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## DAIDO GROUP LIMITED

大同集團有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00544)

### UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

The board of directors (the “Board”) 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, 2014, together with the comparative figures for the corresponding period in 2013 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2014

	<i>Notes</i>	<b>Six months ended 30.6.2014 HK\$'000 (unaudited)</b>	<b>Six months ended 30.6.2013 HK\$'000 (unaudited) (restated)</b>
<b>Continuing operations</b>			
Revenue	3	<b>96,846</b>	91,107
Direct costs		<b>(90,918)</b>	(81,618)
Gross profit		<b>5,928</b>	9,489
Other income	4	<b>1,052</b>	3,536
Other gains and losses	5	<b>(19)</b>	39,897
Selling and distribution expenses		<b>(4,121)</b>	(2,558)
Administrative expenses		<b>(15,948)</b>	(14,690)
Impairment loss on available-for-sale investments	6	<b>-</b>	(4,500)
Share of loss of a joint venture		<b>(993)</b>	-
Finance costs	7	<b>(493)</b>	(2,342)
(Loss) profit before tax	8	<b>(14,594)</b>	28,832
Income tax expense	9	<b>-</b>	-
(Loss) profit for the period from continuing operations		<b>(14,594)</b>	28,832

\*For identification purpose only

	<i>Notes</i>	<b>Six months ended 30.6.2014 HK\$'000 (unaudited)</b>	Six months ended 30.6.2013 HK\$'000 (unaudited) (restated)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations		-	(62,369)
Loss for the period		<b>(14,594)</b>	(33,537)
<b>Other comprehensive income (expense)</b>			
<b>Item that may be subsequently reclassified to profit or loss</b>			
Exchange difference arising on translation of financial statements of the foreign operations		<u>125</u>	<u>(1,049)</u>
Total comprehensive expense for the period		<u><b>(14,469)</b></u>	<u>(34,586)</u>
Loss for the period attributable to:			
Owners of the Company		<b>(14,594)</b>	(32,961)
Non-controlling interests		<u>-</u>	<u>(576)</u>
		<u><b>(14,594)</b></u>	<u>(33,537)</u>
Total comprehensive expense for the period attributable to:			
Owners of the Company		<b>(14,469)</b>	(34,010)
Non-controlling interests		<u>-</u>	<u>(576)</u>
		<u><b>(14,469)</b></u>	<u>(34,586)</u>
(Loss) earnings per share – basic			
- from continuing and discontinued operations	<i>11</i>	<u><b>HK(0.6) cents</b></u>	<u>HK(1.38) cents</u>
- from continuing operations		<u><b>HK(0.6) cents</b></u>	<u>HK1.21 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30TH JUNE, 2014**

	<i>Notes</i>	<b>30.6.2014</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2013 <b>HK\$'000</b> <b>(audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>9,809</b>	9,661
Goodwill		<b>8,513</b>	8,513
Interest in a joint venture		<b>2,456</b>	3,449
Available-for-sale investments		<b>38,502</b>	38,502
Rental deposits paid		<b>21,781</b>	18,813
Pledged bank deposits		<b>90,000</b>	78,718
		<b>171,061</b>	157,656
<b>CURRENT ASSETS</b>			
Inventories		<b>2,662</b>	2,558
Trade and other receivables, deposits and prepayments	<i>12</i>	<b>49,123</b>	43,490
Amount due from non-controlling interests of a subsidiary		<b>2,000</b>	2,000
Held-for-trading investments		<b>886</b>	949
Bank balances and cash		<b>113,812</b>	143,980
		<b>168,483</b>	192,977
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>13</i>	<b>18,084</b>	15,580
Amount due to an investee		<b>8,000</b>	8,000
Obligations under finance leases		<b>347</b>	347
Promissory notes		<b>4,934</b>	4,762
		<b>31,365</b>	28,689
<b>NET CURRENT ASSETS</b>		<b>137,118</b>	164,288
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>308,179</b>	321,944

	<i>Notes</i>	<b>30.6.2014</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2013 <i>HK\$'000</i> (audited)
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>24,323</b>	24,323
Share premium and reserves		<b>259,674</b>	274,143
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>283,997</b>	298,466
Non-controlling interests		<b>14,923</b>	14,923
		<hr/>	<hr/>
		<b>298,920</b>	313,389
<b>NON-CURRENT LIABILITIES</b>			
Promissory notes		<b>8,865</b>	8,555
Obligations under finance leases		<b>394</b>	-
		<hr/>	<hr/>
		<b>9,259</b>	8,555
		<hr/>	<hr/>
		<b>308,179</b>	321,944
		<hr/>	<hr/>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE SIX MONTHS ENDED 30TH JUNE, 2014*

**1. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*;
- Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*; and
- HK(IFRIC) – Int 21 *Levies*

The application of the above Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### 3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by operating segment:

#### Six months ended 30.6.2014

	Cold storage and related services <i>HK\$'000</i>	Trading and related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>93,086</u>	<u>3,760</u>	<u>96,846</u>
Segment loss	<u>(2,154)</u>	<u>(6,433)</u>	(8,587)
Unallocated income			1,052
Unallocated expenses			(6,504)
Change in fair value of financial instruments			(62)
Finance costs			<u>(493)</u>
Loss before tax			<u>(14,594)</u>

#### Six months ended 30.6.2013 (restated)

	Cold storage and related services <i>HK\$'000</i>	Trading and related services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue	<u>91,107</u>	<u>-</u>	<u>91,107</u>
Segment loss	<u>(1,262)</u>	<u>-</u>	(1,262)
Unallocated income			3,458
Unallocated expenses			(6,419)
Change in fair value of financial instruments			(59)
Adjustment on loans to an investee			39,956
Impairment loss on available-for-sale investments			(4,500)
Finance costs			<u>(2,342)</u>
Profit before tax			<u>28,832</u>

Segment result represents the loss from each segment without allocation of interest income, certain sundry income, central administration costs, change in fair value of financial instruments, adjustment on loans to an investee, impairment loss on available-for-sale investments and finance costs. This is the measure reported to the chief operating decision makers, the executive directors, for the purposes of resource allocation and performance assessment.

## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	<b>30.6.2014</b> <i>HK\$'000</i>	31.12.2013 <i>HK\$'000</i>
<b>ASSETS</b>		
Cold storage and related services	<b>80,542</b>	74,419
Trade and related services	<b>9,408</b>	7,043
	<hr/>	<hr/>
Total segment assets	<b>89,950</b>	81,462
Unallocated assets	<b>249,594</b>	269,171
	<hr/>	<hr/>
Consolidated assets	<b>339,544</b>	350,633
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Cold storage and related services	<b>15,244</b>	13,698
Trade and related services	<b>1,817</b>	734
	<hr/>	<hr/>
Total segment liabilities	<b>17,061</b>	14,432
Unallocated liabilities	<b>23,563</b>	22,812
	<hr/>	<hr/>
Consolidated liabilities	<b>40,624</b>	37,244
	<hr/>	<hr/>

## 4. OTHER INCOME

	<b>Six months ended 30.6.2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	Six months ended 30.6.2013 <i>HK\$'000</i> <b>(unaudited)</b> (restated)
<b>Continuing operations</b>		
Bank interest income	<b>850</b>	497
Imputed interest income from loans to an investee	-	2,937
Sundry income	<b>202</b>	102
	<hr/>	<hr/>
	<b>1,052</b>	3,536
	<hr/>	<hr/>

## 5. OTHER GAINS AND LOSSES

	<b>Six months ended 30.6.2014</b> <i>HK\$'000</i> <b>(unaudited)</b>	Six months ended 30.6.2013 <i>HK\$'000</i> <b>(unaudited)</b>
<b>Continuing operations</b>		
Fair value loss on financial assets at fair value through profit or loss	-	(58)
Fair value loss on held-for-trading investments	<b>(62)</b>	(1)
Gain on disposal of property, plant and equipment	<b>43</b>	-
Adjustment on loans to an investee	-	39,956
	<hr/>	<hr/>
	<b>(19)</b>	39,897
	<hr/>	<hr/>

## 6. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

On 4th May, 2013, the indirectly owned investee, which holds the hotel resort complex operation in Macau, and its major shareholder entered into an assets purchase agreement with some subsidiaries of Galaxy Entertainment Group Limited, an independent third party and a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, to dispose of the underlying properties of hotel resort complex and other assets in some subsidiaries of its major shareholders at a cash consideration of HK\$3,250,000,000. The disposal of these assets was completed on 17th July, 2013. According to the assets purchase agreement, the first payment for the disposal of HK\$2,600,000,000 was received on 17th July, 2013 and the second payment of HK\$650,000,000 (subject to adjustment, if any) is expected to be received by the first half of 2015.

The Group re-assessed the recoverable amount of the available-for-sale investments taking into account the expected future cash flows of the investments including the cashflows generated from the aforesaid disposal. No impairment loss was recognised for the six months ended 30th June, 2014. An impairment loss of HK\$4,500,000 recognised for the six months ended 30th June, 2013 as the recoverable amount was lower than the carrying value.

## 7. FINANCE COSTS

	<b>Six months ended 30.6.2014 HK\$'000 (unaudited)</b>	Six months ended 30.6.2013 HK\$'000 (unaudited)
<b>Continuing operations</b>		
Interest on obligations under finance leases	11	21
Imputed interest expense on amount due to non-controlling interests of a subsidiary	-	1,701
Imputed interest expense on promissory notes	<u>482</u>	<u>620</u>
	<u><b>493</b></u>	<u><b>2,342</b></u>

## 8. (LOSS) PROFIT BEFORE TAX

	<b>Six months ended 30.6.2014 HK\$'000 (unaudited)</b>	Six months ended 30.6.2013 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>		
(Loss) profit before tax for the period has been arrived at after charging the following items:		
Write-off of inventories	1,179	-
Depreciation of property, plant and equipment	<u>1,978</u>	<u>2,656</u>

## 9. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable tax rate of 25%.

No provision for Hong Kong Profits Tax and EIT are required as the individual companies comprising the Group incurred a loss for both periods.

## 10. DIVIDEND

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2014 and 30th June, 2013.

## 11. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share attributable to the owners of the Company is based on the following data:

	<b>Six months ended 30.6.2014 HK\$'000 (unaudited)</b>	Six months ended 30.6.2013 HK\$'000 (unaudited)
(Loss) profit for the purpose of basic (loss) earnings per share		
– from continuing and discounted operations	(14,594)	(32,961)
– from continuing operations	(14,594)	28,832
– from discontinued operations	<u>-</u>	<u>(61,793)</u>
	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>2,432,304</u>	<u>2,384,569</u>

Basic loss per share for the discontinued operations is HK2.59 cents per share for the six months ended 30th June, 2013 based on the loss for the prior period from discontinued operations of HK\$61,793,000 and the denominators detailed above for basic loss per share.

The weighted average number of ordinary shares has been adjusted for share issue.

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for the period ended 30th June, 2014 and 2013.

## 12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Except for certain customers who are allowed 30 to 60 days credit period, no credit period is allowed by the Group in respect of provision of cold storage and related services.

Included in trade and other receivables are trade receivables, net of allowance for doubtful debts, of HK\$42,898,000 (31.12.2013: HK\$38,341,000).

The aged analysis of trade receivables by invoice dates, which approximated the revenue recognition date, are as follows:

	<b>30.6.2014 HK\$'000 (unaudited)</b>	31.12.2013 HK\$'000 (audited)
0 – 30 days	21,607	16,696
31 – 60 days	12,150	11,125
61 – 90 days	7,010	6,162
91 – 120 days	2,084	4,358
More than 120 days	<u>47</u>	<u>-</u>
	<u>42,898</u>	<u>38,341</u>



### 13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$5,297,000 (31.12.2013: HK\$4,524,000).

The aged analysis of trade payables by invoice dates are as follows:

	<b>30.6.2014</b> <b>HK\$'000</b> <b>(unaudited)</b>	31.12.2013 <i>HK\$'000</i> (audited)
0 – 30 days	<b>3,900</b>	2,597
31 – 60 days	<b>1,051</b>	682
61 – 90 days	<b>114</b>	127
91 – 120 days	<b>232</b>	1,118
	<b><u>5,297</u></b>	<u>4,524</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERALL RESULTS

For the six months ended 30th June, 2014, total revenue from the continuing operations of the Group amounted to approximately HK\$97 million, up approximately 6.59% when compared to approximately HK\$91 million in the corresponding period in 2013.

The loss for the first half of the year attributable to owners of the Company was approximately HK\$15 million, compared with the loss of approximately HK\$33 million in the same period of the previous year.

During the period under review, the Group recorded a reduction in loss of approximately HK\$18 million. The Management considers that such decrease in loss was mainly attributable to the disposal of the non-profitable KTV business in the PRC last year and the adjustment on loans to an investee upon its repayment of the loan by the investee was included in the corresponding period in 2013.

Revenue derived from the Group's cold storage and related business remained stable, and the overall turnover of the Group's operations maintained at similar levels of the first six months of the previous year.

The Group is principally engaged in cold storage and related business, and trading and related business in the PRC.

## **BUSINESS REVIEW**

### **Cold storage and related services**

#### *Cold storage*

In the first six months of the year, this segment has recorded stable performance compared with the same period last year. The reason is two-fold: 1) The Group increased rental rates conservatively due to negative factors in the local business environment. 2) A decrease in the number of Mainland Chinese visitors has created a domino effect in the supply chain. We saw the sharpest year-on-year fall in retail sales in April, as the rate of growth in the number of visitors slowed from 26.7% in March to 14.7%. The catering business got hit as well, which demanded less frozen products from the suppliers. Many of these suppliers are our cold storage clients, whose customers include lots of Hong Kong's fast food chains. The turnover rate of our cold storages shrank as a result. This also explains why the Group was more prudent with the rental increase.

Despite this setback, the Group has maintained a satisfactory occupancy rate for its cold storage facilities and a stable market share. Our effective temperature & humidity controls, efficient computerised data processing system, strong logistics support and customer services are reasons for our customers' loyalty.

Facing this uncertain business environment and pressure from the supply chain, the Management will exercise stringent cost control whilst continuing to ensure high quality services to our clients. This challenging environment also serves as a good reminder for us to be creative, and try to attract different customers.

#### *Logistics*

The Group's logistics services' business performance remained stable during the first six months, but has unavoidably been affected by the slowed cold storage driven demand. This value-added service helps retain our cold storage customers, and it generates extra revenue to the Group by assisting our clients to transport their goods to secure outdoor container yards when our storage capacity has reached its maximum.

#### *Industrial ice bars (for construction use)*

While sustaining a healthy share in the local industrial ice bar market and maintaining a stable performance in the first half of the year, this line of business has been affected by the poor weather condition. Typhoons and rainstorms have interrupted construction projects, which in turn affect the rhythm of supply.

Industrial ice bars is expected to be a stable income source for the Group as many major infrastructural projects are underway, including:

- (1) The Hong Kong-Zhuhai-Macao Bridge ("HZMB"): consisting of a series of bridges and tunnels connecting the 3 places, the HZMB is expected to complete in 2016.
- (2) The Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is targeted to finish in 2015.
- (3) Kai Tak Development project spanning a total of over 320 hectares: target of completion in 2022.
- (4) The Kwun Tong Line Extension, expected to complete in 2015.

In July 2014, the government has finished the public consultation on the environmental impact assessment report of the third airport runway project. The project, if materialised, will include the formation of 650 hectares of land, construction of a new passenger concourse and expansion of Terminal 2, to name a few. The Group will carefully monitor the development, and expect that we will be one of the supplier of industrial ice bars for this important project.

### **Trading and related business in the PRC**

In the second half of last year, the Group has started this new initiative, mainly importing dairy products from countries such as South Korea to the PRC. We have line up cold storages facilities in Shanghai and Qingdao to ensure freshness of the products to be delivered in time to our destinations. At the same time, we have established an extensive distribution network in northern, eastern and southern China. Currently, a number of famous supermarket chains in China are carrying dairy products distributed by the Group.

### **Investment**

The Group's indirect investment vehicle Great China Company Limited has disposed its entire interests in Grand Waldo Hotel resort complex to wholly owned subsidiary of Galaxy Entertainment Group Limited. The first payment for the disposal of HK\$2,600 million was received by Great China Company Limited on 17th July, 2013 and the second payment of HK\$650 million (subject to adjustment, if any) is expected to be received by the first half of 2015.

### **PLEDGE OF ASSETS**

As at 30th June, 2014, banking facilities to the extent of HK\$3.5 million (31st December, 2013: HK\$3.5 million) of the Group were secured by the pledge of bank deposits amounting to HK\$3.5 million (31st December, 2013: HK\$3.5 million). The amount utilised at 30th June, 2014 was approximately HK\$3.5 million (31st December, 2013: approximately HK\$3.5 million).

As at 30th June, 2014, bank deposits of approximately HK\$86.5 million (31st December, 2013: approximately HK\$75 million) were pledged to a bank which provides bank guarantees in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June, 2014, the Group had cash and bank balances of approximately HK\$114 million (31st December, 2013: approximately HK\$144 million). The decrease was mainly due to the working capital requirement of the operation of trading and related business and the increase of pledged bank deposits. The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 3.26% as at 30th June, 2014 (31st December, 2013: approximately 2.86%). The increase was mainly attributable to the increase of obligations under finance leases and the decrease of equity attributable to owners of the Company.

Monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider the Group's exposure to exchange rate risks to be low. The Group may have relatively high exposure to exchange rate risk when more trading business to be operated in the PRC. As the Group's new trading business involves multi-exchange rates, the directors will review the exchange rate risks faced by the Group periodically.

During the period under review, the Group's capital expenditure was financed by internal cash generation and finance leases.

## **SHARE CAPITAL STRUCTURE**

As at 30th June, 2014, the total issued share capital of the Company was HK\$24,323,040 divided into 2,432,304,000 ordinary shares with a par value of HK\$0.01 each, which is the same as those as at 31st December, 2013.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 30th June, 2014, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 260 and 20 respectively (31st December, 2013: approximately 260 Hong Kong employees; 15 PRC employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, staff quarter and professional tuition/training subsidy for employees' benefit.

## **PROSPECTS**

The Management is prudently optimistic about the prospect of all business operations as Hong Kong and the world's economy are seeing a positive year ahead despite a slightly slower Chinese economy in 2014.

According to the Trade Development Council, despite the value of retail sales dropping 0.2% year-on-year between January and May 2014, local consumption demand and tourist spending has remained stable. Hong Kong's economy is also forecast to grow by 3–4% this year. In the first quarter alone, our economy has already grown by 2.5%, compared with the annual growth rate of 2.9% of the whole of 2013.

Looking north, China continues to develop closer economic ties with Hong Kong. It is not only the most important entrepot for China, but also the largest foreign investment source and vice versa. However, the World Bank June 2014 China economic updates point out that the recent growth rates have been significantly below the levels observed over the past decade as drivers of economic growth continued to shift from manufacturing to services on the supply side, and from investment to consumption on the demand side, and as measures to rein in the rapid accumulation of credit came into force.

Globally, another World Bank report says that the economy is expected to pick up speed as the year progresses and is projected to expand by 2.8% this year. Europe is expected to be on track and the US is forecast to have a growth of 2.1%, down from the previous prediction of 2.8%.

## **Cold storage and related services**

### *Cold storage*

This core business has remained stable in the period under review. According to the Trade Development Council, in 2013, 54.3 million visitors came to Hong Kong, 75% were Mainland Chinese. Visitor arrivals to Hong Kong increased 13.6% year-on-year in first five months of 2014, even stronger than the rise of 11.7% in 2013. Mainland Chinese see a stronger growth of 17.6% year-on-year in January to May 2014, after rising by 16.7% in 2013. In 2013, total inbound tourism expenditure amounted to HK\$332 billion, an increase of 14.8% from the previous year. However, behind this rosy averaged figure is a sharp fall in visitor number and retail sales since April this year.

The expected slowdown in Chinese economy, plus the possibility of slashing individual visits scheme quota, may continue to impose pressure on local retail industry, including the catering business, which part of our cold storage operation relies upon. We will be cautiously monitoring the situation, and try to diversify our cold storage clientele strategically.

#### *Industrial ice bars (for construction use)*

Besides the many infrastructural projects, the Policy Address has confirmed a housing target of 470,000 units over the next decade, with public housing accounting for 60%. The government is also conducting the preliminary feasibility study for Container Terminal 10 (CT10) at Southwest Tsing Yi and the Study on the Strategic Development Plan for Hong Kong Port 2030. All these possible constructions mean more opportunities for our industrial ice bar business.

#### **Trading and related business in the PRC**

We are continuing to optimise the business operation and have repositioned ourselves as an one-stop solution provider for imported food and beverage trading in China. The Management is feeling confident about this new import business segment due to the high spending power of the Mainland Chinese middle income class and the increasing demand for imported and international branded packaged food and beverages.

Our experience in cold storage and logistics have given us an edge to provide one-stop solution to help overseas merchants to transport frozen or dairy products and perishables through Daido's cold storage chain and logistics service.

Despite the many challenges in developing on the PRC, from operating a new logistics system in unfamiliar locations, through keeping the food fresh during transportation, to how to package to achieve optimal cost effectiveness and maximum marketing effect, we are privileged to be able to leverage on our Hong Kong experience to make the best out of this new investment. We are very confident this line of business will be sustainable and expandable.

#### **CORPORATE STRATEGY AND LONG-TERM BUSINESS MODEL**

The Group has focused on developing the cold storage and logistic operations. This concentration in building them as core businesses have made us one of the chief players in the industry. It is the Group's corporate strategy to leverage on the success of this line of business. We will apply the valuable knowhow gained through the experience in Hong Kong to develop our trading and logistic market in China.

Facing the rapidly changing business environment, the Management has adopted strategic cost control to safeguard the Group's profit margins. We will continue to optimise our warehouse management system and prioritise customers with high stock turnover rates to ensure high efficiency of the cold storage operations.

While maintaining the growth dynamic for the core businesses, the Group will accelerate the development of food and beverage trading and related business in China. The Management expects that this new business segment will be benefited from the increasing demand for imported food and beverages as well as the growing domestic spending power in China.

In line with its established corporate goal of maximising shareholders' value, the Management will continue to explore business opportunities in promising sectors that will bring long term benefits to the Group.

## **INTERIM DIVIDEND**

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2014 (2013: Nil).

## **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, 2014.

## **CORPORATE GOVERNANCE**

### **Corporate Governance Code**

For the first half of 2014, the Board of the Directors is of the view that the Company has complied with the principles and the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, save for an exception specified and explained below:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period, there have been no Chairman in the Company. Mr. Au Tat Wai and Mr. Choy Kai Sing acted as the Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Au Tat Wai is responsible for all day-to-day corporate management matters and Mr. Choy Kai Sing is responsible for corporate financial matters.

The Board does not have the intention to fill the position of Chairman at present and believes that the absence of a Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the Executive Directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of Chairman. Appointment will be made to fill the post to comply with code provision A.2.1 of the CG Code if necessary.

### **Model Code for Securities Transactions by Directors**

The Company has adopted a written securities dealing policy which contains a set of code of conduct regarding securities transactions by Directors, the terms of which are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Securities Dealing Policy").

Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Securities Dealing Policy during the period under review.

To enhance the corporate governance of the Group as a whole, all relevant employees who are likely to be in possession of unpublished inside information in relation to the Group or securities of the Company are subject to full compliance with the Securities Dealing Policy. No incident of non-compliance was noted by the Company during the period under review.

## **Audit Committee**

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial information for the six months ended 30th June, 2014 with the Directors. At the request of Audit Committee, the Group's external auditors have carried out a review of the unaudited interim financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee comprises all of the three Independent Non-executive Directors, namely Mr. Leung Chi Hung, Mr. Fung Siu Kit, Ronny and Mr. Tse Yuen Ming. Mr. Leung Chi Hung is the chairman of the Audit Committee.

## **Internal Control**

The Group has adopted a series of internal control measures including the strengthening of reporting lines of senior management. As a routine procedure and part of the internal control system, Executive Directors and the senior management would meet at least once a week to review the financial and operating performance of each department. The senior management of each department is also required to keep Executive Directors informed of material developments of the department's business and implementation of the strategies and policies set by the Board on a regular basis.

The Group has diversified its businesses into trading and related business in the PRC last year. All data and information of its new business division is definitely important for financial analysis and management decision to compete with comprehensive business environment in the PRC.

During the period, the internal control review included a review of the accounting system and the purchase, sales and inventory ("PSI") processes of its trading and related business.

In order to improve the accounting system of the new business division, the Group has developed a computerisation accounting system for reinforcing the financial control of accounts receivable and payable.

The Group has also focused on the establishment of standard procedures for improvement of PSI work-flow, which covered assigning responsible parties for each step of the PSI processes; formalisation of the templates for major PSI documents; serialisation of PSI documents; and management of inventory control.

All internal control procedures will be properly followed up to ensure that they are implemented and will be monitored in an on-going basis.

During the six months ended 30th June, 2014, the Board was satisfied that the internal control system is effective and that nothing has come to its attention to cause the Board to believe the Group's internal control system is inadequate. Moreover, the system will continue to be reviewed, added on or updated to provide for changes in the operating environment.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This announcement is published on the HKExnews website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.irasia.com/listco/hk/daido/index.htm](http://www.irasia.com/listco/hk/daido/index.htm).

The 2014 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the websites of the HKExnews and the Company in due course.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises executive directors, namely, Mr. Au Tat Wai, Mr. Choy Kai Sing, Mr. Ho Hon Chung, Ivan and Mr. Tang Tsz Man, Philip; non-executive director, namely, Mr. Fung Wa Ko; and independent non-executive directors, namely, Mr. Fung Siu Kit, Ronny, Mr. Leung Chi Hung and Mr. Tse Yuen Ming.

By order of the Board  
**Daido Group Limited**  
**Au Tat Wai**  
*Executive Director*

Hong Kong, 28th August, 2014