts		2,487	7,089
Write back of provision for restructuring fees	4	-	811
Write back of provision for claims	5	-	6,898
Profit from operations	6	12,784	22,697
Write off of expenses for proposed investment	7	-	(7,079)
Finance costs	8	(556)	(1,445)
Interest income		584	1,685
Profit before taxation		12,812	15,858
Taxation	9	(548)	(262)
Net profit for the period		12,264	15,596
Dividend	10	(9,000)	(9,000)
Earnings per share	11		
Basic		0.409 cents	0.520 cents
Diluted		0.408 cents	0.511 cents

There was no recognised gains or losses other than the net profit for the period.

Condensed Consolidated Balance Sheet

	Notes	30.6.2002 <i>HK\$'000</i> (unaudited)	31.12.2001 <i>HK\$'000</i> (audited)
Non-current Assets			
Property, plant and equipment	12	124,933	129,529
Long-term receivables		3,452	754
Rental deposits and other assets		571	578
		128,956	130,861
Current Assets			
Inventories	13	23,692	15,930
Trade and other receivables	14	54,912	61,032
Amounts due from customers for contract work		48	72
Amounts due from fellow subsidiaries		2,523	1,090
Tax recoverable		–	220
Pledged bank deposits		–	434
Bank balances and cash		34,854	44,176
		116,029	122,954
Current Liabilities			
Amounts due to customers for contract work		30,015	35,685
Trade and other payables	15	16,583	25,273
Amounts due to fellow subsidiaries		802	3,657
Amount due to a shareholder of the ultimate holding company		124	124
Tax payable		610	–
Bank borrowings	16	14,058	7,253
Obligations under finance leases		4,667	5,227
Unclaimed dividends		121	6
		66,980	77,225
Net Current Assets		49,049	45,729
		178,005	176,590

Condensed Consolidated Balance Sheet (Cont'd)

	Notes	30.6.2002 HK\$'000 (unaudited)	31.12.2001 HK\$'000 (audited)
Capital and Reserves			
Share capital	17	30,000	30,000
Reserves	18	139,817	136,553
		<u>169,817</u>	<u>166,553</u>
Non-current Liabilities			
Deferred tax		1,149	1,149
Obligations under finance leases		7,039	8,888
		<u>8,188</u>	<u>10,037</u>
		<u>178,005</u>	<u>176,590</u>

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(4,494)	(30,621)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	806	(723)
NET CASH (OUTFLOW) INFLOW FROM FINANCING ACTIVITIES	(5,634)	29,153
DECREASE IN CASH AND CASH EQUIVALENTS	(9,322)	(2,191)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	44,176	51,354
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	34,854	49,163
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	34,854	51,018
Bank overdrafts	-	(1,855)
	34,854	49,163

Notes to the Condensed Financial Statements

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2001 except as described below.

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

Foreign Currencies

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

Cash Flow Statements

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

3. SEGMENT INFORMATION

The turnover and contributions to profit from operations of the Group for the six months ended 30th June, 2002, analysed by business segment and by geographical segment, are as follows:

By business segment:

For the six months ended 30th June, 2002

	Construction work contracting and sales of concrete products HK\$'000	Sales of steel products HK\$'000	Manufacturing and sales of metal products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	35,025	21,795	31,051	-	87,871
Inter-segment sales	-	-	1,555	(1,555)	-
Total revenue	35,025	21,795	32,606	(1,555)	87,871
SEGMENT RESULT	9,462	596	3,610	-	13,668
Unallocated corporate revenue					229
Unallocated corporate expenses					(1,113)
Profit from operations					12,784

For the six months ended 30th June, 2001

	Construction work contracting and sales of concrete products HK\$'000	Sales of steel products HK\$'000	Manufacturing and sales of metal products HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	31,167	55,943	26,015	-	113,125
Inter-segment sales	44	-	607	(651)	-
Total revenue	31,211	55,943	26,622	(651)	113,125
SEGMENT RESULT	12,778	430	1,967	(187)	14,988
Unallocated corporate revenue					14,093
Unallocated corporate expenses					(6,384)
Profit from operations					22,697

3. SEGMENT INFORMATION (Cont'd)

By geographical segment:

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

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

4. WRITE BACK OF PROVISION FOR RESTRUCTURING FEES

During the period from 1st May, 1999 to 31st December, 1999, the Group underwent a financial restructuring pursuant to several restructuring agreements between its bankers, convertible noteholders and other financial creditors. Upon the completion of the financial restructuring in the prior period, the excess amount provided was written back accordingly.

5. 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 the prior periods. As the warranty period has lapsed, the amount is written back accordingly.

6. PROFIT FROM OPERATIONS

During the period, depreciation of approximately HK\$5,304,000 (six months ended 30.6.2001: HK\$4,781,000) was charged to the income statement in respect of the Group's property, plant and equipment.

7. WRITE OFF OF EXPENSES FOR PROPOSED INVESTMENT

On 17th November, 2000 and 19th January, 2001, the Company and its wholly-owned subsidiary, Eastcom Holdings Limited, entered into agreements (the "Acquisition Agreements") with the Liquidators of Siu Fung Ceramics Holdings Limited and its subsidiaries ("Siu Fung Group"), for the purchase of interests in and loans due to Siu Fung Group from certain joint venture companies.

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\$12,629,000 in respect of the acquisition, including the forfeited deposits, have been charged to the consolidated income statement in prior period, of which HK\$5,550,000 had been reflected in the consolidated income statement of the Group for the year ended 31st December, 2000.

8. FINANCE COSTS

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Interest on bank and other loans wholly repayable within five years	224	535
Interest on promissory note	-	793
Interest on finance leases	332	117
	<u>556</u>	<u>1,445</u>

9. TAXATION

	Six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current period	<u>548</u>	<u>262</u>

The charge for the period to Hong Kong Profits Tax has been partly relieved by the tax losses brought forward from previous years.

10. DIVIDEND

On 26th June, 2002, a dividend of HK\$0.003 per share was paid to shareholders as the final dividend for the year ended 31st December, 2001.

On 31st May, 2001, a dividend of HK\$0.003 per share was paid to shareholders as the final dividend for the year ended 31st December, 2000.

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30th June, 2002.

11. EARNINGS PER SHARE

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

	Six months ended 30th June,	
	2002	2001
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>12,264</u>	<u>15,596</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,000,000,000	3,000,000,000
Effect of dilutive share options	<u>4,936,133</u>	<u>52,053,588</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,004,936,133</u>	<u>3,052,053,588</u>

12. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$1,091,000 on the acquisition of assets in order to facilitate its manufacturing capabilities.

13. INVENTORIES

Included in inventories are finished goods of HK\$2,861,000 (31.12.2001: HK\$Nil) which are carried at net realisable value.

14. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$28,143,000 (31.12.2001: HK\$30,830,000) with an aged analysis as follows:

	30.6.2002	31.12.2001
	HK\$'000	HK\$'000
0 – 30 days	12,918	16,833
31 – 60 days	7,106	7,976
61 – 90 days	4,058	3,023
91 – 120 days	1,593	1,142
More than 120 days	<u>2,468</u>	<u>1,856</u>
	<u>28,143</u>	<u>30,830</u>

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$5,036,000 (31.12.2001: HK\$4,406,000) with an aged analysis as follows:

	30.6.2002 <i>HK\$'000</i>	31.12.2001 <i>HK\$'000</i>
0 – 30 days	2,777	2,404
31 – 60 days	1,691	1,433
61 – 90 days	464	381
91 – 120 days	40	124
More than 120 days	64	64
	<u>5,036</u>	<u>4,406</u>

16. BANK BORROWINGS

	30.6.2002 <i>HK\$'000</i>	31.12.2001 <i>HK\$'000</i>
Unsecured bank borrowings:		
Trust receipt loans	<u>14,058</u>	<u>7,253</u>

17. SHARE CAPITAL

There was no movement in the share capital of the Company in the current interim reporting period.

18. RESERVES

	Goodwill reserve <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	(18,670)	29	1,291,271	(1,164,337)	108,293
Adjustment on goodwill (note)	7,601	-	-	-	7,601
Net profit for the year	-	-	-	29,659	29,659
Dividend	-	-	-	(9,000)	(9,000)
At 31st December, 2001	(11,069)	29	1,291,271	(1,143,678)	136,553
Net profit for the period	-	-	-	12,264	12,264
Dividend	-	-	-	(9,000)	(9,000)
At 30th June, 2002	<u>(11,069)</u>	<u>29</u>	<u>1,291,271</u>	<u>(1,140,414)</u>	<u>139,817</u>

Note: The amount represents compensation payable by Golik Metal Industrial Company Limited ("GMI"), a wholly-owned subsidiary of Golik Holdings Limited, for the shortfall of the minimum profit guarantee in accordance with the terms of the agreement entered into between certain subsidiaries of the Group and GMI for acquisition of Golik Metal Manufacturing Co. Limited from GMI on 6th July, 2000.

19. PLEDGE OF ASSETS

At 30th June, 2002, the Group has pledged its bank deposits of HK\$Nil (31.12.2001: HK\$434,000) as a security against the general banking facilities granted to a subsidiary. No facility was utilised by the subsidiary at the balance sheet date.

20. CAPITAL COMMITMENTS

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u> -</u>	<u> 67</u>

BUSINESS REVIEW

During the first half of 2002, many of the Group's business performances were far from satisfactory owing to the shrinking of public housing construction by the Government. Although the Group has implemented effective diversification of products as well as client base, and is in the process of further diversifying its business areas, time is needed to engage in new activities. Cost control has been comparatively successful and therefore the Group managed to maintain profits during the first half of 2002.

Autoclaved Aerated Lightweight Concrete Blocks and Panels

Since the Management aggressively developed the private property market, the production volume increased in comparison with the corresponding period last year. The Group's policy of lessening the reliance on the Government's public housing construction has proved a success, but the selling price remained unfavorable.

Semi-Precast Concrete Slab

The Group's products have been widely accepted by the market and the environmental friendly construction materials have received favorable response from the sector. According to our projects on hand, it is anticipated that the Group will achieve its target by the second half year.

Welded Wire Mesh, Cold Drawn Wire and Expanded Metal Products

The welded wire mesh, cold drawn wire and expanded metal products have been widely used by the Government. Benefited from the rising price of steel products and the commencement of infrastructure projects this year, the result was better than expected.

LIQUIDITY AND FINANCIAL RESOURCES

At 30th June, 2002, the Group's consolidated shareholders' equity was HK\$170 million, representing a 2% increase over prior year. At 30th June, 2002, the Group's cash and bank deposits were HK\$35 million and aggregated interest-bearing borrowings were approximately HK\$26 million.

The business operation was generally financed by the Group's internal funding and bank borrowings.

The Group's monetary assets are principally denominated in Hong Kong dollars and United States dollars. The Group believes that its exposure to exchange rate risk is not material due to the currency peg of Hong Kong dollars and United State dollars.

The gearing ratio of the Group calculated by aggregated interest-bearing borrowings divided by shareholders' equity at the balance sheet date was 15%.

CAPITAL STRUCTURE

During the period, there was no change to the share capital of the Company.

EMPLOYMENT AND REMUNERATION POLICY

For the period ended 30th June, 2002, the total number of staff of the Group in Hong Kong was approximately 180. In addition to the set up of share options scheme, the Group also provided Mandatory Provident Fund entitlement to its employees.

PROSPECT – SEEKING FOR BUSINESS BREAKTHROUGH

The Group's income source mainly came from public housing construction during the past few years. Given the weak sentiment of property market and the significant changes in housing policies, the Management regards that the public housing construction will not revive in the near future. However, the Group will continue to implement stringent cost control and explore new markets. In view of the current market condition, the Management is actively seeking suitable new business opportunities to broaden its sources of income and to enhance business growth.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, the interests of the Company's directors and their associates in the securities of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(1) Shares

(i) The Company

Name of directors	Number of ordinary shares held	
	Personal interest	Corporate interest
Mr. Pang Tak Chung (Note 1)	–	1,833,447,564
Mr. Akiyoshi Kubota (Note 2)	–	16,583,000
Mr. Ho Wai Yu, Sammy	440,000	–
Mr. Masahiro Taguchi (Note 3)	–	394,634,000

(ii) Golik Holdings Limited ("GHL")

Name of directors	Number of ordinary shares held	
	Personal interest	Corporate interest
Mr. Pang Tak Chung (Note 4)	135,195,000	195,646,500
Mr. Ho Wai Yu, Sammy	2,296,000	–
Mr. Robert Keith Davies	1,544,000	–

(iii) Shares in a fellow subsidiary

At 30th June, 2002, 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. The corporate interest is held by World Producer Limited.

(1) **Shares** (Cont'd)

Notes:

1. The 1,833,447,564 shares are held by Worldlight Group Limited, a wholly-owned subsidiary of GHL which is owned as to 34.48% by Golik Investments Ltd. ("GIL") and as to 23.83% by Mr. Pang Tak Chung. GIL is a wholly-owned subsidiary of Golik International Group Limited. Golik International Group Limited 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 are owned by Mr. Pang Tak Chung and Mr. Robert Keith Davies respectively.
2. The 16,583,000 shares are held by Dynamic Investment Limited, a company which is wholly-owned by Mr. Akiyoshi Kubota and his spouse, Mrs. Chisako Kubota.
3. The 394,634,000 shares are held by Sankyo Sekiyu Co. Limited, a company which is owned as to 50.38% by Mr. Masahiro Taguchi and as to 49.62% by his spouse, Mrs. Noriko Taguchi.
4. The 195,646,500 shares are held by GIL.

(2) Options

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

(i) The Company

Pursuant to the share option scheme of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000, the following Company's directors were granted the following numbers of option shares to subscribe for the ordinary shares of HK\$0.01 each in the capital of the Company:

Name of directors	Date granted	Exercisable period (Both dates inclusive)	Exercise price HK\$	Number of share options as at 1.1.2002 and 30.6.2002
Mr. Pang Tak Chung	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	50,000,000
Mr. Akiyoshi Kubota	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	30,000,000
Mr. Ho Wai Yu, Sammy	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	20,000,000
Mr. Robert Keith Davies	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	20,000,000
Mr. Choy Kai Sing	16th November, 2000	16th May, 2001 to 15th May, 2003	0.063	15,000,000

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

(ii) GHL

Pursuant to the share option scheme of GHL adopted on 25th June, 1994, the Company's directors were granted the option shares to subscribe for the ordinary shares of HK\$0.10 each in the share capital of GHL.

No share option was granted to or exercised by any of the Company's directors under the share option scheme adopted by GHL during the period and there was no share option outstanding at 30th June, 2002.

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 Company's 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 period.

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 does not record other person as having an interest of 10% or more in the issued share capital of the Company at 30th June, 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30th June, 2002 with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the 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.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the unaudited interim financial statements of the Company for the six months ended 30th June, 2002.

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 six months ended 30th June, 2002.

APPRECIATION

We would like to take this opportunity to express our sincere thanks to the staff of the Group for their dedication and hard work. We would also like to thank our shareholders, customers, bankers and business associates for their unfailing support during the period. With their continuous efforts and contribution, we can continue the encouraging results.

By Order of the Board
Pang Tak Chung
Chairman

Hong Kong, 4th September, 2002