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DAIDO

DAIDO GROUP LIMITED

大同集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00544)

ANNUAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2014

The board of directors (the ''Board'') of Daido Group Limited (the ''Company'') is pleased to announce the audited consolidated results of the Company and its subsidiaries (the ''Group'') for the year ended 31st December, 2014, together with the comparative figures for the corresponding period in 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2014

	NOTES	**2014 HK$'000**	2013 HK$'000
Continuing operations			
Revenue	2	**213,752**	193,499
Direct costs		**(193,793)**	(171,192)
Gross profit		**19,959**	22,307
Other income	3	**2,413**	4,364
Selling and distribution expenses		**(10,268)**	(6,181)
Administrative expenses		**(31,290)**	(31,423)
Other gains and losses	4	**(793)**	38,950
Impairment loss on available-for-sale investments	5	**–**	(5,118)
Share of loss of a joint venture		**(2,828)**	(329)
Finance costs	6	**(1,044)**	(3,468)
(Loss) profit before tax		**(23,851)**	19,102
Tax expense	7	**–**	–
(Loss) profit for the year from continuing operations		**(23,851)**	19,102

* *For identification purpose only*

	NOTES	**2014** **HK$'000**	2013 HK$'000
Discontinued operations			
Loss for the year from discontinued operations	8	**–**	(60,996)
Loss for the year	9	**(23,851)**	(41,894)
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of the foreign operations		**182**	(1,079)
Total comprehensive expense for the year		**(23,669)**	(42,973)
(Loss) profit for the year attributable to owners of the Company			
— from continuing operations		**(23,851)**	19,102
— from discontinued operations		**–**	(60,370)
Loss for the year attributable to owners of the Company		**(23,851)**	(41,268)
Loss for the year attributable to non-controlling interests from discontinued operations		**–**	(626)
		(23,851)	(41,894)
Total comprehensive expense attributable to:			
Owners of the Company		**(23,669)**	(42,347)
Non-controlling interests		**–**	(626)
		(23,669)	(42,973)
(Loss) earnings per share — basic	11		
— from continuing and discontinued operations		**(HK0.98 cent)**	(HK1.71 cents)
— from continuing operations		**(HK0.98 cent)**	HK0.79 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31ST DECEMBER, 2014

	NOTES	**2014 HK$'000**	2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**9,888**	9,661
Goodwill		**8,581**	8,513
Interest in a joint venture		**8,181**	3,449
Available-for-sale investments		**38,502**	38,502
Rental deposits paid		**21,780**	18,813
Pledged bank deposits		**90,000**	78,718
		176,932	157,656
CURRENT ASSETS			
Inventories		**1,636**	2,558
Trade and other receivables, deposits and prepayments	12	**51,809**	43,490
Amount due from non-controlling interests of a subsidiary		**5,949**	2,000
Held for trading investments		**834**	949
Bank balances and cash		**149,151**	143,980
		209,379	192,977
CURRENT LIABILITIES			
Trade and other payables	13	**20,674**	15,580
Amount due to an investee		**23,795**	8,000
Amount due to a joint venture		**1,270**	-
Obligations under finance leases		**578**	347
Promissory notes		**4,762**	4,762
		51,079	28,689
NET CURRENT ASSETS		**158,300**	164,288
TOTAL ASSETS LESS CURRENT LIABILITIES		**335,232**	321,944

	NOTES	**2014**	2013
		HK$'000	HK$'000
CAPITAL AND RESERVES			
Share capital		**24,323**	24,323
Share premium and reserves		**250,474**	274,143
Equity attributable to owners of the Company		**274,797**	298,466
Non-controlling interests		**14,923**	14,923
		289,720	313,389
NON-CURRENT LIABILITIES			
Obligations under finance leases		**1,081**	–
Promissory notes		**4,431**	8,555
Bonds		**40,000**	–
		45,512	8,555
		335,232	321,944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2014

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs and a new Interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year.

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
HK(IFRIC) - Int 21	Levies

The application of the amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[4]
HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[4]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
HKFRS 15	Revenue from Contracts with Customers[5]
Amendments to HKAS 1	Disclosure Initiative[4]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[4]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[4]

1 Effective for annual periods beginning on or after 1st January, 2018
2 Effective for annual periods beginning on or after 1st July, 2014
3 Effective for annual periods beginning on or after 1st July, 2014, with limited exceptions
4 Effective for annual periods beginning on or after 1st January, 2016
5 Effective for annual periods beginning on or after 1st January, 2017

HKFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in October 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'

Retrospective assessment of hedge effectiveness is also no longer required Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Company will assess the impact on the application of HKFRS 9. For the moment, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

The Directors of the Company are in the process of assessing the potential impact of the remaining new and revised standards, and at this stage have not yet determined the effect of the application of these standards on the results and financial position of the Group.

2. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of services provided. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

1. Cold storage and related services in Hong Kong ("Cold storage and related services")
2. Trading and related services in the People's Republic of China (the "PRC") ("Trading and related services")

In 2013, an operating segment regarding the karaoke outlets and related services in the PRC was discontinued. The segment information reported as below does not include any amounts for these discontinued operations, which are described in more detail in note 8.

Segments revenues and results

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

For the year ended 31st December, 2014

	Cold storage and related services HK$'000	Trading and related services HK$'000	Total HK$'000
Revenue	**198,583**	**15,169**	**213,752**
Segment profit (loss)	**3,187**	**(14,028)**	**(10,841)**
Unallocated income			**2,409**
Unallocated expenses			**(11,432)**
Change in fair value of financial instruments			**(115)**
Share of loss of a joint venture			**(2,828)**
Finance costs			**(1,044)**
Loss before tax			**(23,851)**

For the year ended 31st December, 2013

	Cold storage and related services HK$'000	Trading and related services HK$'000	Total HK$'000
Revenue	189,767	3,732	193,499
Segment profit (loss)	3,438	(3,202)	236
Unallocated income			4,367
Unallocated expenses			(15,488)
Change in fair value of financial instruments			81
Adjustment on loans to an investee			39,956
Adjustment on amount due to non-controlling interests of a subsidiary			(1,135)
Impairment loss on available-for-sale investments			(5,118)
Share of loss of a joint venture			(329)
Finance costs			(3,468)
Profit before tax			19,102

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of interest income, sundry income, central administration costs including part of auditor's remuneration and directors' remuneration, adjustment on amount due to non-controlling interests of a subsidiary, change in fair value of financial instruments, adjustment on loans to an investee, impairment loss on available-for-sale investments, share of loss of a joint venture 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 from continuing operations by reportable segment:

	2014 HK$'000	2013 HK$'000
ASSETS		
Cold storage and related services	**81,370**	74,419
Trading and related services	**11,000**	7,043
Total segment assets	**92,370**	81,462
Unallocated assets	**293,941**	269,171
Consolidated assets	**386,311**	350,633

	2014	2013
	HK$'000	HK$'000
LIABILITIES		
Cold storage and related services	**16,538**	13,698
Trading and related services	**4,416**	734
Total segment liabilities	**20,954**	14,432
Unallocated liabilities	**75,637**	22,812
Consolidated liabilities	**96,591**	37,244

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than available-for-sale investments, interest in a joint venture, amount due from non-controlling interests of a subsidiary, held for trading investments, pledged bank deposits, bank balances and cash, certain property, plant and equipment, and certain other receivables. Goodwill is allocated to cold storage and related services; and

- all liabilities are allocated to operating segments other than amount due to an investee, amount due to a joint venture, promissory notes, bonds and certain other payables.

Other segment information - from continuing operations

2014

	Cold storage and related services	**Trading and related services**	**Segments total**	**Unallocated**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	**6,665**	**687**	**7,352**	**84**	**7,436**
Depreciation	**3,860**	**238**	**4,098**	**69**	**4,167**
Gain on disposal of property, plant and equipment	**640**	**-**	**640**	**(4)**	**636**

2013

	Cold storage and related services HK$'000	Trading and related services HK$'000	Segments total HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	1,150	194	1,344	8	1,352
Depreciation	4,674	17	4,691	101	4,792
Gain on disposal of property, plant and equipment	45	–	45	3	48

Note: Additions to non-current assets, excluded those relating to discontinued operations, represented additions to property, plant and equipment, goodwill and rental deposits paid.

Amount regularly provided to the chief operating decision makers but not included in the measure of segment profit (loss) or segment assets:

	Unallocated	
	2014	2013
	HK$'000	HK$'000
Interest in a joint venture	**8,181**	3,449
Share of loss of a joint venture	**(2,828)**	(329)
Interest income	**1,510**	4,191
Interest expense	**(1,044)**	(3,468)
Change in fair value of financial instruments	**(115)**	81
Adjustment on loans to an investee	**-**	39,956
Impairment loss on available-for-sale investments	**-**	(5,118)
Adjustment on amount due to non-controlling interests of a subsidiary	**-**	(1,135)

Geographical information

The Group's operations are located in Hong Kong and the PRC.

Information about of the Group's non-current assets by geographical location of the assets (excluding available-for-sale investments, interest in a joint venture and pledged bank deposits) are set out below:

	2014	2013
	HK$'000	HK$'000
Hong Kong	**39,667**	36,802
PRC	**582**	185
	40,249	36,987

Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

	2014	2013
	HK$'000	HK$'000
Trading and related services	**15,168**	3,732
Cold storage and logistic services	**197,074**	185,904
Manufacturing and trading of ice	**1,510**	3,863
	213,752	193,499

Information about major customer

Revenues from customer of the corresponding years contributing over 10% of the total revenue of the Group from cold storage and related services are as follows:

	2014	2013
	HK$'000	HK$'000
Customer A	**30,756**	29,458

3. OTHER INCOME

	2014	2013
	HK$'000	HK$'000
Continuing operations		
Bank interest income	**1,510**	1,254
Imputed interest income from loans to an investee	**-**	2,937
Sundry income	**903**	173
	2,413	4,364

4. OTHER GAINS AND LOSSES

	2014	2013
	HK$'000	HK$'000
Continuing operations		
Gain on disposal of property, plant and equipment	**636**	48
Fair value gain on financial assets at fair value through profit or loss	**-**	50
Fair value (loss) gain on held for trading investments	**(115)**	31
Adjustment on loans to an investee	**-**	39,956
Adjustment on amount due to non-controlling interests of a subsidiary	**-**	(1,135)
Allowance for trade receivables	**(1,314)**	-
	(793)	38,950

5. 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 shareholder at a cash consideration of HK$3,250,000,000. 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 was received on 16th January, 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 year ended 31st December, 2014. During the year ended 31st December, 2013, an impairment loss of HK$5,118,000 was recognised as the recoverable amount was lower than the carrying value.

6. FINANCE COSTS

	2014	2013
	HK$'000	HK$'000
Continuing operations		
Interest on obligations under finance leases	**33**	36
Imputed interest expense on amount due to non-controlling interests of a subsidiary	**-**	2,269
Imputed interest expense on promissory notes	**876**	1,163
Interest on bonds	**135**	-
	1,044	3,468

7. TAX EXPENSE

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

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 either incurred a loss or had tax losses to offset the assessable profit.

The tax expense for the year can be reconciled to the (loss) profit before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014 HK$'000	2013 HK$'000
(Loss) profit before tax	**(23,851)**	19,102
Tax at the Hong Kong Profits Tax rate of 16.5%	**(3,935)**	3,152
Tax effect of expenses not deductible for tax purpose	**727**	2,414
Tax effect of income not taxable for tax purpose	**(262)**	(7,306)
Tax effect of tax losses not recognised	**4,640**	2,241
Utilisation of tax losses previously not recognised	**(203)**	(644)
Tax effect of deductible temporary differences not recognised	**158**	316
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,125)**	(173)
Tax expense for the year	–	–

8. DISCONTINUED OPERATIONS

On 21st June, 2013, the Group entered into the disposal agreements with an independent third party, for the disposal of the entire issued share capital of certain subsidiaries including Belva Investments Limited, Hosanna Investments Limited, Rich Vantage Limited and their subsidiaries (collectively the "Disposal Group"), which carried the Group's entire karaoke outlets and related services operations at the total consideration of HK$50 million, in which $10 million was injected by the Group to the Disposal Group, and other $10 million was deducted from the total consideration in accordance with the disposal agreements. The disposal was completed on 1st August, 2013, on which date control of the Disposal Group passed to the acquirer.

As analysis of the results and cash flows of the discontinue operation included in the consolidated statement of comprehensive income and the consolidated statement of cash flow are set out below:

Loss for the year ended 31st December, 2013 from discontinued operation	2013 HK$'000
Revenue	29,613
Direct costs	(48,593)
Gross loss	(18,980)
Other income	178
Selling and distribution expenses	(5,508)
Administrative expenses	(9,106)
Impairment loss on property, plant and equipment	(31,448)
Loss of karaoke outlets and related operation for the year	(64,864)
Gain on disposal of karaoke outlets and related services operation	3,868
Loss for the year from discontinued operation	(60,996)

Loss for the year from discontinued operations attributable to:	
Owner of the Company	(60,370)
Non-controlling Interests	(626)
	(60,996)

Loss for the year ended 31st December, 2013 from discontinued operations include the following:

	2013 HK$'000
Depreciation and amortisation	5,609
Auditor's remuneration	–
Employee benefit expenses	2,483

Cash flows for the year ended 31st December, 2013 from discontinued operations:

	2013 HK$'000
Net cash used in operating activities	(31,969)
Net cash from investing activities	5,346
Net cash from financing activities	26,201
Net cash outflows	(422)

9. LOSS FOR THE YEAR

	2014 HK$'000	2013 HK$'000
Loss for the year from continuing operations has been arrived at after charging:		
Auditor's remuneration	**1,160**	1,400
Depreciation for property, plant and equipment	**4,167**	4,792
Exchange (gain) loss, net	**(29)**	213
Minimum lease payments for operating leases in respect of rented premises	**87,235**	76,861
Total staff costs (including directors' emoluments)	**61,107**	52,170

10. DIVIDEND

No interim dividend is paid during the year (2013: Nil), nor has any dividend been proposed since the end of the reporting period (2013: Nil).

11. (LOSS) EARNINGS PER SHARE

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

	2014	2013
	HK$'000	HK$'000
(Loss) profit for the purpose of basic (loss) earnings per share, attributable to owners of the Company		
— from continuing and discontinued operations	**(23,851)**	(41,268)
— from continuing operations	**(23,851)**	19,102
— from discontinued operations	**-**	(60,370)

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,432,304**	2,408,633

The weighted average number of ordinary shares for 2013 has been adjusted for issue of new shares.

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for years ended 31st December, 2014 and 31st December, 2013.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2014	2013
	HK$'000	HK$'000
Trade receivables	**48,545**	38,342
Less: allowance for doubtful debts	**(1,315)**	(1)
	47,230	38,341
Deposits and prepayments	**4,497**	4,159
Other receivables (Note)	**82**	990
	51,809	43,490

Note: Included in other receivables as at 31st December, 2013 were trade receivables received by directors on behalf of the Group of HK$220,000. The amount is unsecured, interest-free and repayable on demand.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2014 HK$'000	2013 HK$'000
0–30 days	**23,774**	16,696
31–60 days	**12,559**	11,125
61–90 days	**7,705**	6,162
91–120 days	**2,796**	4,358
More than 120 days	**396**	–
	47,230	38,341

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 logistics services. No interest is charged on any outstanding trade receivables.

Before accepting any new customer, the Group carries out research on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed once a year.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK$23,526,000 (2013: HK$20,881,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. The Group does not hold any collateral over these balances.

13. TRADE AND OTHER PAYABLES

	2014 HK$'000	2013 HK$'000
Trade payables	**6,981**	4,524
Accrued for staff costs	**3,447**	2,996
Bond interest payable	**135**	-
Other payables	**10,111**	8,060
	20,674	15,580

The following is an aged analysis of trade payables presented based on the invoice dates.

	2014 HK$'000	2013 HK$'000
0–30 days	**5,102**	2,597
31–60 days	**1,716**	682
61–90 days	**78**	127
91–120 days	**85**	1,118
	6,981	4,524

No credit period is generally allowed by creditors and no interest is charged on trade creditors.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the financial year ended 31st December, 2014, total revenue from the continuing operations of the Group amounted to approximately HK$214 million, up approximately 10% when compared to approximately HK$193 million in the previous financial year. The Group's cold storage business continued to do well during 2014. The good performance has, however, been offset by the significant loss recorded in the trading business. As such the general performance was similar to that of 2013.

The overall turnover of the Group's operations was similar to that of the previous year. Net loss for the year attributable to owners of the Company has been reduced. During the period under review, the Group recorded a reduction in loss of approximately HK$24 million as compared to approximately HK$41 million in the previous year. The Management considers the reduction was mainly due to the disposal of the non-profitable KTV business in the PRC in 2013 and the adjustment on loans to an investee upon its repayment of the loan by the investee, which was included in the corresponding period in 2013. Loss per share was HK0.98 cent.

The Group is principally engaged in cold storage and related business, trading and related business in the PRC and provision of money lending services.

BUSINESS REVIEW

Cold storage and related services

Cold storage

This segment remained as the core business of the Group and showed stable performance despite an increasingly high operating costs. The Group hiked rent during the financial year of 2014, which helped covered the surge in costs in terms of property rent and rates, salary, electricity and maintenance work. The Group has successfully improved its bottom line through this carefully balanced rental increase.

The Management will continue to keep a close eye at cost and quality control and developing a wider market clientele.

Logistics services

The Group's logistics service business was sluggish due to price increment to support the increased operational costs. As our clients usually traded goods with China and used Hong Kong as an entrepôt, our fee hike has caused some of them to seek other ways to deliver good to China. However, this value-added service offers a good retention factor for our cold storage customers, which account for 80-90% of the overall clientele of the logistic service arm.

Industrial ice bars (for construction use)

The turnover of our industrial ice bars business dipped also due to a price hike which resulted in a loss of customers orders. However, the impact to the Group's overall profit is limited because this segment only represents a small part of the turnover.

Trading and related business in the PRC

In March last year, the Group started to distribute Korean dairy products in prominent supermarket chains in China, including Walmart Sam's Club, CR Vanguard Ole and Aeon Jusco. The dairy products are manufactured by the largest combined dairy products company in Korea-NamYang Dairy Products Co., Ltd. Daido's subsidiary in Shanghai is the sole agent for their fresh dairy products in Greater China. The Group also started to distribute NamYang branch coffee, Binggrae, a Korean banana flavoured milk, and a2 milk from Australia.

The trading business is still at its teething stage and is registering a loss. However, the Management is still optimistic about the prospect and is cautiously trying our hands into distributing new products.

The Group partners with a PRC company to provide related logistics services as a joint venture. This is an opportunity the Group has seized to expand its existing logistic business into Mainland China.

PLEDGE OF ASSETS

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

As at 31st December, 2014, bank deposits of approximately HK$87 million (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 31st December, 2014, the Group had cash and bank balances of approximately HK$149 million (2013: approximately HK$144 million). The slight increase was mainly due to proceeds from issue of bonds, advance from an investee, increase in pledged bank deposits, repayment of promissory notes, capital rejection to a joint venture, purchase of property, plant and equipment and the net cash used in operating activities. The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 16.56% as at 31st December, 2014 (2013: approximately 2.87%). The increase was mainly attributable to the issue of bonds.

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 trading business involves multi-exchange rates, the directors will review the exchange rate risks faced by the Group periodically.

During the year under review, the Group's capital expenditure was financed by internal cash generation and non-equity funding. On 13th November, 2014, the Group announced for the placement of bonds in an aggregated principal amount of up to HK$500 million within the placing period. The net proceeds from the issue of the bonds will be utilised as the general working capital of the Group. For further details, please refer to the announcements of the Company dated 13th November, 2014. As at 31st December, 2014, it is noted that the bonds in an aggregate principal amount of HK$40 million have been subscribed by the placees and issued by the Company.

SHARE CAPITAL STRUCTURE

As at 31st December, 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 31st December, 2014, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 250 and 25 respectively (31st December, 2013: approximately 259 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, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

PROSPECTS

Looking into 2015, the Group remains optimistic, particularly with the cold storage business, which provides a stable income source for the Group. The trading business has been restructured last year, with its distribution network further strengthened, and its management actively seeking a variety of products and sourcing new suppliers. This line of business is expected to improve in performance soon.

Meanwhile, Daido had a new initiative: the acquisition of a money lending company in Hong Kong, which includes offer short-term advances to our clients with goods held at our cold storage as security and other money lending opportunities. This will help support cold storage customers to develop their businesses in China, which will in turn help keep the stability of our clientele and attract new ones.

China economy has slowed down and is expecting a growth rate of 7% this year. While the Chinese exports in the first two months remain strong, its imports saw a big drop of 20%, which shows a weakening internal demand.

Whether this will affect our trading of imported food products in China is remained to be seen. But as a Mckinsey & Company's research suggests, by 2022, more than 75% of China's urban consumers will earn RMB 60,000 to 229,000 a year, and the upper middle class will take up 56% of the urban private consumption. This sophisticated group of shoppers is willing to pay a premium for quality. Together with the fact that the Chinese government has listed concrete objectives in its 12th five-year-plan to support third party logistics (3PL), we have reasons to be optimistic about this segment.

Cold storage and related services

The Group is optimistic about its cold storage business, as over 95% of food supply in Hong Kong is imported and a significant amount of Hong Kong imports are re-exported, meaning refrigeration will remain a constant demand.

In 2014, visitor arrivals to Hong Kong increased 12% compared with 11.7% in 2013. While those from the Chinese mainland saw a stronger growth of 16% in 2014.

The value of total receipts of the restaurants sector in 2014 was provisionally estimated at HK$100.4 billion, representing an increase of 3.5% in value compared with the whole year of 2013. Among all restaurants types, fast food restaurants have a similar increment in total receipts, and is one of the better performers.

As our customers are mostly frozen food importers, local fast food chains and small restaurants, a strong dining out culture of the local population and a continuously increasing number of tourists will keep the demand up for frozen food, which requires our service.

Demand from Mainland China is also playing a role for the development of logistic business. According to the HKTDC, in 2013, packaged food sales between 2009 and 2013 have been growing at an average annual rate of 12.3% to reach more than RMB 1,260 billion in China. Demand for foreign food in the China market also serves to be a driving force behind our logistic services business.

Besides the demand factor, according to trade and container shipping news portal joc.com, there is an estimated shortage of 300,000 to 400,000 square meters of warehouse space in Hong Kong, which gives this business a structural advantage. The lack of available space combined with strong demand from the retail sector will ensure the Group's cold storage business remaining in a strong position.

Challenges ahead

High Operating Costs

While we have reasons to be optimistic with the business outlook, we still need to face increasing costs. The shortage of warehouse land means rental will continue to be high while expansion is difficult due to the nearly full occupancy rate.

Besides, Hong Kong's unemployment rate remains a low of 3.3%, and salaries in the territory is expected to rise 5% in 2015.

On top of that, China Light & Power has announced a raise of average total Tariff by 3.1% effective on 1st January, 2015. It also expects a 50% increase in fuel costs in 2015 because of its need to meet the new emission requirement.

The increase of electricity cost will directly affect the operating cost for this segment, as cold storage and ice bar manufacturing both rely on stable electricity. The increment on rental rates to client alone may not be adequate to cover the overall operating cost.

The fluctuation on food market price and behaviour of clientele

The hiring of our cold storage service is affected by food market price worldwide. According to the statistics from National Bureau of Statistics of China, the average price of frozen fresh chicken, beef and duck showed uptrend since the forth quarter of 2014. The fluctuation of food market price can become prominent by the time the goods reached Hong Kong from the Mainland and overseas, which will affect the decisions of our clients to place their order.

Industrial ice bars (for construction use)

The Group is one of the very few industrial ice bar providers in Hong Kong. The rise in production costs will pose pressure on us to retain customers in this segment. However as this is not a significant income source of the Group, and construction activity in Hong Kong is expected to remain relatively bright, with the over 5,000 residential units in Kai Tak Development, large-scale infrastructural projects such as the 4.2 km dual two-lane highway connecting Tseung Kwan O with the proposed Trunk Road T2 in Kai Tak Development; the possibility of constructing Container Terminal 10 at Southwest Tsing Yi, a long-term strategy for cavern development, all this represents opportunities for our industrial ice bar business.

Trading and related business in the PRC

The Group started investing in 2013 into this line of business, which dedicates to import food products from various countries into the PRC market. This is still a relatively new attempt but has seen us becoming a sole agent in Greater China for a prominent Korean dairy brand and secured our access to important supermarket chains in China. The Group sees this not only as an opportunity to tap the Mainland food market, but also a chance to expand its logistics core, to which the Group has amassed abundant experience and expertise from its Hong Kong operation.

Money lending business

The Management has started new initiatives like the acquisition of a money lending company mentioned before, and will continue to explore alternatives and seek improvement opportunities along the whole chain of operations to meet all these challenges.

CORPORATE STRATEGY AND A LONG-TERM BUSINESS MODEL

For more than a decade, the Group has been dedicated to maintaining cold storage and related services as its core business since its restructuring in 2000.

Enhancing operating efficiency to attract customers for the cold storage and logistics business is our core strategy. This will be continuously done through offering value-added services to our customers including cargo checking, customs clearance and latest technological innovation to improve overall efficiency. The introduction of a money lending business was another new initiative for us to leverage on our existing cold storage customer base and attract new clients.

In the longer term, we shall put more emphasis in developing the vast mainland market. First, we will concentrate on improving our food trading business performance. This will help us tap into the enormous and affluent upper middle class market in China. The Management is confident in developing the Mainland market now with more experience behind us.

We endeavour to become a leading storage and logistics provider in Hong Kong by providing top notch service. We thank our shareholders' support and we will work hard to maximize their gain in return.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st December, 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 year ended 31st December, 2014.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has applied and complied with the principles of the code provision and certain recommended best practices under the Corporate Governance Code and Corporate Governance Report (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2014, except for the deviations as stated below.

Upon the resignation of Mr. Fung Wa Ko as the Chairman on 14th October, 2011, there is no Chairman in the Company. Since there is no Chairman in the Company during the year ended 31st December, 2014, there was no meeting held between the Chairman and the non-executive directors (including independent non-executive directors) without the executive director present.

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 and A.2.7 if necessary of the CG Code.

Internal Controls

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 had already started to set up trading and related business. In such new business division, the Group would also adopt a series of operation procedures and internal control policies to avoid any deficiency.

During the year ended 31st December, 2014, 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.

As an integral part of good corporate governance, the internal control system will continue to be reviewed, added on or updated to provide for changes in the operating environment.

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 year under review.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors, namely, Mr. Leung Chi Hung (Chairman), Mr. Fung Siu Kit, Ronny and Mr. Tse Yuen Ming.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year, including the accounting principles and practice adopted by the Group, and discussed matters relating to auditing, internal controls and financial reporting.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st December, 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE HKExnews AND THE COMPANY

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

The 2014 annual 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, 27th March, 2015