

**DAIDO****DAIDO GROUP LIMITED****大同集團有限公司\****(Incorporated in Bermuda with limited liability)***(Stock code: 544)****ANNUAL RESULTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2006****AUDITED RESULTS**

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, 2006 together with the comparative figures for the year ended 31st December, 2005 as follows:

**CONSOLIDATED INCOME STATEMENT***FOR THE YEAR ENDED 31ST DECEMBER, 2006*

|                                   | NOTES | Continuing operations |                  | Discontinued operations |                  | Total                |                        |
|-----------------------------------|-------|-----------------------|------------------|-------------------------|------------------|----------------------|------------------------|
|                                   |       | 2006<br>HK\$'000      | 2005<br>HK\$'000 | 2006<br>HK\$'000        | 2005<br>HK\$'000 | 2006<br>HK\$'000     | 2005<br>HK\$'000       |
| Revenue                           | 2     | 145,744               | 5,145            | 4,022                   | 92,350           | 149,766              | 97,495                 |
| Direct costs                      |       | (126,225)             | (92)             | (3,488)                 | (89,496)         | (129,713)            | (89,588)               |
| Gross profit                      |       | 19,519                | 5,053            | 534                     | 2,854            | 20,053               | 7,907                  |
| Other income                      |       | 9,724                 | 4,810            | 15                      | 2,104            | 9,739                | 6,914                  |
| Selling and distribution costs    |       | (3,568)               | (7)              | (465)                   | (3,105)          | (4,033)              | (3,112)                |
| Administrative expenses           |       | (21,259)              | (2,961)          | (928)                   | (8,623)          | (22,187)             | (11,584)               |
| Impairment loss                   |       |                       |                  |                         |                  |                      |                        |
| recognised in respect             |       |                       |                  |                         |                  |                      |                        |
| of trade and other receivables    |       | -                     | -                | -                       | (521)            | -                    | (521)                  |
| Reversal of impairment loss       |       |                       |                  |                         |                  |                      |                        |
| recognised in respect of trade    |       |                       |                  |                         |                  |                      |                        |
| and other receivables             |       | -                     | -                | -                       | 542              | -                    | 542                    |
| Impairment loss arising           |       |                       |                  |                         |                  |                      |                        |
| from adjustment to                |       |                       |                  |                         |                  |                      |                        |
| fair value less costs to sell     |       | -                     | -                | -                       | (74,879)         | -                    | (74,879)               |
| Finance costs                     |       | (4,241)               | (994)            | -                       | -                | (4,241)              | (994)                  |
| Gain on disposal of subsidiaries  |       | -                     | 5,289            | 879                     | -                | 879                  | 5,289                  |
| Fair value gain on                |       |                       |                  |                         |                  |                      |                        |
| investment properties             |       | -                     | 52               | -                       | -                | -                    | 52                     |
| Share of loss of an associate     |       | -                     | (116)            | -                       | -                | -                    | (116)                  |
| Impairment loss in respect        |       |                       |                  |                         |                  |                      |                        |
| of interest in an associate       |       | -                     | (1,430)          | -                       | -                | -                    | (1,430)                |
| Profit (loss) before tax          |       | 175                   | 9,696            | 35                      | (81,628)         | 210                  | (71,932)               |
| Tax credit (charge)               | 3     | 103                   | (664)            | -                       | (854)            | 103                  | (1,518)                |
| Profit (loss) for the year        | 4     | 278                   | 9,032            | 35                      | (82,482)         | 313                  | (73,450)               |
| Dividend                          | 5     |                       |                  |                         |                  | -                    | -                      |
| Earnings (loss) per share – basic | 6     |                       |                  |                         |                  |                      |                        |
| – from continuing and             |       |                       |                  |                         |                  |                      |                        |
| discontinued operations           |       |                       |                  |                         |                  | <u>HK 0.01 cents</u> | <u>HK (2.45) cents</u> |
| – from continuing operations      |       |                       |                  |                         |                  | <u>HK 0.01 cents</u> | <u>HK 0.30 cents</u>   |

**CONSOLIDATED BALANCE SHEET**  
**AT 31ST DECEMBER, 2006**

|  | <i>NOTES</i> | <b>2006</b><br><b>HK\$'000</b> | 2005<br><i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| <b>NON-CURRENT ASSETS</b>                    |              |                                |                         |
| Investment properties                        |              | <b>17,000</b>                  | 17,000                  |
| Property, plant and equipment                |              | <b>21,862</b>                  | 776                     |
| Goodwill                                     |              | <b>14,913</b>                  | –                       |
| Interest in an associate                     |              | –                              | –                       |
| Available-for-sale investments               |              | <b>149,120</b>                 | –                       |
| Loans to an investee                         |              | <b>232,479</b>                 | –                       |
| Rental deposits paid                         |              | <b>14,415</b>                  | 71,292                  |
| Pledged deposits                             |              | <b>56,875</b>                  | –                       |
| Deposit paid for acquisition of subsidiaries |              | –                              | 10,000                  |
|  |              | <hr/> <b>506,664</b> <hr/>     | <hr/> 99,068 <hr/>      |

|   | <i>NOTES</i> | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| <b>CURRENT ASSETS</b>   |              |                                |                         |
| Trade and other receivables                                       | 7            | <b>31,797</b>                  | 2,814                   |
| Tax recoverable   |              | <b>1,155</b>                   | –                       |
| Bank balances and cash  |              | <b>41,156</b>                  | 199,936                 |
|   |              | <b>74,108</b>                  | 202,750                 |
| Assets classified as held for sale                                |              | –                              | 38,466                  |
|   |              | <b>74,108</b>                  | 241,216                 |
| <b>CURRENT LIABILITIES</b>  |              |                                |                         |
| Trade and other payables  | 8            | <b>11,859</b>                  | 1,722                   |
| Obligations under a finance lease                                 |              | <b>135</b>                     | 127                     |
| Promissory notes  |              | <b>2,493</b>                   | –                       |
| Unclaimed dividends   |              | <b>19</b>                      | 19                      |
|   |              | <b>14,506</b>                  | 1,868                   |
| Liabilities associated with<br>assets classified as held for sale |              | –                              | 13,294                  |
|   |              | <b>14,506</b>                  | 15,162                  |
| <b>NET CURRENT ASSETS</b>   |              |                                |                         |
|   |              | <b>59,602</b>                  | 226,054                 |
|   |              | <b>566,266</b>                 | 325,122                 |
| <b>CAPITAL AND RESERVES</b>                                       |              |                                |                         |
| Share capital   |              | <b>34,800</b>                  | 30,000                  |
| Reserves  |              | <b>369,027</b>                 | 284,706                 |
| Equity attributable to equity holders of the Company              |              | <b>403,827</b>                 | 314,706                 |
| Minority interest   |              | <b>2</b>                       | –                       |
|   |              | <b>403,829</b>                 | 314,706                 |
| <b>NON-CURRENT LIABILITIES</b>                                    |              |                                |                         |
| Obligations under a finance lease                                 |              | <b>231</b>                     | 366                     |
| Rental deposits received  |              | –                              | 10,050                  |
| Amount due to a minority shareholder of a subsidiary              |              | <b>56,864</b>                  | –                       |
| Convertible bond  |              | <b>71,380</b>                  | –                       |
| Promissory notes  |              | <b>32,689</b>                  | –                       |
| Deferred tax liabilities  |              | <b>1,273</b>                   | –                       |
|   |              | <b>162,437</b>                 | 10,416                  |
|   |              | <b>566,266</b>                 | 325,122                 |

## 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group’s results and financial position from the application of these standards, amendment or interpretations.

|                    |  |
|--------------------|--|
| HKAS 1 (Amendment) | Capital Disclosures <sup>1</sup>   |
| HKFRS 7            | Financial Instruments: Disclosures <sup>1</sup>  |
| HKFRS 8            | Operating Segments <sup>7</sup>  |
| HK(IFRIC) – INT 7  | Applying the Restatement Approach under HKAS 29<br>Financial Reporting in Hyperinflationary Economies <sup>2</sup> |
| HK(IFRIC) – INT 8  | Scope of HKFRS 2 <sup>3</sup>  |
| HK(IFRIC) – INT 9  | Reassessment of Embedded Derivatives <sup>4</sup>  |
| HK(IFRIC) – INT 10 | Interim Financial Reporting and Impairment <sup>5</sup>  |
| HK(IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>   |
| HK(IFRIC) – INT 12 | Service Concession Arrangements <sup>8</sup>   |

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st November, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st March, 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>8</sup> Effective for annual periods beginning on or after 1st January, 2008

## 2. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| <b>Continuing operations</b>   |                                |                         |
| Cold storage and logistics services  | <b>141,849</b>                 | –                       |
| Manufacturing and trading of ice   | <b>3,895</b>                   | –                       |
| Rental income – property investment  | –                              | 5,145                   |
|  | <hr/> <b>145,744</b> <hr/>     | <hr/> 5,145 <hr/>       |
| <b>Discontinued operations</b>   |                                |                         |
| Revenue from construction work contracting<br>and sales of concrete products | <b>4,022</b>                   | 55,905                  |
| Rental income – sub-leasing  | –                              | 36,445                  |
|  | <hr/> <b>4,022</b> <hr/>       | <hr/> 92,350 <hr/>      |
|  | <hr/> <b>149,766</b> <hr/>     | <hr/> 97,495 <hr/>      |

### **Business segments**

For management purposes, the Group is organised into three operating divisions – cold storage and logistics services, manufacturing and trading of ice, and property investment. The provision of cold storage and logistics services, and manufacturing and trading of ice are new segments in the current year.

During the last year, the Group rented two cold storage warehouses in Hong Kong and sub-leased to Brilliant Cold Storage Management Limited (“BCSML”) and Brilliant Top In Logistics Limited (“BTILL”), the wholly-owned subsidiaries of Best Merchant Limited. During the current year, through the acquisition of Best Merchant Limited on 9th January, 2006, BCSML and BTILL became the wholly-owned subsidiaries of the Company and the sub-leasing business of the Group has been ceased since 9th January, 2006. Accordingly, the sub-leasing business segment no longer exists for the current year, and the comparative figures of sub-leasing business segment was re-classified from continuing operations as discontinued operations.

Segment information about these businesses is presented below as primary segment information.



## OTHER INFORMATION

|                               | Continuing operations                           |  |                                 |                         |                   | Discontinued operations  | Consolidated<br>HK\$'000 |
|-------------------------------|---|--|---------------------------------|-------------------------|-------------------|--|--------------------------|
|                               | Cold storage and logistics services<br>HK\$'000 | Manufacturing and trading of ice<br>HK\$'000 | Property investment<br>HK\$'000 | Unallocated<br>HK\$'000 | Total<br>HK\$'000 | Construction work contracting and sales of concrete products<br>HK\$'000 |                          |
| Allowance for inventories     | –   | –  | –                               | –                       | –                 | 287  | 287                      |
| Capital expenditure           | 951   | 1,886  | –                               | 146                     | 2,983             | –  | 2,983                    |
| Depreciation and amortisation | 4,739   | 404  | –                               | 220                     | 5,363             | 60   | 5,423                    |

## 2005

|  | Continuing operations           | Discontinued operations  |                         |                   | Consolidated<br>HK\$'000 |
|--|---------------------------------|--|-------------------------|-------------------|--------------------------|
|  | Property investment<br>HK\$'000 | Construction work contracting and sales of concrete products<br>HK\$'000 | Sub-leasing<br>HK\$'000 | Total<br>HK\$'000 |                          |
| REVENUE  | 5,145                           | 55,905   | 36,445                  | 92,350            | 97,495                   |
| SEGMENT RESULT   | 5,067                           | 6,800  | (13,778)                | (6,978)           | (1,911)                  |
| Unallocated income   |                                 |  |                         |                   | 4,429                    |
| Unallocated expenses   |                                 |  |                         |                   | (2,372)                  |
| Impairment loss arising from adjustment to fair value less costs to sell | –                               | (74,879)   | –                       | (74,879)          | (74,879)                 |
| Finance costs  | (994)                           | –  | –                       | –                 | (994)                    |
| Gain on disposal of subsidiaries   | 5,289                           | –  | –                       | –                 | 5,289                    |
| Fair value gain on investment properties                                 | 52                              | –  | –                       | –                 | 52                       |
| Share of loss of an associate  |                                 |  |                         |                   | (116)                    |
| Impairment loss in respect of interest in an associate                   |                                 |  |                         |                   | (1,430)                  |
| Loss before tax  |                                 |  |                         |                   | (71,932)                 |
| Tax charge   |                                 |  |                         |                   | (1,518)                  |
| Loss for the year  |                                 |  |                         |                   | (73,450)                 |

## BALANCE SHEET

|                                   | Continuing operations                  | Discontinued operations   |                                |                          | Consolidated<br><i>HK\$'000</i> |
|-----------------------------------|--|---|--------------------------------|--------------------------|---------------------------------|
|                                   | Property investment<br><i>HK\$'000</i> | Construction work contracting and sales of concrete products<br><i>HK\$'000</i> | Sub-leasing<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |                                 |
| <b>ASSETS</b>                     |  |   |                                |                          |                                 |
| Segment assets                    | 17,065                                 | 38,466  | 88,636                         | 127,102                  | 144,167                         |
| Unallocated corporate assets      |  |   |                                |                          | 196,117                         |
| Consolidated total assets         |  |   |                                |                          | <u>340,284</u>                  |
| <b>LIABILITIES</b>                |  |   |                                |                          |                                 |
| Segment liabilities               | 74                                     | 13,294  | 10,632                         | 23,926                   | 24,000                          |
| Unallocated corporate liabilities |  |   |                                |                          | 1,578                           |
| Consolidated total liabilities    |  |   |                                |                          | <u>25,578</u>                   |

## OTHER INFORMATION

|  | Continuing operations                  | Discontinued operations   |                                |                          | Consolidated<br><i>HK\$'000</i> |
|--|--|---|--------------------------------|--------------------------|---------------------------------|
|  | Property investment<br><i>HK\$'000</i> | Construction work contracting and sales of concrete products<br><i>HK\$'000</i> | Sub-leasing<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |                                 |
| Allowance for inventories  | –                                      | 45  | –                              | 45                       | 45                              |
| Capital expenditure  | 16,948                                 | 100   | 800                            | 900                      | 17,848                          |
| Depreciation and amortisation  | –                                      | 6,802   | 23                             | 6,825                    | 6,825                           |
| Gain on disposal of property, plant and equipment                                | –                                      | (21)  | –                              | (21)                     | (21)                            |
| Guarantee money forfeited  | –                                      | (106)   | –                              | (106)                    | (106)                           |
| Impairment loss recognised in respect of trade and other receivables             | –                                      | 521   | –                              | 521                      | 521                             |
| Reversal of impairment loss recognised in respect of trade and other receivables | –                                      | (542)   | –                              | (542)                    | (542)                           |
| Write back of provision for staff commission                                     | –                                      | (203)   | –                              | (203)                    | (203)                           |

### Geographical segments

More than 90% of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and profit (loss) during the year are derived from customers located in Hong Kong.

More than 90% of the Group's assets are located in Hong Kong and more than 90% of additions to property, plant and equipment and investment properties during the year are incurred in Hong Kong.



### 3. TAX (CREDIT) CHARGE

|  | Continuing operations   |                         | Discontinued operations |                         | Consolidated            |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| The (credit) charge comprises:           |                         |                         |                         |                         |                         |                         |
| Hong Kong Profits Tax                    |                         |                         |                         |                         |                         |                         |
| Current year                             | (304)                   | 342                     | –                       | –                       | (304)                   | 342                     |
| Underprovision in respect of prior years | 38                      | –                       | –                       | –                       | 38                      | –                       |
|  | <u>(266)</u>            | <u>342</u>              | <u>–</u>                | <u>–</u>                | <u>(266)</u>            | <u>342</u>              |
| Deferred tax                             |                         |                         |                         |                         |                         |                         |
| Current year                             | 163                     | 322                     | –                       | 854                     | 163                     | 1,176                   |
| Tax (credit) charge                      | <u>(103)</u>            | <u>664</u>              | <u>–</u>                | <u>854</u>              | <u>(103)</u>            | <u>1,518</u>            |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

### 4. PROFIT (LOSS) FOR THE YEAR

|  | Continuing operations   |                         | Discontinued operations |                         | Consolidated            |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> | 2006<br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
| Profit (loss) for the year has been arrived at after charging (crediting): |                         |                         |                         |                         |                         |                         |
| Amortisation of prepaid lease payments                                     | –                       | –                       | 60                      | 605                     | 60                      | 605                     |
| Depreciation for property, plant and equipment                             |                         |                         |                         |                         |                         |                         |
| Owned assets   | 5,255                   | 5                       | –                       | 6,197                   | 5,255                   | 6,202                   |
| Assets held under finance leases   | 108                     | 18                      | –                       | –                       | 108                     | 18                      |
| Exchange loss, net   | –                       | –                       | 12                      | 10                      | 12                      | 10                      |
| Loss on disposal of property, plant and equipment                          | 18                      | –                       | –                       | –                       | 18                      | –                       |
|  | <u>18</u>               | <u>–</u>                | <u>–</u>                | <u>–</u>                | <u>18</u>               | <u>–</u>                |

### 5. DIVIDEND

No interim dividend is paid during the year (2005: nil).

The directors do not recommend the payment of a dividend for the year.

**6. EARNINGS (LOSS) PER SHARE**  
**From continuing and discontinued operations**

The calculation of the basic earnings (loss) per share based on the following data:

|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| <i>Earnings (loss)</i>   |                                |                         |
| Earnings (loss) for the purposes of basic earnings (loss) per share          | <u><b>313</b></u>              | <u>(73,450)</u>         |
|  | <i>'000</i>                    | <i>'000</i>             |
| <i>Number of shares</i>  |                                |                         |
| Number of ordinary shares for the purpose of basic earnings (loss) per share | <u><b>3,289,315</b></u>        | <u>3,000,000</u>        |

**From continuing operations**

The calculation of the basic earnings per share from continuing operations is based on the following data:

|  | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| <i>Earnings (loss)</i>   |                                |                         |
| Earnings (loss) for the year   | <b>313</b>                     | (73,450)                |
| <i>Less: profit (loss) for the year from discontinued operations</i>             | <u><b>35</b></u>               | <u>(82,482)</u>         |
| Earnings for the purposes of basic earnings per share from continuing operations | <u><b>278</b></u>              | <u>9,032</u>            |

The denominators used are the same as those detailed above for basic earnings (loss) per share.

**From discontinued operations**

Basic earning per share for discontinued operations is insignificant (2005: basic loss per share of HK 2.75 cents) per share, based on the earning for the year from discontinued operations of HK\$35,000 (2005: loss of HK\$82,482,000). The denominators used are the same as those detailed above for basic earnings (loss) per share.

The effect of convertible bonds is excluded from the calculation of diluted earnings per share for the year since the effect will be anti-dilutive.

**7. TRADE AND OTHER RECEIVABLES**

The Group allows a credit period ranging from 30 to 60 days to its customers in respect of provision of cold storage and logistics services, and manufacturing and trading of ice.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

|                    | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|--------------------|--------------------------------|-------------------------|
| 0 – 30 days        | <b>11,851</b>                  | –                       |
| 31 – 60 days       | <b>8,915</b>                   | –                       |
| 61 – 90 days       | <b>3,544</b>                   | –                       |
| 91 – 120 days      | <b>25</b>                      | –                       |
| More than 120 days | <b>466</b>                     | –                       |
|                    | <hr/> <b>24,801</b> <hr/>      | <hr/> – <hr/>           |

#### **8. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables with an aged analysis as follows:

|               | <b>2006</b><br><i>HK\$'000</i> | 2005<br><i>HK\$'000</i> |
|---------------|--------------------------------|-------------------------|
| 0 – 30 days   | <b>2,400</b>                   | –                       |
| 31 – 60 days  | <b>744</b>                     | –                       |
| 61 – 90 days  | <b>218</b>                     | –                       |
| 91 – 120 days | <b>36</b>                      | –                       |
|               | <hr/> <b>3,398</b> <hr/>       | <hr/> – <hr/>           |

#### **DIVIDEND**

The Board of the Company do not recommend the payment of a dividend for the year ended 31st December, 2006 (2005: HK\$ Nil per share).

#### **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group sustains a stable income in 2006. Turnover of the Group for the year ended 31st December, 2006 was HK\$150 million, over 90% of which was attributed to the cold storage and logistics operation. The turnover registered an increase of 54% compared to the same period last year. Net profit attributable to shareholders amounted to HK\$313,000, against a loss of HK\$73 million in 2005. Earning per share was HK0.01 cents.

Presently, the Group runs three business divisions, which are (i) Cold Storage and Logistics Services, (ii) Manufacturing & Trading of Ice and (iii) Property investment.

#### **COLD STORAGE AND LOGISTICS SERVICES**

Through a successful business restructuring in the last year, we had injected the cold storage and logistics services to substitute the ALC business as new core businesses for the Group. The turnover of these new core businesses for the year was HK\$142 million and it contributes over 90% of the total turnover of the Group.

The Group first entered into cold storage business in 2003. The two cold storage warehouse properties in Kwai Chung generated good returns for two years. In 2005, we disposed of the two properties amidst favorable market atmosphere, the Group then acquired Brilliant Cold Storage and Brilliant Top In Logistics in 2006, becoming one of the 25 licensed cold storage providers in Hong Kong.

Despite the strong competition, we have positioned ourselves in an advantageous position specializing in food. The products we handled include frozen meat, vegetables and dairy products. Our customers are mostly from China and include multinational companies trading chemicals, food and consumer goods; supermarket stores; restaurants, and wine and tobacco traders.

The potential of storage and logistics services in China is magnanimous. According to a report on Shanghai Daily, consumption of ice-cream per capita is still below one litre on the mainland, compared to about 6.5 litres in Europe and 12 litres in the US, which suggests a huge potential for growth. As incomes rise in China, followed by fast expanding foreign and domestic food chains. The WTO-mandated tariff reductions that allow more foreign products to reach China's mainland, and the opening of the distribution sector under China's WTO entry requirements, cold supply chain logistics is the way to go.

**Strengths:** Our warehouses are strategically located near the Kwai Chung container terminals. The two whole blocks of over 720,000 square feet of warehouses we operate are monitored with accurate electronic temperature and humidity controls. Our HKQAA-ISO 9001 certified operation means we can store and deliver with the highest possible efficiency. Our warehouses are also supported with a high-calibre bilingual computer system. As another initiative to cut costs and time on both our side and the customers' side, we are planning to provide our clients with the option of electronic trading, which means they can check and manage their inventory 24 hours a day on their own computer systems.

From custom's declaration, through warehousing; transportation & delivery; packaging to distribution and inventory control. The Group provides a comprehensive one-stop logistics service, which will continued to be fine tuned for the best and be one of our biggest strengths in this business division.

#### **MANUFACTURING AND TRADING OF ICE**

Under the cold storage arm, the Group produces ice bars and ice cubes. Ice bars are mainly applied in constructions for cement setting while that of ice cubes is for use in food and beverages trades.

During the period under review, ice production, also a new business of the Group through a business restructuring last year, makes up approximately 3% of the total revenue of the Group. The division managed to sustain a stable source of income from the food and beverage industries.

The Group maintains a very high hygiene standard in the production process, applying the 'Guideline for Drinking Water Quality' that is laid down by the World Health Organization. Apart from regular checks prior, during and after the ice making process, ice samples are regularly sent for laboratory testing.

#### **PROPERTY INVESTMENT**

The Group has stopped receiving rental income from sub-leasing two cold storages in Kwai Chung since we bought out the tenant, Best Merchant Group, in January 2006. The commercial property in Hunghom Commercial Centre has become the only local asset in the Group's property investment portfolio.

This division of business therefore recorded a loss of HK\$0.5 million compared with a profit of HK\$5 million in the same period last year. The loss was attributable to the stoppage in cold storage rental, and the management and maintenance expenses for the Hung Hom property which was not leased so far.

It will be high on the Group's priority to lease out the rest of the property given the positive economic outlook. Major property consultants say average vacancy in the whole Grade A market and sub-markets in Central hit their 15-year low in 2006. With new offices springing up in Kowloon East, they anticipate a migration of office usage to this region, which will play to our benefit.

## **PROPERTY INVESTMENT OUTSIDE HONG KONG**

In September 2006, the Group acquired 12% indirect attributable interest of the Grand Waldo Hotel Complex in Macau. The newly opened five-star hotel resort, which includes a large-scale casino, 342-room hotel and an entertainment complex with a nightclub and a six-story spa, is the first of its kind in the area of Cotai.

Macau is expecting 24-25 million of visitors in 2007 and in the first two months alone in 2007, the number of visitors went up over 20% compared with that of last year. The territory's casinos took a US\$5.7 billion in gaming revenue in 2005 and was 'enough to catapult Macau past Atlantic City to become the world's second-largest casino market', according to Macau's International Gaming & Entertainment Expo website. There are some 30 casinos operating in the territory already. There will be 12 more by 2009 and more still are tendering proposals. This luxurious hotel and entertainment business will be a lucrative market and another area that can support the expansion of our cold storage and ice business.

We shall closely monitor the development of this investment and may look for more investments in the territory when opportunities arise.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st December, 2006, the Group had cash and bank balances of HK\$41 million (31st December, 2005: HK\$206 million). The gearing ratio, measured as non-current borrowings over shareholder's equity was increased to 40% as at 31 December 2006, a significant increase from that of 3% as at 31 December 2005. The increases were mainly due to the issue of convertible bond and promissory notes for the acquisition of interest in Grand Waldo hotel project. With regard to foreign currency exposure, the monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider that the Group's exposure to the exchange rate risk is not significant.

The Group's capital expenditure and investments were financed by internal cash generation, share placement and issue of debt instrument.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 31st December, 2006, the total number of employees of the Group in Hong Kong was approximately 280 (2005: 44 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 subsidies in order to retain and refine competent employees.

## **PROSPECT**

2006 marked a new page for the Group. The unfavorable development in the construction market has helped turn our attention to a more promising and hopefully more profitable business: cold storage and logistics.

The Group entered this business with a couple of years of experience. The acquisition of Best Merchant Group has given us the necessary expertise and software to be a competitive player in the trade both locally and in the Pearl River Delta Region ("PRDR").

In the short term, we shall consolidate our present client base, whilst looking for expansion opportunities in the PRDR including the nearby town of Macau. The Group will actively seek investment opportunities locally for more cold storage space, and partnership possibilities to extend our operation on the Mainland China.

It has been reported that (according to the August 2006 China Logistics News) fruits and vegetables suffers from a high decay rate of up to 15 to 30% during transportation and storage damage. Much of China's cold-chain infrastructure is still fragmented, under-funded, and scrambling to keep up with soaring demand. Optimizing the cold supply chain is crucial to cold storage and distribution suppliers. With several upcoming events, including the 2008 Beijing Olympics and the 2010 Shanghai World Expo, the need to move quickly is growing. It is therefore the Group's top priority in the short and medium term to invest into our cold chain logistics, and be a leading 3PL (third party logistics), that offers a one-stop help for various businesses to outsource their supply chain management.

As to the manufacture and trading of ice division, it now forms only a small fraction of our business. We believe, however, as we expand our cold storage business, we can identify more clients and take a bigger slice of the market with the help of our large and efficient fleet of freeze truck.

## **HOTEL INVESTMENT**

So far, our investment in the Grand Waldo Hotel project that consists of Grand Waldo Hotel Complex ("the Hotel Complex") and hotel and spa management business at a consideration of HK\$336 million has provided a gateway into the luxurious hotel and entertainment market in the fast growing tourism market in Macau.

The acquisition represents an exciting and high potential long-term investment that is expected to make a significant contribution to the Group.

In January 2007, Great China Company Limited disposed 50% interest of the Hotel Complex. As such our effective interest in the Hotel Complex has been reduced to 6% whilst our effective interest in the hotel and spa business remains as 12%.

Nevertheless, with reasons we cited before, we still believe this is going to be an investment of high return. The fact that we have not only invested into a single business, but into a diversity of trades including hospitality, casino, and leisure, helps maximize high-end visitors' spending in their stay in the hotel. If this proof successful, we shall consider more investment into the enclave's fast developing luxurious hotels/casinos/shopping business.

The past year has seen the Group facing a host of tough decisions. Some of them are not easy to make, especially the need to change our core business. But we have done it and did it well. In future, we have to continue to be adaptive and creative in developing our new core business. The Group has a sound financial status and has a very healthy reserve to support us for expansion plans. It is our top priority to make the Group a forerunner in the cold storage and logistics industry, and we are more dedicated than ever in working to make this happen.

## **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, 2006.

## **CORPORATE GOVERNANCE**

The Board and senior management are committed to maintain a high standard and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness in order to maximize shareholder's benefit.

The Company has applied and complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2006, save for a exception specified and explained below:

### **Code Provision A.2.1**

Under the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are currently performed by Mr. Fung Wa Ko. Taking to account Mr. Fung has strong expertise and excellent insight of the business development, corporate management and budget control, this structure will lead to more effective implementation of the overall strategy and ensure smooth operation of the Company. The Board believed that this structure will not impair the balance of power and authority between the Board and the management of the business of the Company as the structure of the Company has strong and independent non-executive directors element on the Board.

In order to maintain the high quality of the corporate governance and comply with the CG Code requirement, the Board and Nomination Committee will regularly review the need of appointment of different individuals to perform the roles of Chairman and Chief Executive Officer separately.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a set of code of conduct for securities transactions by directors, the terms of which are not 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 “Company’s Model Code”). 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 Company’s Model Code during the period under review.

To enhance the corporate governance of the Group as a whole, all relevant employees who are likely to be in possession of unpublished price sensitive information in relation to the Group or securities of the Company are subject to full compliance with the Company’s Model Code. No incident of non-compliance was noted by the Company during the period under review.

### **AUDIT COMMITTEE**

The Group’s audited consolidated results for the year ended 31st December, 2006 have been reviewed by the Audit Committee of the Company.

The Audit Committee comprises all of the three Independent Non-executive Directors, namely Mr. Leung Chi Hung, Mr. Leung, Tsz Fung David Ferreira and Mr. Tse Yuen Ming.

### **PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS**

The figures in respect of the Group’s consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31st December, 2006 as set out in this preliminary announcement have been agreed by the Group’s auditors, 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 this preliminary announcement.

## **DISCLOSURE OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This announcement which contains all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange and the Company's websites ([www.irasia.com/listco/hk/daido/](http://www.irasia.com/listco/hk/daido/)) in due course.

## **ACKNOWLEDGEMENT**

Finally, on behalf of the Board, I would like to extend our gratitude to our shareholders, customers, management and all of our staff for their continual support to the Company. Your understanding and support is our most valuable asset during these times of change.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the composition of the Board is as follows:

### **Executive Directors**

Mr. Fung Wa Ko (*Chairman*)

Mr. Tang Tsz Man, Philip

### **Independent Non-executive Directors**

Mr. Leung Chi Hung

Mr. Leung, Tsz Fung David Ferreira

Mr. Tse Yuen Ming

By order of the Board of

**Daido Group Limited**

**FUNG Wa Ko**

*Chairman*

Hong Kong, 19th April 2007

\* *For identification purpose only*