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, 2018

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, 2018, together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

	Notes	**Six months ended 30.6.2018** *HK$'000* **(unaudited)**	Six months ended 30.6.2017 *HK$'000* (unaudited)
Revenue			
- Cold storage and related services		**105,283**	100,683
- Trading of food and beverage		**33,931**	27,282
- Loan interest income		**4,590**	2,858
Total revenue	*3*	**143,804**	130,823
Direct costs		**(128,114)**	(118,918)
Gross profit		**15,690**	11,905
Other income	*4*	**884**	615
Selling and distribution expenses		**(7,427)**	(5,520)
Administrative expenses		**(22,769)**	(21,885)
Other gains and losses	*5*	**(440)**	115
Finance costs	*6*	**(3,012)**	(3,049)
Loss before tax		**(17,074)**	(17,819)
Taxation	*7*	**-**	-
Loss for the period	*8*	**(17,074)**	(17,819)

**For identification purpose only*

	Notes	Six months ended 30.6.2018 HK$'000 (unaudited)	Six months ended 30.6.2017 HK$'000 (unaudited)
Other comprehensive expense for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(330)**	(152)
Total comprehensive expense for the period		**(17,404)**	(17,971)
Loss for the period attributable to:			
Owners of the Company		**(17,074)**	(17,819)
Non-controlling interests		**-**	-
		(17,074)	(17,819)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(17,404)**	(17,971)
Non-controlling interests		**-**	-
		(17,404)	(17,971)
Loss per share – basic	*10*	**HK(0.70) cent**	HK(0.73) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2018

	Notes	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,083**	7,578
Goodwill		**68**	68
Available-for-sale investment		**-**	38,502
Equity instrument at fair value through other comprehensive income ("FVTOCI")		**-**	-
Financial assets at fair value through profit or loss ("FVTPL")		**830**	-
Rental deposits paid		**25,059**	25,038
Pledged bank deposits		**102,975**	102,975
Loan receivables	*11*	**12,135**	12,262
		147,150	186,423

	Notes	**30.6.2018**	31.12.2017
		HK$'000	*HK$'000*
		(unaudited)	(audited)
CURRENT ASSETS			
Inventories		**647**	693
Trade and other receivables, deposits and prepayments	*12*	**71,757**	59,490
Loan receivables	*11*	**76,191**	51,318
Amount due from non-controlling interests of a subsidiary		**-**	9,760
Held for trading investments		**-**	902
Bank balances and cash		**45,167**	94,792
		193,762	216,955
CURRENT LIABILITIES			
Trade and other payables	*13*	**24,691**	28,884
Contract liabilities		**7,835**	-
Amount due to an investee		**-**	39,042
Obligations under finance leases		**253**	594
		32,779	68,520
NET CURRENT ASSETS		**160,983**	148,435
TOTAL ASSETS LESS CURRENT LIABILITIES		**308,133**	334,858
CAPITAL AND RESERVES			
Share capital		**24,323**	24,323
Share premium and reserves		**178,457**	195,321
Equity attributable to owners of the Company		**202,780**	219,644
Non-controlling interests		**5,163**	14,923
		207,943	234,567
NON-CURRENT LIABILITIES			
Obligations under finance leases		**190**	291
Bonds		**100,000**	100,000
		100,190	100,291
		308,133	334,858

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2018

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 "Stock Exchange").

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st January, 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards which result in changes in accounting policies and amount reported as described below.

Except as described below, application of the amendments to HKFRSs and the interpretation in the current period has had no material impact on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these condensed financial statements.

Summary of effects arising from initial application of HKFRS 15 Revenue from Contracts with Customers

At the date of initial application, included in the trade and other payables was an amount of HK$6,932,000 related to advance billings to customers for cold storage services. These balances were reclassified to contract liabilities upon application of HKFRS 15.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The following adjustment was made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	31.12.2017 *HK$'000*	Adjustment *HK$'000*	01.01.2018 *HK$'000*
Current liabilities			
Trade and other payables	28,884	(6,932)	21,952
Contract liabilities	-	6,932	6,932

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30th June, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported *HK$'000*	Adjustment *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current liabilities			
Trade and other payables	24,691	7,835	32,526
Contract liabilities	7,835	(7,835)	-

Summary of effects arising from initial application of HKFRS 9 Financial Instruments

<u>Classification and measurement of financial assets</u>

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Equity instrument designated as at FVTOCI

At the date of initial application/ initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instrument as at FVTOCI.

Investments in equity instrument at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/ will continue to be held in the FVTOCI reserve.

Dividends on these investments in equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1st January, 2018 based on the facts and circumstances that existed at that date. The results of the assessment and impact are set out below.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st January, 2018. Line items that were not affected by the changes have not been included.

	31.12.2017 *HK$'000*	Reclassification *HK$'000*	Remeasurement *HK$'000*	01.01.2018 *HK$'000*
Available-for-sale investment - HKAS 39 (Note 1)	38,502	(38,502)	-	-
Equity instrument at FVTOCL - HKFRS 9 (Note 1)	-	38,502	540	39,042
FVTOCI reserve - HKFRS 9 (Note 1)	-	-	(540)	(540)
Held for trading investment - HKAS 39 (Note 2)	902	(902)	-	-
Financial assets at FVTPL - HKFRS 9 (Note 2)	-	902	-	902

Notes:

1. The Group elected to present in OCI for the fair value changes of its equity investment previously classified as available-for-sale of HK$38,502,000, being unquoted equity investment previously measured at cost less impairment under HKAS 39. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, such investment was reclassified from available-for-sale investment to equity instruments at FVTOCI. The fair value gain of HK$540,000 relating to this investment previously carried at cost less impairment was adjusted to equity investment at FVTOCI and FVTOCI reserve at 1st January, 2018.

2. At the date of initial application, the investments previously classified as held for trading investments would not meet the definition of held for trading and are classified as financial assets at FVTPL accordingly.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, loan receivables, pledged bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The directors of the Company reviewed and assessed the Company's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9 and concluded that the application does not result in any financial impact to the condensed consolidated financial statements.

3A. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation or assessment of segment performance focuses on types of services delivered or provided. No operating segment 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 of food and beverage in the People's Republic of China (the "PRC") ("Trading of food and beverage")
3. Money lending services in Hong Kong ("Money lending services")

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

Six months ended 30.6.2018 (unaudited)

	Cold storage and related services *HK$'000*	**Trading of food and beverage** *HK$'000*	**Money lending services** *HK$'000*	**Total** *HK$'000*
Revenue	**105,283**	**33,931**	**4,590**	**143,804**
Segment (loss) profit	**(5,379)**	**(6,522)**	**1,588**	**(10,313)**
Unallocated income				**884**
Unallocated expenses				**(4,561)**
Change in fair value of financial assets at FVTPL				**(72)**
Finance costs				**(3,012)**
Loss before tax				**(17,074)**

Six months ended 30.6.2017 (unaudited)

	Cold storage and related services *HK$'000*	Trading of food and beverage *HK$'000*	Money lending services *HK$'000*	Total *HK$'000*
Revenue	100,683	27,282	2,858	130,823
Segment (loss) profit	(5,829)	(4,510)	830	(9,509)
Unallocated income				615
Unallocated expenses				(5,993)
Change in fair value of held for trading investments				117
Finance costs				(3,049)
Loss before tax				(17,819)

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of other income, central administration costs including partly auditor's remuneration and directors' remuneration, change in fair value of financial assets at FVTPL and finance costs. This is the measure reported to the chief operating decision makers and 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 and operating segments:

	30.6.2018 ***HK$'000*** **(unaudited)**	31.12.2017 *HK$'000* (audited)
SEGMENT ASSETS		
Cold storage and related services	**85,518**	77,071
Trading of food and beverage	**15,871**	12,985
Money lending services	**88,409**	63,661
Total segment assets	**189,798**	153,717
Unallocated assets	**151,114**	249,661
Consolidated assets	**340,912**	403,378
SEGMENT LIABILITIES		
Cold storage and related services	**19,084**	16,457
Trading of food and beverage	**9,479**	8,022
Money lending services	**88,917**	65,796
Total segment liabilities	**117,480**	90,275
Unallocated liabilities	**15,489**	78,536
Consolidated liabilities	**132,969**	168,811

3B. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	For the six months ended 30th June, 2018	
	Cold storage and related services *HK$'000*	**Trading of food and beverage** *HK$'000*
Types of goods or services		
Revenue from cold storage and related services		
Cold storage	**80,149**	**-**
Loading and handling services	**4,282**	**-**
Logistic and packing services	**20,682**	**-**
Manufacturing and trading of ice	**170**	**-**
	105,283	**-**
Revenue from trading of food and beverage	**-**	**33,931**
Total	**105,283**	**33,931**
Geographical markets		
Mainland China	**-**	**33,915**
Hong Kong	**105,283**	**16**
Total	**105,283**	**33,931**
Timing of revenue recognition		
A point in time	**170**	**33,931**
Over time	**105,113**	**-**
Total	**105,283**	**33,931**

4. OTHER INCOME

	Six months ended 30.6.2018 ***HK$'000*** **(unaudited)**	Six months ended 30.6.2017 *HK$'000* (unaudited)
Bank interest income	**511**	443
Sundry income	**373**	172
	884	615

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2018 *HK$'000* **(unaudited)**	Six months ended 30.6.2017 *HK$'000* (unaudited)
Change in fair value of financial assets at FVTPL and held for trading investments	**(72)**	117
Gain (loss) on disposals of property, plant and equipment	**52**	(2)
Impairment loss on property, plant and equipment	**(420)**	-
	(440)	115

6. FINANCE COSTS

	Six months ended 30.6.2018 *HK$'000* **(unaudited)**	Six months ended 30.6.2017 *HK$'000* (unaudited)
Interest on obligations under finance leases	**12**	49
Interest on bonds	**3,000**	3,000
	3,012	3,049

7. TAXATION

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

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 offset the assessable profits.

8. LOSS FOR THE PERIOD

	Six months ended 30.6.2018 *HK$'000* **(unaudited)**	Six months ended 30.6.2017 *HK$'000* (unaudited)
Loss for the period has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**2,408**	2,427
Net foreign exchange loss	**124**	65

9. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

10. LOSS PER SHARE

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

	Six months ended 30.6.2018 ***HK\$'000*** **(unaudited)**	Six months ended 30.6.2017 *HK\$'000* (unaudited)
Loss for the purpose of basic loss per share, attributable to owners of the Company	**(17,074)**	(17,819)
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,432,304**	2,432,304

No dilutive loss per share is presented as there were no potential ordinary shares in issue for the period ended 30th June, 2018 and 2017.

11. LOAN RECEIVABLES

	30.6.2018 ***HK\$'000*** **(unaudited)**	31.12.2017 *HK\$'000* (audited)
Secured loans	**67,222**	36,227
Unsecured loans	**21,104**	27,353
	88,326	63,580
Less: Amount due within one year and classified under current assets	**(76,191)**	(51,318)
Amount due after one year	**12,135**	12,262

The Group holds collateral of some property interests located in Hong Kong over secured loan receivables of HK\$67,222,000 (31.12.2017: HK\$36,227,000) The directors of the Company consider the exposure of credit risk of the secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. The remaining loan receivables are unsecured.

Secured loan receivables carry fixed-rate interests ranging from 11% to 15% (31.12.2017: at 11% to 15%) per annum and with maturity ranging from 6 months to 3 years (31.12.2017: 1 year to 3 years). Unsecured loan receivables carry fixed-rate interests ranging from 11% to 12% (31.12.2017: 11% to 12%) per annum and with maturity ranging from 6 months to 3 years (31.12.2017: 6 months to 3 years). All amounts of principal will be receivable on respective maturity dates.

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

Included in trade and other receivables are trade receivables, net of allowance for doubtful debts, of HK$64,600,000 (31.12.2017: HK$53,018,000).

The following is an analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice dates, which approximate the respective revenue recognition dates.

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**26,058**	23,374
31 – 60 days	**19,108**	16,944
61 – 90 days	**8,089**	7,052
91 – 120 days	**5,588**	2,671
More than 120 days	**5,757**	2,977
	64,600	53,018

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$12,033,000 (31.12.2017: HK$9,056,000).

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

	30.6.2018	31.12.2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**6,951**	5,862
31 – 60 days	**2,987**	1,932
61 – 90 days	**586**	292
91 – 120 days	**779**	14
More than 120 days	**730**	956
	12,033	9,056

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the six months ended 30th June 2018, the Group's total revenue amounted to approximately HK$144 million, representing an increase of about 9.9%, compared to approximately HK$131 million from the same period last year.

During the current interim period, the Group recorded a loss of approximately HK$17.1 million, compared to a loss of approximately HK$17.8 million incurred in 2017. The losses during this period are attributable to the continue loss in the Group's cold storage business and trading of food and beverage business during the first half.

The Group believes that the losses are principally due to slower customer demand for cold storage facilities, owing to short-term market changes. Several strategies have been implemented to facilitate recovery of growth. Stronger demand for cold-storage facilities are anticipated in the second half of this year, and with it, a better performance of the Group in this industry.

REVIEW OF OPERATING SEGMENTS

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

Cold Storage and related business

Cold storage

Cold chain warehousing is a core business of the Group and its main income contributor. During the interim period, the segment saw signs of business recovery following the Brazilian meat scandal and other temporary market changes of last year. Despite the higher occupancy level, inventory volume and turnover recorded, the Group's cold storage and related businesses still underperformed during this period, compared to its continually robust performance and over occupancy recorded in 2015/2016.

Although the rental rates of its warehousing facilities have been raised, the income generated during the first six months this year was inadequate to cover the business losses due to a decline in customer demand. However, with market demand expected to rebound during the second half, the Group foresees an increase in the business and income of this segment over the upcoming months.

Logistics

This segment was established to primarily serve the needs of its warehousing clients. For optimal use of its transportation fleet and other resources, it has also started serving other customers.

With the decline in the Group's warehousing business, the demand for its logistics services also slowed down correspondingly during the interim period. As a counter measure, the Group has taken proactive efforts to strengthen its relationship with customers and explore the possibilities of providing them with more related services and upgrading its delivery fleet.

Industrial ice bars (for construction use)

The macro environment for the industrial ice business remained challenging. Keen competition from other suppliers continued to dampen demand for the Group's ice bar products during the first two quarters of this year, while making it more difficult for it to find new business sources.

Fortunately, the segment contributions to the Group's revenue are minimal. In addition, the manufacturing process of industrial ice creates humidity inside the factory environment, thus raising the repair and maintenance cost of its production facilities significantly. In view of the low returns and higher costs from this segment, the Group has decided to focus resources on developing its warehousing operations as a business priority.

Trading of food and beverage business

The Group has expanded the range of food products it distributed to supermarkets and convenient stores in the PRC. Despite the increase in business volume and revenue, its marginal profit did not improve due to higher operational costs. Moreover, this is a relatively new segment whose business fundaments are not fully developed yet. Hence, it has not achieved on-target earnings.

Money lending business

The Group's money lending business recorded a stable growth over last year, with increased income generated.

Recognising the potential of this segment, the Group has identified alternative sources of funding and money lending opportunities in order to accelerate its further growth and profitability.

PROSPECTS

Hong Kong's dependence on trade makes it vulnerable to escalating US – PRC trade disputes, combined with a slowing PRC economy. According to the HKSAR government, about 17% or HK$60 billion worth of Chinese exports in question pass through Hong Kong to the US and about 9% or HK$6 billion of US exports came through on the way to PRC, both accounting for 1.4% of Hong Kong's overall trade combined.

With the Hong Kong and mainland Chinese economies likely to shift into lower gear in the third and fourth quarters of 2018, the Group has taken a prudent approach to managing its diversified operations, emphasising financial discipline in relation to cost control and increasing the efficiency and productivity of its business endeavours.

The Group will plough back earnings and profits to its cold-chain operations, with a view of upgrading its storage infrastructure to retain existing customers and attract new clients. This is because cold storage warehousing is the Group's core segment and generates a stable income.

As the leases of its two cold-storage warehouses are due to expire in February 2019, the Group is carrying out negotiations with the building owners for their renewal. Yet, we are also looking into other warehousing options as a backup plan. Under any circumstances, the Group will strive to ensure minimal disruptions to its clients and business operations.

Cold storage and related services

Cold storage and logistics

The Group accords top priority to developing its cold-storage warehousing operations, which is both its core business and stable income source.

We are developing our customer portfolio for this segment, from premium restaurants serving a high-end clientele to the fast food chains that cater to the masses. The rationale of this diversification strategy is to spread our business risks in order to achieve sustainable growth. Another strategy of the Group is to identify and attract potential customers with a high inventory turnover.

Although the Group's warehousing business underperformed during the period of review, the segment has demonstrated signs of gradual recovery and is expected to record an improved performance during the second half with the improvement in demand. Barring the worsening of macro-economy, we are even more optimistic toward our warehousing business in the longer term, given the increased inventory orders received from our customers and a quality mechanism implemented by the Brazilian market to safeguard safety of its meat exports to regain the confidence of distributors and retailers from Hong Kong and elsewhere.

Our warehousing business is faced with an operational uncertainty as the lease agreement of its two cold-storage warehouses will be expiring in the first quarter of 2019. Negotiations are underway for their renewal but the Group is exploring other options as well. During this transition period, customers' hesitation in placing inventory orders with the Group in view of this uncertain factor may affect its income.

To mitigate the possible income uncertainties, the Group is strengthening its relationship with customers and gaining a deeper understanding of their needs in order to tailor diversified cold-storage warehousing solutions according to the scale, budget and inventory volume of the different clients. Special incentives will be offered to loyal customers for their unwavering support to the Group despite the uncertainty of its warehousing lease agreements.

To further develop its logistics business and drive its growth, the Group will reinforce its communication with its logistics partner and jointly look into the possibilities of providing enhanced services by installing advanced storage facilities and additional equipment for its transportation fleet.

Industrial ice bars (for construction use)

Continually rising operational costs, coupled with keen competition from new entrants to the industry, are the major challenges faced by this segment.

Generally, the industrial ice bars business is characterised by low efficiency and high costs. The massive scale of water consumption in the manufacturing process heightens the humidity level in the factory environment. This is detrimental to the machineries and equipment, escalating the frequency and costs of their repair and maintenance. Relative to the high operational costs involved, the segment's contributions to the Group's revenue are disproportionately now.

To address this situation, the Group will focus its resources and efforts in developing its core business in cold-storage warehousing, which yields a far more stable income.

Trading of food and beverage business

The Group distributes a wide variety of dairy products, beverages and Korean-style snacks to its growing network of supermarkets and convenience stores in the PRC market. During the interim period, this portfolio of products has been broadened to include luncheon meat, ham and milk imported from Australia and New Zealand. Although the business volume has gone up, the income generated from this segment has been inadequate to cover the fast-rising operational costs. To overcome this challenge, the Group will focus on cost control, while continuing to strengthen its operational efficiency and financial performance to profit from the vast consumer market of PRC.

Money lending business

Recognising the segment's potential for profitability, the Group has taken every opportunity to make further inroads into the lucrative money-lending market. Through aggressive marketing and other business development initiatives, the Group is raising its visibility and expanding beyond its existing customer base to attract new clients from various other sectors.

Complying with the tight regulations of money-lending activities in Hong Kong, we will further strengthen our credit control measures to achieve a better balance between risk management and profitability.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2018, the total number of full time employees of the Group in Hong Kong and mainland China were approximately 240 and 80 respectively (31st December, 2017: approximately 240 Hong Kong employees; 70 mainland China 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.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2018, the Group had cash and bank balances of approximately HK$45.2 million (31st December, 2017: approximately HK$94.8 million), which was denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB") and United States dollars ("USD") as to 86.7%, 9% and 4.3%, respectively. The decrease was mainly due to increase in loan receivables.

The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 49.4% as at 30th June, 2018 (31st December, 2017: approximately 45.7%). The increase of the gearing ratio was insignificant.

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 commencing from 13th November, 2014 and ending on 12th November, 2015. 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 30th June, 2018, it is noted that the bonds in an aggregate principal amount of HK$100 million have been subscribed by the placees and issued by the Company, which is the same as those as at 31st December, 2017.

During the current interim period, the Group's capital expenditure was mainly financed by finance leases and internal resources.

Treasury policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in HK$.

Exposure to fluctuations in exchange rates and related hedges

Monetary assets and liabilities of the Group are principally denominated in HK$. 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 of food and beverage business to be operated in mainland China. The directors will review the exchange rate risks faced by the Group periodically.

During the current interim period, the Group did not have any material foreign exchange exposure and had not used any financial instruments for hedging purpose.

Share capital structure

As at 30th June, 2018, 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, 2017.

Material acquisitions and disposals of subsidiaries and associates

During the current interim period, the Group did not have any material acquisitions and disposals of subsidiaries and associates (31st December, 2017: Nil).

Charges on assets
As at 30th June, 2018, banking facilities for providing guarantees by a bank for the Group's operation of cold storage service, to the extent of HK$3.5 million (31st December, 2017: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (31st December, 2017: HK$3.5 million). The amount utilised at 30th June, 2018 was approximately HK$3.5 million (31st December, 2017: approximately HK$3.5 million).

As at 30th June, 2018, bank deposits of approximately HK$99.5 million (31st December, 2017: approximately HK$99.5 million) are pledged to a bank, which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

In addition, the Group's obligations under finance leases were secured by the lessors' charge over the leased assets with carrying value of approximately HK$1.3 million (31st December, 2017: approximately HK$2.1 million).

Future plans for material investments or capital assets
Guided by the principle of profitability improvement, the Group will continue to invest in its core business segment of cold-chain warehousing, particularly with regard to its storage infrastructure and facilities in order to attract new customers and retain existing ones.

The lease agreements of our two cold-storage warehouses are due to expire in February 2019. To control the uncertainty, the Group has been carrying out negotiation for their renewal on one hand, while on the other, seek other warehousing options as part of a backup plan. We will strive to ensure minimal disruptions to our clients and normal operations.

To strengthen the competitive edge of its logistics business, the Group is considering installing more sophisticated storage facilities and new equipment for its fleet of delivery vehicles with the aim of meeting the diverse needs of a broader customer base.

The Group has been reviewing the strengths and weakness of each business segment it operates, together with their profit potential, and has decided to devote more resources to those that yield high and stable revenue contributions.

Contingent liabilities
During the current interim period, the Group did not have any contingent liabilities (31st December, 2017: Nil).

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2018 (2017: 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, 2018.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

For the first half of 2018, 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 on the Stock Exchange (the "Listing Rules"), save for the exceptions specified and explained below:

According to the 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.

According to the code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the Audit, Nomination and Remuneration Committees to answer the questions at the general meeting. Since there was no Chairman in the Company during the period, the Company did not comply with code provision E.1.2 of the CG Code.

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 Board. 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 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. 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 risk management, internal control and financial reporting matters including a review of the unaudited interim financial information for the six months ended 30th June, 2018 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.

Risk Management and Internal Control

The Board has responsibility for maintaining appropriate and effective risk management and internal control systems (the "RM and IC Systems") of the Group and reviewing its effectiveness through the Audit Committee. The purpose of the RM and IC Systems are designed to manage rather than eliminate risks of failure in operational systems so that the Company's objective can be achieved, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 RM and IC Systems, Executive Directors and the senior management would meet at least once a week to review the financial and operating performance of the key operating subsidiaries. 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.

To further strengthen the risk management and internal control of the Group, the Company has engaged an independent professional adviser (the "Internal Control Adviser") to carry out the internal audit functions by performing independent appraisal of the adequacy and effectiveness of certain subsidiaries' RM and IC systems. The Internal Control Advisor is in the process on carrying out appraisal as of the report date.

During the period, the Audit Committee, with the assistance of the Internal Control Adviser, has developed current year RM and IC systems appraisal plan, and will focus on reviewing (i) the compliance risk management control of the Group; (ii) the financial reporting and disclosure control of the Group; and (iii) the operating controls of the trading of food and beverage business, including human resources cycle, payroll cycle and expenditure cycle.

During the six months ended 30th June, 2018, the Board was satisfied that the Group's risk management and internal control processes are adequate to meet the needs of the Group in its current business environment and that nothing has come to its attention to cause the Board to believe the Group's RM and IC Systems are inadequate. Moreover, the existing RM and IC Systems are effective and adequate, and 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 and the Company's website at www.irasia.com/listco/hk/daido/index.htm.

The 2018 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 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
Au Tat Wai
Executive Director

Hong Kong, 30th August, 2018