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, 2020

The Board of Directors (the "Board") of Daido Group Limited (the "Company") would like to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June, 2020, together with the comparative figures for the corresponding period in 2019. The interim financial results have been reviewed by the Audit Committee of the Company but have not been reviewed by the auditor of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

	Notes	**Six months ended 30.6.2020** ***HK$'000*** **(unaudited)**	Six months ended 30.6.2019 *HK$'000* (unaudited)
Revenue	*3*		
—Provision of cold storage and related services		**83,885**	104,339
—Trading of food and beverage		**51,000**	42,238
—Interest income from money lending services		**190**	2,333
Total revenue		**135,075**	148,910
Direct costs		**(120,157)**	(119,993)
Gross profit		**14,918**	28,917
Other income	*4*	**4,386**	3,151
Other gains and losses	*5*	**(537)**	(716)
Selling and distribution expenses		**(7,687)**	(9,300)
Administrative expenses		**(23,239)**	(24,316)
Share of loss of an associate		**(4,072)**	(11,767)
Finance costs	*6*	**(10,199)**	(11,562)
Loss before tax		**(26,430)**	(25,593)
Taxation	*7*	**-**	-
Loss for the period	*8*	**(26,430)**	(25,593)

**For identification purpose only*

	Notes	Six months ended 30.6.2020 *HK$'000* (unaudited)	Six months ended 30.6.2019 *HK$'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		**627**	117
Total comprehensive expense for the period		**(25,803)**	(25,476)
Loss for the period attributable to:			
Owners of the Company		**(26,430)**	(25,593)
Non-controlling interests		**-**	-
		(26,430)	(25,593)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(25,803)**	(25,476)
Non-controlling interests		**-**	-
		(25,803)	(25,476)
Loss per share – basic	*10*	**HK(1.09) cent**	HK(1.05) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2020

	Notes	30.6.2020 *HK$'000* (unaudited)	31.12.2019 *HK$'000* (audited)
Non-current Assets			
Property, plant and equipment		**9,073**	10,374
Right-of-use assets		**229,318**	264,329
Goodwill		**68**	68
Interest in an associate		**-**	4,072
Loan to an associate		**40,621**	39,255
Financial assets at fair value through profit or loss ("FVTPL")		**408**	686
Equity instrument at fair value through other comprehensive income ("FVTOCI")		**-**	-
Rental deposits paid		**16,073**	14,901
Pledged bank deposits		**67,785**	65,568
		363,346	399,253

	Notes	30.6.2020 HK$'000 (unaudited)	31.12.2019 HK$'000 (audited)
Current Assets			
Inventories		**1,419**	2,715
Trade and other receivables, deposits and prepayments	*11*	**64,979**	55,474
Amount due from an associate		**12,316**	8,077
Loan receivables	*12*	**2,015**	1,975
Bank balances and cash		**59,013**	117,966
		139,742	186,207
Current Liabilities			
Trade and other payables	*13*	**28,000**	23,209
Contract liabilities		**4,971**	4,894
Bank borrowing		**35,000**	65,000
Lease liabilities		**65,487**	63,475
		133,458	156,578
Net Current Assets		**6,284**	29,629
Total Assets Less Current Liabilities		**369,630**	428,882
Capital and Reserves			
Share capital		**24,323**	24,323
Share premium and reserves		**63,433**	89,236
Equity attributable to owners of the Company		**87,756**	113,559
Non-controlling interests		**3,163**	3,163
		90,919	116,722
Non-current Liabilities			
Lease liabilities		**171,727**	205,435
Derivative financial instruments		**6,984**	6,725
Bonds		**100,000**	100,000
		278,711	312,160
		369,630	428,882

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosures 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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2019.

New and amended Hong Kong Financial Reporting Standards ("HKFRSs") adopted as at 1st January, 2020

In the current interim period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's condensed consolidated financial statements for the annual period beginning on 1st January, 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Issued but not yet effective HKFRSs

The Group has not applied any new and amended HKFRSs that have been published by the HKICPA but are not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and amendments, but is not yet in a position to state whether they would have a significant impact on its results and financial position. The directors expected that the new and amended HKFRSs issued but not effective are not expected to have a material impact on the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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 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 Mainland China ("Trading of food and beverage")
3. Money lending services in Hong Kong ("Money lending services")

Segments revenue and results

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

Six months ended 30.6.2020 (unaudited)

	Cold storage and related services *HK$'000*	**Trading of food and beverage** *HK$'000*	**Money lending services** *HK$'000*	**Total** *HK$'000*
Revenue	**83,885**	**51,000**	**190**	**135,075**
Segment (loss) profit	**(13,976)**	**(2,131)**	**89**	**(16,018)**
Unallocated income				**939**
Unallocated expenses				**(8,122)**
Change in fair value of financial assets at FVTPL				**(278)**
Finance costs				**(2,951)**
Loss before tax				**(26,430)**

Six months ended 30.6.2019 (unaudited)

	Cold storage and related services *HK$'000*	Trading of food and beverage *HK$'000*	Money lending services *HK$'000*	Total *HK$'000*
Revenue	104,339	42,238	2,333	148,910
Segment (loss) profit	(11,622)	(4,621)	1,170	(15,073)
Unallocated income				533
Unallocated expenses				(8,118)
Change in fair value of derivative financial instruments				(1,069)
Finance costs				(1,866)
Loss before tax				(25,593)

Segment (loss) profit represents the (loss incurred) profit earned by each segment without allocation of certain other income, central administration costs that mainly include partly auditor's remuneration and directors' remuneration, change in fair value of derivative financial instruments, 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.

Segments assets and liabilities

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

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Assets		
Cold storage and related services	**344,975**	366,308
Trading of food and beverage	**25,699**	28,346
Money lending services	**2,097**	2,056
Total segment assets	**372,771**	396,710
Unallocated assets	**130,317**	188,750
Consolidated assets	**503,088**	585,460
Liabilities		
Cold storage and related services	**292,377**	348,602
Trading of food and beverage	**14,016**	13,603
Money lending services	**5,230**	3,138
Total segment liabilities	**311,623**	365,343
Unallocated liabilities	**100,546**	103,395
Consolidated liabilities	**412,169**	468,738

Revenue

Disaggregation of revenue from contracts with customers

	Six months ended 30.6.2020 (unaudited)	
	Cold storage and related services Total	**Trading of food and beverage Total**
	HK$'000	***HK$'000***
Types of goods or services		
Revenue from provision of cold storage and related services		
Cold storage	**54,372**	**-**
Loading and handling services	**2,179**	**-**
Logistic and packing services	**27,334**	**-**
	83,885	**-**
Revenue from trading of food and beverage	-	**51,000**
Total	**83,885**	**51,000**
Geographical markets		
Mainland China	-	**51,000**
Hong Kong	**83,885**	**-**
Total	**83,885**	**51,000**
Timing of revenue recognition		
A point in time	-	**51,000**
Over time	**83,885**	**-**
Total	**83,885**	**51,000**

	Six months ended 30.6.2019 (unaudited)	
	Cold storage and related services Total	**Trading of food and beverage Total**
	HK$'000	***HK$'000***
Types of goods or services		
Revenue from provision of cold storage and related services		
Cold storage	76,481	-
Loading and handling services	2,179	-
Logistic and packing services	25,679	-
	104,339	-
Revenue from trading of food and beverage	-	42,238
Total	104,339	42,238
Geographical markets		
Mainland China	-	42,238
Hong Kong	104,339	-
Total	104,339	42,238
Timing of revenue recognition		
A point in time	-	42,238
Over time	104,339	-
Total	104,339	42,238

4. OTHER INCOME

	Six months ended 30.6.2020	Six months ended 30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Government grants	**1,902**	-
Imputed interest income on loan to an associate	**1,366**	1,877
Imputed interest income on rental deposits paid	**367**	398
Interest income from bank deposits	**604**	535
Sundry income	**147**	341
	4,386	3,151

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2020 ***HK$'000*** **(unaudited)**	Six months ended 30.6.2019 *HK$'000* (unaudited)
Change in fair value of derivative financial instruments	**(259)**	(1,069)
Change in fair value of financial assets at FVTPL	**(278)**	-
Loss on disposal of property, plant and equipment	**-**	(177)
Reversal of impairment loss on loan receivables	**-**	502
Reversal of impairment loss on trade receivables	**-**	28
	(537)	(716)

6. FINANCE COSTS

	Six months ended 30.6.2020 ***HK$'000*** **(unaudited)**	Six months ended 30.6.2019 *HK$'000* (unaudited)
Interest expense on bank borrowing	**1,295**	2,383
Interest expense on bonds	**3,000**	3,000
Interest expense on lease liabilities	**5,904**	6,179
	10,199	11,562

7. TAXATION

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazette 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%.

Under the Enterprise Income Tax Law of the People's Republic of China (the "EIT Law") and the Detailed Rules for the Implementation of the EIT Law, the tax rate of Mainland China subsidiaries is 25% for both periods.

No provision for Hong Kong Profits Tax and Enterprise Income Tax has been made as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profits for both periods presented.

8. LOSS FOR THE PERIOD

	Six months ended 30.6.2020 ***HK$'000*** **(unaudited)**	Six months ended 30.6.2019 *HK$'000* (unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	**1,717**	1,581
Depreciation for right-of-use assets	**34,470**	37,943
Net foreign exchange loss (gain)	**36**	(30)

9. DIVIDEND

No dividends were paid, declared or proposed during the interim period (six months ended 30th June, 2019: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended 30th June, 2019: Nil).

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 30.6.2020	Six months ended 30.6.2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the purpose of basic loss per share attributable to owners of the Company	**(26,430)**	(25,593)
	'000	*'000*
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 the six months ended 30th June, 2020 and 30th June, 2019.

11. 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.

As at 30th June, 2020, included in trade and other receivables, deposits and prepayments are trade receivables, net of allowance for credit loss, of HK$59,901,000 (31.12.2019: HK$50,337,000).

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.

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**20,829**	20,897
31 – 60 days	**20,694**	17,413
61 – 90 days	**6,375**	6,468
91 – 120 days	**5,071**	2,477
More than 120 days	**6,932**	3,082
	59,901	50,337

12. LOAN RECEIVABLES

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Loan receivables	**2,880**	2,840
Less: Allowance for credit loss	**(865)**	(865)
	2,015	1,975

As at 30th June, 2020, unsecured loan receivables carry fixed-rate interests ranged from 12% to 24% (31.12.2019: 11% to 12%) per annum and with maturity ranged from 3 months to 1 year (31.12.2019: 6 months to 2.5 years). All amounts of principal will be receivable on respective maturity dates.

13. TRADE AND OTHER PAYABLES

As at 30th June, 2020, included in trade and other payables are trade payables of HK$12,510,000 (31.12.2019: HK$10,911,000).

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

	30.6.2020	31.12.2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 – 30 days	**5,940**	2,271
31 – 60 days	**767**	889
61 – 90 days	**5,798**	6,953
91 – 120 days	**5**	470
More than 120 days	**-**	328
	12,510	10,911

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the six months ended 30th June, 2020, the Group's total revenue amounted to approximately HK$135 million, representing a decrease of about 9.3%, compared to approximately HK$149 million from the same period last year.

During the current interim period, the Group recorded a loss of approximately HK$26.4 million compared to a loss of approximately HK$25.6 million for the previous corresponding period.

The Group recorded a steady overall and core business growth in the interim period. The encouraging outcome is due to enhanced operational efficiency of all business units. The management's effort to widen profit margins by sourcing new clients and business opportunities is another reason. While operational expenses continue to be high, particularly the cost of warehouse air-conditioning for the summer months, the Group has put in place an efficient cost-control mechanism.

REVIEW OF OPERATING SEGMENTS

The Group's activities include cold storage and related business in Hong Kong; trading of food and beverage business in Mainland China; provision of money lending services in Hong Kong and investment holding.

Cold storage & logistics

The cold storage business is a core segment and principal revenue source of the Group. Apart from offering temperature-controlled storage space for leasing, it also provides transportation and distribution, container hauling and devanning, packaging and other related logistics services for its warehouse customers.

Against a challenging period of economic uncertainties and social unrest in Hong Kong, exacerbated by the COVID-19 pandemic more recently, the Group reports a steady performance of its existing warehouse facility in Kwai Hei Street. Overall, the performance of its cold storage business during the first half was largely similar to that of the corresponding period last year.

In addition, the Group operates a newer warehouse at Tsing Yi in collaboration with a joint venture ("JV"), in which it holds a 30% stake. So far, this facility has turned in a satisfactory performance from 2019, due to efficient operation and cost control under a professional management team. The Group also runs a bonded warehouse in Tsuen Wan for storage of alcohol and tobacco products. Negatively affected by the COVID-19 pandemic, the sales of these products declined, with a slower inventory turnover that reduced the warehouse's earnings. Still, the bonded warehouse was able to generate an income to sustain business.

The logistics business that the Group engages in to support its cold-storage clients has remained stable.

Money lending

The Group continues to run a money lending business established some years ago to provide credit support for its cold storage and logistics customers. However, the segment will not receive new financial input, as any fresh resources will be used for further development of more promising segments, including cold storage & logistics and trading of food and beverage products.

Trading of food and beverage products

The Group conducts its distribution business of food and beverage products through a growing network of supermarkets and convenience stores in Mainland China. Compared to last year, this trading business recorded a much better performance in the period of review, owing to higher operational efficiency of the Group's distribution network, a more diversified portfolio with new products including Australian-made fresh dairy products and local branded fresh juices; consistent consumer demand and affordable pricing.

Though our trading business turned sluggish upon the COVID-19 outbreak late last year, consumer demand picked up late in the first quarter of 2020 onwards.

PROSPECTS

Entering 2020 amid a slowdown, Hong Kong's economy in the first quarter contracted 8.9% over a year earlier, the largest decline on record since 1974. Months of street protests and the trade dispute between the United States and China had also weighed on the local economy with the onset of COVID-19 pandemic pushing the city deeper into recession. The unemployment rate rose in May of this year to the highest level since September 2005. Retail sales plummeted by over a third in the same month. In mid-July, the Trump administration banned exports of sensitive technologies and Hong Kong will face the same scrutiny as Mainland China, which will likely hamper the external sector and business investments ahead.

During the first half of 2020, domestic demand weakened markedly, echoing the severe disruptions caused by the COVID-19 threat and subdued business sentiment. Considering the sharp economic contraction, the uncertainties surrounding the pandemic and the tough global economic situation, balanced with the cushioning effects of relief measures rolled out by the government, the real GDP growth forecast for 2020 as a whole had been revised downwards to -4% to -7%.

The bleak macroeconomic outlook has prompted the Group to be conservative with its operational and business investment plans. On this cautious note, the management's strategy for growth is centred on the allocation of resources for business activities that are more likely to generate revenues and profit, including cold storage & logistics and the trading of food and beverage products.

Cold storage & logistics

The Group's cold storage & logistics business features a customer mix of catering groups and frozen food distributors, one that is considered healthy in times of growth. But under the adverse impact of COVID-19, Hong Kong's food and beverage industry saw its earnings plummeting by a record of 31.2% as of May 2020, with negative implications for the warehousing sector.

While frozen food sales have surged in the supermarkets, the city's food outlets, especially Chinese restaurants specializing in A La Carte dining and banquet are experiencing financial hardship, as consumers spend less on dining out. This has caused a slower inventory turnover in the Group's warehouses, thereby reducing earnings for the first half of the current year.

As the Group's warehouse in Kwai Hei Street is due for overhaul, the owner has made plans for its renovation. The makeover project is likely to lead to longer downtimes and fluctuating overall income for the Group. For its cold-storage facility in Tsing Yi, construction work to expand the storage area is underway. When completed, it will increase the warehouse's storage capabilities.

Despite the bleak market outlook, the Group believes that the cold storage and logistics business is more resilient than other sectors and is therefore better positioned to recover from recession.

Trading of food and beverage products
The Group is committed to growing its trading business by diversifying and broadening the portfolio of food and beverage products it distributes via a network of supermarkets and convenience stores in Mainland China. One of the latest initiatives adopted is to strategically evaluate this retail network, with a view of identifying geographical districts, including but not limited to Mainland China, capable of optimising the Group's income. Moving ahead with the digital age, it is turning to e-commerce solutions for reaching out to a larger consumer base.

From the aspect of operation, the Group supplies products to a few retail chains in Mainland China which, under the pressure of intense pricing competition in the market, requested to have their retail prices lowered to enhance saleability. In response, the Group has taken action to ensure the profitability of the products is maintained.

FINANCIAL REVIEW
Liquidity and financial resources
As at 30th June, 2020, the Group had cash and bank balances of approximately HK$59.0 million (31st December, 2019: approximately HK$118.0 million), which was denominated in Hong Kong dollars ("HK$") and Renminbi ("RMB") as to 87.67% and 12.33%, respectively. The decrease in cash and bank balances was mainly due to repayments of bank loan, placement of pledged bank deposits and net cash used in operating activities.

The gearing ratio, measured as non-current borrowings (excluded derivative financial instruments and lease liabilities) over equity attributable to owners of the Company was approximately 114.0% as at 30th June, 2020 (31st December, 2019: approximately 88.1%). 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 30th June, 2020, 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, 2019.

As at 30th June, 2020, the Group had a bank loan of HK$35 million (31st December, 2019: HK$65 million) denominated in HK$. The Group's bank borrowing interest rate at 5% per annum and the maturity borrowing is up to April 2021. (31st December, 2019: the Group's bank borrowing interest rate is at 7% per annum and the maturity of borrowing is up to April 2020.) As at 30th June, 2020, the banking facility utilised was HK$35 million (31st December, 2019: fully utilised).

During the current interim period, the Group's capital expenditure was mainly financed by 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 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, 2020, 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, 2019.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

During the current interim period, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Charges on assets

As at 30th June, 2020, 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, 2019: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (31st December, 2019: HK$3.5 million). The amount utilised at 30th June, 2020 was approximately HK$1.4 million (31st December, 2019: approximately HK$3.5 million).

As at 30th June, 2020, bank deposits of approximately HK$64.3 million (31st December, 2019: approximately HK$62.1 million) are pledged to a bank, which provides bank guarantee in favour of one landlord for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

In addition, within the Group's lease liabilities of approximately HK$237.2 million (31st December 2019: approximately HK$268.9 million), approximately HK$0.009 million (31st December 2019: approximately HK$0.08 million) were secured by the lessors' charge over the leased assets with carrying value of approximately HK$0.017 million (31st December, 2019: approximately HK$0.3 million).

Future plans for material investments or capital assets

During the current interim period, the Group did not have any concrete future plans for material investments or capital assets save for the JV, which is the same as those as at 31st December, 2019.

Contingent liabilities

As at 30th June, 2020, the Group did not have any contingent liabilities (31st December, 2019: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2020, the total number of full time employees of the Group in Hong Kong and Mainland China were approximately 240 and 90 respectively (31st December, 2019: approximately 220 Hong Kong employees; 120 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, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2020 (six months ended 30th June, 2019: 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, 2020.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

For the first half of 2020, 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. Ho Hon Chung, Ivan ("Mr. Ho") and Mr. Choy Kai Sing ("Mr. Choy") acted as Acting Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Ho is responsible for all day-to-day corporate management matters and Mr. Choy is responsible for corporate financial matters. In June 2020, Mr. Choy was resigned as the Chief Financial Officer and Mr. Cheung Hoi Kin, currently, is a Director of Strategy and Development Department of the Group, has been appointed as Chief Financial Officer and is responsible for corporate financial matters in place of Mr. Choy.

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 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 condensed consolidated results of the Group for the six months ended 30th June, 2020 with the Directors. The Audit Committee is of the opinion that the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2020 comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosure has been made.

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 but not absolute assurance against material misstatements or losses.

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 meet regularly to review the financial and operating performance of the key operating subsidiaries. Senior management of each department is also required to keep Executive Directors informed of material developments of the department's business as well as implementation of the strategies and policies set by the Board on a regular basis.

To further strengthen the RM and IC systems 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 of carrying out its appraisal for the current fiscal year as of the report date.

During the six months ended 30th June, 2020, the Audit Committee, with the assistance of the Internal Control Adviser, has developed current year's RM and IC systems appraisal plan. The scope of the current fiscal year's RM and IC systems appraisal plan focuses on reviewing (i) the operating controls of the trading business and related services segment in Mainland China (expenditure cycle); (ii) design of the written policies and procedures of the trading business and related services segment in Mainland China (revenue and receivable cycle; purchase and payable cycle; expenditure cycle; and human resources cycle); (iii) the compliance risk management control of the Group; (iv) the financial reporting and disclosure control of the Group; and (v) follow up on the recommendations in the 2019 report.

During the six months ended 30th June, 2020, 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, strengthened or updated in response to 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 2020 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. Ho Hon Chung, Ivan and Mr. Fung Pak Kei; non-executive directors, namely, Mr. Au Tat Wai and 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
Ho Hon Chung, Ivan
Executive Director

Hong Kong, 28th August, 2020