DAIDO

Stock Code 股份代號: 00544

DAIDO GROUP LIMITED
大同集團有限公司

2017
ANNUAL REPORT
年報

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

Non-executive Director

Mr. Fung Wa Ko

Independent Non-executive Directors

Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

COMMITTEES

Audit Committee

Mr. Leung Chi Hung *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Tse Yuen Ming

Nomination Committee

Mr. Tse Yuen Ming *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung

Remuneration Committee

Mr. Fung Siu Kit, Ronny *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

COMPANY SECRETARY

Mr. Choy Kai Sing

STOCK CODE

00544

WEBSITE

www.irasia.com/listco/hk/daido/index.htm
www.daidohk.com

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit No. 1906, 19th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank (Asia) Corporation Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Board of Directors/Management, I am pleased to present the annual results of the Group for the financial year ended 31st December, 2017.

2017 was a prosperous year for Hong Kong generally. As an entrepot for Mainland China, Hong Kong helped intermediate one-fifth of the mainland's merchandise trade in 2005 but recently, its middleman role has been diminishing due to China's easing of its "cabotage" rules. Furthermore, there is an official ban on imported meat from Brazil following a food safety scandal early last year. All these have translated into slower demand for the local warehousing and logistics sector. As a result, the business of our cold storage services, a core segment in the Group's portfolio, has been adversely affected and incurred losses.

Correspondingly, our logistics services business, which were established to cater to our cold storage customers, also saw a slightly decline. The segment's performance is largely dependent on how our cold storage business fared.

Although we have started diversifying our portfolio to include industrial ice bars manufacturing (construction use), money lending as well as trading and related business in the PRC, these secondary segments are small in scale or under development, so their revenue contributions to the Group have been minimal.

Our industrial ice bar business is faced with rising operational costs and stiffer competition from other suppliers in the industry. Moreover, the demand for industrial ice bars is cyclical, peaking in the hot summer months but dipping in the cooler winter period, and subject to the level of construction activity in Hong Kong.

Money lending is a relative stable segment. But the Group needs to look beyond the credit and financing needs of its existing cold storage customers, for a larger pool of new clients. The Group is looking into new business development initiatives, while continuing to implement credit risk management and discipline.

As for our trading and related business in the PRC, which was launched just a few years ago, the Group is doing all it can to boost the segment's operational efficiency and financial performance, with a view of capturing the huge potential of the mainland's consumer market in the future.

Realizing the importance of risk management and internal control in corporate governance, the Group has engaged an external professional consultant to implement independent appraisals of its risk management and internal control systems. This is also the second year our Environmental, Social and Governance report is published, to showcase the performance and progress we made in sustainable development.

Encouraged by the economy's growing strengths in Hong Kong and Mainland China, as reflected by the vibrant stock and property markets, the Group maintains an optimistic outlook for the entire year. We remain confident that trading activities in the city will recover and grow, given the expanding economy, and it will therefore continue to invest in cold storage infrastructure to boost its core business. The Management has also performed an operational review of 2017 and will introduce innovative measures to raise efficiency, cut costs and manage business risks more judiciously.

CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Board of Directors/Management, I wish to convey heartfelt thanks to all our customers and shareholders for backing us every step of the way, with trust and support. I am also grateful to our employees for their hard work and dedication over the past years.

AU TAT WAI
Chief Executive Officer

Hong Kong
28th March, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the financial year ended 31st December, 2017, the Group's total revenue amounted to approximately HK$275 million as compared to approximately HK$306 million from the preceding year.

During the period of review, the Group recorded a loss of approximately HK$35.4 million as compared to a loss of approximately HK$12.3 million in 2016.

The losses were primarily attributable to a significant drop in the Group's cold storage business during the year, especially in storage volume. This decline reflected the impact of unfavorable changes in the external environment, where the shrinking intermediary trade and accompanying demand in perishable merchandise dampened customer needs for cold storage facilities and services. Rental fee for the Group's cold storage facilities were raised but the increases were unable to offset the business decline.

As the Group's cold storage business and its logistics business are complementary and closely linked, the latter's performance has also been affected negatively.

FINANCIAL KEY PERFORMANCE INDICATORS

		As at 31 December	
		2017	2016
Loss per share — basic	HK cents	**(1.45)**	(0.51)
Net assets per share attributable to owners of the Company	HK$	**13.77**	15.23
Current ratio	times	**3.17**	3.35
Total liabilities to total assets ratio	times	**0.42**	0.39
Gearing Ratio	%	**45.7%**	39.6%
Return on equity ratio	%	**−16.1%**	−4.8%
Return on assets	%	**−8.4%**	−2.7%
Assets turnover ratio	times	**0.65**	0.68

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATING SEGMENTS

The Group is principally engaged in cold storage and related business in Hong Kong; trading and related business in the PRC; provision of money lending business in Hong Kong and investment holding.

Cold storage and related business

Cold storage

Cold chain warehousing is the Group's core business, from which its principal income is derived. The storage rental rates were adjusted upwards last year, but the increased rental income could not cover the business loss from a drop in customer demand.

To a certain extent, the unsatisfactory performance in our cold storage business reflects the rapid expansion of mainland Chinese ports, which offer lower cost and competitive services, is eroding Hong Kong's hitherto tight grip on this industry. Furthermore, the local warehousing and logistics industries were also affected by an official ban on imported meat from Brazil following a food safety scandal early last year.

Logistics

The Group's logistics arm was set up to serve the existing customers of its cold storage segment. Affected by the latter's unsatisfactory performance last year, it was inevitable that the business of our logistics segment also declined slightly. Through effective fleet management and a focus on service quality, the Group has endeavored to enhance its logistics service delivery in the hope of winning new customers.

Industrial ice bars (for construction use)

The macro environment for the Group's industrial ice bar business remained challenging. Intense competition from other ice bar suppliers made it more difficult to source new business in this segment.

Despite the segment's minimal revenue contributions, the Group will monitor the market situation carefully and make the necessary adaptations, with a new marketing plan formulated in 2017 to boost business development.

Trading and related business

The Group continued to supply a variety of dairy products, fruit juice beverage products and Korean snacks to a network of supermarkets and convenience stores in Mainland China. This business segment achieved a slight improvement in 2017.

The deployment of the "THAAD" anti-missile system on the Korean peninsula last year hurt China-South Korea ties, affecting Chinese consumer behavior and demand for Korean products in the process. The massive boycott by consumer groups against Korean products over this incident affected our trading business in Mainland China for a short period.

In view of the rising Chinese demand for imported foreign-themed food and beverage items, the Group is optimistic of its trading and related business segment in the country.

MANAGEMENT DISCUSSION AND ANALYSIS

Money lending business

Compared to 2016, the Group's money lending business has generated a stable growth from last year.

Besides continuing to provide loans for its cold storage clients and other customers, the management is identifying and targeting new corporate clients and money lending opportunities to accelerate the business' further growth and profitability.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is primarily engaged in various business segments including cold storage warehousing, logistics, industrial ice bar (for construction use), trading and related business and money lending. The diversified nature of this business portfolio has enabled the Group to spread out its business risks evenly.

Changes in the macroeconomic environment and market demand for its products and services, together with uncertainties in the expiring lease agreements of the warehouses, will exert a material impact on the Group's operational and business performance, which could affect its operating income.

The Group's cold storage warehousing segment is vulnerable to macroeconomic headwinds, which will directly affect market demand for imported products, especially perishable items such as meat, fruits, vegetables and pharmaceuticals. A significant part of the services demand ensues from Hong Kong's dominant role as an entrepot and intermediary trade centre, and this will in turn affect the demand of distributors for cold warehousing for storing temperature-sensitive items.

Another risk that potentially affects the Group's warehousing facilities pertains to the uncertainties of the lease agreements. Our warehousing leases will expire in early 2019, putting pressure on our management to seek renewal or new warehousing locations.

Our logistics segment is directly dependent on the level of demand for our cold storage facilities. Unavoidably, it is subject to the business performance risks of our cold storage warehousing.

To circumvent these primary risks and uncertainties, a number of proposals have been formulated and submitted to senior management for review, further discussion and approval. Critical policy decisions will be made by the Group in a proactive move to seize new business opportunities and leverage on market trends and developments to accelerate its sustainable growth.

PROSPECTS

Looking ahead, Hong Kong is expected to remain in a state of steady growth, supported by the buoyant stock and property markets. Trade is likely to increase on the strengths of positive global economic outlook. Despite the temporary setback to its cold storage segment, the Group is confident that demand for its services will recover and steer the business back to a position of value. Therefore, we will continue to commit investments in our storage infrastructure in order to remain competitive in the long run.

As the lease agreements of our two cold storage warehouses are due to expire in February 2019, negotiations are currently underway for their renewal. Success of renewal will be subject to our assessment of the terms and conditions. Yet, we are exploring other warehousing options as a backup plan. In any case, the Group will strive to ensure disruptions to our clients and our own operations are minimal.

MANAGEMENT DISCUSSION AND ANALYSIS

Cold storage and related services

Cold storage and Logistics

Cold storage warehousing is a core segment to the Group for which it generates stable income. Given its strategic importance, we are targeting potential customers with a high inventory turnover rate, while deepening ties with our existing customers to retain their continual patronage.

For several years, the Group has seen high demand for its cold storage facilities, to account for its continual strong business performance especially in 2015, where an over-occupancy rate was recorded.

We serve supplier customers of diversified backgrounds and scales: from premium restaurants serving high-end markets to restaurants and fast food chains serving the mass. With the regain in global economic growth, the Group anticipates that our cold storage business will benefit from the increase in inventory orders in coming years from our customers and their confidence in the catering industry.

Brazilian meat scandal has been absorbed by the market and the mainland market has resumed the import of Brazilian meat. In addition, Mainland China has reduced tariffs on popular imported consumer products to boost domestic spending. Mainland China's move to cut import tariffs on 187 consumer goods from an average of 17.3% to 7.7%, including pharmaceuticals, food, health supplements and clothing. All these incentives will encourage national consumptions of imported products, and this trend will continue to drive strong demand. We foresee our storage space will benefit as a result.

Industrial ice bars (for construction use)

While likely to continue its stable growth, this business will see increasingly higher operational cost and more intense competition from new entrants to the industry. However, the demand for industrial ice bars is expected to recover as more local flats on disposed sites will be built. According to an official government forecast, the total supply of flats in the coming three to four years will be at a high level of 97,000 units. Moreover, the real-estate sector is likely to continue its pattern of year-on-year growth encompassing residential, commercial and industrial properties, which will foster a greater need for our ice bar products from the construction industry.

Money lending business

Despite Hong Kong's tight regulation of the money-lending business, the Group will strive to tap every opportunity to make further inroads into this lucrative market. To this end, the Group plans to extend its customer base beyond the group of cold storage customers it serves, through more aggressive marketing and other business development initiatives to raise its brand visibility. Still, it will further strengthen its credit control measures and strategies to foster a better balance between risk management and profitability.

Trading and related business

As the Group's trading and related business is still developing, the Group will continue efforts to strengthen its operational efficiency and financial performance in order to profit from Mainland China's vast consumer market.

CORPORATE STRATEGY AND LONG-TERM BUSINESS MODEL

The Group has grown its cold storage and logistics businesses into core segments that contribute to its growth significantly. Under its corporate strategy, it still places an unwavering focus on enhancing its business portfolio for a sustainable performance, to include industrial ice bars, money lending and trading and related business as supplementary segments.

Building on the existing strengths of this portfolio, the Group will identify new business and development opportunities in Hong Kong and Mainland China for further expansion. To promote its cold storage and related businesses, its priority is to foster a higher level of operational competence, a higher rate of retention for quality customers and a higher turnover. As before, the Group will offer a one-stop range of cold storage solutions and other warehousing facilities, supported by logistics services that will include transportation, distribution, container hauling and devanning.

While constantly aiming for a stronger profit margin for our core business, we will also set our sights on strengthening other segments, such as food trading and distribution in Mainland China through a suite of market penetration and other business development strategies. Reflecting evolving market needs, we have expanded our product categories and networks to reach a wider base of Chinese consumers for our Korean-style snacks and beverages.

As an established leader in Hong Kong's cold warehousing market, we are well positioned, under the guidance of our corporate strategy and long-term business model, to improve the financial and operational values of all our business segments and see their expansion into Mainland China. We would like to convey our gratitude to our shareholders for their firm support and pledge to optimize their returns.

EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2017, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 240 and 70 respectively (2016: approximately 240 Hong Kong employees; 70 PRC employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, staff quarter, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December, 2017, the Group had cash and bank balances of approximately HK$94.8 million (2016: approximately HK$156.1 million), which was denominated in Hong Kong dollars ("HK$"), Renminbi ("RMB") and United States dollars ("USD") as to 95%, 3% and 2%, respectively. The decrease was mainly due to increase in loan receivables, cash used in increase in pledged bank deposits and the net cash used in operating activities.

The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 45.7% as at 31st December, 2017 (2016: approximately 39.6%). The increase of the gearing ratio was because of the drop of the equity attributable to owners of the Company.

In 2014, the Group announced for the placement of bonds in an aggregated principal amount of up to HK$500 million within the placing period commencing from 13th November, 2014 and ending on 12th November, 2015. The net proceeds from the issue of the bonds will be utilised as the general working capital of the Group. For further details, please refer to the announcements of the Company dated 13th November, 2014, 26th January and 23rd April, 2015. As at 31st December, 2017, it is noted that the bonds in an aggregate principal amount of HK$100 million have been subscribed by the placees and issued by the Company, which is the same as those as at 31st December, 2016.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in HK$.

Exposure to fluctuations in exchange rates and related hedges

Monetary assets and liabilities of the Group are principally denominated in HK$. The directors consider the Group's exposure to exchange rate risks to be low. The Group may have relatively high exposure to exchange rate risk when more trading business to be operated in the PRC. The directors will review the exchange rate risks faced by the Group periodically.

During the year, the Group did not have any material foreign exchange exposure and had not used any financial instruments for hedging purpose.

Share capital structure

As at 31st December, 2017, the total issued share capital of the Company was HK$24,323,040 divided into 2,432,304,000 ordinary shares with a par value of HK$0.01 each, which is the same as those as at 31st December, 2016.

Material acquisitions and disposals of subsidiaries and associates

During the year under review, the Group did not have any material acquisitions and disposals of subsidiaries and associates (2016: Nil).

Charges on assets

As at 31st December, 2017, banking facilities, for providing guarantees by a bank for the Group's operation of cold storage service, to the extent of HK$3.5 million (2016: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (2016: HK$3.5 million). The amount utilised at 31st December, 2017 was approximately HK$3.5 million (2016: approximately HK$3.5 million).

As at 31st December, 2017, bank deposits of approximately HK$99.5 million (2016: approximately HK$86.5 million) were pledged to a bank, which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

In addition, the Group's obligations under finance leases were secured by the lessors' charge over the leased assets with carrying value of approximately HK$2.1 million (2016: approximately HK$3.8 million).

Future plans for material investments or capital assets

During the year under review, the Group did not have any concrete future plans for material investments or capital assets (2016: Nil).

Contingent liabilities

During the year under review, the Group did not have any contingent liabilities (2016: Nil).

DIRECTORS OF THE COMPANY

MR. AU TAT WAI, aged 45, has been an Executive Director and the Chief Executive Officer of the Company, since September 2009. He has also served as an authorised representative of the Company and a director of certain subsidiaries of the Company. Mr. Au has over 8 years of experience in information technology and e-commerce businesses, as well as in resort sector project development. He has, among ongoing efforts, promoted long term Chinese interests abroad — acting as a key liaison, bringing together in partnership Western and Chinese interests. Mr. Au graduated from Lakehead University, Ontario, Canada with a Bachelor of Business Administration and subsequently received his Master of Business Administration from The Hong Kong University of Science and Technology.

MR. CHOY KAI SING, aged 54, joined the Group in June 1998. Mr. Choy is currently the Chief Financial Officer and the Company Secretary of the Company and has also served as a director of certain subsidiaries of the Company. He was appointed as an Executive Director and an authorised representative of the Company in August 2009 and September 2009 respectively. He is responsible for the finance and accounting affairs of the Group. Mr. Choy is a fellow member of Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in England and Wales. He is a Certified Public Accountant and has over 20 years working experience in auditing, accounting and investment banking.

MR. HO HON CHUNG, IVAN, aged 63, was appointed as an Executive Director of the Company in November 2009 and has also served as a director of certain subsidiaries of the Company. Mr. Ho has been in the travel industry and consultancy services for over 20 years, principally in the senior managerial position.

MR. FUNG WA KO, aged 56, is currently a Non-executive Director of the Company. Mr. Fung joined the Group as an Executive Director and the Chief Executive Officer of the Company in October 2003. He was appointed as the Deputy Chairman of the Company in April 2004 and has become the Chairman and an authorised representative of the Company in August 2006. In September 2009, Mr. Fung was re-designated from an Executive Director to a Non-executive Director and resigned as the Chief Executive Officer and an authorised representative. He resigned as the Chairman of the Company in October 2011. Mr. Fung has over 20 years of experience in the area of business development, corporate management and budget control. He received his education in the United Kingdom and has worked in various management positions in Hong Kong, Mainland China, and other countries in Asia Pacific Regions.

MR. FUNG SIU KIT, RONNY, aged 74, joined the Group as an Independent Non-executive Director of the Company in August 2009. He is also the chairman of remuneration committee and the member of audit committee and nomination committee of the Company respectively. Mr. Fung has worked for a local bank for 20 years and has over 30 years of experience in banking, finance, investment and securities. Currently, he is a director of Goldfield Asia Investment Limited, a company provides gold/silver trading in Hong Kong.

MR. LEUNG CHI HUNG, aged 62, joined the Group as an Independent Non-executive Director of the Company in September 2003. He is also the chairman of audit committee and the member of nomination committee and remuneration committee of the Company respectively. Mr. Leung has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. He is a certified public accountant (Practising) in Hong Kong and a director of Philip Leung & Co. Limited. Mr. Leung is also an independent non-executive director of eForce Holdings Limited, Finet Group Limited, REF Holdings Limited and WT Group Holdings Limited, those companies are listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS OF THE COMPANY

MR. TSE YUEN MING, aged 50, joined the Group as an Independent Non-executive Director of the Company in August 2003. He is also the chairman of nomination committee and the member of audit committee and remuneration committee of the Company respectively. Mr. Tse is a partner of Messrs. Tung, Ng, Tse & Heung. He holds a bachelor of laws degree with honour from the University of Hong Kong and admitted to The Supreme Court of Hong Kong as a solicitor in 1993. Mr. Tse is also an independent non-executive director of Celebrate International Holdings Limited and Inno-Tech Holdings Limited, those companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Tse is also the Vice President of The Hong Kong Chamber of Small and Medium Business and the Legal Adviser of Life Underwriters & Sales Executives Board (HK) Ltd.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

A review of the Group's business and an indication of likely future developments in the Group's business as required by Schedule 5 to the Hong Kong Companies Ordinance are set out in the CEO's Statement and the Management Discussion and Analysis of this Annual Report. In addition, description of the principal risks and uncertainties facing the Group are provided in the Management Discussion and Analysis and notes 4, 35 and 36 to the consolidated financial statements in this Annual Report. The review and description form part of the Director's Report. No important event affecting the Group has occurred since the end of the financial year under review.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis on page 5 which forms part of the Directors' Report but not part of the audited financial statements.

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Detailed discussions on the Group's environmental policies and the relationships with its key stakeholders are set out in the Environmental, Social and Governance Report of this Annual Report. The discussions form part of the Directors' Report.

RESULTS

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 55.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 58.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 25 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2017, the Company's reserves consisted of contributed surplus of HK$84,239,000 (2016: HK$84,239,000) and accumulated losses of HK$414,627,000 (2016: HK$419,329,000).

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

Non-executive Director

Mr. Fung Wa Ko

Independent Non-executive Directors

Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

In accordance with Bye-Law 87 of the Company's Bye-Laws, Mr. Au Tat Wai, Mr. Choy Kai Sing and Mr. Fung Siu Kit, Ronny retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company entered into letters of appointment with all directors for a period of 3 years from the date of their appointment or re-election by Shareholders, whichever is the later. Such term shall end in any event on either: (i) terminated by either party given the other not less than 3 months' notice; or (ii) the date on which the Director shall retire by rotation as required by the Bye-Laws of the Company, whichever is the earlier.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Updated biographical details of Directors are set out on pages 11 to 12, as well as the changes in their emoluments as set out in note 11 to the consolidated financial statements, of this annual report.

Changes in Director's information under Rules 13.51B (1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") are as follows:

— Mr. Leung Chi Hung, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of WT Group Holdings Limited (a company listed on the Stock Exchange) with effect from 1st December, 2017.

— Mr. Tse Yuen Ming, an Independent Non-executive Director of the Company, resigned as an independent non-executive director of Runway Global Holdings Company Limited (a company listed on the Stock Exchange) with effect from 5th June, 2017.

Save as disclosed above, there is no other changes in the Directors' information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

INTERESTS OF DIRECTORS

As at 31st December, 2017, none of the Company's directors or chief executives of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO; or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

SHARE OPTION SCHEME

The Company had a share option scheme which was adopted on 9th January, 2006 (the "2006 Scheme"). At the annual general meeting of the Company held on 29th May, 2015, the shareholders of the Company approved the termination of the 2006 Scheme and the adoption of a new share option scheme (the "2015 Scheme"). The 2015 Scheme is subsequently adopted on 2nd June, 2015 (the "Adoption Date"). There is no material difference between the terms of the 2006 Scheme and the 2015 Scheme.

Particulars of the share option scheme of the Company are set out in note 27 to the consolidated financial statements.

Since the Adoption Date and up to 31st December, 2017, no share options have been granted pursuant to the 2015 Scheme.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31st December, 2017, to the best knowledge of the Company's directors or chief executives of the Company, the following parties (other than the Company's directors or chief executives of the Company), had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long positions of the substantial shareholders in the shares of the Company:

Name of shareholder	Capacity	No. of shares held	Approximate percentage of total issued share capital
Ever Achieve Enterprises Limited (Note 1)	Beneficial owner	202,323,133	8.32%
Yuen Kin Wing (Note 1)	Interest of controlled corporation	202,323,133	8.32%
Bingo Chance Limited (Note 2)	Beneficial owner	140,000,000	5.76%
Elite Plan Investments Limited (Note 2)	Interest of controlled corporation	140,000,000	5.76%
Wulglar Wai Wan (Note 2)	Interest of controlled corporation	140,000,000	5.76%

Notes:

1. The entire issued share capital of Ever Achieve Enterprises Limited is beneficially owned as to 50% by Mr. Yuen Kin Wing, as to 25% by Mr. Chung Chiu Pui and as to 25% by Ms. Foo Hang Luen, Monita.

2. Ms. Wulglar Wai Wan is an elder sister of Mr. Ho Hon Chung, Ivan, whom is an Executive Director of the Company. She is the sole ultimate beneficial owner of Elite Plan Investments Limited ("Elite") and Bingo Chance Limited, a wholly-owned subsidiary of Elite. She is deemed to be interested in 140,000,000 shares which are held by Bingo Chance Limited under the SFO.

Save as disclosed above, as at 31st December, 2017, the Company's directors or chief executives of the Company are not aware of any other person (other than the Company's director or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No other transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Option Scheme", at no time during the year ended 31st December, 2017 was the Company or any of its subsidiaries, fellow subsidiaries or its parent company a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2017, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 40% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 13% of the Group's total turnover.

For the year ended 31st December, 2017, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 58% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 24% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every director shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 19 to 33.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2017.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

AU TAT WAI
Executive Director

Hong Kong
28th March, 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and will bring long-term benefits to the Shareholders. For this reason, the Company is always committed to upholding high standards of corporate governance and has adopted a set of sound governance principles, practices and procedures, to systematically review the work procedures in different departments. Risk Management Policy has been established to formalise the risk management of the Group, to build up a standard and effective risk management system, improve the ability of risk prevention, so as to ensure the Group is operating in a safety and steady environment, the operation management level could be increased and the Group's operational strategy and target could be achieved. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and complied with all the code provisions as set out in the CG Code, except the deviations in paragraph headed "Chairman and Chief Executive".

Following sustained development of the Company, the Board and senior management will continue to monitor the corporate governance practices of the Company to ensure that daily business activities and decision-making processes are regulated in a proper and prudent manner.

CORPORATE GOVERNANCE STRUCTURE

The Board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Under the Board, there are currently 3 sub-committees, namely audit committee, nomination committee and remuneration committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

BOARD OF DIRECTORS

Board Composition

The Board members for the year ended 31st December, 2017 and up to the date of this annual report are:

Executive Directors
Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

Non-executive Director
Mr. Fung Wa Ko

Independent Non-executive Directors
Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

The biographical details of all Directors and the relationships among them are set out in the "Directors of the Company" on pages 11 to 12 of this annual report.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors

Pursuant to Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, the Company has appointed 3 Independent Non-executive Directors, representing more than one-third of the Board, of whom Mr. Leung Chi Hung is a certified public accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and now is the members of international accountancy bodies.

The Independent Non-executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also the members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations.

The Company has received from each of its Independent Non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers Mr. Fung Siu Kit, Ronny, Mr. Leung Chi Hung and Mr. Tse Yuen Ming are independent.

Role and Functions of the Board

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and overseeing management. The Board also focuses on overall strategies and policies with particular attention paid to the development and financial performance of the Group.

The Board delegates the authority and responsibility for implementing day-to-day operations and management of the Group to Executive Directors and senior management, and certain specific responsibilities to the Board committees. The Board reserves certain key matters for its approval including the Group's long-term strategy, internal control, annual and half-yearly financial results and Shareholder communications, etc. Decisions of the Board are communicated to the management through Executive Directors who have attended the board meetings.

When the Board delegates certain aspects of its management functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances. The final decision still rests with the Board unless otherwise provided for in the terms of reference of relevant committees.

BOARD OF DIRECTORS (continued)

Board Meetings and Board Practices

The Board meets at least 4 times regularly a year to review the financial and operating performance of the Group. Throughout the year, 1 general meeting and 8 board meetings were held, in which 4 are regular board meetings. Details of the Directors' attendance are as follows:

	Attendance in general meeting	Attendance in board meetings
Executive Directors		
Mr. Au Tat Wai *(Chief Executive Officer)*	1/1	8/8
Mr. Choy Kai Sing	1/1	8/8
Mr. Ho Hon Chung, Ivan	1/1	7/8
Non-executive Director		
Mr. Fung Wa Ko	1/1	8/8
Independent Non-executive Directors		
Mr. Fung Siu Kit, Ronny	1/1	8/8
Mr. Leung Chi Hung	1/1	8/8
Mr. Tse Yuen Ming	1/1	8/8

Notice of at least 14 days has been given to all Directors for all regular board meetings and all the Directors can include matter for discussion in the agenda whenever they consider appropriate and necessary. The Directors will receive details of agenda items for decision at least 3 days before regular meetings. Apart from the regular board meetings of the year, the Board had met on other occasions when a board level decision on a particular matter is required. Minutes of the board meetings will be received by those Directors within reasonable time after the meetings.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information. Where queries are raised by Directors, the management is responsible to respond as promptly and fully as possible. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in performing their duties to the Company. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that board procedures are being followed. The Company Secretary is also responsible for ensuring the procedures of the board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the board meetings. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. The minutes are open for inspection at any reasonable time on reasonable notice by any Director.

If a substantial Shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at the relevant board meeting. Any Director who or whose associates have any material interest in any proposed board resolutions will not be counted as a quorum in the relevant board meeting and will be regarded as no vote for the board resolutions.

BOARD OF DIRECTORS (continued)

Continuing Professional Development

The Company Secretary is responsible to update the Board on governance and regulatory matters.

Introduction tailored kit will be given to newly appointed director to his individual needs. This includes introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. The Board is regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions.

The Company will arrange and/or introduce some Director's training courses for them to develop and explore their knowledge and skills.

According to the code provision A.6.5 of the CG Code, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the board remains informed and relevant.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on the Directors' training. During the year ended 31st December, 2017, the following Directors have participated in continuous professional development by attending seminars or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company:

Directors	**Topics on training covered** *(Note)*
Executive Directors:	
Mr. Au Tat Wai *(Chief Executive Officer)*	(c)
Mr. Choy Kai Sing	(a), (b), (c)
Mr. Ho Hon Chung, Ivan	(a)
Non-executive Director:	
Mr. Fung Wa Ko	(a)
Independent Non-executive Directors:	
Mr. Fung Siu Kit, Ronny	(c)
Mr. Leung Chi Hung	(a), (b), (c)
Mr. Tse Yuen Ming	(a), (b)

Notes:

(a) corporate governance

(b) regulatory

(c) managerial/financial/economic

Directors' and Officers' Liabilities

The Company has arranged for appropriate insurance covering the liabilities of the Directors that may arise out the corporate activities, which has been complied with the CG Code. The insurance coverage is reviewed on an annual basis.

BOARD OF DIRECTORS (continued)

Appointment, Re-election and Removal

Mr. Fung Wa Ko, the Non-executive Director, and Mr. Leung Chi Hung and Mr. Tse Yuen Ming, the Independent Non-executive Directors, who were re-elected by the Shareholders in the 2017 annual general meeting, had entered into the letters of appointment with the Company on 26th May, 2017.

Mr. Au Tat Wai and Mr. Ho Hon Chung, Ivan, the Executive Directors, and Mr. Fung Siu Kit, Ronny, the Independent Non-executive Director, who were re-elected by the Shareholders in the 2016 annual general meeting, had entered into the letters of appointment with the Company on 27th May, 2016.

Mr. Choy Kai Sing, the Executive Director, who was re-elected by the Shareholders in the 2015 annual general meeting, had entered into the letter of appointment with the Company on 29th May, 2015.

The current letters of appointment of all Directors are for an initial term of 3 years from their respective dates of re-election by Shareholders. Such term shall end in any event on either: (i) termination by either party given the other not less than 3 months' notice; or (ii) the date on which the Director shall retire by rotation as required by the Bye-Laws of the Company, whichever is the earlier. The appointment of each Director is subject to retirement by rotation and re-election as required by the Bye-Laws of the Company.

According to the Bye-Laws of the Company, any director so appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years, so as to comply with code provision A.4.2 of the CG Code.

Chairman and Chief Executive

According to the CG Code requirement, 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. The chairman has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. The chairman ensures that the Board works effectively and performs its responsibilities, and all key and appropriate issues are discussed by the Board in a timely manner.

Upon the resignation of Mr. Fung Wa Ko as the Chairman on 14th October, 2011, there have been no Chairman in the Company. During the year ended 31st December, 2017, Mr. Au Tat Wai and Mr. Choy Kai Sing acted as the Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Au Tat Wai is responsible for all day-to-day corporate management matters and Mr. Choy Kai Sing is responsible for corporate financial matters. Since there is no Chairman in the Company during the year ended 31st December, 2017, there was no meeting held between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present.

According to the code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the Audit, Nomination and Remuneration Committees to answer the questions at the general meeting. Since there was no Chairman in the Company during the year ended 31st December, 2017, the Company did not comply with code provision E.1.2.

The Board does not have the intention to fill the position of Chairman at present and believes that the absence of a Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the Board. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of Chairman. Appointment will be made to fill the post to comply with the CG Code if necessary.

COMMITTEES OF THE BOARD

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. In order to comply with the CG Code, the terms of reference of the Nomination Committee were amended and approved on 28th March, 2012. They include making recommendations for all appointment and re-appointment of Directors to the Board and the relevant terms of reference are available on the websites of the Stock Exchange and the Company. The Nomination Committee currently comprises 3 members, all of whom are Independent Non-executive Directors and its members are:

Mr. Tse Yuen Ming *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung

The Nomination Committee has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. It is also responsible for assessing the independence of each Independent Non-executive Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's composition, the Nomination Committee considers a number of factors, including those set out in the CG Code.

In accordance with the Company's Bye-Laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with bye-law 87 of the Company's Bye-Laws, Mr. Au Tat Wai, Mr. Choy Kai Sing and Mr. Fung Siu Kit, Ronny will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

During the year ended 31st December, 2017, the Nomination Committee has reviewed the structure, size and composition of the Board, including the balance of skills, knowledge and experience and independence of the Independent Non-executive Directors and made recommendation to the Board accordingly.

The Nomination Committee formulated the board diversity policy of the Company. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

In designing Board's composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

COMMITTEES OF THE BOARD (continued)

Nomination Committee (continued)

The Nomination Committee reviews the composition of the Board from diversified angles up to the date of this annual report and summarised as follows:

		No. of Director
Age group:	40–50	2
	51–60	2
	≥ 61	3
Gender:	Male	7
	Female	0
Educational background:	Hong Kong	4
	Overseas	3
Professional experience:	Professional associated	3
	Entrepreneur/Merchant	4
Length of service (year):	1–10	2
	≥ 11	5
Designation:	Executive Director	3
	Non-executive Director	1
	Independent Non-executive Director	3

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. at least one third of the members of the Board shall be independent non-executive directors; and

2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

The Board has achieved the measurable objectives under board diversity policy for the year ended 31 December 2017.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the board diversity policy of the Company, as appropriate, to ensure its effectiveness and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee also monitors the implementation of the board diversity policy of the Company and reports to the Board on the achievement of the measurable objectives for achieving diversity under the board diversity policy of the Company.

COMMITTEES OF THE BOARD (continued)

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. In order to comply with the CG code, the terms of reference of the Remuneration Committee were amended and approved on 28th March, 2012. The latest terms of reference are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee currently comprises 3 Independent Non-executive Directors and its members are:

Mr. Fung Siu Kit, Ronny *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

The Remuneration Committee performed the responsibility of making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, including any compensation payable for loss or termination of their office or appointment and advising the Board on the remuneration of all Non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account of the corporate goals and objectives of the Group as well as the performance of those individual Directors and senior management.

Remuneration package for Executive Directors:

1. The remuneration for the Executive Directors comprises basic salary, annual bonus, other benefits and retirement benefits scheme.

2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

3. In addition to basic salary, Executive Directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.

4. In order to attract, retain and motivate executives and key employees of the Group, the Company has adopted a share option scheme on 2nd June, 2015 (the "Share Option Scheme"). Such incentive scheme enables the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimise their contributions to the Group.

Details of the amount of Directors' emoluments during the financial year ended 31st December, 2017 are set out in note 11 to the consolidated financial statements and details of the Share Option Scheme are set out in the Directors' Report and note 27 to the consolidated financial statements.

During the year ended 31st December, 2017, the significant matters discussed by the Remuneration Committee are summarised as follows:

- Reviewed and approved the current remuneration policy of the Group; and

- Reviewed the remuneration package of the board members and senior management of the Group and made recommendation to the Board.

COMMITTEES OF THE BOARD (continued)

Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 12th January, 2000 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the CG Code, the latest terms of reference of the Audit Committee were adopted on 1st January, 2016 and are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently comprises 3 Independent Non-executive Directors and its members are:

Mr. Leung Chi Hung *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Tse Yuen Ming

The primary duties of the Audit Committee are to review, supervise and ensure the objectivity and credibility of financial reporting system, the internal audit function, risk management and internal control systems as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year ended 31st December, 2017, the Audit Committee had performed the following work:

1. reviewed the audited financial statements for the year ended 31st December, 2016 and the unaudited financial statements for 3 months ended 31st March, 2017, 6 months ended 30th June, 2017 and 9 months ended 30th September, 2017;

2. reviewed the accounting principles and practices adopted by the Group;

3. reviewed the auditing and financial reporting matters;

4. reviewed the re-appointment of external auditors of the Company;

5. reviewed the daily operation work-flow of the major departments and divisions for sub-group;

6. reviewed the effectiveness of risk management and internal control systems; and

7. reviewed the effectiveness of the internal audit function.

Each member of the Audit Committee has unrestricted access to the auditors and all senior management of the Group. During the year ended 31st December, 2017, the Audit Committee had met twice with the external auditors of the Company.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, Certified Public Accountants ("Deloitte Touche Tohmatsu"), be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

At the meeting held on 8th February, 2018, the Audit Committee reviewed the risk management and internal control review report. At the meeting held on 26th March, 2018, the Audit Committee also reviewed the Directors' report and audited financial statements for the year ended 31st December, 2017 together with the annual results announcement, with a recommendation to the Board for approval.

COMMITTEES OF THE BOARD (continued)

Attendance Record at Board Committee Meetings

The following table shows the attendance of the Board Committee meetings during the year:

	Number of meetings attended/ Number of meetings held		
	Audit Committee	Nomination Committee	Remuneration Committee
Mr. Fung Siu Kit, Ronny	6/6	1/1	1/1
Mr. Leung Chi Hung	6/6	1/1	1/1
Mr. Tse Yuen Ming	6/6	1/1	1/1

The Board has ensured that the Board Committees are provided with sufficient resources to perform their duties.

Corporate Governance Functions

According to code provision D.3 of the CG Code, the Board is responsible for performing the corporate governance duties of the Company in accordance with the written terms of reference adopted by the Board on 28th March, 2012. The Board shall have the following duties and responsibilities for performing the corporate governance duties of the Company:

- to develop and review the Group's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Group's compliance with the corporate governance code as set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report in annual report of the Company.

During the year ended 31st December, 2017, the Board has held 2 meetings for discussing corporate governance functions.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee and the Board have reviewed the Company's audited financial statements for the year ended 31st December, 2017. The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 48.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Securities Dealing Policy during the year under review. No incident of non-compliance was noted by the Company during the year under review.

EXTERNAL AUDITORS AND THEIR REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2017 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31st December, 2017 have been audited by Deloitte Touche Tohmatsu.

The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors of the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Deloitte Touche Tohmatsu to discuss the scope of their audit.

For the year ended 31st December, 2017, the external auditors of the Group provided the following services to the Group:

	2017 **HK$'000**	2016 HK$'000
Audit service	**950**	930
Non-audit service — review on interim results	**230**	230
Total:	**1,180**	1,160

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has responsibility for maintaining appropriate and effective risk management and internal control systems (the "RM and IC Systems") of the Group and reviewing its effectiveness through the Audit Committee. The Board has delegated its audit committee to review the Group's risk management and internal control matters at half-yearly period. The RM and IC Systems are designed to manage rather than eliminate risks of failure in operational systems so that the Company's objective can be achieved, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has an effective financial reporting system including the adequacy of resources, qualified and experienced of staff and its training programmes and budget of the Group's accounting and financial reporting function.

The system of the internal control is designed to ensure that the financial and operational function, compliance control system, material control, asset management and risk management function are in place and functioning effectively to achieve business objective of the Group and prevent damage to the public image.

The Group has adopted a set of internal control procedures and policies for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial reporting used for business and publication, and ensuring the compliance with the relevant legislation and regulations.

The Company has adopted a whistleblowing policy since 28th March, 2012, which intended to encourage and enable employees to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters. No case of whistleblowing was noted by the Audit Committee during the year under review.

The Board, through the Audit Committee, has conducted the risk management and internal control review. The Company has been putting a lot of effort on improvement of its risk management and internal control. Risk Management Policy has been established to formalise the risk management of the Group.

The Board sets the risk management objectives through board meetings from time to time. The Group has adopted a series of internal control measures including the strengthening of reporting lines of senior management. As a routine procedure and part of the RM and IC Systems, Executive Directors and the senior management would meet at least once a week to review the financial and operating performance of the key operating subsidiaries. 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.

To further strengthen the risk management and internal control of the Group, the Company has engaged an independent professional adviser (the "Internal Control Adviser") to carry out the internal audit functions by performing independent appraisal of the adequacy and effectiveness of certain subsidiaries' RM and IC systems. The Internal Control Advisor has conducted a review of and made recommendations to improve the effectiveness of the Group's risk management and internal controls systems (the "RM and IC Review").

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company also has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest. The Company conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities & Futures Commission in 2012; and the "Guide on Disclosure of Price-sensitive Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Stock Exchange in 2002 and 2008 respectively. The Company has adopted an overall policy of open communication by pursuing the broad, non-exclusionary distribution of information to the public. The Company has imposed a strict prohibition on the unauthorised use of confidential or inside information. Such prohibition is included respectively in the Code of Conduct of the Board which applies to all Directors; and the Employee Handbook which applies to all staff. Information which is expected to constitute inside information under the Listing Rules or the Securities & Futures Ordinance (the "SFO") will be announced as soon as reasonably practicable after it becomes known to the Board and/or is the subject of a decision by the Board unless the information falls within any of the safe harbours as provided in the SFO. To ensure that the existing procedures continue to operate smoothly in practice, the Company undertakes regular reviews of the procedures having regard to the regulatory requirements and the expectations of the Shareholders and other stakeholders.

During the year ended 31st December, 2017, the Audit Committee, with the assistance of the Internal Control Adviser, reviewed the effectiveness of the cold storage and related business' RM and IC Systems in various aspects including human resources and payroll cycle, property, plant and equipment cycle and cash management and treasury cycle.

The Internal Control Adviser carried out the RM and IC Review on the above cycles and executed the RM and IC Review which involves the following tasks:

1. Conducting interviews with relevant management and staff members relating to the risk management and internal controls

2. Conducting walk-through relating to the RM and IC Review

3. Reviewing relevant documentation on site relating to the RM and IC Review

4. Identifying significant deficiencies in the design of the risk management and internal controls

5. Communicate the significant findings with the management so as to confirm the factual accuracy of the findings

After the RM and IC Review, the management will provide an action plan so as to mitigate those identified deficiencies in a timely manner. All internal control findings will be properly followed up closely and reviewed by Internal Control Adviser to ensure that the action plan is implemented accordingly.

During the year ended 31st December, 2017, the Board was satisfied that the Group's risk management and internal control processes are adequate to meet the needs of the Group in its current business environment and that nothing has come to its attention to cause the Board to believe the Group's RM and IC Systems are inadequate. Moreover, the existing RM and IC Systems are effective and adequate, and will continue to be reviewed, added on or updated to provide for changes in the operating environment.

COMPANY SECRETARY

All Directors have access to the advice and services of our Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, our Company Secretary is responsible for facilitating communications among Directors as well as with the management. Mr. Choy Kai Sing has been appointed as the Company Secretary of the Company since 6th August, 2003. The biographical details of Mr. Choy Kai Sing are set out under the section headed "Directors of the Company". According to the Rule 3.29 of the Listing Rules, Mr. Choy Kai Sing has taken no less than 15 hours of relevant professional training for the year ended 31st December, 2017.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company uses two-way communication channels to account to Shareholders and investors for the performance of the Company. The Company values communication with Shareholders and investors. Enquiries and suggestions from Shareholders or investors are welcomed, and enquiries from Shareholders may be put to the Board through the following channels to the Company Secretary:

1. By mail to the Company's head office at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong;

2. By telephone at telephone number (852) 3107 8600;

3. By fax at fax number (852) 2111 1438; or

4. By email at irelations@daidohk.com.

The annual general meeting is the principal forum for formal dialogue with Shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the business of the Group. The management will ensure the external auditors of the Company to attend the forthcoming annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors independence.

According to the Company's Bye-Laws, Shareholders may request the Board at all times to call special general meetings if Shareholder(s) holds not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company at the date of deposit of the requisition. Shareholders shall request the Board to call special general meetings by written requisition to the Board or the Company Secretary of the Company through the above channels for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of the act of Bermuda.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS (continued)

If a Shareholder wishes to propose a person (the "Candidate") other than the retiring Directors, for election as a Director at a general meeting, a written notice (the "Notice") shall be deposited at the Company's head office in Hong Kong at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Notice (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules and his/her contact details; and (ii) must be signed by the Shareholder concerned including the information/documents to verify the identity of the Shareholder and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal data.

The period for lodgement of the Notice shall commence no earlier than the date after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

In order to ensure the Shareholders have sufficient time to receive and consider the proposal of election of the Candidate as a Director without adjourning the general meeting, Shareholders are urged to submit and lodge the Notice as soon as practicable, say at least 15 business days prior to the date of the general meeting appointed for such election.

Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to Shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the website of the Stock Exchange. In order to provide effective disclosure to the Shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

The Board has established a Shareholders communication policy on 28th March, 2012 and reviews it on a regular basis to ensure its effectiveness to comply with the code provision E.1.4 of the CG Code.

In order to promote effective communication, the Company also maintains website (www.irasia.com/listco/hk/daido/index.htm) which discloses the latest information relating to the Group and its businesses.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT US

Daido Group Limited ("Daido" or "The Group") is principally engaged in cold storage and related services in Hong Kong. The Group aims to provide a one-stop range of quality cold storage, warehousing facilities and logistics services. While strengthening its core businesses, the Group also places great emphasis on diversification in its growth strategy, with the Group engaging in trading and related services in Mainland China, as well as money lending services and investment holding in Hong Kong.

Cold storage remains the Group's core business and principal income driver. Through Brilliant Cold Storage Management Limited, Brilliant Top In Logistics Limited and Brilliant Giant Trading Limited — three indirect wholly-owned subsidiaries of the Group — the Group provides warehousing and storage, transportation and distribution, container hauling and devanning, packaging and various types of valued-added services.

Vision

To serve our clients with the best and highest quality services all the time

ABOUT THIS REPORT

This is the second Environmental, Social and Governance ("ESG") Report published by the Group. By reporting the policies, measures and performances of the Group in environmental, social and governmental aspects, it allows all stakeholders to understand its progress and development direction.

Available in both Chinese and English, the report has been uploaded to the website of the Group (www.irasia.com/listco/hk/daido/index.htm) and the Stock Exchange of Hong Kong Limited ("SEHK").

Reporting Boundary

This report focuses on the operation of the Group's main business in cold storage and logistics services in Hong Kong between 1st January, 2017 and 31st December, 2017. For easy comparison of the Group's yearly performance, the structures of the two reports align as closely as possible. While this report does not cover all of the Group's operations, the aim of the Group is to consistently upgrade the internal data collection procedure and gradually expand the scope of disclosure.

Reporting Standard

This report is prepared in accordance with the 'comply or explain' provisions of Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") launched by the SEHK. The four reporting principles: materiality; quantitative; balance; and consistency form the backbone of this report. Also, the report includes selected key performance indicators that are categorized by the ESG Reporting Guide as 'recommended disclosures' for enhanced reporting.

A complete index is inserted in the last chapter for reader's easy reference.

To ensure the accuracy of environmental key performance indicators, the Group commissioned a professional consultancy, Carbon Care Asia ("CCA"), to conduct a carbon assessment according to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong prepared by the Environmental Protection Department and the Electrical and Mechanical Services Department of Hong Kong.

Confirmation and Approval

Information documented in this report is sourced from the official documents, statistical data, management and operation information of and collected by the Group and its subsidiaries according to the policies of the Group. The report has been approved by the board of directors' on 28th March, 2018.

Opinion and Feedback

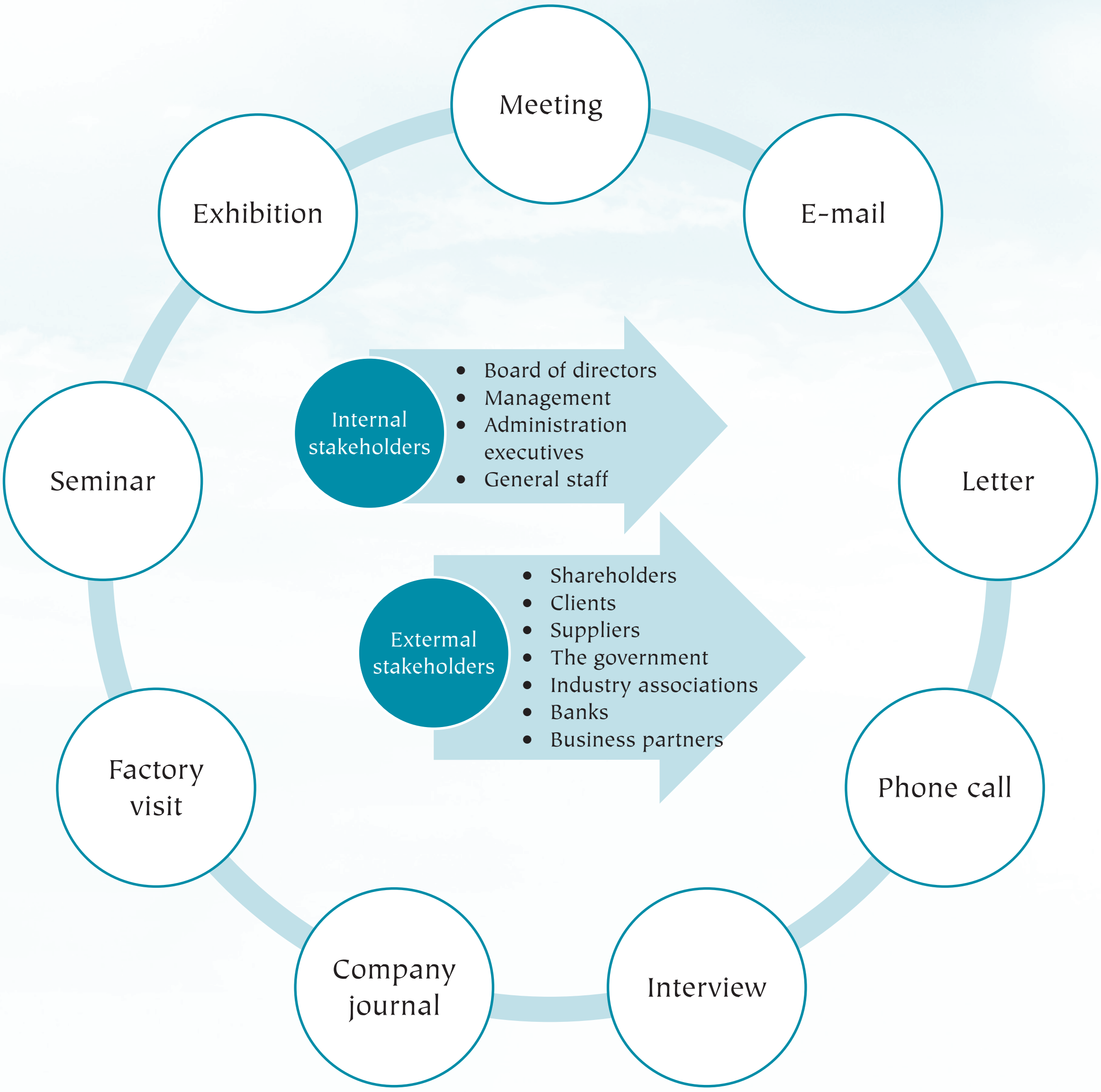
The Group values the opinion of stakeholders. If you have any questions or suggestions regarding the content or format of the report, please contact the Group via the following channels:
Address: Unit No. 1906, 19th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong
Email: irelations@daidohk.com
Fax: (852) 2111 1438

STAKEHOLDER ENGAGEMENT

As a key in the business management of the Group, stakeholder[1] participation helps the Group review potential risks and business opportunities. Exchange with stakeholders and understanding their views allow the Group to better fulfil their needs and expectations with its business practice and manage different stakeholders' opinions. The Group constantly communicates with key internal and external stakeholders via various channels. This ensures that they have the opportunity to learn about the Group's development and operation directions and offers the Group the chance to listen to them in order to identify the priority of issues and develop corresponding policies.

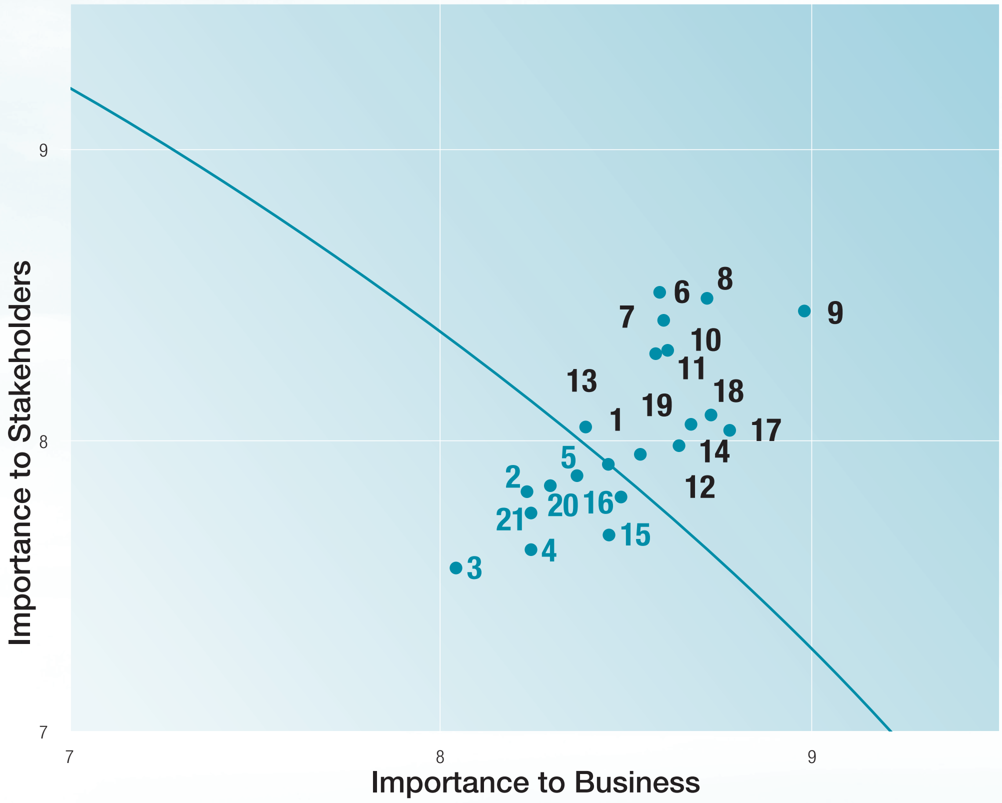
1 Stakeholders refer to groups or individuals materially influencing or affected by the Group's business. Internal stakeholders include board of directors, management, administration executives and general staff. External stakeholders include shareholders, clients, suppliers, the government, industry associations, banks and business partners.

Main Means of Stakeholder Engagement



Regarding the material analysis in the reporting year, the Group commissioned an independent consultancy, CCA, to carry out different methods of stakeholder engagement. An in-depth interview was conducted with the senior management of the Group to understand its vision and goals in sustainability, followed by a survey for internal and external stakeholders to express their views. A total of 384 questionnaires were distributed to the Group's stakeholders and 95 valid responses were received. Combining the results of interview and expert advice, the Group has identified 13 material issues from the 11 environmental and social aspects from the ESG Reporting Guide to be the material focus of this report.

Daido's Materiality Matrix 2017



Number	Issues
9	Health and safety: Personal protective equipment
8	Health and safety: Job hazard analysis and safety measures
6	Employment
7	Equal opportunities, diversity and anti-discrimination
10	Employee training
11	Development opportunities
17	Protection of client's rights
18	Anti-corruption
19	Grievance mechanism for anti-corruption
14	Supply chain management: risk analysis
12	Prevention of child labour
13	Prevention of forced labour
1	Management of emissions
16	Product responsibility
5	Understanding of operation's impact on the environment
15	Supply chain management: monitoring
20	Community investment: understanding of community needs
2	Management of waste
21	Community investment: resources investment
4	Measures for efficiency in energy and paper use
3	Measures for efficiency in water use

To ensure the effectiveness of stakeholder engagement, the Group dedicates itself to establishing communication mechanisms for transparency, integrity and accuracy and providing timely response to stakeholders on an ongoing basis. In the future, the Group will consider the possibility of strengthening its interaction with stakeholders to create mutually beneficial relationships.

MANAGEMENT MESSAGE

"As one of the leading providers of cold storage and logistics services in Hong Kong, Daido is at the forefront of sustainability in that we must shoulder our share of the responsibility."

We are proud to present our second Environmental, Social and Governance report, which allows us to communicate our commitment to environmental and social performance to our stakeholders.

This report outlines the efforts and plans of Daido in the journey towards achieving continuous development. It also serves as a point of reference for the industry and our company to continuously refine our environmental and social performance.

As one of the leading providers of cold storage and logistics services in Hong Kong, Daido is at the forefront of sustainability in that we must shoulder our share of the responsibility. Since 2016, we have replaced traditional refrigerant with more environmentally friendly alternatives. This symbolises a move for us to not only go greener but also enable our clients to move towards a more sustainable future.

An integral part of our success is our people. It is our aim to provide safer and more comfortable working environment for our staff to enhance their well-being. We firmly believe that employees' wellness is key to sustaining continued growth of our company. At Daido, it is also imperative that we invest in the personal development of employees because a stronger team can efficiently turn our vision into a growing business.

Our business nature puts us at a unique position to mitigate climate change. The immense challenges posed by climate change inevitably drive Daido to innovate and adapt to maintain growth while maximising the results of sustainability efforts with limited resources. While satisfying commercial needs for refrigeration and logistics, we will push ourselves to fulfil the society's expectations of corporate sustainable practices by actively reducing our carbon emissions.

Moving forward, we will seek to establish a comprehensive sustainability agenda that will allow us to systematically gauge, implement actions and review our sustainability performance.

Au Tat Wai
Chief Executive Officer
Daido Group Limited

EMPLOYMENT AND LABOUR PRACTICES

Employee Well-being

Employees are the foundation of the Group's business growth. The Group believes that every employee should be respected. The Group places high importance on human resource management. The Group has included employment policies in its Environmental, Social and Governance Policies, covering recruitment, dismissal, working hours, compensation and benefits. A Staff Handbook is in place to ensure that all employees are aware of the policies and procedures of the Group as well as their responsibilities.

The Group supports equal opportunity, diversity and anti-discrimination. Regardless of employees' age, gender, marital status, family status, race, skin colour, nationality, religion, political affiliation or sexual orientation, the Group treats all employees on an equal footing in matters related to all employment decision including recruitment and promotion. The Group has established a grievance mechanism for employees to report any complaints, problems or concerns in the workplace. Employees can lodge their complaints with their direct supervisors, manager, Human Resources department, General Manager or Chief Executive Officer as appropriate. All complaints will be handled confidentially. The Group did not receive any employee grievances in the reporting year.

Health and Safety

The sound development of the Group substantially depends on the health and well-being of employees. The Group is dedicated to creating a healthy and safe working environment for all employees. The Group has included safety policies and guidelines in the Environmental, Social and Governance Policies and Staff Handbook.

Safety Committee

— Consists of all key management members and department heads
— Meets quarterly or biannually to discuss safety related issues

Quarterly Safety Meetings

— Review injury cases and improve workplace safety
— All key management and department heads are required to attend to ensure effective management

Safety Guidelines

— Consist of general workplace safety, fire safety, cold storage warehouse safety, elevator safety
— Available on notice boards

First Aid Equipment

— Both warehouses are equipped with first aid kits, which are managed by two responsible staff

Protective Tools

— Adequate protective tools are provided to employees to prevent accidents

Safety Representative

— Safety representatives and department heads are responsible for monitoring safety performance and ensuring the effective implementation of safety guidelines

The seven cases of minor employee injury in the reporting year mainly concerns lack of awareness of using safety equipment. To reduce such cases in the future, the Group has reviewed and communicated with all staff for continuous improvement in workplace safety. To enhance the emergency preparedness of employees, the Group conducts emergency drills regularly. In the reporting year, both warehouses have conducted a fire drill. In addition, one of the warehouses has conducted an ammonia leakage drill to address specific safety concerns in view of its business nature. Employees were duly engaged and informed of the emergency procedures.

Development and Training

The Group believes that nurturing talents is a central part of ensuring the development and strengthening of the competitiveness of enterprises.

It is the Group's aim to encourage employees' career and personal development. The Group has included training and development guidelines in its Staff Handbook. The Group provides internal training and offers full subsidies for employees who participate in external training opportunities. For staff who have already obtained qualification for their job nature, the Group will also consider the necessity to develop further training plans to address their needs in the future.

Labour Standards

Forced and child labour are business as well as ethical issues. It concerns possible infringement of basic human rights and putting the Group's reputation at risks. The Group strictly prohibits any form of child labour or forced labour in any part of our operations. We also refrain from engaging with vendors and suppliers who are involved with child labour or forced labour of any kind. Therefore, the Group adopts a zero-tolerance policy against employing child labour or forced labour in any part of its business, including the employment of its suppliers and subcontractors. As stated in the Environmental, Social and Governance Policies, the Human Resources Department is required to examine candidates' identity documents, such as ID cards and driving licenses, check the likeness of the photos in these documents and undertake an age verification check.

During the reporting year, the Group complied fully with laws and regulations relating to employment, providing a safe working environment and protecting employees from occupational hazards, as well as preventing child and forced labour.

OPERATING PRACTICES

Product Responsibility

The Group strives to maintain high levels of customer satisfaction and foster mutually beneficial relationships by providing quality and reliable services.

The Group continues to maintain its Quality Management System which complies with ISO 9001:2008 requirements, providing a clear framework for the overall management approach, operations procedures and resources allocation. For continuous improvement, the Group has upgraded the system to ISO9001:2015 in December 2017.

Due to the nature of the Group's business, a monitoring system is in place to ensure the security of the stored goods. The warehouses are guarded by security guards 24 hours a day and digital CCTV surveillance system are installed at entrance-exit; the in and out of cargos are also recorded. Customers are able to monitor the physical movement of their cargoes in the Internet through our digital CCTV surveillance system.

The Group also recognises the importance of customer data privacy. All collected customer information will only be used for business purposes and will be kept confidentially. All employees are required to handle and use customer information in compliance with the Privacy Policy. To protect the privacy rights of customers, the Group adopts a two-tier security measure for its computer system, with information stored in non-public area and access can only be granted with a password from authorized management.

In addition, the Group has in place a grievance mechanism to handle complaints from customers. The Quality Assurance Department is responsible for reviewing complaints and developing measures for corresponding improvements. The Group did not receive any complaints in the reporting year.

To solicit customers' feedback, the Group carries out a customer satisfaction survey every year. A robust procedure is in place to ensure that the Group follows up with customers with phone calls and letters to address feedback in time. From the results of the survey in the reporting year, the staff's excellent service attitude is particularly highlighted.

Supply Chain Management

Proper management of the supply chain is key to maintaining the Group's reputation and ensuring corporate sustainability. The Group gives priority to environmentally friendly and energy-saving products. A Green Procurement Policy was included in the Environmental, Social and Governance Policies, which provides purchasing guidelines such as consideration of factors including the products' recyclability, recycled content and environmental impact upon disposal.

With regards to the management of suppliers, the Group also expects suppliers to demonstrate environmental and social commitments. Suppliers are expected to adopt measures such as improving awareness of employees on environmental issues, encouraging energy conservation, as well as promoting reduction of waste in their operations. These factors are taken into the consideration by the Group in vendor selection. In the long run, to formulate a standard of sustainability in the supply chain, we will step up communication with business partners of all levels.

Anti-corruption

The Group is aware of the impact of its activities and its relationships with other members in the community. With zero tolerance for bribery, extortion, fraud and money laundering, the Group regards maintaining integrity as key to producing positive influence and promoting fair and sustainable development of society.

The Group has included anti-corruption guidance for employees in the Environmental, Social and Governance Policies. Employees are prohibited from soliciting, accepting, or offering any form of benefits that might be seen as bribe from a third party. Employees are required to report any suspicious cash movement to either an Executive Director or the Chairman of Audit Committee of the Group. The handler shall review the cases and determine if the matter shall be reported to the Independent Commission Against Corruption ("ICAC"). In addition, the Human Resources department also distributes anti-corruption materials from the ICAC to employees for better awareness.

During the reporting year, the Group did not identify any non-compliance with laws and regulations relating to product responsibility, and there were no incidents in relation to corruption that involve the Group and its employees within the reporting scope.

PROTECTING THE ENVIRONMENT

With a view to mitigating the risks of climate change and minimising its negative impact on the environment, the Group has in place the Environmental, Social and Governance Policies, which covers aspects in emissions, use of resources, and the environment and natural resources.

Emissions

Emissions of greenhouse gases and other air pollutants from the Group's business in cold storage and logistics are primarily produced from the consumption of electricity and its fleet vehicles. The Group continues to manage its emissions by optimising warehouse design and operational practices.

The Group's cold storage warehouses are divided into separate rooms maintained at specific conditions, so that storage requirements of different goods can be accommodated in a more energy efficient way.

The Group is committed to managing its waste production through reduction, recycling and reuse. With regards to water use, the Group reuses water from the daily defrosting process in cold storage warehouses to reduce waste water discharge. In addition, the Group's waste management measures include maintaining documentations as e-copies instead of hard copies, use of electronic communications and arranging for recycling of toner cartridges with the toner supplier. As a new measure in the reporting year, the Group has engaged an external waste management company for a waste and recycling review. The Group will take into consideration recommendations by the company and explore the feasibility of identifying waste streams more precisely and refining its waste reduction strategy.

Going forward, the emission data in the reporting year will serve as a foundation for developing future reduction targets. The Group will also consider establishing a group-wide carbon reduction strategy to better engage staff in our sustainability effort.

Use of Resources

It is the Group's duty to use resources efficiently and responsibly. In this regard, the following resource saving measures have been implemented:

Resource	Measures since 2016
Energy	— Installation of high-performance machinery — Use of energy-efficient vehicles — Participation in Ex-gratia Payment Scheme for Phasing Out Pre-Euro IV Diesel Commercial Vehicles of the Environmental Protection Department — Use of aluminium-free gasoline in private cars — Control of temperature of air conditioners — Replace and reduce travel with online/telephone conference
Water	— Adoption of water-saving production methods — Monitor water consumption regularly — Promote employee awareness

In the reporting year, the Group has retrofitted 80% of the lights in one cold storage warehouse with energy-saving LED lightbulbs. The group has also participated in CLP's Demand Response Programme to record detailed energy consumption data so that energy demand can be managed in an effective way, with considerations for weather and temperature changes.

Moving forward, the Group will include water and energy management as an integral part of planning for future projects to further reduce the consumption of resources.

The Environment and Natural Resources

The Group understands that, in order to generate long-term values for stakeholders and local communities, it is important to minimise the negative environmental impact of its business operations.

The Group acknowledges the environmental impact of its use of refrigerants in its operations and recognises the importance of proper management. It is the Group's goal to use refrigerants with minimal impact on the ozone layer and the climate. The Group has replaced traditional refrigerant R-22 with non-ozone-depleting refrigerant R–404A in small scales as trials. The Group will explore the feasibility of replacing all refrigerants with more environmentally friendly alternatives.

During the reporting year, the Group did not identify any non-compliance cases relating to environmental laws and regulations in the reporting scope.

INVESTING IN SOCIETY

As a caring enterprise, the Group is keen on understanding the needs and fulfilling the expectations of various stakeholders and the communities in which the Group sources, manufactures and markets its services. As stated in the Community Policy in the Environmental, Social and Governance Policies, the Group is committed to contributing to and promoting the development of the communities in which it operates.

In the reporting year, the Group has participated in various charity programmes such as Mooncakes for Charity organised by The Community Chest of Hong Kong and the Pass-it-On Campaign 2017 of Hong Kong Red Cross. The Group looks forward to further contributing to the communities in which it operates in the years to come.

KEY PERFORMANCE INDICATORS

The number and proportion of employees by gender and age group

Age group	No. of employees			
	Female		Male	
	2017	2016	**2017**	2016
Below 30	**7**	11	**11**	16
30-50	**29**	25	**64**	71
Over 50	**13**	12	**108**	106
Total no. of employees	**49**	48	**183**	193
Employee ratio between male and female in 2017	**1: 3.7**			
Employee ratio between male and female in 2016	1: 4			

The number and proportion of new employees by gender and age group

Age group	No. of employees			
	Female		Male	
	2017	2016	**2017**	2016
Below 30	**3**	1	**4**	1
30-50	**3**	5	**7**	6
Over 50	**2**	0	**4**	9
Total no. of employees	**8**	6	**15**	16
Percentage of new employees in 2017		**9.9%**		
Percentage of new employees in 2016		9.1%		

The rate of employee turnover and its percentage by gender and age group

Age group	No. of employees			
	Female		Male	
	2017	2016	**2017**	2016
Below 30	**6**	1	**4**	6
30-50	**1**	1	**8**	7
Over 50	**2**	2	**7**	9
Total no. of employees	**9**	4	**19**	22
Turnover rate in 2017		**12.1%**		
Turnover rate in 2016		10.8%		

Percentage of employees receiving regular performance and career development reviews

Type of staff	No. of employees	
	Female	Male
	2017	**2017**
Senior Managerial level	**7**	**16**
Managerial level	**9**	**26**
General staff	**33**	**141**
Total no. of employees	**49**	**183**
Percentage of employees receiving reviews in 2017	**100%**	

Health and safety key performance index

Year	Gender	No. of accident cases
2017	Male	**7**
	Female	**0**
2016	Male	6
	Female	1

ESG Reporting Guide Content Index

Material Aspect	Content	Data of reporting year	Page Index
A. Environmental			
A1 Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	–	42
A1.1	The types of emissions and respective emissions data	–	–
	Nitrogen oxides (NOx) (kilogram)	4,569.48	–
	Sulphur oxides (SOx) (kilogram)	3.69	–
	Respiratory suspended particles (RSP) (kilogram)	334.1	–
A1.2	Greenhouse gas emissions in total (tonnes CO2-e)	9,343.71	–
	Intensity of greenhouse gas emissions (tonnes CO2-e/m2 floor area)	0.15	–
A1.3	Total hazardous waste produced (tonnes)	No hazardous waste generated	
	Intensity of total hazardous waste produced (tonnes/m2 floor area)	NA	–
A1.4	Total non-hazardous waste produced (tonnes)	82.05	–
	Intensity of non-hazardous waste produced (tonnes/m2 floor area)	0.001	–
A1.5	Description of measures to mitigate emissions and results achieved	No measure to mitigate air pollutant emissions	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Non-hazardous waste is sent to landfill. There is no waste reduction measure taken	
A2 Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	–	42
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh).	13,998.42	–
	Direct and/or indirect energy intensity by type (e.g. electricity, gas or oil) (MWh/m2 floor area)	0.22	–
A2.2	Water consumption in total (m3)	10,300.56	–
	Water intensity (m3/m2 floor area)	0.16	–
A2.3	Description of energy use efficiency initiatives and results achieved	–	42
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Currently sourcing sufficient water from municipal water supplies. No water efficiency initiatives. Reuse about 20 m3 water from defrost process a day	
A2.5	Total packaging material used for finished products (tonnes)	No products and do not use packaging material	
	Packaging material intensity (tonnes/unit of product)	NA	–

Material Aspect	Content	Data of reporting year	Page Index
A3 The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	–	43
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Operation does not lead to significant impact on the environment and natural resources	
B. Social			
B1 Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	–	39
B1.1	Total workforce	–	43
	Total workforce by gender, employment type, age group and geographical region	–	43
B1.2	Employee turnover rate	–	44
	Employee turnover rate by gender, age group and geographical region	–	44
GRI 401-1	Total number of new employee hires	–	44
	Rate of new employee hires	–	44
	Total number and rate of new employee hires by gender, age group and geographical region	–	44
B2 Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	–	39
B2.1	Number and rate of work-related fatalities	0	–
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	–	39
B3 Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	–	40
GRI 404-3	Percentage of employees receiving regular performance and career development reviews	–	44
	Percentage of total employees by gender and by employee category who received a regular performance and career development review	–	44

Material Aspect	Content	Data of reporting year	Page Index
B4 Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	–	40
B4.1	Description of measures to review employment practices to avoid child and forced labour	–	40
B5 Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	–	41
B5.1	Number of suppliers by geographical region	–	–
	Hong Kong	129	–
	Mainland China	6	–
	Taiwan	1	–
	Germany	1	–
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	–	41
B6 Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	–	40
B6.4	Description of quality assurance process and recall procedures	–	40
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	–	40
B7 Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	–	41
B8 Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	–	43
B8.2	Resources contributed to the focus area	HKD 54,292	–

Deloitte. 德勤

TO THE MEMBERS OF DAIDO GROUP LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Daido Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 55 to 109, which comprise the consolidated statement of financial position as at 31st December, 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of Goodwill of cold storage and related services	
We identified estimated impairment of goodwill as a key audit matter due to the significant degree of judgement by the management in determining the amount of impairment of goodwill. As disclosed in notes 4 and 15 to consolidated financial statements, goodwill was mainly allocated to a cash-generating unit ("CGU"), which comprises of two wholly-owned subsidiaries of the Company engaging in the cold storage and logistics services. The recoverable amount of this CGU has been determined based on a value in use method in which the underlying cash flow projections is prepared with reference to the financial budgets and the underlying discount rate adopted in cash flow projections was derived by an independent qualified professional valuer. Other key assumption for value in use include budgeted revenue, gross margin, past performance of CGU and management expectations for the market development. During the year, the Group has recognised an impairment loss on goodwill amounting to HK$8,513,000 in the consolidated statement of profit or loss and other comprehensive income.	Our procedures in relation to estimated impairment of goodwill included: • Assessing the Group's key controls relating to the preparation of the cash flow projections and obtaining the value in use calculations prepared by the management; • Evaluating the appropriateness of judgements used by the management, in particular, the reasonableness of the key assumptions used when preparing the cash flow projections including the budgeted revenue, gross margin, discount rate, past performance of CGU and the management expectations for the market development; • Evaluating the competence, capabilities and objectivity of the independent valuer; • Checking the reasonableness and appropriateness of the input data in the value in use calculation by reconciling input data to the approved budget and comparing against historical performance; • Engaging our internal valuation expert to assess the appropriateness of the discount rate used; and • Evaluating the sensitivity analysis performed by the management on discount rate and its extent of impact on the value in use.

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of trade receivables	
We identified the estimated impairment of trade receivables as a key audit matter due to the significant degree of judgement involved in the estimation of the recoverability of trade receivables. As disclosed in notes 4 and 18 to the consolidated financial statements, in determining the recoverability of trade receivables, the Group considers the credit quality of the trade receivables with reference to the credit history including default or delay in payments, historical settlements, settlements of trade receivable subsequent to the end of the reporting period and the ageing analysis of the overdue receivables. As at 31st December, 2017, the carrying amount of trade receivables is HK$53,018,000 (net of allowance for doubtful debts of HK$549,000) and HK$32,243,000 are past due but not impaired.	Our procedures in relation to the recoverability of trade receivables included: • Assessing and evaluating the key controls over the Group's review of the recoverability of the trade receivables; • Assessing the reasonableness of the allowance for doubtful debts of these trade receivables prepared by the management with reference to the credit history of trade receivables including default or delay in payments, historical settlements and settlement subsequent to the period end date and the ageing analysis of the overdue receivables; • Testing, on a sample basis, the correctness of the aging analysis of trade receivables to the supporting documents; • Testing subsequent settlements of the trade receivables, on a sample basis, to supporting documents; and • Evaluating the historical accuracy of the allowance estimation by the management by comparing historical allowance made to the actual settlements and actual loss incurred and tracing the actual settlements, on a sample basis, to the supporting documents.

Key audit matter	How our audit addressed the key audit matter
Recoverability of unsecured loan receivables	
We identified the recoverability of unsecured loan receivables as a key audit matter due to significant degree of management judgement involved in determining the recoverability of the unsecured loan receivables. As disclosed in note 4 to the financial statements, in determining the recoverability of unsecured loan receivables, the Group considers the credit quality of the unsecured loan receivables with reference to the credit history of the borrowers including default or delay in payments, the historical settlements and settlements of loan interests of the unsecured loan receivables subsequent to the end of reporting period, financial background of the borrowers and its available financial information at the end of each reporting period. As disclosed in note 17 to the consolidated financial statements, as at 31st December, 2017, the unsecured loans receivable in respect of money lending services amounted to HK$27,353,000 with no impairment loss recognised.	Our procedures in relation to the recoverability of unsecured loan receivables, included: • Obtaining an understanding and evaluating the key controls over the granting of loans and the Group's decision in granting loan facilities to borrowers with or without any securities from the borrowers; • Obtaining an understanding and evaluating the key controls over the review of the recoverability of the unsecured loan receivables; • Assessing the reasonableness of the impairment loss on loan receivables prepared by the management with reference to the credit history of the borrowers including default or delay in payments, historical settlements and settlements of loan interests subsequent to the end of the reporting period, publicly available financial information of the borrowers, if any, at the end of the reporting period; and • Testing the historical and subsequent settlements of the loan interests, on a sample basis, to supporting documents.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Ka-Lai Man.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28th March, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**275,493**	305,651
Direct costs		**(245,951)**	(245,706)
Gross profit		**29,542**	59,945
Other income	6	**1,257**	791
Selling and distribution expenses		**(12,529)**	(16,198)
Administrative expenses		**(39,194)**	(41,686)
Other gains and losses	7	**(8,350)**	(827)
Share of loss of a joint venture		**–**	(7,947)
Finance costs	8	**(6,077)**	(6,405)
Loss before tax		**(35,351)**	(12,327)
Taxation	9	**–**	–
Loss for the year	10	**(35,351)**	(12,327)
Other comprehensive income (expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**381**	(682)
Total comprehensive expense for the year		**(34,970)**	(13,009)
Loss for the year attributable to:			
Owners of the Company		**(35,351)**	(12,327)
Non-controlling interests		**–**	–
		(35,351)	(12,327)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(34,970)**	(13,009)
Non-controlling interests		**–**	–
		(34,970)	(13,009)
Loss per share — basic	13	**(HK1.45 cents)**	(HK0.51 cent)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**7,578**	10,555
Goodwill	15	**68**	8,581
Available-for-sale investments	16	**38,502**	38,502
Rental deposits paid		**25,038**	21,782
Pledged bank deposits	29	**102,975**	90,005
Loan receivables	17	**12,262**	31,000
		186,423	200,425
CURRENT ASSETS			
Inventories		**693**	738
Trade and other receivables, deposits and prepayments	18	**59,490**	64,168
Loan receivables	17	**51,318**	10,893
Amount due from non-controlling interests of a subsidiary	19	**9,760**	9,760
Held for trading investments	20	**902**	702
Bank balances and cash	21	**94,792**	156,060
		216,955	242,321
CURRENT LIABILITIES			
Trade and other payables	22	**28,884**	31,429
Amount due to an investee	23	**39,042**	39,042
Obligations under finance leases	24	**594**	1,853
		68,520	72,324
NET CURRENT ASSETS		**148,435**	169,997
TOTAL ASSETS LESS CURRENT LIABILITIES		**334,858**	370,422

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2017

	Notes	2017 HK$'000	2016 HK$'000
CAPITAL AND RESERVES			
Share capital	25	**24,323**	24,323
Share premium and reserves		**195,321**	230,291
Equity attributable to owners of the Company		**219,644**	254,614
Non-controlling interests		**14,923**	14,923
		234,567	269,537
NON-CURRENT LIABILITIES			
Obligations under finance leases	24	**291**	885
Bonds	26	**100,000**	100,000
		100,291	100,885
		334,858	370,422

The consolidated financial statements on pages 55 to 109 were approved and authorised for issue by the board of directors on 28th March, 2018 and are signed on its behalf by:

AU TAT WAI
Director

CHOY KAI SING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2017

	Attributable to owners of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (note)	Accumulated losses HK$'000	Translation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2016	24,323	374,226	39,984	(170,332)	(578)	267,623	14,923	282,546
Loss for the year	–	–	–	(12,327)	–	(12,327)	–	(12,327)
Other comprehensive expense for the year	–	–	–	–	(682)	(682)	–	(682)
Total comprehensive expense for the year	–	–	–	(12,327)	(682)	(13,009)	–	(13,009)
At 31st December, 2016	24,323	374,226	39,984	(182,659)	(1,260)	254,614	14,923	269,537
Loss for the year	–	–	–	(35,351)	–	(35,351)	–	(35,351)
Other comprehensive income for the year	–	–	–	–	381	381	–	381
Total comprehensive (expense) income for the year	–	–	–	(35,351)	381	(34,970)	–	(34,970)
At 31st December, 2017	24,323	374,226	39,984	(218,010)	(879)	219,644	14,923	234,567

Note: On 24th November, 2009, every five issued and unissued existing shares of HK$0.01 each in share capital of the Company was consolidated into one consolidated share of HK$0.05 (the "Share Consolidation"). After completion of Share Consolidation, the par value of each issued consolidated share is reduced from HK$0.05 to HK$0.01 by cancelling the paid up capital to the extent of HK$0.04 on each issued consolidated share (the "Capital Reduction"). The credit arising in the accounts of the Company from the Capital Reduction was credited to capital reserve account of the Company on 18th December, 2009.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER, 2017

	Note	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES			
Loss for the year		**(35,351)**	(12,327)
Adjustments for:			
Allowance for trade receivables		**36**	504
Change in fair value of held for trading investments		**(200)**	(4)
Depreciation of property, plant and equipment		**4,849**	5,224
Finance costs		**6,077**	6,405
Loss (gain) on disposal of property, plant and equipment		**1**	(7)
Impairment loss on property, plant and equipment		**–**	289
Impairment loss on goodwill		**8,513**	–
Interest income		**(951)**	(632)
Loss on disposal of subsidiaries		**–**	45
Share of loss of a joint venture		**–**	7,947
Operating cash flows before movements in working capital		**(17,026)**	7,444
(Increase) decrease in rental deposits paid		**(3,256)**	1
Decrease (increase) in trade and other receivables, deposits and prepayments		**5,525**	(3,497)
Decrease in inventories		**45**	1,462
(Increase) decrease in loan receivables		**(21,687)**	33,536
(Decrease) increase in trade and other payables		**(3,196)**	6,554
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(39,595)**	45,500
INVESTING ACTIVITIES			
Interest received		**951**	632
Purchase of property, plant and equipment		**(1,888)**	(1,600)
Proceeds from disposal of property, plant and equipment		**15**	7
Net cash outflow from disposal of subsidiaries	31	**–**	(51)
Placement of pledged bank deposits		**(12,970)**	(5)
NET CASH USED IN INVESTING ACTIVITIES		**(13,892)**	(1,017)
FINANCING ACTIVITIES			
Interest paid		**(6,077)**	(6,167)
Repayment of promissory notes		**–**	(5,000)
Repayment of obligations under finance leases		**(1,853)**	(1,924)
NET CASH USED IN FINANCING ACTIVITIES		**(7,930)**	(13,091)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(61,417)**	31,392
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**156,060**	125,214
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**149**	(546)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**94,792**	156,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2017

1. GENERAL

Daido Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are provision of cold storage and related services, trading and related services in the People's Republic of China (the "PRC"), money lending services and investment holding.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1st January, 2018

[2] Effective for annual periods beginning on or after 1st January, 2019

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1st January, 2021

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at the end of subsequent accounting 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.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial Instruments: Recognition and Measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31st December, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in note 36(a): these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 16: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value gain relating to these securities would be adjusted to investments revaluation reserve as at 1st January, 2018; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, there would be no material impact on the accumulated amount of impairment to be recognised by the Group as at 1st January, 2018 as compared to the accumulated amount recognised under HKAS 39.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2017, the Group has as lessee non-cancellable operating lease commitments of approximately HK$103,078,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

In addition, the Company currently consider refundable rental deposits paid of HK$25,038,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests, (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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 relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on pro rata a basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Storage income is recognised on a time proportion basis over the period in which storage services are provided.

Logistics service income and related services are recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill, other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease terms, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories comprising food and beverage are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 36 (c).

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated as AFS or are not classified as financial assets at FVTPL, held-to-maturity investments, or loans and receivables.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, amount due from non-controlling interests of a subsidiary, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the receivables past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on AFS equity investments carried at cost will not be reversed through profit or loss in subsequent periods.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Bonds contain liability component and early redemption option derivative

At the date of issue, early redemption option that is closely related to the liability component is not separately accounted for and recognised at fair value at initial recognition. In subsequent periods, bonds are carried at amortised cost using the effective interest method. Transaction costs are included in the carrying amount of the bonds and amortised over the period of the bonds using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amount due to an investee, obligations under finance leases and bonds) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated impairment of goodwill of cold storage and related services

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated which is higher of value in use and fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash, further impairment loss may arise. During the year, the cash flow projections is prepared based on the financial budgets approved by the management covering 5-year period, and the underlying discount rate adopted in cash flow projections was derived by an independent qualified professional valuer. As at 31st December, 2017, the carrying amount of goodwill is HK$68,000 (2016: HK$8,581,000) (net of accumulated impairment loss of HK$14,913,000 (2016: HK$6,400,000)). Details of the recoverable amount calculation are disclosed in note 15.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of trade receivables

The Group has designed controls over the acceptance of new customers and performed annual review of existing trade receivables with reference to the business relationships with the customers and the credit quality of the customers. In determining the recoverability of trade receivables, the Group considers the credit quality of the trade receivables with reference to the credit history including default or delay in payment, historical settlements and settlements of trade receivables subsequent to the end of the reporting period and the ageing analysis of the trade receivables. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual outcome or expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts or write-back in the period in which such estimate has changed. As at 31st December, 2017, the carrying amount of trade receivables is HK$53,018,000 (net of allowance for doubtful debts of HK$549,000) (2016: carrying amount of HK$58,484,000 (net of allowance for doubtful debts of HK$474,000)).

Estimate impairment of unsecured loan receivables

The Group has designed controls over the grant of new loans to borrowers and performed annual review of existing loan receivables with reference to the credit quality of the borrowers. In determining the recoverability of unsecured loan receivables, the Group considers the credit quality of the unsecured loan receivables with reference to the credit history of the borrowers including default or delay in payment, historical settlements and settlements of loan interests of the unsecured loan receivables subsequent to the end of the reporting period, the financial background of the borrowers and the available financial information of the borrowers at the end of each reporting period. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual outcome or expectation of the recoverability of loan receivables is different from the original estimate, such difference will impact the carrying value of loan receivables and allowance for doubtful debts or write-back in the period in which such estimate has changed. As at 31st December, 2017, the carrying amount of unsecured loan receivables is HK$27,353,000 (2016: HK$26,856,000). There is no allowance or impairment loss recognised for both years.

Estimated impairment of property, plant and equipment

The management conducted a review and determined that any indication of impairment by considering the recoverable amount of the individual property, plant and equipment or the cash-generating units to which the property, plant and equipment are allocated. The amount of impairment loss is measured as the difference between the carrying amount of the relevant property, plant and equipment or the cash-generating unit and their respective recoverable amount. The recoverable amount is higher of value in use and fair value less costs of disposal. The calculation of value in use required the management of the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows or fair value less costs of disposal are less or more than expected, or changes in facts and circumstances which result in revision of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss previously made may arise. As at 31st December, 2017, the carrying amount of property, plant and equipment is HK$7,578,000 (2016: HK$10,555,000). Details are set out in note 14.

5. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of services provided. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 "Operating Segments" are as follows:

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

2. Trading and related services in the PRC ("Trading and related services")

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

Segments revenues and results

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

For the year ended 31st December, 2017

	Cold storage and related services HK$'000	Trading and related services HK$'000	Money lending services HK$'000	Total HK$'000
Revenue	210,350	58,933	6,210	275,493
Segment (loss) profit	(14,092)	(8,397)	1,860	(20,629)
Unallocated income				1,257
Unallocated expenses				(10,102)
Change in fair value of held for trading investments				200
Finance costs				(6,077)
Loss before tax				(35,351)

5. REVENUE AND SEGMENT INFORMATION (continued)

Segments revenues and results (continued)

For the year ended 31st December, 2016

	Cold storage and related services HK$'000	Trading and related services HK$'000	Money lending services HK$'000	Total HK$'000
Revenue	236,691	62,173	6,787	305,651
Segment profit (loss)	23,378	(12,137)	(539)	10,702
Unallocated income				791
Unallocated expenses				(9,472)
Change in fair value of held for trading investments				4
Share of loss of a joint venture				(7,947)
Finance costs				(6,405)
Loss before tax				(12,327)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of other income, central administration costs including partly auditor's remuneration and directors' remuneration, change in fair value of held for trading investments, share of loss of a joint venture 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.

5. REVENUE AND SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2017 HK$'000	2016 HK$'000
SEGMENT ASSETS		
Cold storage and related services	**77,071**	91,273
Trading and related services	**12,985**	11,740
Money lending services	**63,661**	41,906
Total segment assets	**153,717**	144,919
Unallocated assets	**249,661**	297,827
Consolidated assets	**403,378**	442,746
SEGMENT LIABILITIES		
Cold storage and related services	**16,457**	20,459
Trading and related services	**8,022**	8,493
Money lending services	**65,796**	44,111
Total segment liabilities	**90,275**	73,063
Unallocated liabilities	**78,536**	100,146
Consolidated liabilities	**168,811**	173,209

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

- all assets are allocated to operating segments other than available-for-sale investments, amount due from non-controlling interests of a subsidiary, held for trading investments, pledged bank deposits, bank balances and cash, certain property, plant and equipment, and certain other receivables. Goodwill is allocated to cold storage and related services and money lending services as described in note 15; and

- all liabilities are allocated to operating segments other than amount due to an investee, certain obligations under finance leases, bonds and other payables.

5. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information

2017

	Cold storage and related services HK$'000	Trading and related services HK$'000	Money lending 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)	1,585	235	–	1,820	68	1,888
Depreciation	4,532	35	–	4,567	282	4,849
Allowance for trade receivables	–	36	–	36	–	36
Loss on disposal of property, plant and equipment	1	–	–	1	–	1
Impairment loss on goodwill	8,513	–	–	8,513	–	8,513

2016

	Cold storage and related services HK$'000	Trading and related services HK$'000	Money lending 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)	1,549	28	–	1,577	23	1,600
Depreciation	4,766	189	–	4,955	269	5,224
Allowance for trade receivables	–	504	–	504	–	504
Gain on disposal of property, plant and equipment	(7)	–	–	(7)	–	(7)
Impairment loss on property, plant and equipment	–	289	–	289	–	289

Note: Additions to non-current assets represented additions to property, plant and equipment.

5. REVENUE AND SEGMENT INFORMATION (continued)

Other segment information (continued)

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

	Unallocated	
	2017 HK$'000	2016 HK$'000
Share of loss of a joint venture	–	(7,947)
Interest income	951	632
Interest expense	(6,077)	(6,405)
Change in fair value of held for trading investments	200	4

Geographical information

The Group's operations are located in Hong Kong and the PRC.

Information about of the Group's non-current assets by geographical location of the assets (excluding available-for-sale investments, pledged bank deposits and loan receivables) are set out below:

	2017 HK$'000	2016 HK$'000
Hong Kong	32,299	40,760
The PRC	385	158
	32,684	40,918

Revenue from major products and services

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

	2017 HK$'000	2016 HK$'000
Cold storage and related services:		
Revenue from cold storage and logistics services	209,942	234,344
Sales of ice	408	2,347
Sale of goods from trading and related services	58,933	62,173
Interest income from money lending services	6,210	6,787
	275,493	305,651

5. REVENUE AND SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customer from cold storage and related services contributing over 10% of the total revenue of the Group is as follows:

	2017 HK$'000	2016 HK$'000
Customer A	**35,645**	55,588

6. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Bank interest income	**951**	632
Sundry income	**306**	159
	1,257	791

7. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Allowance for trade receivables	**(36)**	(504)
Change in fair value of held for trading investments	**200**	4
(Loss) gain on disposal of property, plant and equipment	**(1)**	7
Impairment loss on property, plant and equipment	**–**	(289)
Impairment loss on goodwill	**(8,513)**	–
Loss on disposal of subsidiaries	**–**	(45)
	(8,350)	(827)

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Imputed interest expense on promissory notes	**–**	238
Interest on bonds	**6,000**	6,000
Interest on finance leases	**77**	167
	6,077	6,405

9. TAXATION

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

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

No provision for Hong Kong Profits Tax and EIT is required as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profit.

Taxation for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(35,351)**	(12,327)
Tax at the Hong Kong Profits Tax rate of 16.5%	**(5,833)**	(2,034)
Effect of share of results of a joint venture	**–**	1,311
Tax effect of expenses not deductible for tax purpose	**1,450**	122
Tax effect of income not taxable for tax purpose	**(231)**	(136)
Tax effect of tax losses not recognised	**5,941**	3,211
Utilisation of tax losses previously not recognised	**(666)**	(1,716)
Tax effect of deductible temporary differences not recognised	**35**	168
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(696)**	(926)
Taxation for the year	**–**	–

Details of deferred taxation are set out in note 28.

10. LOSS FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration		
— audit service	**950**	930
— non-audit service	**230**	230
Cost of inventories recognised as expenses	**42,620**	44,851
Depreciation for property, plant and equipment	**4,849**	5,224
Net foreign exchange (gain) loss	**(102)**	139
Minimum lease payments for operating leases in respect of rented premises	**101,091**	89,580
Staff costs, including directors' remuneration		
— salaries and other benefits costs	**69,500**	70,693
— retirement benefits scheme contributions	**4,119**	3,807

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2017

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the 7 (2016: 7) directors were as follows:

	Executive directors (note 1)			Non-executive director (note 2)	Independent non-executive directors (note 3)			
	Choy Kai Sing HK$'000	Ho Hon Chung, Ivan HK$'000	Au Tat Wai HK$'000	Fung Wa Ko HK$'000	Leung Chi Hung HK$'000	Tse Yuen Ming HK$'000	Fung Siu Kit Ronny HK$'000	Total 2017 HK$'000
Fees	132	132	72	120	120	120	120	816
Other emoluments								
Salaries and other benefits	1,315	1,207	1,342	–	–	–	–	3,864
Performance related bonuses	600	600	600	–	–	–	–	1,800
Contributions to retirement benefits scheme	106	22	69	–	–	–	–	197
Total emoluments	2,153	1,961	2,083	120	120	120	120	6,677

	Executive directors (note 1)			Non-executive director (note 2)	Independent non-executive directors (note 3)			
	Choy Kai Sing HK$'000	Ho Hon Chung, Ivan HK$'000	Au Tat Wai HK$'000	Fung Wa Ko HK$'000	Leung Chi Hung HK$'000	Tse Yuen Ming HK$'000	Fung Siu Kit Ronny HK$'000	Total 2017 HK$'000
Fees	132	132	72	120	113	113	110	792
Other emoluments								
Salaries and other benefits	1,288	1,108	1,314	–	–	–	–	3,710
Performance related bonuses	369	416	376	–	–	–	–	1,161
Contributions to retirement benefits scheme	105	22	63	–	–	–	–	190
Total emoluments	1,894	1,678	1,825	120	113	113	110	5,853

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

Note 1: The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Note 2: The non-executive director's emoluments shown above were for his services as directors of the Company.

Note 3: The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Mr. Au Tat Wai is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Neither the Chief Executive nor any of the directors waived any emoluments in the years ended 31st December, 2017 and 31st December, 2016.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: three) were directors of the Company whose emoluments are included in the disclosures in the table above. The emoluments of the remaining two (2016: two) individuals were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**1,586**	1,547
Contribution to retirement benefits scheme	**36**	36
	1,622	1,583

Their emoluments were within the following band:

	2017 Number of employees	2016 Number of employees
Nil to HK$1,000,000	**2**	2

12. DIVIDEND

No interim dividend was paid during the year (2016: Nil), nor has any dividend been proposed since the end of the reporting period (2016: Nil).

13. LOSS PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
Loss for the purpose of basic loss per share, attributable to owners of the Company	**35,351**	12,327

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,432,304**	2,432,304

No diluted loss per share is presented as there were no potential ordinary shares in issue for years ended 31st December, 2017 and 31st December, 2016.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Plant and machinery and equipment HK$'000	Total HK$'000
COST					
At 1st January, 2016	21,017	1,760	11,685	21,665	56,127
Additions	–	81	158	1,361	1,600
Disposals/write off	–	–	(65)	(624)	(689)
At 31st December, 2016	21,017	1,841	11,778	22,402	57,038
Additions	–	8	83	1,797	1,888
Disposals/write off	–	(2)	(58)	(944)	(1,004)
At 31st December, 2017	21,017	1,847	11,803	23,255	57,922
DEPRECIATION AND IMPAIRMENT					
At 1st January, 2016	18,287	1,681	3,976	17,701	41,645
Provided for the year	951	70	2,329	1,874	5,224
Eliminated on disposals	–	–	(65)	(624)	(689)
Impairment loss recognised in profit or loss	127	31	–	131	289
Exchange realignment	4	1	–	9	14
At 31st December, 2016	19,369	1,783	6,240	19,091	46,483
Provided for the year	890	57	2,356	1,546	4,849
Eliminated on disposals	–	(2)	(42)	(944)	(988)
At 31st December, 2017	20,259	1,838	8,554	19,693	50,344
CARRYING VALUES					
At 31st December, 2017	758	9	3,249	3,562	7,578
At 31st December, 2016	1,648	58	5,538	3,311	10,555

The above items of property, plant and equipment are depreciated on a straight-line method basis at the following rates per annum:

Leasehold improvements	Over the shorter of terms of the leases, or 10%
Furniture and fixtures	10%–33$^1/_3$%
Motor vehicles	20%–33$^1/_3$%
Plant and machinery and equipment	5%–50%

The carrying value of motor vehicles includes an amount of HK$2,107,000 (2016: HK$3,792,000) in respect of assets held under finance leases.

During the year ended 31st December, 2016, the directors conducted a review of the Group's property, plant and equipment, and determined that the recoverable amount of certain assets was minimal. Full impairment losses of HK$289,000 have been recognised in profit or loss. There were no further impairments on property, plant and equipment for the year ended 31st December, 2017.

15. GOODWILL

	2017 HK$'000	2016 HK$'000
COST		
At 1st January and at 31st December	**14,981**	14,981
IMPAIRMENT		
At 1st January	**6,400**	6,400
Impairment loss recognised	**8,513**	–
At 31st December	**14,913**	6,400
CARRYING VALUES		
At 31st December	**68**	8,581

During the year, the Group has recognised an impairment loss on goodwill amounting to HK$8,513,000 (2016: Nil) in the consolidated statement of profit or loss and other comprehensive income. Goodwill mainly arising from acquisition of subsidiaries in cold storage and related services amounting to HK$14,913,000 in 2006 was allocated to one cash-generating unit ("CGU"), which comprises of two wholly-owned subsidiaries of the Company engaged in such services, of which accumulated impairment loss of HK$14,913,000 (2016: HK$6,400,000) has been recognised.

Due to the unexpected drop in the sales in cold storage business during the year, the Group has revised its cash flow forecasts for the CGU during the year by reducing the growth rate and occupancy rate of budgeted revenue generated from the cold storage service. The goodwill of this CGU has been fully impaired during the year.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a 5-year period (2016: 5-year period), and discount rate of 13.55% (2016: 14.86%) per annum as derived by an independent qualified professional valuer. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the CGU's past performance and the management's expectations for the market development.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted shares, at cost	149,120	149,120
Less: Impairment	(110,618)	(110,618)
	38,502	38,502

The Group, through a 75% owned subsidiary, holds 40% of the issued ordinary shares of Richbo Enterprises Limited ("Richbo"). The Group does not have any significant influence nor any power to exercise significant influence over the management and participate in the financial and operating decisions of Richbo because the Group has no right to nominate nor appoint any director to the board of directors of Richbo and accordingly, the investment is not classified as associate.

The available-for-sale investment represent an effective 6% equity interest in an unlisted company incorporated in Macau. On 4th May, 2013, the indirectly owned investee, which held the hotel resort complex operation in Macau, and its major shareholder entered into an assets purchase agreement with some subsidiaries of Galaxy Entertainment Group Limited, an independent third party and a listed company on the Main Board of the Stock Exchange, to dispose of the underlying properties of hotel resort complex and other assets in some subsidiaries of its major shareholders at a cash consideration of HK$3,250,000,000. The disposal of these assets was completed on 17th July, 2013. The first payment for the disposal of HK$2,600,000,000 was received on 17th July, 2013 and the second payment of HK$650,000,000 was received on 16th January, 2015.

The Group re-assessed the recoverable amount of the available-for-sale investments with reference to the latest financial information of Richbo. No further impairment loss was recognised for the years ended 31st December, 2017 and 2016.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

At 31st December, 2017 and 31st December, 2016, details of Richbo are as follows:

Name	Form of business structure	Place of incorporation	Place of operation	Class of shares held	Proportion of nominal value of issued capital held indirectly by the Company	Principal activity
Richbo	Incorporated	British Virgin Islands	Macau	Ordinary	40% (note)	Investment holding

Note: 40% equity interest in Richbo is held by Brilliant Gold International Limited, a subsidiary in which the Company has 75% equity interest. None of the directors of the Company have beneficial interest in Richbo or being a board member of Richbo.

17. LOAN RECEIVABLES

	2017 HK$'000	2016 HK$'000
Secured loans	**36,227**	15,037
Unsecured loans	**27,353**	26,856
	63,580	41,893
Less: Amount due within one year and classified under current assets	**(51,318)**	(10,893)
Amount due after one year	**12,262**	31,000

The Group holds collateral of some property interests located in Hong Kong over secured loans receivable of HK$36,227,000 (2016: HK$15,037,000). The directors of the Company consider the exposure of credit risk of the secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. The remaining loan receivables are unsecured. The credit risk exposures of these unsecured loan receivables are disclosed in note 36(b).

Secured loan receivables carry fixed-rate interests ranged from 11% to 15% (2016: 11%) per annum and with maturity ranging from 1 year to 3 years (2016: 3 years). Unsecured loan receivables carry fixed-rate interests ranging from 11% to 12% (2016: ranged from 11% to 12%) per annum and with maturity ranged from 6 months to 3 years (2016: ranged from 9 months to 3 years). All amounts of principal will be receivable on respective maturity dates.

The maturity dates of the Group's fixed-rate loan receivables are as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**51,318**	10,893
In more than one year but not more than two years	**12,262**	31,000
	63,580	41,893

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

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

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK$'000	2016 HK$'000
Trade receivables	**53,567**	58,958
Less: Allowance for doubtful debts	**(549)**	(474)
	53,018	58,484
Other receivables	**1,038**	672
Deposits and prepayments	**5,434**	5,012
	59,490	64,168

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

	2017 HK$'000	2016 HK$'000
0–30 days	**23,374**	24,411
31–60 days	**16,944**	18,990
61–90 days	**7,052**	8,972
91–120 days	**2,671**	6,091
More than 120 days	**2,977**	20
	53,018	58,484

Except for certain customers who are allowed 30 to 60 days credit period, no credit period is allowed by the Group in respect of provision of cold storage and logistics services. No interest is charged on any outstanding trade receivables.

Before accepting any new customer, the Group carries out research on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed once a year.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK$32,243,000 (2016: HK$32,565,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. The Group does not hold any collateral over these balances.

18. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

Aging of trade receivables which are past due but not impaired:

	2017 HK$'000	2016 HK$'000
Overdue:		
1–30 days	20,079	21,196
31–60 days	8,277	11,055
61–90 days	3,887	293
91–120 days	–	18
More than 120 days	–	3
	32,243	32,565

The movement in the allowance for doubtful debts during the year is as follows:

	2017 HK$'000	2016 HK$'000
At beginning of the year	474	1,832
Impairment loss recognised on trade receivables	36	504
Amounts written off as uncollectible	–	(1,832)
Exchange realignment	39	(30)
At end of the year	549	474

The Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. Accordingly, the directors of the Company believe that there is no further provision required in excess of the allowance for doubtful debts.

19. AMOUNT DUE FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand.

20. HELD FOR TRADING INVESTMENTS

	2017 HK$'000	2016 HK$'000
Listed securities:		
— Equity securities listed in Hong Kong	**902**	702

21. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits at average prevailing market interest rates of 0.7% (2016: 0.7%) per annum.

22. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**9,056**	10,142
Accrued for staff costs	**4,890**	6,722
Bond interest payable	**2,992**	2,992
Other payables, deposits received and accrued charges	**11,946**	11,573
	28,884	31,429

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

	2017 HK$'000	2016 HK$'000
0–30 days	**5,862**	5,609
31–60 days	**1,932**	1,679
61–90 days	**292**	323
91–120 days	**14**	1,023
More than 120 days	**956**	1,508
	9,056	10,142

No credit period is generally allowed by creditors and no interest is charged on trade creditors.

23. AMOUNT DUE TO AN INVESTEE

The amount due to an investee is unsecured, interest-free and repayable within one year.

24. OBLIGATIONS UNDER FINANCE LEASES

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes are:		
Current liabilities	**594**	1,853
Non-current liabilities	**291**	885
	885	2,738

	Minimum lease payments		Present value of minimum lease payments	
	2017 **HK$'000**	2016 HK$'000	**2017** **HK$'000**	2016 HK$'000
Within one year	**612**	1,929	**594**	1,853
In the second to fifth years inclusive	**297**	909	**291**	885
	909	2,838	**885**	2,738
Less: Future finance charges	**(24)**	(100)		
Present value of lease obligations	**885**	2,738		
Less: Amount due for settlement within one year shown under current liabilities			**(594)**	(1,853)
Amount due for settlement after one year			**291**	885

The obligations under finance leases represent the finance leases for seven (2016: ten) motor vehicles. The term of the leases ranged from three to five years (2016: three to five years) at a rate ranged from 1.4% to 2.5% (2016: 1.4% to 2.5%) per annum. The obligations are secured by the lessor's charge over the leased assets.

25. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK$'000	'000	HK$'000
Ordinary shares				
At 1st January, 2016, 31st December, 2016 and 31st December, 2017	60,000,000	600,000	2,432,304	24,323

26. BONDS

On 13th November, 2014, the Company and the placing agent entered into the placing agreement, pursuant to which placing agent has agreed to, on a best effort basis, to procure independent placees to subscribe in cash for the bonds in an aggregated principal amount of up to HK$500,000,000. During the years ended 31st December, 2015 and 31st December, 2014, the Company issued bonds with total principal amount of HK$60,000,000 and HK$40,000,000 respectively.

The principal terms of the bonds are summarised below:

Aggregate principal amount:	Up to HK$500,000,000
Denomination:	In denomination of HK$10,000,000 each in the minimum (or for any amount over HK$10,000,000, in integral multiples of HK$10,000,000 each).
Interest:	6% per annum, accrued daily on a 360-day basis and payable annually in arrears, up to the maturity date of the relevant bonds.
Maturity date:	The seventh anniversary of the date of issue of the relevant bond.
Early redemption:	The Company may at any time before the maturity date and from time to time by serving at least ten days' prior written notice to the bondholder with the total amount proposed to be redeemed from the bondholder specified therein, redeem the bonds (in whole or in part) at 100% of the total amount of such bonds together with payment of interests accrued up to the date of such early redemption.

At the end of the reporting period, interest on bonds payable at par value of HK$100,000,000 (2016: HK$100,000,000) is payable annually and the principal is repayable in full upon maturity.

27. SHARE OPTION SCHEME

The Company had a share option scheme which was adopted on 9th January, 2006 (the "2006 Scheme"). At the annual general meeting of the Company held on 29th May, 2015, the shareholders of the Company approved the termination of the 2006 Scheme and the adoption of a new share option scheme (the "2015 Scheme"). The 2015 Scheme is subsequently adopted on 2nd June, 2015 (the "Adoption Date"). There is no material difference between the terms of the 2006 Scheme and the 2015 Scheme.

The Company currently operates the 2015 Scheme, under which the Board may, at its discretion, grant share options to any eligible participant to subscribe for ordinary shares (the "Shares") of the Company subject to the terms and conditions stipulated therein.

Summary of the 2015 Scheme as required to be disclosed under Chapter 17 of the Listing Rules are set out below:

(a) Purpose:

The purpose of the 2015 Scheme is to provide incentives and rewards to the eligible participants who, in the sole discretion of the Board, has contributed or may contribute to the growth and development of the Group in recognition of their contribution to the Group.

(b) Eligibility:

Eligible participants include any full time or part time employees of the Group or any invested entity (including any directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary or any invested entity); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any invested entity or any person who, in the sole discretion of the Board, has contributed or may contribute to the growth and development of the Group eligible for options under the 2015 Scheme.

(c) (1) Total number of Shares in the capital of the Company available for issue under the 2015 Scheme as at end of the reporting period: 243,230,400; and

(2) Percentage of the issued share capital that it represents as at end of the reporting period: 10%.

(d) Maximum entitlement of each eligible participant under the 2015 Scheme:

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to:

(1) each eligible participant must not exceed 1.0% of the total number of Shares in issue; and

(2) a substantial shareholder of the Company or an independent non-executive Director must not exceed 0.1% of the total number of Shares in issue and not exceed HK$5 million in aggregate value.

27. SHARE OPTION SCHEME (continued)

(e) Period within which the Shares must be taken up under an option:

An option may be exercised in whole or in part at any time during the period to be determined and notified by the Directors to the grantee thereof at the time of making an offer provided that such period shall not exceed the period of 10 years from the date of the grant of the particular option but subject to the provisions for early termination of the 2015 Scheme.

(f) Minimum period for which an option must be held before it can be exercised:

No specified minimum period for which an option must be held, unless otherwise specified by the Board at the time of grant.

(g) (1) Price payable on application or acceptance of the option: A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option;

(2) The period within which payments or calls must or may be made: 21 days after the offer date of an option (the "Offer Date"); and

(3) The period within which loans for the purposes of the payments or calls must be repaid: Not applicable.

(h) Basis of determining the subscription price:

The subscription price for Shares under the 2015 Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the highest of:

(1) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the date on the Offer Date, which must be a business day;

(2) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five (5) business days immediately preceding the Offer Date; and

(3) the nominal value of the Share on the Offer Date.

(i) The remaining life of the 2015 Scheme: Approximately 7 years (expiring on 1st June, 2025)

No share options under the 2006 Scheme have been granted, exercised, lapsed or cancelled since the establishment of the 2006 Scheme. Since the Adoption Date and up to 31st December, 2017, no share options have been granted pursuant to the 2015 Scheme.

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the current and prior years.

	Tax losses HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1st January, 2016	486	(486)	–
(Charge) credit for the year	(13)	13	–
At 31st December, 2016	473	(473)	–
(Charge) credit for the year	(127)	127	–
At 31st December, 2017	346	(346)	–

For the purpose of presentation in the consolidated statement of financial position, the deferred tax assets and liabilities have been offset.

At the end of the reporting period, the Group has deductible temporary difference of HK$3,355,000 (2016: HK$3,143,000) in respect of which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has unused tax losses of HK$153,979,000 (2016: HK$122,825,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$2,096,000 (2016: HK$2,866,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK$151,883,000 (2016: HK$119,959,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$66,797,000 (2016: HK$54,388,000) that will expire from 2018 to 2022 (2016: 2018 to 2021). Other losses are carried forward indefinitely.

29. PLEDGE OF ASSETS

As at 31st December, 2017, bank facilities for providing guarantees by a bank for the Group's licence of operating cold storage service, to the extent of HK$3,500,000 (2016: HK$3,500,000) of the Group are secured by bank deposits amounting to HK$3,500,000 (2016: HK$3,505,000). The amount utilised at 31st December, 2017 was approximately HK$3,480,000 (2016: approximately HK$3,480,000).

As at 31st December, 2017, bank deposits of HK$99,475,000 (2016: HK$86,500,000) are pledged to a bank, which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

The pledged deposits bear interest at average prevailing market interest rate of 0.9% (2016: 0.7%).

In addition, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets as disclosed in note 24.

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of cold storage warehouses, office premises and premises for the operation of trading and related services in the PRC in the future which fall due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**101,529**	99,665
In the second to fifth years inclusive	**1,549**	111,909
	103,078	211,574

Included in the above, the major lease contracts are negotiated for terms of fourteen years commencing from February 2005 and can be terminated by providing one year notice after the first ten years of tenancy. The fixed monthly rentals are subject to review every three years.

31. DISPOSAL OF SUBSIDIARIES

On 7th July, 2016, the Group disposed of its entire interest in a wholly-owned subsidiary, Active Mind Global Limited, which held 100% interest in Autoyield Limited and 60% interest in 上海皆騰, to an independent third party at consideration of United State Dollar 1. The net assets of the subsidiaries, at the date of disposal were as follows:

	7th July, 2016 HK$'000
Analysis of assets and liabilities over which control was lost:	
Interest in a joint venture	–
Bank balances and cash	51
Other payables and accruals	(6)
Net assets disposed of	45
Loss on disposal of subsidiaries:	
Consideration received and receivable	–
Net assets disposed of	(45)
Loss on disposal	(45)
Net cash outflow arising on disposal:	
Cash consideration	–
Less: Bank balances and cash disposed of	(51)
	(51)

The impact of Active Mind Global Limited and Autoyield Limited on the Group's results and cash flows in the prior years is not significant to the Group.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSET		
Investment in a subsidiary	1	1
Amounts due from subsidiaries	169,443	177,465
	169,444	177,466
CURRENT ASSETS		
Other receivables, deposits and prepayments	533	540
Amounts due from subsidiaries	56,616	16,329
Bank balances and cash	14,860	42,201
	72,009	59,070
CURRENT LIABILITIES		
Other payables	4,052	3,832
Amounts due to subsidiaries	29,256	29,261
	33,308	33,093
NET CURRENT ASSETS	38,701	25,977
TOTAL ASSETS LESS CURRENT LIABILITIES	208,145	203,443
CAPITAL AND RESERVES		
Share capital	24,323	24,323
Reserves (Note)	83,822	79,120
	108,145	103,443
NON-CURRENT LIABILITY		
Bonds	100,000	100,000
	208,145	203,443

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: Movement of the Company's reserves are set out below:

	Share premium HK$'000	Capital reserve HK$'00	Contributed surplus HK$'0000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2016	374,226	39,984	84,239	(369,444)	129,005
Loss for the year and total comprehensive expense for the year	–	–	–	(49,885)	(49,885)
At 31st December, 2016	374,226	39,984	84,239	(419,329)	79,120
Profit for the year and total comprehensive income for the year	–	–	–	4,702	4,702
At 31st December, 2017	374,226	39,984	84,239	(414,627)	83,822

33. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees including directors in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of the independent trustee. The scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntary contributes 1% to 5%, depends on the year of service of the employee, to the MPF Scheme.

Where there are employees who leave the MPF Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

According to the relevant laws and regulations in the PRC, the PRC subsidiary is required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$4,119,000 (2016: HK$3,807,000) represents contributions payable to the MPF Scheme and the state-managed retirement benefit schemes, there were no forfeited contributions available to reduce future contributions at the end of the reporting period.

34. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2016, the Group incurred logistics service fee to a joint venture of HK$2,707,000.

The Group did not enter into any other transactions with its related parties.

The key management of the Group comprises all directors and the senior management, details of their remuneration are disclosed in note 11. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debts and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes the promissory notes and bonds, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued capital, share premium and reserves as disclosed in consolidated statement of financial position.

The directors of the Company review the capital structure on a semi-annual basis. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Held for trading investments	**902**	702
Loans and receivables (including cash and cash equivalents)	**325,163**	356,874
Available-for-sale investments	**38,502**	38,502
Financial liabilities		
Amortised cost	**157,361**	161,438

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from non-controlling interests of a subsidiary, pledged bank deposits, loan receivables, held for trading investments, bank balances and cash, trade and other payables, amount due to an investee, obligations under finance lease and bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits and bank balances at floating interest rate. The Group currently does not have any hedging policy against interest rate risk and will consider should the needs arise.

(ii) *Price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The management closely keeps watch of the price changes and takes appropriate action when necessary.

Since the interest rate risk and price risk are not significant, no sensitivity analysis is presented accordingly.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk

As at 31st December, 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

For cold storage and related services segment, the Group has concentration of credit risk as 22% (2016: 31%) and 51% (2016: 58%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. For money lending services segment, the Group's loan receivables from seven (2016: three) borrowers represent 100% of loan receivables. In order to minimise the concentration risk, the management of the Group has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts and performed annual review on customers' and borrowers' credit quality. In addition, the Group reviews the recoverable amount each individual debt, including trade receivables, loan receivables and amount due from non-controlling interests of a subsidiary at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and pledged bank deposits are limited because the counterparties are banks with good reputation.

36. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and will continuously monitor the forecast and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	6 months or less HK$'000	6–12 months or less HK$'000	1–2 years HK$'000	2–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows amount HK$'000	Carrying amount HK$'000
2017								
Non-interest bearing	–	56,476	–	–	–	–	56,476	56,476
Obligations under finance leases								
— fixed rate	1.92	454	158	209	88	–	909	885
Bonds	6	3,600	2,400	6,000	115,600	–	127,600	100,000
		60,530	2,558	6,209	115,688	–	184,985	157,361

	Weighted average effective interest rate %	6 months or less HK$'000	6–12 months or less HK$'000	1–2 years HK$'000	2 –5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows amount HK$'000	Carrying amount HK$'000
2016								
Non-interest bearing	–	58,700	–	–	–	–	58,700	58,700
Obligations under finance leases								
— fixed rate	2.24	1,027	902	612	297	–	2,838	2,738
Bonds	6	3,600	2,400	6,000	58,000	63,600	133,600	100,000
		63,327	3,302	6,612	58,297	63,600	195,138	161,438

36. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial statements

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used),

	2017	
	Level 1	**Total**
	HK$'000	**HK$'000**
Held for trading investments		
Listed equity securities (note)	**902**	**902**

	2016	
	Level 1	Total
	HK$'000	HK$'000
Held for trading investments		
Listed equity securities (note)	702	702

Note: The fair value of listed equity securities is determined with reference to quoted market bid prices from the Stock Exchange.

There were no transfers between Levels 1 and 2 during the year.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost (including pledged bank deposits, trade and other receivables, loan receivables, bank balances and cash, trade and other payables, amount due from non-controlling interests of a subsidiary, amount due to an investee and bonds) in the consolidated financial statements approximate their fair values.

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Obligations under finance leases HK$'000	Bond interest payable HK$'000	Total HK$'000
As at 1 January 2017	2,738	2,992	5,730
Financing cash flows:			
Interest paid	(77)	(6,000)	(6,077)
Repayment of obligations under finance leases	(1,853)	–	(1,853)
Interest expenses	77	6,000	6,077
Total change from financing cash flows	(1,853)	–	(1,853)
As at 31 December 2017	885	2,992	3,877

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the Company as at 31st December, 2017 and 2016 are as follows:

Name	Place of incorporation/ operation	Issued and paid-up ordinary shares/ registered capital	Proportion of ownership interest held by the Company 2017	2016	Principal activities
Direct subsidiary:					
Daido (BVI) Limited	British Virgin Islands	US$2 Ordinary shares	100%	100%	Investment holding
Indirect subsidiary:					
Brilliant Cold Storage Management Limited	Hong Kong	HK$2 Ordinary shares	100%	100%	Provision of cold storage and related services
Brilliant Gold International Limited	British Virgin Islands	US$1,000 Ordinary shares	75%	75%	Investment holding
Brilliant Giant Trading Limited	Hong Kong	HK$1 Ordinary shares	100%	100%	Provision of cold storage and related services
Brilliant Top In Logistics Limited	Hong Kong	HK$2 Ordinary shares	100%	100%	Provision of cold storage and related services
Diamond Sparkling Limited	Hong Kong	HK$10 Ordinary shares	100%	100%	Sub-leasing of properties
Lubrano Properties Limited	British Virgin Islands	US$50,000 Ordinary shares	100%	100%	Investment holding
Mayfair Pacific Finance (HK) Limited	Hong Kong	HK$5,000,000 Ordinary shares	100%	100%	Money lending service
Sanson Investments Limited	Hong Kong	HK$1 Ordinary share	100%	100%	Investment holding
Topgain Investments Limited	British Virgin Islands	US$1 Ordinary share	100%	100%	Investment holding
Win System Investments Limited	Hong Kong	HK$1 Ordinary share	100%	100%	Financial Investment
同瞬貿易(上海)有限公司	PRC#	RMB50,000,000 Registered capital RMB40,500,425 (2016: RMB30,142,900) Paid-up capital	100%	100%	Trading and related services

Wholly foreign owned enterprise

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year

FINANCIAL SUMMARY

	Year ended 31st December,				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**275,493**	305,651	275,783	213,752	223,112
Loss for the year	**(35,351)**	(12,327)	(6,444)	(23,851)	(41,894)

	As at 31st December,				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**403,378**	442,746	456,653	386,311	350,633
Total liabilities	**(168,811)**	(173,209)	(174,107)	(96,591)	(37,244)
	234,567	269,537	282,546	289,720	313,389
Attributable to:					
Owners of the Company	**219,644**	254,614	267,623	274,797	298,466
Non-controlling interests	**14,923**	14,923	14,923	14,923	14,923
	234,567	269,537	282,546	289,720	313,389