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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, 2011

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, 2011, together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Revenue	3	**172,793**	178,080
Direct costs		**(157,867)**	(153,338)
Gross profit		**14,926**	24,742
Other income	4	**7,138**	6,604
Selling and distribution expenses		**(4,945)**	(4,438)
Administrative expenses		**(22,536)**	(20,657)
Other operating expenses		**(34,236)**	–
Other gains and losses	5	**(190)**	3,336
Impairment loss on available-for-sale investments	6	**(35,300)**	–
Finance costs	7	**(6,427)**	(7,104)
(Loss) profit before tax		**(81,570)**	2,483
Income tax	8	**328**	(80)

* *For identification purpose only*

	Notes	2011 HK$'000	2010 HK$'000
(Loss) profit for the year attributable to owners of the Company	9	**(81,242)**	2,403
Other comprehensive income for the year			
Exchange differences arising on translation of the foreign operations		**393**	–
Total comprehensive (expense) income for the year attributable to owners of the Company		**(80,849)**	2,403
(Loss) earnings per share – basic and diluted	11	**HK(6.48) cents**	HK0.24 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**80,206**	20,689
Goodwill		**8,836**	8,513
Available-for-sale investments		**53,620**	88,920
Loans to an investee		**68,802**	63,412
Financial assets at fair value through profit or loss		**7,077**	7,767
Deposits for acquisition of property, plant and equipment		**15,233**	70
Rental deposits paid		**25,072**	16,352
Pledged bank deposits		**78,718**	68,906
		337,564	274,629
CURRENT ASSETS			
Trade and other receivables, deposits and prepayments	12	**53,227**	41,528
Held for trading investments		**601**	–
Bank balances and cash		**89,572**	153,561
		143,400	195,089
Assets classified as held for sale		–	19,500
		143,400	214,589

	Notes	2011 HK$'000	2010 HK$'000
CURRENT LIABILITIES			
Trade and other payables	*13*	**17,135**	23,254
Tax payable		**–**	39
Obligations under finance leases		**349**	148
Convertible bonds		**–**	23,096
Promissory notes		**4,762**	4,762
		22,246	51,299
NET CURRENT ASSETS		**121,154**	163,290
TOTAL ASSETS LESS CURRENT LIABILITIES		**458,718**	437,919
CAPITAL AND RESERVES			
Share capital		**14,394**	9,996
Share premium and reserves		**383,208**	375,126
Equity attributable to owners of the Company		**397,602**	385,122
Non-controlling interests		**11,522**	8,120
		409,124	393,242
NON-CURRENT LIABILITIES			
Obligations under finance leases		**722**	471
Amount due to non-controlling interests of a subsidiary		**24,594**	24,594
Promissory notes		**15,960**	19,284
Deferred tax liabilities		**–**	328
Other liabilities		**8,318**	–
		49,594	44,677
		458,718	437,919

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2011

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK (IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised 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.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1st July, 2011.
[2] Effective for annual periods beginning on or after 1st January, 2013.
[3] Effective for annual periods beginning on or after 1st January, 2015.
[4] Effective for annual periods beginning on or after 1st January, 2012.
[5] Effective for annual periods beginning on or after 1st July, 2012.
[6] Effective for annual periods beginning on or after 1st January, 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013 and that the application of the new Standard will affect the classification and measurement of the Group's available-for-sale investments and have potential impact on financial assets at fair value through profit or loss. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1st January, 2010 onwards).

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. 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.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

1. Cold storage and related services in Hong Kong ("Cold storage and related services")

2. Karaoke outlets and related services in the People's Republic of China (the "PRC") ("Karaoke outlets and related services")

In prior years, cold storage and logistic services and manufacturing and trading of ice are analysed into one single segment, i.e. cold storage and related services in Hong Kong. During the year, the Group started the karaoke business in the PRC. As it is still under development stage, no revenue from this segment was generated for year ended 31st December, 2011.

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 31 December 2011

	Cold storage and related services *HK$'000*	**Karaoke outlets and related services** *HK$'000*	**Total** *HK$'000*
Revenue	**172,793**	**–**	**172,793**
Segment loss	**(1,818)**	**(34,236)**	**(36,054)**
Unallocated income			**7,195**
Unallocated expenses			**(10,500)**
Change in fair value of financial instruments			**(984)**
Change in fair value of investment properties			**500**
Impairment loss on available-for-sale investments			**(35,300)**
Finance costs			**(6,427)**
Loss before tax			**(81,570)**

For the year ended 31 December 2010

	Cold storage and related services *HK$'000*	Karaoke outlets and related services *HK$'000*	Total *HK$'000*
Revenue	178,080	–	178,080
Segment profit	9,277	–	9,277
Unallocated income			6,422
Unallocated expenses			(9,212)
Change in fair value of investment properties			3,100
Finance costs			(7,104)
Profit before tax			2,483

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represents the (loss) profit from each segment without allocation of interest income, sundry income, central administration costs including part of auditor's remuneration and directors' remuneration, change in fair value of investment properties and financial instruments, impairment loss on available-for-sale investments and finance costs. This is the measure reported to the chief operating decision makers, the executive directors, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	2011	2010
	HK$'000	*HK$'000*
ASSETS		
Cold storage and related services	**85,879**	80,919
Karaoke outlets and related services	**95,194**	–
Total segment assets	**181,073**	80,919
Unallocated assets	**299,891**	408,299
Consolidated assets	**480,964**	489,218
LIABILITIES		
Cold storage and related services	**14,383**	14,425
Karaoke outlets and related services	**10,811**	–
Total segment liabilities	**25,194**	14,425
Unallocated liabilities	**46,646**	81,551
Consolidated liabilities	**71,840**	95,976

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than available-for-sale investments, loans to an investee, financial assets at fair value through profit or loss, held for trading investments, pledged bank deposits, bank balances and cash, assets classified as held for sale, certain property, plant and equipment, and certain other receivables. Goodwill is allocated to cold storage and related services and karaoke outlets and related services; and

- all liabilities are allocated to operating segments other than tax payable and deferred tax liabilities, promissory notes, amount due to non-controlling interests of a subsidiary and convertible bonds and certain other payables.

Other segment information

2011

	Cold storage and related services *HK$'000*	**Karaoke outlets and related services** *HK$'000*	**Segments total** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	**4,606**	**84,986**	**89,592**	**88**	**89,680**
Depreciation	**5,655**	**8**	**5,663**	**132**	**5,795**
Gain on disposal of property, plant and equipment	**129**	**-**	**129**	**165**	**294**

2010

	Cold storage and related services *HK$'000*	Karaoke outlets and related services *HK$'000*	Segments total *HK$*'000	Unallocated *HK$*'000	Total *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (Note)	4,292	-	4,292	158	4,450
Depreciation	5,981	-	5,981	234	6,215
Gain on disposal of property, plant and equipment	236	-	236	-	236

Note: Additions to non-current assets represented additions to property, plant and equipment, goodwill, deposits for acquisition of property, plant and equipment and rental deposits paid.

Amount regularly provided to the chief operating decision makers but not included in the measure of segment profit or loss or segment assets:

	Unallocated	
	2011	2010
	HK$'000	*HK$'000*
Interest revenue	**(6,804)**	(5,987)
Interest expense	**6,427**	7,104
Tax (credit) charge	**(328)**	80
Change in fair value of investment properties	**(500)**	(3,100)

Geographical information

The Group's operations are located in Hong Kong and the PRC. The Group's revenue are wholly derived from Hong Kong as the karaoke business has not started during the year.

Information about of the Group's non-current assets by geographical location of the assets (excluding available-for-sale investments, loans to an investee, financial assets at fair value through profit or loss and pledged bank deposits) are set out below:

	2011	2010
	HK$'000	*HK$'000*
Hong Kong	**44,221**	45,530
PRC	**85,126**	94
	129,347	45,624

Revenue from major product and services

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

	2011	2010
	HK$'000	*HK$'000*
Cold storage and logistic services	**168,021**	174,143
Manufacturing and trading of ice	**4,772**	3,937
	172,793	178,080

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group from cold storage and logistic services are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A	**37,349**	37,665
Customer B	**20,097**	25,153

4. OTHER INCOME

	2011	2010
	HK$'000	*HK$'000*
Bank interest income	**1,414**	1,019
Imputed interest income from loans to an investee	**5,390**	4,968
Sundry income	**334**	617
	7,138	6,604

5. OTHER GAINS AND LOSSES

	2011	2010
	HK$'000	*HK$'000*
Change in fair value of investment properties	**500**	3,100
Gain on disposal of property, plant and equipment	**294**	236
Fair value loss on financial assets at fair value through profit or loss	**(690)**	–
Fair value loss on held for trading investments	**(294)**	–
	(190)	3,336

6. IMPAIRMENT LOSS ON AVAILABLE-FOR-SALE INVESTMENTS

At 31st December, 2011, the Group re-assessed the recoverable amount of the available-for-sale investments taking into account the expected future cash flows of the investments. During the year, the management of that jointly controlled entity has changed the strategic plans. Therefore, the cash flow projection is revised. Based on the revised cash flow projections and assumptions covering a 5-year period, discount rate of 16.94% (2010: 16.76%) and cash flows beyond 5-year period of a zero growth rate, the impairment loss of HK$35,300,000 is recognised (2010: Nil).

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on obligations under finance leases	**45**	19
Imputed interest expense on amount due to non-controlling interests of a subsidiary	**3,402**	3,373
Imputed interest expense on convertible bonds	**1,304**	1,803
Imputed interest expense on promissory notes	**1,676**	1,909
	6,427	7,104

8. INCOME TAX

	2011	2010
	HK$'000	*HK$'000*
The tax (credit) charge comprises:		
Hong Kong Profits Tax		
Overprovision in prior years	–	(84)
Deferred tax		
Current year	**(328)**	164
Tax (credit) charge	**(328)**	80

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit. No provision for Hong Kong Profits tax is required as the individual companies comprising the Group either incurred a loss or has tax losses to offset the assessable profit.

The tax (credit) charge for the year can be reconciled to the (loss) profit before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit before tax	**(81,570)**	2,483
Tax at the Hong Kong Profits Tax rate of 16.5%	**(13,459)**	410
Tax effect of expenses not deductible for tax purpose	**11,790**	1,197
Tax effect of income not taxable for tax purpose	**(1,194)**	(1,498)
Tax effect of tax losses not recognized	**2,536**	171
Tax effect of temporary differences not recognized	**(1)**	105
Utilisation of tax losses previously not recognized	–	(242)
Overprovision in respect of prior years	–	(84)
Others	–	21
Tax (credit) charge for the year	**(328)**	80

9. (LOSS) PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**900**	664
Depreciation for property, plant and equipment	**5,795**	6,215
Other operating expenses (Note)	**34,236**	–
Exchange loss, net	**1,014**	–
Minimum lease payments for operating leases in respect of rented premises	**89,017**	66,220
Gross rental income from investment properties	**(225)**	(435)
Less: Direct expense from investment properties	**107**	110
	(118)	(325)
Total staff costs (including directors' emoluments)	**58,680**	45,256

Note: The amount mainly represents pre-operating expenses including rental expenses and staff cost incurred in the development of karaoke business in the PRC.

10. DIVIDEND

No interim dividend is paid during the year (2010: nil).

The directors do not recommend the payment of a dividend for the year (2010: nil).

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to owners of the Company is based on the following data:

	2011	2010
	HK$'000	*HK$'000*
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	**(81,242)**	2,403
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**1,254,181**	999,600

The weighted average number of ordinary shares for 2011 has been adjusted for issue of new shares.

The computation of diluted loss/earnings per share does not assume the conversion of outstanding convertible bonds since their conversion would result in a decrease/an increase in loss/earnings per share.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**39,755**	33,541
Less: allowance for doubtful debts	**(16)**	(20)
	39,739	33,521
Deposits and prepayments (Note 1)	**10,563**	3,853
Other receivables	**2,925**	1,786
Amount due from non-controlling interest of a subsidiary (Note 2)	**-**	2,368
	53,227	41,528

Note 1: The amount for 2011 mainly represented the prepayment of rental expense for karaoke outlets and related services.

Note 2: The amount due from non-controlling interest of a subsidiary is unsecured, interest free and repayable on demand.

The aged analysis of trade receivables by invoice dates are as follows:

	2011	2010
	HK$'000	*HK$'000*
0–30 days	**15,012**	15,276
31–60 days	**12,094**	11,936
61–90 days	**5,398**	6,299
91–120 days	**3,987**	7
More than 120 days	**3,248**	3
	39,739	33,521

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.

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$4,556,000 (2010: HK$5,218,000) and amount due to non-controlling interest of a subsidiary of Nil (2010: HK$6,958,000). The amount due to non-controlling interest is unsecured, interest free and repayable on demand.

The aged analysis presented based on the invoice date are as follows:

	2011	2010
	HK$'000	*HK$'000*
0–30 days	**3,235**	3,646
31–60 days	**1,205**	1,487
61–90 days	**116**	85
	4,556	5,218

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, 2011, total revenue of the Group amounted to approximately HK$173 million, down approximately 2.8% when compared to approximately HK$178 million in the previous financial year.

Net loss attributable to owners of the Company was approximately HK$82 million, compared with a net profit of approximately HK$2 million in the previous year. The reverse to a net loss was mainly attributable to (i) the substantial expenses incurred for the setting up of the Group's KTV business in Mainland China; (ii) the impairment loss on the available-for-sales investments; and (iii) the increase in the Group's general operating costs amid an inflationary environment. Loss per share was HK6.48 cents.

The Group is principally engaged in the operations of cold storage and related services, investment holdings, as well as the operation of karaoke outlets and related services in Mainland China.

BUSINESS REVIEW

Cold storage and related services

During the financial year of 2011, the Group's business, the cold storage and related services operation, maintained a stable performance as flexible and sound operational strategies helped offset the unfavourable external factors.

The global economy saw a great deal of challenge in the year of 2011, particularly in the latter part of the year, as Europe's sovereign debt crisis rippled through the world, causing financial instability in the global markets. Meanwhile, the economic growth in industrialized countries such as the U.S., Europe and Japan slowed down significantly during the year. As a result of the global economic headwinds, Hong Kong's economic activities eased towards the end of the year, with the external trade sector bearing the brunt of the negative impact.

The gross domestic product ("GDP") growth of Hong Kong eased to 3.0% in the fourth quarter of 2011 from 4.3% in the third quarter, 5.3% in the second quarter and 7.6% in the first quarter of the same year; while full-year growth slowed significantly to 5.0% from the 7.0% growth in 2010, according to data from the Census and Statistics Department (C&SD).

Along with the slowdown in economic expansion, the growth in the annual value of imports of Hong Kong, a key transshipment hub for Mainland China, eased during the year, with the growth rate declining by more than a half to approximately 11.9% in 2011 from the approximately 25% in 2010, according to the data from the C&SD.

Despite the slowdown in import growth curbed importers and traders' demand for cold storage services, affecting the Group's cold storage business to a certain extent, with thanks to the high turnover ratios led by increased inventory of some of our clients during the year, benefiting the Group's cold storage operation .

In response to changes in market demand, the Group converted some of its chillers into bonded warehouse facility during the year, which are used to store cigarettes, liquor and other dutiable goods. This strategic move will continue if demand for bonded warehouse space expands in the future.

The management strategy of maintaining operational flexibility, plus quality services in terms of effective temperature & humidity controls, an efficient computerized data processing system and strong logistics support, has helped the Group maintain a stable occupancy rate for its cold storage facility, and capture a significant market share among the local cold storage market.

The performance of the Group's logistics services business also remained stable during the year. The logistics services operation mainly serves our cold storage customers, who accounted for over 80% of the clientele. This added value service helped the Group retains its cold storage customers and boost the overall profit margins of this business segment.

The Group produces edible ice cubes for consumption purpose and industrial ice bars for construction use.

The ice cubes business remained stable during the year as the Group secured steady demand by entering into a sole agency agreement with its distributor. The group has snatched up a significant market share in the local ice cubes market.

As mentioned in Annual Report 2010, new regulations on edible ice cubes entail additional investment for the Group to upgrade its facilities. With balancing the economic benefit of such potential investment as well as the cost of modification for the facilities, the Management decided to cease the edible ice cubes business in 2012.

The sales of industrial ice bars saw steady growth during the year as construction works were progressing in full speed in several large-scale public infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Kai Tak Cruise Terminal and the South Island Line (East).

Karaoke outlets and related services ("KTV")

The Group diversified its businesses into KTV operation in Mainland China by setting up joint ventures since 2009, with the aim of taking advantage of the growing expenditure in cultural consumption in Mainland China as household incomes and the general education level rise along with economic development.

All in all, the Group is setting up several KTV outlets in some cities in Mainland China. All of these KTV outlets will start commercial operation when all of the facilities and services are well prepared through test run.

This new business segment is still in its investment phrase and recorded an operating loss during the financial year of 2011.

Investments

For the Group's investments in Macau, the performance of the hotel resort complex operation is still behind the Group's expectation. Therefore, an impairment loss on available-for-sale investments of approximately HK$35 million was recognised, so that the carrying amount of the available-for-sale investments is reduced to its recoverable amount. However, the Management believes the performance will continue to improve, supported by a strong inbound tourism in the gambling enclave.

The occupancy rate of the Group's hotel improved during the year, rising to around 80%, supported by ever rising visitors, particularly from Mainland China.

The Group's hotel resort complex operation, which is located in the Taipa Island, benefited particularly from the opening of more mega entertainment complexes such as Galaxy Entertainment Group's Galaxy Macau, which helped attract more fun seekers to the area.

Visitor arrivals in Macau totaled approximately 28 million in 2011, increased by approximately 12.2% year-on-year as compared with the approximately 24.97 million in 2010, according to data from the Macau Government Tourism Office ("MGTO").

Visitors from Mainland China, who are one of the major client groups of our hotel, climbed up approximately 22.2% year-on-year to approximately 16.16 million in 2011 from approximately 13.23 million in 2010.

PLEDGE OF ASSETS

As at 31st December, 2011, banking facilities to the extent of HK$3.5 million (2010: HK$3.5 million) of the Group were secured by the pledge of bank deposits amounting to HK$3.5 million (2010: HK$3.5 million). The amount utilised at 31st December, 2011 was approximately HK$3.2 million (2010: approximately HK$3.1 million).

As at 31st December, 2011, bank deposits of approximately HK$75 million (2010: approximately HK$65 million) were pledged to a bank which provides bank guarantees in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2011, the Group had cash and bank balances of approximately HK$90 million (2010: approximately HK$154 million). The decrease was mainly due to (i) the investment in KTV outlets and (ii) the convertible bonds issued in 2006 were fully redeemed upon maturity in the current year. The gearing ratio, measured as non- current borrowings over equity attributable to owners of the Company was approximately 12% as at 31st December, 2011 (2010: approximately 11%). The increase was mainly due to the recognition of operating lease liabilities for KTV outlets

Monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider the Group's exposure to exchange rate risks to be low. The Group may have relatively high exposure to exchange rate risk when more KTV outlets operate in Mainland China. The directors will review the exchange rate risks faced by the Group periodically. During the year under review, the Group's capital expenditure was financed by internal cash generation and new shares issues.

SHARE CAPITAL STRUCTURE

As at 31st December, 2010, the total issued share capital of the Company was HK$9,996,000 divided into 999,600,000 ordinary shares with a par value of HK$0.01 each.

On 30th March, 2011, the Company entered into share placing and subscription arrangements for the placement and subscription of 199,920,000 shares at HK$0.235 each. The share placing and subscription arrangements were completed on 4th April, 2011 and 8th April, 2011 respectively. The net proceeds of approximately HK$46 million are used for general working capital.

For further details, please refer to the announcements of the Company dated 30th March, 2011 and 8th April, 2011.

As a result of the share placing and subscription arrangements, the total issued share capital of the Company was HK$11,995,200 divided into 1,199,520,000 ordinary shares with a par value of HK$0.01 each as at 30th June, 2011.

On 12th July, 2011, the Company entered into a share placing agreement for the placement of 239,900,000 new shares at HK$0.199 each. The share placing arrangement was completed on 21st July, 2011. The net proceeds of approximately HK$47 million are used for general working capital.

For further details, please refer to the announcements of the Company dated 12th July, 2011 and 21st July, 2011.

As a result of the share placing, the total issued share capital of the Company was HK$14,394,200 divided into 1,439,420,000 ordinary shares with a par value of HK$0.01 each as at 31st December, 2011.

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2011, the total number of full time employees of the Group in Hong Kong and Mainland China were 267 and 342 respectively (31st December, 2010: 271 Hong Kong employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund and professional tuition/training subside for employees' benefit.

PROSPECTS

The performance of the Group's businesses depends on the performance of both the global economy and the local economy. As the European Central Bank's move to inject ample liquidity into the financial market through its long term refinancing operations ("LTRO") and the agreement struck by European leaders for a second international bailout for Greece have reduced the risk of further deterioration in the region's debt crisis, the Management is cautiously optimistic to the global economic and also to the Group's operations in the new financial year.

Meanwhile, an increasing number of U.S. economic indicators are pointing to an improved outlook for the world's largest economy. The U.S. unemployment rate fell to 8.3 percent in January 2012, the lowest since February 2009, the U.S. Labour Department said on 3rd February, 2012. The Thomson Reuters/University of Michigan's final index of consumer sentiment increased to 75.3 in February 2012, the highest since February last year, from 75 in January 2012.

While external economic headwinds remain, the consumer confidence in Hong Kong remains relatively high amid a healthy labour market. This bodes well for the prospect for the Group's cold storage business. Demand for frozen food is likely to continue to growth steadily while supply of cold storage remains stable.

Hong Kong's consumer confidence dropped three points in the third quarter of 2011 to 104 points, according to the latest survey by Nielsen, a leading global provider of insights and analytics into what consumers watch and buy. At 104 points, the consumer confidence level was just three points below its 2.5-year high reached counting from the first quarter of 2009 to the third quarter of 2011. Meanwhile, Hong Kong's unemployment rate fell to 3.2% in the three months through January 2012, matching the 13-year low reached in the third quarter of 2011, according to data from the C&SD.

Although, the sales of edible ice cubes is expected to remain stable as food consumption normally stays stable while the steady growth in Hong Kong's population will boost food consumption in the longer term, the management decided to cease the operation due to the significant cost of modification of the existing facilities in compliance to the new regulation.

The outlook for industrial ice bars is also positive, considering the fact that construction works on a number of large-scale public infrastructure projects are either in full speed or will commence sooner or later. Construction works on these mega projects are expected to last several years. It is conceivable that the Hong Kong government will implement more mega infrastructure projects to help shore up the local economy in the wake of weaker external demand for Hong Kong exports.

The KTV operation is a new diversification for the Group. While this new business segment, which is still in the investment phase, has not yet contributed positively to the Group's earnings, the Management is optimistic about the prospect as it is conceivable that the level of cultural consumption and expenditure will increasingly rise on Mainland China along with the rise in people's incomes and educational levels, driven by the country's still robust economic expansion.

The gross domestic product ("GDP") of China grew 9.2% in 2011 over the previous year, despite the fact that the economic woes in industrialized countries and Europe's sovereign debt crisis curbed demand for Chinese goods, according to data from the National Bureau of Statistics of China ("NBS"). The Chinese economy is expected to remain healthy in 2012, with the GDP expanding about 7.5%, according to a report on China's economic and social development of The National People's Congress of the PRC.

Alongside of the strong economic expansion, total investment in China's culture, sports and entertainment sector climbed approximately 21.3% year-on-year to approximately RMB3.15 trillion in 2011, according to data of the NBS.

To take advantage of the huge market potential, the Management plans to devote more efforts to developing the KTV operation and make further investment in this business segment. The Group will look for more good locations for setting up more KTV outlets.

The Management is also optimistic about the outlook for the Group's investment in the hotel resort complex operation in Macau on the prospect that the inbound tourism in Macau, the city in China that allows casino gambling currently, will continue to flourish.

Furthermore, the Management believes that the rapid and continuous development of Taipa into a new hub of recreation and leisure is likely to attract more visitors to the area, benefiting nearby businesses including the Grand Waldo Hotel of the Group.

That said, the Management sees challenges ahead, particularly rising operating costs. In a highly inflationary environment, the labour cost is likely to continue to rise in the foreseeable future. Meanwhile, the price of crude oil keeps on rising, with the Brent crude price climbing above US$124 per barrel on 24th February, 2012, as tensions increases between the West and Iran over Tehran's nuclear programme. The Brent crude price has gained more than 11% in February 2012 since May 2011.

Meanwhile, costs on electricity, water and rent, as well as maintenance fees are also on the rise. All of these increased costs may put further pressure on the profit margins of the cold storage business as well as on other operations.

In the face of the challenges, the Management will strive to improve the operational efficiency of the Group's operations to control the cost increase.

The Management will also try to add more value to the Group's services to customers of its cold storage business in terms of technological innovation, and will shift its operational strategy in step with changes in market demand.

For the longer term, the Group will stay focused on its corporate strategy of exploring and developing consumption-related businesses to cash in on the strong economic growth in both Mainland China and Hong Kong. In line with this long-term strategy, the Management will explore new investment opportunities aside from strengthening the cold storage business and the fledging KTV operation.

DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31st December, 2011 (2010: 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, 2011.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company has applied and complied with the principles of the code provision and certain recommended best practices under the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2011, except for the deviations as stated below.

Pursuant to the code provision A.2.1 of the CG Code, the Chairman and Chief Executive of the Company should perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

Upon the resignation of Mr. Fung Wa Ko as the Chairman on 14th October, 2011, there is no Chairman in the Company. The Board does not have the intention to fill the position of chairman at present and believes that the absence of a chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive directors.

Pursuant to the code provision A.4.1 of the CG Code, non-executive director should be appointed for a specific term of service. While there was no service contract entered into between the Company and the non-executive director, Mr. Fung Wa Ko, for a specific term of service, his appointment is subject to retirement by rotation and re-election under the Bye-Laws of the Company.

In order to comply with the code provision D.1.4 to be effective on 1st April, 2012 that the Company shall have formal letters of appointment for all directors, including executive directors, setting out the key terms and conditions of their appointment, the Company has entered into letters of appointment with all directors for a period of three years from the date of each of their appointment or re-election by the shareholders of the Company, unless and until terminated by either party given the other not less than three months' notice, but is also subject to retirement by rotation and re-election under the Company's Bye-Laws.

Internal Controls

The Group has adopted a series of internal control measures including the strengthening of reporting lines of senior management. As a routine procedure and part of the internal control system, executive directors and the senior management would meet at least once a week to review the financial and operating performance of each department.

The senior management of each department is also required to keep executive directors informed of material developments of the department’s business and implementation of the strategies and policies set by the Board on a regular basis.

The Company has already started to setup the Group’s KTV business in Mainland China during the year under review. In this new business division, the Group would also adopt a series of operation procedures and internal control policies to avoid any deficiency.

In addition, there are internal control policies in different departments (i.e. administration and human resources department; training department; financial department; purchasing department and operation department) of the subsidiaries of the Company in PRC during the year.

As an integral part of good corporate governance, the internal control system will continue to be reviewed, added on or updated to provide for changes in the operating environment.

Model Code for Securities Transactions by Directors

The Company has adopted a written securities dealing policy which contains a set of code of conduct regarding securities transactions by directors, the terms of which are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “Securities Dealing Policy”).

Having made specific enquiry of all directors of the Company, all directors have confirmed that they had complied with the required standard set out in the Securities Dealing Policy during the year under review.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors, namely, Mr. Leung Chi Hung (Chairman), Mr. Fung Siu Kit, Ronny and Mr. Tse Yuen Ming.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year, including the accounting principles and practice adopted by the Group, and discussed matters relating to auditing, internal controls and financial reporting.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31st December, 2011 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 2011 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, Mr. Chung Siu Wah, Mr. Ho Hon Chung, Ivan and Mr. Tang Tsz Man, Philip; 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 of
Daido Group Limited
Au Tat Wai
Chief Executive Officer

Hong Kong, 28th March, 2012