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, 2018

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
Revenue	2	**309,246**	275,493
Direct costs		**(263,900)**	(245,951)
Gross profit		**45,346**	29,542
Other income	3	**1,786**	1,257
Selling and distribution expenses		**(17,654)**	(12,529)
Administrative expenses		**(44,813)**	(39,194)
Impairment losses recognised on loan receivables		**(849)**	-
Impairment losses recognised on trade receivables		**(506)**	(36)
Other gains and losses	4	**(6,458)**	(8,314)
Share of loss of an associate		**(8,021)**	-
Finance costs	5	**(6,765)**	(6,077)
Loss before tax		**(37,934)**	(35,351)
Taxation	6	**-**	-
Loss for the year		**(37,934)**	(35,351)

* *For identification purpose only*

	NOTES	2018 HK$'000	2017 HK$'000
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(596)**	381
Total comprehensive expense for the year		**(38,530)**	(34,970)
Loss for the year attributable to:			
Owners of the Company		**(37,934)**	(35,351)
Non-controlling interests		**-**	-
		(37,934)	(35,351)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(38,530)**	(34,970)
Non-controlling interests		**-**	-
		(38,530)	(34,970)
Loss per share - basic	8	**(HK1.56 cents)**	(HK1.45 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,876**	7,578
Goodwill		**68**	68
Interest in an associate		**10,998**	-
Loan to an associate		**47,525**	-
Financial assets at fair value through profit and loss ("FVTPL")		**731**	-
Equity instrument at fair value through other comprehensive income ("FVTOCI")		**-**	-
Available-for-sale investment		**-**	38,502
Rental deposits paid		**25,488**	25,038
Pledged bank deposits		**105,353**	102,975
Loan receivables	9	**28,000**	12,262
		223,039	186,423

	NOTES	**2018**	2017
		HK$'000	HK$'000
CURRENT ASSETS			
Inventories		**1,207**	693
Trade and other receivables, deposits and prepayments	10	**74,873**	59,490
Loan receivables	9	**40,464**	51,318
Amount due from non-controlling interests of a subsidiary		**-**	9,760
Held for trading investments		**-**	902
Bank balances and cash		**55,898**	94,792
		172,442	216,955
CURRENT LIABILITIES			
Trade and other payables	11	**29,365**	28,884
Contract liabilities		**7,530**	-
Amount due to an investee		**-**	39,042
Bank borrowing		**65,000**	-
Obligations under finance leases		**203**	594
		102,098	68,520
NET CURRENT ASSETS		**70,344**	148,435
TOTAL ASSETS LESS CURRENT LIABILITIES		**293,383**	334,858
CAPITAL AND RESERVES			
Share capital		**24,323**	24,323
Share premium and reserves		**157,331**	195,321
Equity attributable to owners of the Company		**181,654**	219,644
Non-controlling interests		**5,163**	14,923
		186,817	234,567
NON-CURRENT LIABILITIES			
Derivative financial instruments		**6,478**	-
Obligations under finance leases		**88**	291
Bonds		**100,000**	100,000
		106,566	100,291
		293,383	334,858

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as "the Group") have applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

Except as described below, the application of the new and amendments to HKFRSs 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.

1.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue,* HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January, 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Cold storage
- Loading and handling services
- Logistic and packing services
- Manufacturing and trading of ice
- Trading of food and beverage

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

	Carrying amounts previously reported at 31st December, 2017 HK$'000	Reclassification HK$'000 (Note)	Carrying amounts under HKFRS 15 at 1st January, 2018 HK$'000
CURRENT LIABILITIES			
Trade and other payables	28,884	(6,932)	21,952
Contract liabilities	-	6,932	6,932

Note: At the date of initial application on 1st January, 2018, included in the total trade and other payables was an amount of HK$6,932,000 related to advance billings to customers for cold storage services. This balance is reclassified to contract liabilities upon application of HKFRS 15.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31st December, 2018, and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Adjustments HK$'000 (Note)	Amounts without application of HKFRS 15 HK$'000
CURRENT LIABILITIES			
Trade and other payables	29,365	7,530	36,895
Contract liabilities	7,530	(7,530)	-

Impact on the consolidated statement of cash flows

	As reported HK$'000	Adjustments HK$'000 (Note)	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES			
Increase in trade and other payables	7,692	598	8,290
Increase in contract liabilities	598	(598)	-

Note: As at 31st December, 2018, advance billings to customers for cold storage services but revenue has not recognised as performance obligations has not yet satisfied before the year ended 31st December, 2018, amounted to HK$7,530,000, previously included in trade and other payables, were reclassified to contract liabilities.

1.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, and (2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. The difference between carrying amounts as at 31st December, 2017 and the carrying amounts as at 1st January, 2018 are recognised in the opening accumulated losses, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments*: *Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st January, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31st December, 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	Carrying amounts under HKFRS 9 at 1st January, 2018 HK$'000
Available-for-sale investment - HKAS 39 (1.2(a))	38,502	(38,502)	-	-
Equity instrument at FVTOCI - HKFRS 9 (1.2(a))	-	38,502	540	39,042
FVTOCI reserve - HKFRS 9 (1.2(a))	-	110,618	(540)	110,078
Accumulated losses - HKFRS 9 (1.2(a))	218,010	(110,618)	-	107,392
Held for trading investments - HKAS 39 (1.2(b))	902	(902)	-	-
Financial assets at FVTPL - HKFRS 9 (1.2(b))	-	902	-	902

(a) Available-for-sale ("AFS") investment

The Group elected to present in other comprehensive income for the fair value changes of all its equity investment previously classified as AFS. 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, HK$38,502,000 were reclassified from AFS investment to equity instruments at FVTOCI, of which related to unquoted equity investment previously measured at cost less impairment under HKAS 39. The impairment loss of HK$110,618,000 relating to this unquoted equity investment previously carried at cost less impairment was transferred from accumulated losses to FVTOCI reserve and the fair value gain of HK$540,000 relating to this investment were adjusted to equity investments at FVTOCI and FVTOCI reserve as at 1st January, 2018.

(b) Held for trading investments

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$902,000 of the Group's investments were no longer held for trading and the Group did not elect to designate the equity securities at FVTOCI. The investment continued to be measured at FVTPL and classified as financial assets at FVTPL.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables from contracts. Except for those which had been determined as credit impaired under HKAS 39, trade receivables with customers have been assessed individually with outstanding significant balances with customers, the remaining balances are grouped based on past due analysis.

The Group has therefore estimated the expected loss rates for the trade receivables with customers based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 39.

ECL for other financial assets at amortised cost including loan and other receivables, amounts due from related companies, loan to an associate, pledge bank deposits, and bank balances are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1st January, 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1st January, 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1st January, 2020
[5] Effective for annual periods beginning on or after 1st January, 2020

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments of HK$344,053,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon application of HKFRS 16, the Group will recognise a right-of use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Company currently consider refundable rental deposits paid of HK$25,812,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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 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 (“PRC”) ("Trading of food and beverage")

3. Money lending services in Hong Kong ("Money lending services")

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, 2018

	Cold storage and related services HK$'000	**Trading of food and beverage HK$'000**	**Money lending services HK$'000**	**Total HK$'000**
Revenue	**224,567**	**75,076**	**9,603**	**309,246**
Segment (loss) profit	**(12,029)**	**(13,053)**	**2,626**	**(22,456)**
Unallocated income				**1,039**
Unallocated expenses				**(15,072)**
Change in fair value of financial assets at FVTPL				**(171)**
Finance costs				**(1,274)**
Loss before tax				**(37,934)**

For the year ended 31st December, 2017

	Cold storage and related services HK$'000	Trading of food and beverage HK$'000	Money lending services HK$'000	Total HK$'000
Revenue	210,350	58,933	6,210	275,493
Segment (loss) profit	(13,968)	(8,260)	1,860	(20,368)
Unallocated income				996
Unallocated expenses				(13,413)
Change in fair value of held for trading investments				200
Finance costs				(2,766)
Loss before tax				(35,351)

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 other income, central administration costs that mainly include partly auditor's remuneration, rental expenses and directors' remuneration, change in fair value of held for trading investments, change in fair value of financial assets at FVTPL and certain finance costs. This is the measure reported to the chief operating decision makers, for the purposes of resource allocation and performance assessment.

3. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Bank interest income	**972**	951
Government subsidy	**338**	-
Imputed interest income on loan to an associate	**281**	-
Sundry income	**195**	306
	1,786	1,257

4. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Change in fair value of derivative financial instruments	**(6,478)**	-
Change in fair value of financial assets at FVTPL	**(171)**	-
Change in fair value of held for trading investments	**-**	200
Gain (loss) on disposal of property, plant and equipment	**191**	(1)
Impairment loss on goodwill	**-**	(8,513)
	(6,458)	(8,314)

5. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bonds	**6,000**	6,000
Interest on obligations under finance leases	**17**	77
Interest on bank borrowing	**748**	-
	6,765	6,077

6. TAXATION

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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. DIVIDEND

No interim dividend was paid during the year (2017: Nil), nor has any dividend been proposed since the end of the reporting period (2017: Nil).

8. LOSS PER SHARE

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

	2018	2017
	HK$'000	HK$'000
Loss for the purpose of basic loss per share, attributable to owners of the Company	**37,934**	35,351
	'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 diluted loss per share is presented as there were no potential ordinary shares in issue for years ended 31st December, 2018 and 31st December, 2017.

9. LOAN RECEIVABLES

	2018	2017
	HK$'000	HK$'000
Loan receivables	**69,313**	63,580
Less: Allowance for credit loss	**(849)**	-
	68,464	63,580
Secured loans	**65,973**	36,227
Unsecured loans	**2,491**	27,353
	68,464	63,580
Less: Amount due within one year and classified under current assets	**(40,464)**	(51,318)
Amount due after one year	**28,000**	12,262

The Group holds collateral of some property interests located in Hong Kong over secured loan receivables of HK$46,461,000 (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 Group holds collateral of some equity interests in unlisted companies over secured loan receivables of HK$19,512,000 (2017: Nil). The remaining loan receivables are unsecured.

Secured loan receivables carry fixed-rate interests ranged from 11% to 24% (2017: ranged from 11% to 15%) per annum and with maturity ranged from 5 months to 4 years (2017: ranged from 1 year to 3 years). Unsecured loan receivables carry fixed-rate interests ranged from 11% to 12% (2017: ranged from 11% to 12%) per annum and with maturity ranged from 6 months to 2.5 years (2017: ranged from 6 months to 3 years). All amounts of principal will be receivable on respective maturity dates.

The maturity dates of the Group's fixed-rate loan receivables before net of allowance of credit loss are as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**41,313**	51,318
In more than one year but not more than two years	**10,000**	12,262
In more than two years but not more than five years	**18,000**	-
	69,313	63,580

Before accepting any new borrower, the Group carries out research on the creditability of the new borrower and assesses the potential customer's credit quality and defines loan terms with borrower. The credit of the borrowers granted with loans are reviewed once a year.

At 31st December, 2017, there were no loan receivables past due at the reporting date. The Group reviews the recoverable amount of each individual loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. Accordingly, the directors of the Company believe that there is no allowance or impairment required.

As at 31st December, 2018, included in the carrying amount of loan receivables is accumulated impairment losses of HK$849,000 (2017: Nil).

10. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 **HK$'000**	2017 HK$'000
Trade receivables	**67,929**	53,567
Less: Allowance for credit loss	**(506)**	(549)
	67,423	53,018
Other receivables	**1,090**	1,038
Deposits and prepayments	**6,360**	5,434
	74,873	59,490

As at 1st January, 2018, trading receivables from contracts with customers amounted to HK$53,018,000.

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

	2018 HK$'000	2017 HK$'000
0 - 30 days	**24,926**	23,374
31 - 60 days	**20,010**	16,944
61 - 90 days	**10,446**	7,052
91 - 120 days	**6,168**	2,671
More than 120 days	**5,873**	2,977
	67,423	53,018

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.

As at 31st December, 2018, included in the Group's trade receivable balance are debtors with an aggregate carrying amount of HK$45,655,000 which are past due at the reporting date. Out of the past due balances, HK$3,290,000 has been past due 90 days or more and is not considered as in default as the default risk of these debtors is low after considering the credit worthiness and past payment history of these debtors and forward-looking information available at the end of the reporting period. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**13,484**	9,056
Accrued for staff costs	**5,012**	4,890
Bond interest payable	**2,992**	2,992
Other payables, deposits received and accrued charges	**7,877**	11,946*
	29,365	28,884

*Included in the balances was carrying amount of HK$6,932,000 related to advance billings to customers and reclassified as contract liabilities upon application of HKFRS 15 as at 1st January, 2018.

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

	2018 HK$'000	2017 HK$'000
0 - 30 days	**7,626**	5,862
31 - 60 days	**2,479**	1,932
61 - 90 days	**629**	292
91 - 120 days	**2,103**	14
More than 120 days	**647**	956
	13,484	9,056

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, 2018, the Group's total revenue amounted to approximately HK$309 million as compared to approximately HK$275 million from the preceding year.

During the period of review, the Group recorded a loss of approximately HK$38 million, compared to the loss of approximately HK$35 million recorded in the year ended 31st December, 2017, equivalent to an increase of about 8.57%.

The Board attributed the loss primarily to the operating loss of its cold storage business and PRC trading business, the share of loss from a new startup joint venture and the change in fair value of derivative financial instruments during the year.

In the same period, the Group saw gradual improvements of its cold storage business and adopted measures to further its development. A decision was taken to close the operation of its industrial ice bar business given its longstanding underperformance. Our trading operations in the PRC also fell short of business targets to the detriment of the Group's overall revenue.

FINANCIAL KEY PERFORMANCE INDICATORS

		As at 31 December	
		2018	2017
Loss per share — basic	HK cents	**(1.56)**	(1.45)
Net assets per share attributable to owners of the Company	HK$	**12.06**	13.77
Current ratio	times	**1.69**	3.17
Total liabilities to total assets ratio	times	**0.53**	0.42
Gearing Ratio	%	**55.1%**	45.7%
Return on equity ratio	%	**-20.9%**	-16.1%
Return on assets	%	**-9.5%**	-8.4%
Assets turnover ratio	times	**0.77**	0.65

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 services in Hong Kong and investment holding.

Announced on 6th September, 2018, a substantial transaction was undertaken with a subsidiary of the Group, entering into a joint venture ("JV") Agreement and Management Service Agreement, to operate and manage a warehouse in Tsing Yi district (the "JV transaction"). The Group owns 30% of the JV.

A supplemental Agreement announced on 29th October, 2018 stated that each shareholder of the JV company is obliged to take up the contribution of the total investment amount in proportion to the shareholding held by the parties, in case of the arrangement of the bank borrowings have not been satisfied.

Cold storage and related business

Cold storage

The Group operated two cold storage facilities, one located at Kwai Hei Street, Kwai Chung, and the other at Wing Yip Street, Kwai Chung. Compared to the preceding financial year, the performance of this segment gradually improved due to turnover increase and higher rental fees charged to customers in 2018. This was especially true for the warehouse at Wing Yip Street, whose stock turnover rate improved owing to the extended inventory varieties. Some of the Group's existing clients started to use both of its cold warehousing facilities. However, the physical conditions of aging in these structures, coupled with its limited storage capacity, caused the Group's inability to cope with growing customer needs. This explains why the performance of this segment lags behind the higher level it achieved in 2016.

Addressing this situation, the Group signed a binding offer letter with one of the landlords on 28th September, 2018, in relation to the lease renewal for its existing cold-storage facility at Kwai Hei Street. Following negotiations with the landlord, the lease tenure of this facility would be officially extended over an eight-year period, from 15th February, 2019 to 14th February, 2027.

In addition, the Group entered into a JV agreement in September 2018 to develop a cold-storage business in Tsing Yi district, reflecting a recalibrated business strategy for its core business. The JV Company will allow the Group to harness its management experience in developing its cold storage business without substantial capital expenditure. In addition, the Group is expected to generate a stable revenue stream from the investment returns and management fees receivable.

Logistics

The Group's logistics arm was formed to serve the customers of its cold storage segment. Therefore, it is highly dependent on the latter for its business performance. Presently, there are two divisions operating under the Group's logistics unit – Logistics-Cargo Department and Development Department.

While the Logistics-Cargo Department facilitates inventory transfer from port to warehouse, the Logistic Development Department undertakes merchandise delivery from warehouse to the various districts of Hong Kong. Both these functions serve the logistics needs of the Group's warehousing clients.

However, the profit margin generated by the logistics development operation has been unsatisfactory, due to the high operation cost incurred because of the scattered delivery locations all over Hong Kong.

In view of this, the Group has entered into a cooperation agreement with a logistics company, subcontracting merchandise delivery to the latter so as to improve the operational efficiency and profit margin of its logistics business.

Industrial ice bars (for construction use)

This segment contributed only 1 to 2% to the Group's overall revenues, but the amount of efforts and resources allocated to sustain its operation are disproportionately high. During the manufacturing process of industrial ice bars, high levels of humidity are generated inside the factories, triggering greater repair and maintenance cost of the production facilities involved. The low returns and higher costs, exacerbated by intense competition from other ice bar suppliers, prompted the Group's decision to end the operation of this business segment between September and October of 2018. By doing so, more attention and resources could be devoted to developing its more lucrative cold storage business.

Trading of food and beverage business

The Group's trading of food and beverage business on the mainland recorded increasing revenues in 2018, thanks to the broader variety of products distributed, but it still fell short of its business target.

The perishable nature of the food and beverage products distributed to a network of supermarkets and convenience stores, such as fresh milk from Australia and New Zealand, presented a challenge to this segment. During the transportation process, higher operation costs are incurred to maintain food safety standards required under state and industry regulations. Income generated from the segment also turned out to be inadequate to cover the bottom-line and rising inflation. The full earning potential of this segment remains unrealized, partly due to the effectiveness of control of return goods.

In face of the challenges, the Group has been reviewing its fundamental strategy constantly with the aim to improve the segment's profit margin and business growth.

Money lending business

Apart from extending credit facilities to its existing cold storage customers, the Group has been looking into ways to broaden the base to include new corporate clients. Although revenues from this segment were stable and profitable, the Group took the decision to slow its development and free up resources to expand the core business of cold warehousing.

The money lending business will therefore not be a key focus in the Group's future portfolio.

PRINCIPAL RISKS AND UNCERTAINTIES

The business portfolio held by the Group has been diversified to spread out the various operational and business risks evenly. That said, efforts have also been taken to ensure a delicate balance between diversity and profitability. The Group has and will continue to drop persistently unprofitable segments as part of its commitment to build a stronger and sustainable business mix.

Changes in the macroeconomic environment and market demand for the Group's products and services could impact its operational and business performance, hence affecting its operating income. Another significant risk facing the Group in the past years was cold storage facility depreciation, with a possibility of its storage capacity and business growth being undermined.

The Group's cold warehousing segment is also vulnerable to economic headwinds, which might dampen market demand for imported foodstuff and other perishable items, including meat, fruits, vegetables and pharmaceuticals, to potentially affect the business performance of its cold-storage facilities. Considerable demand for cold warehousing is dependent on Hong Kong's role as an entrepôt and intermediary trade centre, which will in turn affect the demand of distributors for storage of temperature-sensitive merchandise.

Uncertainties of the lease agreements related to the Group's warehousing facilities are a potential risk too. The Group's warehousing leases were expired in February 2019. This placed immense pressure on its management team to seek renewal of such leases or source other warehousing options. As the Group's logistics segment shares a largely similar customer base with the warehousing segment, its performance could be dampened by falling demand for cold warehousing.

A number of proposals were formulated internally and submitted to the Group's senior management for review and approval in 2018. Critical policy decisions were made to circumvent the primary risks and uncertainties facing its operations, including:

1. Investment in a new cold-storage facility at Tsing Yi district on a joint-venture basis, instead of renewing its existing lease at Wing Yip street, Kwai Chung, due to a lack of consensus on the rent review;

2. Lease renewal for its existing cold-storage facility at Kwai Hei Street, Kwai Chung, with better terms and conditions successfully secured;

3. Termination of its non-performing industrial ice bars business, not only to cut losses but also free up resources to develop its more promising core segment in cold warehousing further.

With the first two decisions made, the Group has eliminated the leasing uncertainties to lay firmer ground for the continual growth of its warehousing core business. The third decision was made out of consideration for business sustainability, which is deemed to be equally important as the Group's portfolio diversity.

PROSPECTS

Looking ahead, the world economy appears likely to be rocked by the US-China trade disputes, United Kingdom's withdrawal from the European Union, China's slowing economy and other undercurrents. Given the cloudy global outlook, Hong Kong's open and trade-reliant economy is projected to grow 2 to 3% in 2019, as market sentiments have turned increasingly cautious. Should the external headwinds deteriorate, especially if the US-China trade conflict escalates, then global trade, investment and financial markets will be subject to greater shocks.

Faced with the bleak economic prospects, the Group will review and refine its business strategy regularly and continuously, while being ready to realign its business operation decisively and swiftly. In the year ahead, the Group will focus its resources on the new cold storage business established through a joint venture. Committing attention and investments to storage infrastructure development will sharpen its market edge in the long run.

Cold storage and related services

The Group's decision not to renew the lease of its storage facility on Wing Yip Street, Kwai Chung, helps avert the high costs of retrofitting and maintaining the old, run-down warehouse. In this connection, the Group has invested heftily in a JV project, under which a large, two-storey cold-storage centre of 320,000 square feet located in Tsing Yi, started commencing operation in March 2019.

This JV project is operated by a wholly owned subsidiary of the Group. Responsible for the daily management of the JV's cold-storage facility, the Group expects a significant yield combining investment returns and management fees receivable from this undertaking.

The cold-storage project in Tsing Yi represents a starting point in the JV collaboration, following which a similar business model will be extended to the PRC market.

Trading of food and beverage business

The Group's trading of food and beverage business in the PRC is focused on perishable products such as fresh produce and milk beverages targeting the fast-rising domestic consumer market. But the need to maintain high standards of food safety stipulated under state and industry regulations, especially in the transportation of these products to the retail outlets, have greatly increased the Group's operation costs. This has presented it with a heavy financial burden that stands in the way of business expansion and development.

The Group will continue to refine the segment's product mix while seeking opportunities to minimise operation cost and maximise the profit margin.

Money lending business

Development of the Group's money-lending business will be slowed to free resources and used to develop the new JV project in cold-warehousing. However, the Group will continue to maintain good operation practices to ensure sustainable interest returns from its existing base of borrowing clients.

CORPORATE STRATEGY AND LONG-TERM BUSINESS MODEL

The Group has developed its cold storage and logistics businesses into principal growth drivers. Under its corporate strategy, a strong focus is placed on diversifying and enriching its portfolio of operations, which currently includes money lending and trading of food and beverage business in the PRC as supplementary segments for business sustainability.

Leveraging on its existing portfolio strengths, the Group will continue to identify new business opportunities in Hong Kong and mainland China. Concurrently, it will ride on its expertise and knowledge in cold storage and logistics management to expand business involvement in both these areas. To realise this vision, we will continually strive for a higher level of operational excellence, a better retention rate among quality customers and higher business turnover. As before, the Group will offer a one-stop range of cold storage solutions and other warehousing facilities, supported by logistics services that will include transportation, distribution, container hauling and devanning.

Ensuring a sustainable growth will remain the thrust of the Group's business strategy. While aiming to increase the profit margins of our core business, we are also dedicated to strengthening our secondary supplements, such as food trading and distribution on the mainland through a range of market development strategies and expansion of our product mix to reach a broader base of Chinese consumers. Maintaining the stable operation of our money lending segment also reflects our endeavours to achieve business sustainability.

As an established leader in Hong Kong's cold warehousing market, we are guided by our corporate strategy and long-term business model, to improve the financial and operational values of all our business segments and spearhead their expansion into Mainland China. We would like to convey our gratitude to our shareholders for their firm support, with a commitment to optimize their returns from investing in our Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2018, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 230 and 80 respectively (2017: approximately 240 Hong Kong employees; 70 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.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December, 2018, the Group had cash and bank balances of approximately HK$55.9 million (2017: approximately HK$94.8 million), which was denominated in Hong Kong dollars ("HK$") and Renminbi ("RMB") as to 94.3% and 5.7%, respectively. The decrease was mainly due to increase in loan receivables, cash used in increase in pledged bank deposits 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 55.1%* as at 31st December, 2018 (2017: approximately 45.7%). The increase of the gearing ratio was because of the drop of the equity attributable to owners of the Company.

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 31st December, 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.

*Excluded derivative financial instruments

As at 31st December 2018, the Group had a bank loan of HK$65 million (2017: Nil) denominated in HK$. The Group's bank borrowing interest rate is at 7% per annum and the maturity of borrowing is up to April 2020. The banking facility was fully utilised (2017: Nil).

During the year under review, the Group's capital expenditure was mainly financed by finance leases, internal resources and bank borrowing.

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 business to be operated in the PRC. The directors will review the exchange rate risks faced by the Group periodically.

During the year, 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 31st December, 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, associates and joint ventures

During the year under review, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures save for the JV transaction (2017: Nil).

Charges on assets

As at 31st December, 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 (2017: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (2017: HK$3.5 million). The amount utilised at 31st December, 2018 was approximately HK$3.5 million (2017: approximately HK$3.5 million).

As at 31st December, 2018, bank deposits of approximately HK$101.9 million (2017: approximately HK$99.5 million) were 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. The increase of the bank deposits was because of the top-up bank guarantee under the offer for renewal of lease.

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$0.6 million (2017: approximately HK$2.1 million).

Future plans for material investments or capital assets

During the year under review, the Group did not have any concrete future plans for material investments or capital assets save for the JV transaction (2017: Nil).

Contingent liabilities

During the year under review, the Group did not have any contingent liabilities (2017: Nil).

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st December, 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 year ended 31st December, 2018.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has adopted 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") and complied with all the code provisions as set out in the CG Code, except the deviations as stated 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. Also, the code provision A.2.7 of the CG Code requirement, the chairman should at least annually hold meetings with the independent non-executive directors without presence of other directors.

Upon the resignation of Mr. Fung Wa Ko as the Chairman on 14th October, 2011, there have been no Chairman in the Company. During the year ended 31st December, 2018, 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. Since there is no Chairman in the Company during the year ended 31st December, 2018, there was no meeting held between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

According to the code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and invite 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 year ended 31st December, 2018, the Company did not comply with code provision E.1.2.

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 year under review. No incident of non-compliance was noted by the Company 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, risk management and internal control 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, 2018 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 2018 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
Au Tat Wai
Executive Director

Hong Kong, 29th March, 2019