DAIDO GROUP LIMITED
大同集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00544)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2020

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, 2020, together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2020

	NOTES	2020	2019
		HK$'000	HK$'000
Revenue	2		
- Provision of cold storage and related services		**172,844**	191,983
- Trading of food and beverage		**81,492**	95,044
- Interest income from money lending services		**300**	2,588
Total revenue		**254,636**	289,615
Cost of revenue		**(224,073)**	(239,097)
Gross profit		**30,563**	50,518
Other income	3	**19,621**	5,980
Other gains and losses	4	**(333)**	(469)
Reversal of (impairment losses) recognised under expected credit loss model		**526**	(373)
Selling and distribution expenses		**(13,804)**	(20,819)
Administrative expenses		**(41,859)**	(49,166)
Share of loss of an associate		**(16,017)**	(21,954)
Impairment loss recognised on interest in an associate		**-**	(7,500)
Finance costs	5	**(19,251)**	(23,355)

* *For identification purpose only*

	NOTES	**2020**	2019
		HK$'000	HK$'000
Loss before tax		**(40,554)**	(67,138)
Taxation	6	**(30)**	-
Loss for the year		**(40,584)**	(67,138)
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**2,027**	(454)
Reclassification of cumulative translation reserve upon disposal of a foreign operation		**1,228**	-
Other comprehensive income (expense) for the year		**3,255**	(454)
Total comprehensive expense for the year		**(37,329)**	(67,592)
Loss for the year attributable to:			
Owners of the Company		**(40,584)**	(67,138)
Non-controlling interests		**-**	-
		(40,584)	(67,138)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(37,329)**	(67,592)
Non-controlling interests		**-**	-
		(37,329)	(67,592)
Loss per share – basic	8	**(HK1.62 cents)**	(HK2.76 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2020

	NOTES	**2020** **HK$'000**	2019 HK$'000
Non-current Assets			
Property, plant and equipment		**6,808**	10,374
Right-of-use assets		**195,873**	264,329
Goodwill		**68**	68
Interest in an associate		**30,058**	43,327
Financial assets at fair value through profit and loss (“FVTPL”)		**459**	686
Equity instrument at fair value through other comprehensive income		**-**	-
Rental deposits paid	9	**16,613**	14,901
Pledged bank deposits		**67,785**	65,568
		317,664	399,253
Current Assets			
Inventories		**850**	2,715
Trade and other receivables, deposits and prepayments	9	**47,897**	55,474
Amounts due from an associate		**20,679**	8,077
Loan receivables	10	**1,664**	1,975
Bank balances and cash		**69,781**	117,966
		140,871	186,207
Current Liabilities			
Trade and other payables	11	**19,932**	23,209
Contract liabilities		**4,865**	4,894
Bank borrowing		**35,000**	65,000
Lease liabilities		**68,022**	63,475
Tax payable		**32**	-
Bonds		**40,000**	-
Derivative financial instruments		**1,800**	-
		169,651	156,578
Net Current (Liabilities) Assets		**(28,780)**	29,629
Total Assets less Current Liabilities		**288,884**	428,882

	2020	2019
	HK$'000	HK$'000
Capital and Reserves		
Share capital	**29,011**	24,323
Share premium and reserves	**58,741**	89,236
Equity attributable to owners of the Company	**87,752**	113,559
Non-controlling interests	**3,163**	3,163
	90,915	116,722
Non-current Liabilities		
Lease liabilities	**137,969**	205,435
Derivative financial instruments	**-**	6,725
Bonds	**60,000**	100,000
	197,969	312,160
	288,884	428,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2020

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1st January, 2020 for the preparation of the consolidated financial statements:

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

Except for HKFRS 3 as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 *Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

<u>New and amendments to HKFRSs in issue but not yet effective</u>

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concession[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020[2]

1 Effective for annual periods beginning on or after 1st January, 2023
2 Effective for annual periods beginning on or after 1st January, 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1st June, 2020
5 Effective for annual periods beginning on or after 1st January, 2021

Except for the amendments to 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.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

(i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
(ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31st December, 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

2. REVENUE AND SEGMENT INFORMATION

Revenue

Disaggregation of revenue from contracts with customers

	For the year ended 31st December, 2020			For the year ended 31st December, 2019		
	Cold storage and related services segment	Trading of food and beverage segment	Total	Cold storage and related services segment	Trading of food and beverage segment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Types of goods or services						
Revenue from provision of cold storage and related services						
Cold storage	**124,923**	**-**	**124,923**	130,955	-	130,955
Loading and handling services	**5,285**	**-**	**5,285**	6,848	-	6,848
Logistic and packing services	**30,861**	**-**	**30,861**	46,774	-	46,774
Management income	**11,775**	**-**	**11,775**	7,406	-	7,406
	172,844	**-**	**172,844**	191,983	-	191,983
Revenue from trading of food and beverage	**-**	**81,492**	**81,492**	-	95,044	95,044
Total	**172,844**	**81,492**	**254,336**	191,983	95,044	287,027
Geographical markets						
Mainland China	**-**	**81,492**	**81,492**	-	95,044	95,044
Hong Kong	**172,844**	**-**	**172,844**	191,983	-	191,983
Total	**172,844**	**81,492**	**254,336**	191,983	95,044	287,027
Timing of revenue recognition						
A point in time	**-**	**81,492**	**81,492**	-	95,044	95,044
Over time	**172,844**	**-**	**172,844**	191,983	-	191,983
Total	**172,844**	**81,492**	**254,336**	191,983	95,044	287,027

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 types of goods or services delivered or 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 segments:

2020

	Cold storage and related services HK$'000	Trading of food and beverage HK$'000	Money lending services HK$'000	Total HK$'000
Revenue	**172,844**	**81,492**	**300**	**254,636**
Segment (loss) profit	**(20,771)**	**126**	**53**	**(20,592)**
Unallocated income				**1,583**
Unallocated expenses				**(15,267)**
Change in fair value of financial assets at FVTPL				**(227)**
Finance costs				**(6,051)**
Loss before tax				**(40,554)**

2019

	Cold storage and related services HK$'000	Trading of food and beverage HK$'000	Money lending services HK$'000	Total HK$'000
Revenue	191,983	95,044	2,588	289,615
Segment (loss) profit	(38,176)	(11,796)	475	(49,497)
Unallocated income				1,015
Unallocated expenses				(13,824)
Change in fair value of financial assets at FVTPL				(45)
Finance costs				(4,787)
Loss before tax				(67,138)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of certain other income, central administration costs (including certain auditor's remuneration, certain depreciation of right-of-use assets and property, plant and equipment and directors' remuneration), 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

	2020 HK$'000	2019 HK$'000
Government subsidy (Note)	**10,841**	3
Imputed interest income on loan to an associate	**2,748**	3,833
Imputed interest income on rental deposits paid	**757**	758
Interest income from bank deposits	**1,017**	1,008
Income from usage of machinery	**1,480**	-
Other service income	**2,613**	-
Sundry income	**165**	378
	19,621	5,980

Note: During the current year, the Group recognised government grants of HK$10,841,000 in respect of Covid-19-related subsidies, of which (i) HK$10,721,000 (2019: nil) relates to the Employment Support Scheme from the Government of Hong Kong Special Administrative Region ("Hong Kong Government") for subsidising the salary costs incurred for the periods from June to August 2020 and September to November 2020; and (ii) an one-off subsidy of HK$120,000 (2019: nil) from the Transport Department of the Hong Kong Government for subsidising goods vehicles.

4. OTHER GAINS AND LOSSES

	2020 HK$'000	2019 HK$'000
Change in fair value of derivative financial instruments	**4,925**	(247)
Change in fair value of financial assets at FVTPL	**(227)**	(45)
Loss on disposal/written off of property, plant and equipment	**(575)**	(177)
Loss on disposal of a subsidiary	**(1,453)**	-
Loss on early termination of leases	**(185)**	-
Impairment loss of property, plant and equipment	**(3,138)**	-
Net foreign exchange gain	**320**	-
	(333)	(469)

5. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest expense on bank borrowing	**2,158**	4,591
Interest expense on bonds	**6,000**	6,000
Interest expense on lease liabilities	**11,093**	12,764
	19,251	23,355

6. TAXATION

	2020	2019
	HK$'000	HK$'000
PRC Enterprise Income Tax		
Current	**30**	-

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 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 PRC 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 has been made as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profit for both years.

7. DIVIDEND

No dividend was paid during the year (2019: nil), nor has any dividend been proposed since the end of the reporting period (2019: 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:

	2020	2019
	HK$'000	HK$'000
Loss		
Loss for the purpose of basic loss per share attributable to owners of the Company	**40,584**	67,138
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,504,033**	2,432,304

No diluted loss per share is presented as there were no potential ordinary shares in issue for years ended 31st December, 2020 and 31st December, 2019.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020	2019
	HK$'000	HK$'000
Trade receivables	**41,093**	51,200
Less: Allowance for credit loss	**(126)**	(863)
	40,967	50,337
Other receivables	**1,161**	1,004
Deposits and prepayments	**5,687**	3,612
Rental deposits	**16,695**	15,422
	64,510	70,375
Less: Rental deposits shown under non-current assets	**(16,613)**	(14,901)
	47,897	55,474

As at 1st January, 2019, trade receivables from contracts with customers amounted to HK$67,929,000.

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:

	2020	2019
	HK$'000	HK$'000
0 to 30 days	**15,528**	20,897
31 to 60 days	**9,723**	17,413
61 to 90 days	**7,775**	6,468
91 to 120 days	**2,001**	2,477
More than 120 days	**5,940**	3,082
	40,967	50,337

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, 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$26,481,000 (2019: HK$31,215,000) which are past due at the reporting date. Out of the past due balances, HK$19,000 (2019: HK$3,294,000) 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.

The Group's other receivables balance mainly includes interest income receivables of HK$689,000 (2019: HK$756,000) from deposits in banks in which the directors of the Company consider that the allowance for credit losses for other receivables is insignificant to the Group.

10. LOAN RECEIVABLES

	2020	2019
	HK$'000	HK$'000
Loan receivables	**2,740**	2,840
Less: Allowance for credit loss	**(1,076)**	(865)
	1,664	1,975

11. TRADE AND OTHER PAYABLES

	2020	2019
	HK$'000	HK$'000
Trade payables	**6,451**	10,911
Accrued staff costs	**4,760**	4,920
Bond interest payable	**2,992**	2,992
Provision for an onerous contract	**1,622**	-
Other payables and accrued charges	**4,107**	4,386
	19,932	23,209

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

	2020	2019
	HK$'000	HK$'000
0 to 30 days	**4,495**	2,271
31 to 60 days	**1,776**	889
61 to 90 days	**110**	6,953
91 to 120 days	**17**	470
More than 120 days	**53**	328
	6,451	10,911

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, 2020, the Group's total revenue amounted to approximately HK$255 million as compared to approximately HK$290 million from the preceding year.

For the year ended 31st December, 2020, the Group recorded a loss of HK$40,584,000. As compared to the loss of HK$67,138,000 recorded in the year ended 31st December, 2019, which is equivalent to a decrease in loss of about 40%.

The Board considers that the decrease in loss is primarily attributable to the improved performance of the trading of food and beverage segment and the effective cost-savings measures implemented of the Group.

REVIEW OF OPERATING SEGMENTS

The Group is mainly engaged in cold storage and related business in Hong Kong; provision of money lending services and investment holdings in Hong Kong and the trading of food and beverage ("F&B") business in Mainland China.

Cold storage

The Group's principal source of income is derived from operating a cold storage business and related activities. It also provides customers in this segment with a host of ancillary services, from transportation to distribution, container hauling and devanning, packaging and logistics services.

As a result of the coronavirus and US-China trade tensions, trade through Hong Kong was adversely affected in 2020, which in turn dampened the warehousing and logistics sector on the whole. Among the hardest hit were the F&B catering operators, whose eateries were hit by quarantine and social distancing measures mandated by the government to limit dine-in hours and number of customers served at each table.

The pandemic has forced many catering businesses to close, which impacted our cold-storage turnover negatively. However, the Group has sought to diversify the customer base, having other clients with a greater need for warehouse storage and logistics services in the pandemic, such as grocery distributors and operators of supermarkets and frozen-food outlets, bringing positive footprint to the Group.

Another positive measure taken by the Group to bolster revenue from this sector was the expansion of bonded warehousing business, which supports clients for storing alcohol and tobacco before full duty payment. Compared with 2019, this business achieved full-year operation and continued to experience revenue growth throughout 2020. On the other hand, the Group also upgraded the racking system of the Tsing Yi warehouse to eliminate inventory storage complications and ensure the facility is operating at uttermost efficiency, thereby optimizing profits.

However, the Group's revenue growth was partly offset by the higher cost of running a cold-storage and logistics business in times of pandemic. As mandated by the authorities, the Group was required to incur additional costs on warehouse disinfection and the food package of cold stores at higher level, while regularly monitoring body temperature checks for employees working onsite.

The rentals for the warehouse and cold-storage facilities that the Group operated in were increased by their landlord but we encountered practical difficulties to transfer some of the relevant cost to the customers amid a weak economy and negative sentiments.

The logistics business that the Group operated to support its warehousing customers has remained stable.

Money lending

As a non-core business segment, the money lending services provided by the Group has been conceived to offer cold storage and logistics customers a line of credit support they may need from time to time. But this segment has ceased to receive fresh financial input from the Group as new resources will be diverted to more lucrative segments such as the existing core business segments as well as potential new business units.

Trading of food and beverage products

The performance of the Group's food and beverage distribution business in Mainland China has been improving progressively. During the period under review, the segment turned around from loss to profit, against a backdrop of pandemic market gloom and weaker consumer demand.

The growth can be attributed to internal business restructuring introduced by the Group's new management, combined with a series of business strategies to promote revenue growth and profitability. Non-performing vendors were replaced, along with some products. Based on evolving consumer preferences and spending patterns, the Group's product portfolio was constantly diversified and the pricing was adjusted to optimize revenue.

Stringent measures to control cost were administered to raise the segment's profitability. The Group ceased certain wholesale channels at lower margins and attempt to develop less costly but more effective ones.

PRINCIPAL RISKS AND UNCERTAINTIES

For each major risk identified, the Group has undertaken a thorough assessment with the action steps planned for its mitigation. The goal of this exercise is to protect the Group's best interests, including its business outlook, financial position, growth potential and business sustainability.

The Group has set out to diversify its business portfolio to spread out business and operation risks, while ensuring a balance between safety and profitability. To grow its more promising segments, both cost saving measures and resource re-allocation are adopted to reduce exposure to market volatility such as that caused by the coronavirus pandemic, US-China trade dispute and the economic downturn in Hong Kong and Mainland China.

The Group is also cognizant of its vulnerability to political and economic risks in the macroeconomic environment, which could undermine demand for its products and services. We are also aware of other hazards, such as long-term depreciation on the warehouse properties that could compromise our storage capacity and therefore, business growth.

We practise financial prudence to safeguard the continual performance of our logistics segment by reducing operating expense and conserving internal resources to counter any negative impact from the macroeconomic environment. In this risk category, the latest example is the coronavirus threat. From 2020 to date, we performed the best practice in accordance with the government's social distancing and safety guidelines concerning food safety, employee health and safety as well as hygiene and cleanliness at our premises. To this end, we have carried out disinfection exercises and clean our office and warehouses more frequently than usual in an utmost effort to contain all possible public health risks.

Market risks are another area of threat we seek to control with exacting cost-cutting action and measures to uplift our operational efficiency. Recognising that market demand for our products and services is highly dependent on how the economy performs and consumer sentiments, we monitor the macroeconomic conditions closely and are ready to realign our strategies and direction accordingly and rapidly. Buffering the Group from market risks also demand that we constantly revamp our business structure, product and service portfolios, adopt high-margin products and switch sales channels when necessary, as we have done to our trading segment.

Other decisions made to sidestep the risks facing the Group include:

- Improving the business performance and operational efficiency of our cold-storage facility and the bonded warehouse business

- Carrying out operational revamp of our products and business structure and distribution network.

The Group's risk-control framework has been in force to usher our business segments into long-term growth and sustainability.

PROSPECTS

In a most recent IMF forecast in October 2020, global growth is expected to rebound to 5.5%. Most developed countries should start to resume normal by the second half of the year. The eventual outcome will depend on the race including how effective the vaccines would be to end the pandemic and ability of policies to provide effective support until normalcy is restored.

HKSAR Financial Secretary Paul Chan predicted the city's economy to return to positive growth and expand by 3.5% to 5.5%, on the back of coronavirus vaccine rollout later this year. China's state-led growth model will be more robust, with a staggering growth of 8.1% projected, well ahead of the United States at 5.1%.

As the world is expected to emerge from the pandemic-induced recession later this year, the Group's cold-storage and logistics sector in Hong Kong as well as food and beverage distribution business in China are expected to benefit enormously from the pent-up market demand. We have lined up plans to grow these two sectors and position them to gain from the imminent recovery.

Cold storage & logistics

Adversely affected by the pandemic, our cold storage and logistics segment saw some of its customers, mostly eatery and restaurant owners, using less warehousing space for reason of plummeting business. However, clients from the grocery sector - supermarkets and frozen food retailers have filled out the warehouse vacancies as consumers have preferred to cook at home rather than eating out in the pandemic.

Confident that recovery is imminent this year, we have lined up plans to boost our revenue in better times to come:

- At our Kwai Hei Street warehouse, we will dedicate two additional floors of the building for conversion into cold-storage by mid-2021 and expect our revenue to increase without incurring much cost
- We are continuing to improve the efficiency and spatial yields of our Tsing Yi warehouse
- We are striving towards maximum storage capacity at our bonded warehouse

Since the pandemic is still ongoing, we will continue to diversify our customers base and reach out more operators of supermarket and frozen-food outlets with their stronger need for cold-storage facilities in the pandemic.

Trading of food and beverage products

The Mainland China-based trading business started by the Group a few years ago has turned in a profit in 2020.

We will continue to conduct internal business restructuring, source quality suppliers and products, replace underperforming products and wholesale channels, realign our retail prices in tandem with market conditions and keep adjusting our portfolio with the incorporation of high-margin products. To save on expenses, we attempt to explore less costly sales channels without compromising effectiveness such as online promotion channels.

In addition, we will launch new Original Equipment Manufacturer ("OEM") beverage product in the mid-2021 riding on our distribution network as well as online distribution channels in Mainland China. On the other hand, an online Business to Customer ("B2C") ecommerce grocery platform will also be rolled out in Hong Kong in the first half of 2021, to reach out to mass retail customers.

CORPORATE STRATEGY AND LONG-TERM BUSINESS MODEL

Our long-term corporate strategy is to leverage two of our most profitable segments – cold storage/bonded warehousing and trading of food and beverage products – into a one-stop service platform. With such an integration, both segments will operate synergistically with each other to configure a unique business model generating more revenue and profits for the Group with a lower operational cost.

Efforts are underway to optimize the operational efficiency of cold-storage in myriad ways, such as improving our racking system to maximize storage capacity, change warehousing conditions from normal-temperature storage to cold-storage to increase profitability, raise the standard of food-storage in line with government standards and requirements to overcome the pandemic and strengthen our general competitiveness.

The Group's main strategy is to pursue sustainable corporate growth. Not only are we dedicated to improving our profit margins, we also endeavor to strengthen our wholesale chain in trading and food distribution by way of different marketing strategies and product mix expansion to engage more consumers. In addition, we have developed a new OEM beverage product to drive sales not only through our traditional offline distribution network but also online platform in Mainland China. Furthermore, we look forward to launching an online grocery portal in Hong Kong in 2021.

Guided by our corporate strategy and long-term business model, we are committed to improving the financial and operational values of all our business segments and spearheading their expansion into Mainland China. We would like to convey our gratitude to our shareholders for their firm support, in the commitment to optimise their returns for their investments in our Group.

FINANCIAL KEY PERFORMANCE INDICATORS

		As at 31st December,	
		2020	2019
Loss per share - basic	HK cents	**(1.62)**	(2.76)
Net assets per share attributable to owners of the Company	HK$	**3.02**	4.67
Current ratio	times	**0.83**	1.19
Total liabilities to total assets ratio	times	**0.80**	0.80
Gearing ratio	%	**68.4**	88.1
Return on equity ratio	%	**-46.2**	-59.1
Return on assets	%	**-8.9**	-11.5
Assets turnover ratio	times	**0.56**	0.49

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December, 2020, the Group had cash and bank balances of approximately HK$69.8 million (2019: HK$118.0 million), which was denominated in Hong Kong dollars ("HK$") and Renminbi ("RMB") as to 60.3% and 39.7%, respectively. The decrease was mainly due to repayment of bank borrowing and placement of pledged bank deposits.

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 67.8% as at 31st December, 2020 (2019: approximately 88.1%). The decrease of the gearing ratio was because of the drop of the equity attributable to owners of the Company and non-current bonds.

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, 2020, it is noted that the bonds in an aggregate principal amount of HK$100 million have been subscribed by the places and issued by the Company, which is the same as those as at 31st December, 2019.

As at 31st December, 2020, the Group had a bank borrowing of HK$35 million (2019: HK$65 million) denominated in HK$. The Group's bank borrowing interest rate is at 5% per annum (2019: 7% per annum) and the maturity of borrowing is up to April 2021 (2019: April 2020). As at 31st December, 2020, the banking facility utilised was HK$35 million (2019: fully utilised). Subsequent to the end of the reporting period, the total outstanding principal of the bank borrowing amounts to HK$35 million is extended by a further 24 months to April 2023 and the borrowing interest rate per annum be remained at 5% per annum. Thus, the bank borrowing of HK$35 million would be recognised as a non-current liability upon the effective date of the above-mentioned loan extension agreement.

During the year under review, the Group's capital expenditure was mainly financed by 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 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, 2020, the total issued share capital of the Company was HK$29,011,040 (2019: HK$24,323,040) divided into 2,901,104,000 ordinary shares (2019: 2,432,304,000 ordinary shares) with a par value of HK$0.01 each.

By way of share placement, the Company issued a total of 468,800,000 ordinary shares at a price of HK$0.0248 each in November 2020. The par value of such shares is HK$0.01 each.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

On 29th December, 2020, the Group entered into a sale agreement with an independent third party to dispose of its entire interest in a wholly-owned subsidiary, Sanson Investments Limited and its subsidiaries. Other than the above, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31st December, 2020.

Charges on assets

As at 31st December, 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 (2019: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (2019: HK$3.5 million), which approximately HK$1.4 million (2019: approximately HK$3.5 million) provides bank guarantee for utility deposit of a warehouse.

As at 31st December, 2020, bank deposits of approximately HK$64.3 million (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$206 million (2019: approximately HK$268.9 million), approximately HK$0.6 million (2019: approximately HK$0.08 million) were secured by the lessors' charge over the leased assets with carrying value of approximately HK$0.6 million (2019: approximately HK$0.3 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 except for, as and when necessary, the new OEM beverage product in Mainland China and the online B2C ecommerce grocery platform in the Hong Kong as mentioned above. Whereas, for the year ended 31st December, 2019, the same was intended for a joint venture.

Contingent liabilities

For the year ended and as at 31st December, 2020, the Group did not have any contingent liabilities (2019: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2020, the total number of full-time employees of the Group in Hong Kong and Mainland China were approximately 230 and 40 respectively (2019: approximately 220 Hong Kong employees; 120 Mainland China employees). Total remuneration expenses for the year ended 31st December, 2020 amounted to approximately HK$74,522,000 (2019: HK$75,112,000). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications. The Group reviews employee remuneration annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, medical insurance, lunch subsidy and professional tuition/training subsidy for employees' benefit.

DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 31st December, 2020 (2019: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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") to 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. During the year ended 31st December, 2020, 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 resigned as the Chief Financial Officer and Mr. Cheung Hoi Kin ("Mr. Cheung"), 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. Since there is no Chairman in the Company during the year ended 31st December, 2020, there was no meeting held between the Chairman and the Independent Non-executive Directors without the presence of other Directors and the Company did not comply with the code provision A.2.7 of the CG Code.

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 year ended 31st December, 2020, 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.

Directors' securities transactions

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, 2020 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 2020 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. 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, 30th March, 2021