# 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, 2015

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, 2015, together with the comparative figures for the corresponding period in 2014 as follows:

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

*FOR THE YEAR ENDED 31ST DECEMBER, 2015*

| | NOTES | **2015** | 2014 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Revenue | 2 | **275,783** | 213,752 |
| Direct costs | | **(226,661)** | (193,793) |
| Gross profit | | **49,122** | 19,959 |
| Other income | 3 | **2,161** | 2,413 |
| Selling and distribution expenses | | **(13,251)** | (10,268) |
| Administrative expenses | | **(33,547)** | (30,490) |
| Other gains and losses | 4 | **616** | (793) |
| Share of loss of a joint venture | | **(3,875)** | (2,828) |
| Finance costs | 5 | **(7,670)** | (1,844) |
| Loss before tax | | **(6,444)** | (23,851) |
| Taxation | 6 | **-** | - |
| Loss for the year | 7 | **(6,444)** | (23,851) |

* *For identification purpose only*

| | NOTES | 2015 | 2014 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Other comprehensive (expense) income for the year | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of the foreign operations | | **(730)** | 182 |
| Total comprehensive expense for the year | | **(7,174)** | (23,669) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(6,444)** | (23,851) |
| Non-controlling interests | | **-** | - |
| | | **(6,444)** | (23,851) |
| Total comprehensive expense attributable to: | | | |
| Owners of the Company | | **(7,174)** | (23,669) |
| Non-controlling interests | | **-** | - |
| | | **(7,174)** | (23,669) |
| Loss per share - basic | 9 | **(HK0.26 cent)** | (HK0.98 cent) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31ST DECEMBER, 2015*

| | NOTES | 2015 | 2014 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **14,482** | 9,888 |
| Goodwill | | **8,581** | 8,581 |
| Interest in a joint venture | | **7,947** | 8,181 |
| Available-for-sale investments | | **38,502** | 38,502 |
| Rental deposits paid | | **21,783** | 21,780 |
| Pledged bank deposits | | **90,000** | 90,000 |
| Loans receivable | | **54,650** | - |
| | | **235,945** | 176,932 |

| | NOTES | **2015** | 2014 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| CURRENT ASSETS | | | |
| Inventories | | **2,200** | 1,636 |
| Trade and other receivables, deposits and prepayments | 10 | **64,986** | 51,809 |
| Loans receivable | | **17,850** | - |
| Amount due from non-controlling interests of a subsidiary | | **9,760** | 5,949 |
| Held for trading investments | | **698** | 834 |
| Bank balances and cash | | **125,214** | 149,151 |
| | | **220,708** | 209,379 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | **25,641** | 20,674 |
| Amount due to an investee | | **39,042** | 23,795 |
| Amount due to a joint venture | | **-** | 1,270 |
| Obligations under finance leases | | **1,924** | 578 |
| Promissory notes | | **4,762** | 4,762 |
| | | **71,369** | 51,079 |
| NET CURRENT ASSETS | | **149,339** | 158,300 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **385,284** | 335,232 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **24,323** | 24,323 |
| Share premium and reserves | | **243,300** | 250,474 |
| Equity attributable to owners of the Company | | **267,623** | 274,797 |
| Non-controlling interests | | **14,923** | 14,923 |
| | | **282,546** | 289,720 |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | | **2,738** | 1,081 |
| Promissory notes | | **-** | 4,431 |
| Bonds | | **100,000** | 40,000 |
| | | **102,738** | 45,512 |
| | | **385,284** | 335,232 |

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

The Group has applied the following amendments HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant for the preparation of the Group's consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 - 2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 - 2013 Cycle |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |

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

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

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

1 Effective for annual periods beginning on or after 1st January, 2016
2 Effective for annual periods beginning on or after 1st January, 2018
3 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" and required 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 accounting 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 attributable to financial liabilities' credit risk are not subsequently reclassified to profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- 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 PRC ("Trading and related services")
3. Money lending services in Hong Kong ("Money lending services")

During the year ended 31st December, 2015, the Group has commenced its money lending business in Hong Kong and an operating segment regarding this money lending services was reported.

**Segments revenues and results**

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

**For the year ended 31st December, 2015**

| | Cold storage and related services HK$'000 | Trading and related services HK$'000 | Money lending services HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Revenue | **227,890** | **42,403** | **5,490** | **275,783** |
| Segment profit (loss) | **21,238** | **(11,059)** | **1,179** | **11,358** |
| Unallocated income | | | | **2,161** |
| Unallocated expenses | | | | **(8,282)** |
| Change in fair value of held for trading investments | | | | **(136)** |
| Share of loss of a joint venture | | | | **(3,875)** |
| Finance costs | | | | **(7,670)** |
| Loss before tax | | | | **(6,444)** |

For the year ended 31st December, 2014

| | Cold storage and related services HK$'000 | Trading and related services HK$'000 | Money lending 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 held for trading investments | | | | (115) |
| Share of loss of a joint venture | | | | (2,828) |
| Finance costs | | | | (1,044) |
| Loss before tax | | | | (23,851) |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) from each segment without allocation of interest income, sundry income, central administration costs including part of auditor's remuneration and directors' remuneration, change in fair value of held for trading 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 by reportable segment:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **ASSETS** | | |
| Cold storage and related services | **87,639** | 81,370 |
| Money lending services | **75,439** | - |
| Trading and related services | **11,714** | 11,000 |
| Total segment assets | **174,792** | 92,370 |
| Unallocated assets | **281,861** | 293,941 |
| Consolidated assets | **456,653** | 386,311 |
| **LIABILITIES** | | |
| Cold storage and related services | **19,555** | 16,538 |
| Money lending services | **75,262** | - |
| Trading and related services | **5,745** | 4,416 |
| Total segment liabilities | **100,562** | 20,954 |
| Unallocated liabilities | **73,545** | 75,637 |
| Consolidated liabilities | **174,107** | 96,591 |

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, promissory notes, bonds and certain other payables.

### 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:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **98,887** | 39,667 |
| PRC | **609** | 582 |
| | **99,496** | 40,249 |

### Revenue from major products and services

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

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cold storage and logistic services | **223,873** | 197,073 |
| Trading and related services | **42,403** | 15,169 |
| Manufacturing and trading of ice | **4,017** | 1,510 |
| Money lending services | **5,490** | - |
| | **275,783** | 213,752 |

### 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:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **45,848** | 30,756 |

## 3. OTHER INCOME

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Bank interest income | **567** | 1,510 |
| Government subsidy | **1,018** | 226 |
| Sundry income | **576** | 677 |
| | **2,161** | 2,413 |

4. OTHER GAINS AND LOSSES

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Gain on disposal of property, plant and equipment | **1,269** | 636 |
| Change in fair value of held for trading investments | **(136)** | (115) |
| Allowance for trade receivables | **(517)** | (1,314) |
| | **616** | (793) |

5. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on obligations under finance leases | **245** | 33 |
| Imputed interest expense on promissory notes | **569** | 876 |
| Interest on bonds | **5,256** | 135 |
| Bond placing commission | **1,600** | 800 |
| | **7,670** | 1,844 |

6. TAXATION

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 is required as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profit.

7. LOSS FOR THE YEAR

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | | |
| - audit service | **930** | 930 |
| - non-audit service | **230** | 230 |
| Depreciation for property, plant and equipment | **4,950** | 4,167 |
| Exchange gain, net | **(126)** | (29) |
| Minimum lease payments for operating leases in respect of rented premises | **88,631** | 87,235 |
| Total staff costs (including directors' emoluments) | **65,686** | 61,436 |

8. DIVIDEND

No interim dividend is paid during the year (2014: Nil), nor has any dividend been proposed since the end of the reporting period (2014: Nil).

## 9. LOSS PER SHARE

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

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loss for the purpose of basic loss per share, attributable to owners of the Company | **(6,444)** | (23,851) |
| | **'000** | '000 |
| *Number of shares* | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **2,432,304** | 2,432,304 |

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for year ended 31st December, 2015 and 31st December, 2014.

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

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade receivables | **51,710** | 48,545 |
| Less: allowance for doubtful debts | **(1,832)** | (1,315) |
| | **49,878** | 47,230 |
| Interest receivable | **2,944** | 33 |
| Other receivables | **214** | 82 |
| Deposits and prepayments | **11,950** | 4,464 |
| | **64,986** | 51,809 |

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.

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 - 30 days | **22,272** | 23,774 |
| 31 - 60 days | **17,475** | 12,559 |
| 61 - 90 days | **8,775** | 7,705 |
| 91 - 120 days | **1,088** | 2,796 |
| More than 120 days | **268** | 396 |
| | **49,878** | 47,230 |

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$26,634,000 (2014: HK$23,526,000) 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.

## 11. TRADE AND OTHER PAYABLES

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Trade payables with independent outsiders | **7,749** | 6,981 |
| Trade payables with joint venture | **690** | - |
| | **8,439** | 6,981 |
| Accrued for staff costs | **4,413** | 3,447 |
| Bond interest payable | **2,992** | 135 |
| Other payables | **9,797** | 10,111 |
| | **25,641** | 20,674 |

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

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| 0 - 30 days | **6,650** | 5,102 |
| 31 - 60 days | **1,280** | 1,716 |
| 61 - 90 days | **92** | 78 |
| 91 - 120 days | **86** | 85 |
| More than 120 days | **331** | - |
| | **8,439** | 6,981 |

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, 2015, total revenue of the Group amounted to approximately HK$276 million, up approximately 29% when compared to approximately HK$214 million in the previous financial year.

Despite a slightly lower GDP growth in Hong Kong during the year (2.4% compared with 2.6% in 2014), and a decrease in tourism in Hong Kong especially in the second half of the year, The Group's core cold storage business fared well during 2015 and recorded a satisfactory increase in profit.

The overall revenue of the Group's operations has been steady. Net loss for the year attributable to owners of the Company during the period under review has been narrowed down to approximately HK$6.4 million as compared to HK$23.9 million in the previous year. Loss per share was HK0.26 cent.

The Management considers the reduction was mainly due to encouraging performance of cold storage and related business for the year; the decrease in continuous operating loss of the trading business in the PRC; and the slight profit generated from the Group's new service arm, the money lending services.

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

### BUSINESS REVIEW

**Cold storage and related services**

*Cold storage*

This segment has continued to be the Group's principal income driver and recorded favourable profit increase in 2015 since the Group adjusted storage rental fee in the first half of the year. Furthermore, major festivals such as Mid-Autumn and Winter Solstice all happening in the second half of the year when many choose to eat out, cold storage business traditionally fares better during this period.

However, to further strengthen the flow of income, the Group has adopted a strategy of selecting quality clients and maintaining an optimal product portfolio, improving the turnover of storage inventory and thus a healthy flow of storage operation.

In spite of a downturn in visitor arrival in the second half of 2015, which has affected local retail industries including restaurant businesses, our cold storage business held up because most of our clients placed orders in 2014 for their 2015 needs, the slowdown in the economy last year therefore posed little effect on this line of business.

*Logistics services*

The Group's logistics service business has been stable in 2015. This arm of business provides value-added service to our customers, offering them a one stop shop service. This convenience translated into loyal cold storage customers, which account for 80-90% of the overall clientele of the logistic service arm.

*Industrial ice bars (for construction use)*

The revenue of our industrial ice bars business has been stable during the year. Increase in demand was seen during summer and early autumn, as industrial ice bars are seasonal products, being affected by climate and temperature. The majority of the ice bars is for construction use.

**Trading and related business in the PRC**

The Group has been engaged in the trading of dairy products and Korean food in the PRC. Our products include milk, sour milk, probiotic drinks and imported products from Korea like kimchi and sticky rice cake.

It has been the third year since the Group's operating the business. Despite an improvement in business performance, we have yet to reach our business targets. The twin challenges of cultural differences and employing the right management personnel locally are major issues we need to tackle. The management will take active steps to implement targeted solutions to optimise operations and prepare us to penetrate into the vast market.

**Money lending services**

In 2014, Daido acquired a money lending company in Hong Kong, which offers mortgage to some of its higher quality cold storage clients and for other money lending opportunities. However, the low threshold in entering the lending industry means intense competition. Coupled with an adverse economic environment and banks inundated with liquidity, all this has limited the growth of our money lending services.

## PLEDGE OF ASSETS

As at 31st December, 2015, banking facilities to the extent of HK$3.5 million (2014: HK$3.5 million) of the Group were secured by the pledge of bank deposits amounting to HK$3.5 million (2014: HK$3.5 million). The amount utilised at 31st December, 2015 was approximately HK$3.5 million (2014: approximately HK$3.5 million).

As at 31st December, 2015, bank deposits of approximately HK$87 million (2014: approximately HK$87 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, 2015, the Group had cash and bank balances of approximately HK$125 million (2014: approximately HK$149 million). The decrease was mainly due to increase in loans receivable in excess of proceeds from issue of bonds and the net cash used in investing activities.

The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 38.39% as at 31st December, 2015 (2014: approximately 16.56%). 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. 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 finance leases and internal resources.

In 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, 26th January and 23rd April, 2015. As at 31st December, 2015, it is noted that the bonds in an aggregate principal amount of HK$100 million have been subscribed by the places and issued by the Company (31st December, 2014: HK$40,000,000).

## SHARE CAPITAL STRUCTURE

As at 31st December, 2015, 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, 2014.

## EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2015, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 250 and 60 respectively (2014: approximately 250 Hong Kong employees; 50 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 2016, despite an unfavourable global economic outlook, the Group envisages a stable operating environment for our core cold storage business. Supported by the stable labour market conditions in Hong Kong, private consumption expenditure (PCE) grew solidly by 4.8% in real terms in 2015, compared with 3.3% growth in 2014. As our clients mainly supply frozen food to local restaurants, stable domestic demand will benefit our core cold storage business.

Furthermore, a decrease of electricity tariffs for an average of 1% as announced by the China Light and Power, due to the significant drop in fuel prices and their cost control efforts will bring some relief to the increasing labour costs and a possible lowering in storage order as a result of a slackening in tourism in Hong Kong.

The industrial ice bar business will continue to remain stable with the many infrastructural and construction projects in Hong Kong.

The trading business in the PRC will see further growth, as we continue to improve operating in a different culture, and start to explore deeper into developing the enormous logistics market in China, presented by an accelerated use of online shopping. In the third quarter of 2015, the transaction values of China's B2C online market reached US$78.58 billion with an increase of 49.7% compared to the same period in 2014.

### Cold storage and related services

*Cold storage*

Despite the Group's optimism with the prospects of its cold storage business, we still have to face the challenges of shortage of manpower and an ageing workforce.

Cold storage is a labour intensive industry, it is also an industry that is difficult to attract young people to join the trade, and some positions have been hard to recruit workers despite a generally better basic salaries compared to other industries in Hong Kong. With the local unemployment rate stabilised at a low of 3.3%, the Group may consider improving training and further introducing the use of technologies to help streamline processes, retain workers and attract young people.

With a general slowdown in the global economic growth, the Group anticipates a drop in confidence of our clients towards the catering industry and may reduce order in the coming year. This may affect our cold storage business in 2016 to a certain extent.

However, as we stand by our strategy of choosing quality clientele and maintaining an optimal product mix to ensure storage capacity and improve throughput, and having clients who are suppliers from a variety of background: from high-class restaurants serving the high-end markets to restaurants and fast food chains serving the mass, this helps balance out the risks due to a weakening economy.

*Industrial ice bars (for construction use)*

The Group is very optimistic with this line of business, because of a number of large scale infrastructural projects, including the Hong Kong Express Rail Link, Hong Kong – Zhuhai – Macau Bridge, the third airport runway, over 40 major projects across HK, including the Kai Tak development, and the 2016-17 Land Sale Programme, which will see a supply of 19,200 private flats, the largest such number since 2010.

**Trading and related business in the PRC**
Notwithstanding the challenges, the Group remains optimistic about the business. In 2014, China imported US$122 billion worth of agricultural products, more than the aggregated value of imported copper ore, motor vehicles, aircrafts and pharmaceuticals combined according to the statistics by Cheung Kong Graduate School of Business.

The fact that China has 20% of the world's population but only 9% of the world's arable land, plus the general low confidence in local food products, has contributed to China becoming the number one food importing country in the world. We will continue to explore new products to achieve diversification, review the overall situation, implement targeted measures, and adjust our business strategy to expand this line of business.

Concurrently, the Group is jointly operating a logistic business with a Shanghai company. The joint venture currently supports the Group's food trading business, but the management is considering further developing this business as it sees huge potential in this industry.

China's logistics industry is expected to show double-digit growth over the next five years, continuing a trend of 21% compound annual growth since 1991. With online shopping expected to have a compound annual growth rate (CAGR) of 24.7% until 2027 according to China Internet Research company iResearch.

The rising trend of e-commerce and online shopping means substantial need for logistics services, and a big incentive for the Group to act on the right opportunity.

**Money lending services**
Considering the volatile market situation, the Group will take a cautious approach with this business. We will continue to choose high quality clients when offering the service.

## CORPORATE STRATEGY AND A LONG-TERM BUSINESS MODEL
For more than 15 years, the Group has successfully consolidated cold storage as our core business. We have been creatively exploiting the potential of this business by diversifying into providing value-added logistic service to clients. Leveraging on our cold storage and logistic experience in Hong Kong, the Group has been further enabled to diversify geographically into China and business-wise into trading in food imports, and we are now looking into tapping the vast logistics market in the PRC.

Diversification whilst strengthening our core business is our long term business model. Being selective in our clientele and storage product mix, and maintaining high operation efficiency are our corporate strategies. The latter is achieved through providing and optimising one-stop service for our clients, from storage to transport, distribution to financing, cargo inspection to customs clearance, and employing latest technological innovation so as to attract and retain loyal quality clients, to help us stay in the forefront of the industry.

We are now in a position to expand our food trading and logistics business in the PRC, through increasing product types and strengthening distribution network on the PRC.

We endeavour to continuously improve our core business operation and performance. In tandem to this, we will formulate solutions targeting to improve our trading and logistics business on the PRC. With China's Belt and Road initiatives, there could be even more opportunities for us to explore. As we evolve with the new economic order, Daido will continue to focus on providing top notch services and aspire to become the most sought-after storage and logistics provider in Hong Kong. We sincerely thank our shareholders' continuous support and will pledge to work hard so we can return them with maximised gain.

## DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st December, 2015 (2014: 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, 2015.

## 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, 2015, 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, 2015, 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.

During the year under review, the formal employee handbook of China trading subsidiary has been established and approved by the management. Such handbook clearly set out the policies and procedures which apply to all China trading subsidiary's businesses and staff under their obligations as to duty, integrity and principles under which its businesses operate.

Meanwhile, the Company has fine-tuned the policies of the Company's employee handbook for compliance with the relevant updated ordinances. Both employee handbooks have been properly circulated to staff and enforced.

Following the internal control review of the purchase, sales and inventory ("PSI") processes of China trading subsidiary in 2014, the Management has started to develop an enterprise resource planning ("ERP") system for its businesses during the year under review. Through ERP system we can optimise the procurement and sales processes as well as inventory management, and maintain data quality, data validation & authentication to improve financial & accounting system tracking & budget controlling effectiveness.

The framework of ERP system is basically completed in the first half of 2015. The completed ERP system has been finished in the second half of 2015 and is in test period. It is expected to be implemented in due course after the test period.

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

During the year ended 31st December, 2015, 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.

**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, 2015 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 2015 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 and Mr. Ho Hon Chung, Ivan; 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**
**Choy Kai Sing**
*Executive Director*

Hong Kong, 30th March, 2016