DAIDO

Stock Code 股份代號：00544

大同集團有限公司

DAIDO GROUP LIMITED

中期報告 Interim Report 2012

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Chung Siu Wah
Mr. Ho Hon Chung, Ivan
Mr. Tang Tsz Man, Philip

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

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

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

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.
Hang Seng Bank 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
18th Floor
Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the six months ended 30th June, 2012, total revenue of the Group amounted to approximately HK$93 million, up approximately 11% when compared to approximately HK$84 million in the first half of the previous financial year.

Loss attributable to owners of the Company was approximately HK$94 million, compared with a loss of approximately HK$10 million in the same period of the previous financial year. The loss was mainly attributable to (i) the increase in the Group's operating costs, especially for the karaoke business in PRC; (ii) impairment loss on property, plant and equipment for the karaoke business in PRC; and (iii) further impairment loss on available-for-sale investments. Loss per share was HK6.14 cents.

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

BUSINESS REVIEW

Cold storage and related services

During the six-month period, the business performance of the Group's business, the cold storage and related services operation, remained stable, despite the relatively unfavourable economic situation.

The first half of 2012 continued to see challenges in the economic front, with the deterioration of the European sovereign debt crisis triggering rounds of turmoil in the global financial markets, dragging down the global economy. While major economies in the European Union are on the verge of recession, the U.S. economy is grappling with a weak recovery and China is working hard to rein in the slowdown in its economic growth.

Along with the slowdown in the world's major economies, which are the key trade partners of Hong Kong, economic activities in the city, particularly in the external trade sector, eased further in the first half of 2012.

BUSINESS REVIEW (continued)

Cold storage and related services (continued)

The gross domestic product ("GDP") growth of Hong Kong eased significantly to a revised 0.7% year-on-year growth in the first quarter and a 1.1% year-on-year growth in the second quarter of 2012 from the 5% year-on-year growth in full year 2011, according to data from the Census and Statistics Department ("C&SD").

Concurrently, value growth in imports of Hong Kong, a key transshipment hub for PRC, narrowly increased to approximately 1.4% in the first six months of 2012 from the approximately 11.9% in 2011, according to the data from the C&SD.

The Group's cold storage business was not spared from the negative impact of easing economic activities as the moderation in import growth dented importers and traders' demand for cold storage services, resulting in a lower overall churn rate when compared with the previous year.

The Group's cold storage operation was also faced with the persistent challenge of rising operating costs in terms of rising rentals, labour cost, electricity and water tariffs, as well as maintenance fees.

However, the Group managed to raise the rental rates for the cold storage at the beginning of 2012 while some clients increased their inventory due to higher turnover rates. This helped the Group's cold storage operation remain stable.

Furthermore, in response to rising market demand, the Group converted some of its chillers into bonded warehouse facility in 2012, which are used to store cigarettes, liquor and other dutiable goods. The operation of bonded warehouses generated more satisfactory results compared with chillers.

This strategic move, coupled with consistent quality services, has helped the Group's cold storage facility maintain a stable occupancy rate during the period under review, as well as maintain a stable market share in the local cold storage market.

BUSINESS REVIEW (continued)

Cold storage and related services (continued)

The Group's logistics services operation, which mainly serves its cold storage customers, who accounted for 80% to 90% of the clientele, also maintained stable performance in the first six months of 2012. This added-value service helped the Group retain its cold storage customers and boost the overall profit margins of this business segment.

The Group produces industrial ice bars for construction use and has secured a significant market share in the local market. Demand for industrial ice bars has remained stable and is expected to grow steadily in the future as construction works have commenced on several large-scale public infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Kai Tak Cruise Terminal, the South Island Line (East) and the Shatin-Central Link of MTR Corp.

The Group ceased to operate the business of edible ice cubes in the first half of 2012. But the move has not significantly affected the performance of the overall business of the Group. As mentioned in Annual Report 2010, new regulations on edible ice cubes require the Group to make additional investment to upgrade its facilities. The Group terminated the edible ice business after weighing the economic benefit of such potential investment and the anticipated cost for modifying the facilities.

Karaoke outlets and related services ("KTV")

Targeting the ever growing expenditure by the emerging middle class on cultural and leisure consumption in PRC, the Group branched out into KTV business in PRC by setting up joint ventures since late 2010.

The Group thus far has set up more than 20 KTV outlets in Beijing, Shanghai, and some cities in Jiangsu and Hunan Provinces, which now are gradually in test-run operation and will start commercial operation upon successful test run.

Due to regulatory and cultural differences between Hong Kong and Mainland China, the Group has encountered some problems in implementing the KTV business, which are related to license application, decoration quality and equipment quality, that result in extra cost incurred, prolong test run process and delay in full operation target.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Karaoke outlets and related services ("KTV") (continued)

The KTV operation has yet to contribute positively to the Group's overall operating results as this new business has not achieved economy of scale and recorded an operating loss during the period under review.

The Group is committed to build up the brand of its KTV business by reinforcing its marketing efforts and will make the necessary restructuring to solve the problems. It will focus its resources on the KTV outlets that are already in test-run operation and may be opened more in the near future if the model proves to be successful.

Investments (Hotel resort operation in Macau)

Over in the Group's investments in Macau, the business performance of the hotel resort complex operation recorded positive growth in the first six months of 2012 as the inbound tourism in the recreational and gaming city remained resilient despite the uncertainty over the global economy.

The continuous influx of holidaymakers and casino patrons, particularly from PRC, helped shore up the occupancy rate of the Group's hotel to around 80%.

The emerging of the Taipa Island as Macau's new entertainment and leisure hub, with the opening of more entertainment complexes, have attracted more visitors to this area, benefiting also hotels operating in this area, including the hotel resort complex operation of the Group.

In the first half of 2012, visitor arrivals in Macau totaled approximately 13.6 million, increased by approximately 3% when compared with the approximately 13.2 million in the same period of 2011, according to data from the Macau Government Tourism Office ("MGTO").

Visitors from Mainland China, who are one of the major client groups of our hotel, rose by a bigger 8.5% to approximately 8.1 million in the first half of 2012 from approximately 7.5 million in the same period of 2011, according to the MGTO.

Although Singapore's stepped up efforts to promote its inbound tourism and Taiwan's moves to further open up to visitors from PRC are expected to bring challenges to Macau's inbound tourism. Macau is likely to keep an upper hand in the competition for visitors as it enjoys the advantage of geographical proximity.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30th June, 2012, banking facilities to the extent of HK$3.5 million (31st December, 2011: HK$3.5 million) of the Group were secured by the pledge of bank deposits amounting to HK$3.5 million (31st December, 2011: HK$3.5 million). The amount utilised at 30th June, 2012 was approximately HK$3.5 million (31st December, 2011: approximately HK$3.2 million).

As at 30th June, 2012, bank deposits of approximately HK$75 million (31st December, 2011: approximately HK$75 million) were pledged to a bank which provides bank guarantees in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2012, the Group had cash and bank balances of approximately HK$62 million (31st December, 2011: approximately HK$90 million). The decrease was mainly due to the investment in KTV outlets. The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 15% as at 30th June, 2012 (31st December, 2011: approximately 12%). The increase was mainly due to the recognition of operating lease liabilities for KTV outlets and the decrease of equity attributable to owners of the Company.

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

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE CAPITAL STRUCTURE

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

On 19th April, 2012, the Company entered into a share placing agreement for the placement of 287,884,000 shares at HK$0.108 each. The share placing arrangement was completed on 30th April, 2012. The net proceeds of approximately HK$30.8 million are used for general working capital.

For further details, please refer to the announcements of the Company dated 19th April, 2012 and 30th April, 2012.

As a result of the share placing arrangement, the total issued share capital of the Company was HK$17,273,040 divided into 1,727,304,000 ordinary shares with a par value of HK$0.01 each as at 30th June, 2012.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2012, the total number of full time employees of the Group in Hong Kong and Mainland China were 262 and 567 respectively (31st December, 2011: 267 and 342 respectively). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund and professional tuition/training subside for employees' benefit.

PROSPECTS

Looking ahead into the future, the Management is cautiously optimistic about the global economy and the Group's operations.

In the short-to-medium term, the global economy is likely to face further headwinds as the European sovereign debt crisis continues to play out, roiling the global financial markets.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

However, in a longer term, the debt crisis will mitigate gradually and be ultimately solved with the commitment of leaders in the euro zone to keep the currency union alive. On 17th August, 2012, German Chancellor Angela Merkel assured the world that Germany is "committed to do everything we can in order to maintain the common currency." Her comments were seen as supporting European Central Bank ("ECB") President Mario Draghi's vow to save the euro. Earlier on 26th July, 2012, Mr. Draghi said that the ECB believes that the euro is "irreversible" and that the ECB will do whatever it takes, within its mandate, to protect the eurozone, while admitting that "there are short term challenges".

Meanwhile, the world's largest economy, the U.S. economy, continues to recover albeit at a tepid pace, with the GDP expanding 2% (revised) in the first quarter and 1.5% (based on "advance" estimate) at the second quarter of 2012, according to the Bureau of Economic Analysis under the U.S. Department of Commerce. U.S. consumer confidence improved in August 2012, boosting the prospect of stronger household spending in the third quarter of 2012. The Thomson Reuters/University of Michigan preliminary August index of consumer sentiment rose to 73.6 in August, the highest level since May, from 72.3 in July.

Amid weakening external demand following the European debt crisis, growth in China, the world's second largest economy, also eased during the first six months of 2012, with the GDP growth rate slowing to 8.1% in the first quarter and 7.6% in the second quarter from 8.9% in the fourth quarter of 2011, according to the National Bureau of Statistics ("NBS") of China.

Against the backdrop of a weakening global economy, confidence among Hong Kong consumers remains resilient, supported by decade-low unemployment level. Consumer confidence in Hong Kong rose four index points to 103 after decline of two consecutive quarters in 2011, according to the latest survey by leading global provider of information Nielsen. Meanwhile, the jobless rate in Hong Kong stayed at 3.2% in the 3 months to July 2012, according to data from the C&SD.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

Cold storage and related services

The Group's cold storage and related services operation will continue to benefit from rising demand for frozen food, which is supported by strong consumer confidence and ever growing population. According to the latest statistics of the C&SD, Hong Kong's total population was estimated at 7.14 million at mid-2012, representing an increase of 64,700, or 0.9%, from the 7.07 million in a year earlier.

The outlook for the Group's industrial ice business also remains positive, as demand for industrial ice bars is likely to grow steadily in the coming years, driven by construction works on several large-scale public infrastructure projects that are either progressing or will commence soon. The industrial ice business will also benefit from Hong Kong's housing boom. Hong Kong's new administration is accelerating land supply and property developers are speeding up project development in the face of home shortage that is driving up home prices to formidable levels.

A major challenge is the rising operating costs, particularly in the Group's cold storage and related services business, threatening to squeeze the profit margins.

Amid a strong labour market, the labour cost has been increasing and is likely to continue to rise in the future.

Adding to the cost pressure, crude prices have also been increasing over the past couple of years, with the benchmark Brent Crude Spot Price hovering at around US$114.48 per barrel on 13th August, 2012, up about 5.8% from US$108.17 one year ago. The average Brent crude price was US$94 in 2008 and US$109 in 2011.

Meanwhile, other operating costs including electricity, water, rentals and maintenance fees, also keep on rising in an inflationary environment following the rounds of quantitative easing by the Federal Reserve and the ECB.

KTV

Growing cultural consumption and expenditure in China as the continuously robust economic growth there is helping to raise a considerable middle class. The GDP growth in China will remain at a relatively strong 8.2% in 2012 and 8.6% in 2013, according to a report from the World Bank.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

KTV (continued)

Due to the prolonged rectification process, the Management is cautious about the business and will review the strategy.

Commercial operations of the KTV outlets will start right after the test-run operation successfully strengthen both the facilities and the services. Challenges ahead, the group will commit to solve the various problems such as: license application, decoration quality and also the equipment quality. Meanwhile, the group will reinforcing more marketing efforts and will make the necessary cost cutting to maximize the economy of scale at the near future.

Investments (Hotel resort operation in Macau)

The Management is optimistic about the prospects for the Group's investment in the hotel resort complex operation in Macau, as the inbound tourism in Macau, the only Chinese city that allows casino gambling, enjoys unbeatable advantages in the region, given the close geographical proximity between Macau and Mainland China and the huge supply of gaming and recreational facilities in the city. Furthermore, the operation of the Group's hotel resort complex, which is located in Taipa Island, will also benefit from the larger and larger visitor influx as the area is rapidly developing into a new hub of recreation and leisure.

According to the letter of intent at 5th July, 2012 by major shareholders of the Group's hotel resort complex, the major shareholders may dispose such hotel resort complex at the future in a good income returns. And it may realise more cash income for the Group at the future if the disposal materialise.

Review to the information from MGTO, indicated that visitors arrivals decreased by 4.2% year-on-year, to 2,444,264 in July 2012. Group may encounter the challenges of hotel occupancy rate dropped in the future. However, the Management has confidence about the unbeatable advantages of Macau in the region will attract more visitors in the future, revitalize the economy conditions of Macau.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

Corporate strategy and long-term business model

The Management is committed to put more efforts in controlling the cost increase by streamlining operations and improving operational efficiency of the Group's businesses.

In the face of the stiffening competition and rising costs, the Management will also strive to provide more value-added services to the Group's cold storage customers through technological innovations among others. It will also maintain a flexible operational strategy, changing its operational tactics in step with changes in market conditions, for example, modifying the cold storage facilities to meet emerging new demand in the market.

For the longer term, the Group will carry on its corporate strategy of focusing on consumption-related businesses, banking on the huge business opportunities that are expected to come along with the strong economic growth in both Mainland China and Hong Kong. The Management will proactively explore new investment opportunities arising from both Hong Kong and Mainland China.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2012

	Notes	**Six months ended 30.6.2012 HK$'000 (unaudited)**	Six months ended 30.6.2011 HK$'000 (unaudited)
Revenue	*3*	**92,522**	83,728
Direct costs		**(92,481)**	(75,136)
Gross profit		**41**	8,592
Other income	*4*	**3,545**	3,687
Other gains and losses	*5*	**(4,120)**	67
Selling and distribution expenses		**(3,380)**	(2,272)
Administrative expenses		**(18,054)**	(11,700)
Other operating expenses		**(30,001)**	(4,973)
Impairment loss on property, plant and equipment	*11*	**(30,000)**	—
Impairment loss on available-for-sale investments	*12*	**(10,000)**	—
Finance costs	*6*	**(2,488)**	(3,539)
Loss before tax	*7*	**(94,457)**	(10,138)
Income tax expense	*8*	**—**	(27)
Loss for the period attributable to owners of the Company		**(94,457)**	(10,165)
Other comprehensive income for the period			
Exchange difference arising on translation of the foreign operations		**273**	—
Total comprehensive expense for the period attributable to owners of the Company		**(94,184)**	(10,165)
Loss per share — basic and diluted	*10*	**HK(6.14) cents**	HK(0.93) cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2012

	Notes	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**98,708**	80,206
Goodwill		**8,836**	8,836
Available-for-sale investments	*12*	**43,620**	53,620
Financial assets at fair value through profit or loss		**7,707**	7,077
Loans to an investee	*13*	**66,400**	68,802
Deposits for acquisition of property, plant and equipment		**1,541**	15,233
Rental deposits paid		**27,696**	25,072
Pledged bank deposits		**78,718**	78,718
		333,226	337,564
CURRENT ASSETS			
Trade and other receivables, deposits and prepayments	*14*	**53,541**	53,227
Inventories		**2,670**	—
Held-for-trading investments		**718**	601
Bank balances and cash		**61,750**	89,572
		118,679	143,400
CURRENT LIABILITIES			
Trade and other payables	*15*	**46,167**	17,135
Obligations under finance leases		**362**	349
Promissory notes		**4,935**	4,762
		51,464	22,246
NET CURRENT ASSETS		**67,215**	121,154
TOTAL ASSETS LESS CURRENT LIABILITIES		**400,441**	458,718

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2012

	Notes	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
CAPITAL AND RESERVES			
Share capital	*16*	**17,273**	14,394
Share premium and reserves		**316,898**	383,208
Equity attributable to owners of the Company		**334,171**	397,602
Non-controlling interests		**13,223**	11,522
		347,394	409,124
NON-CURRENT LIABILITIES			
Obligations under finance leases		**537**	722
Amount due to non-controlling interests of a subsidiary		**24,594**	24,594
Promissory notes		**16,540**	15,960
Other liabilities		**11,376**	8,318
		53,047	49,594
		400,441	458,718

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2012

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(Note)*	Retained profits (accumulated losses) HK$'000	Convertible bond equity reserve HK$'000	Translation reserve HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1st January, 2011 (audited)	9,996	172,770	39,984	154,225	8,147	–	385,122	8,120	393,242
Loss for the period representing total comprehensive expense for the period	–	–	–	(10,165)	–	–	(10,165)	–	(10,165)
Issues of shares pursuant to placing and subscription arrangements	1,999	44,982	–	–	–	–	46,981	–	46,981
Transaction costs attributable to issue of new shares	–	(901)	–	–	–	–	(901)	–	(901)
Deemed contribution on interest-free advance from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	1,701	1,701
At 30th June, 2011 (unaudited)	11,995	216,851	39,984	144,060	8,147	–	421,037	9,821	430,858
At 1st January, 2012 (audited)	**14,394**	**261,701**	**39,984**	**81,130**	**–**	**393**	**397,602**	**11,522**	**409,124**
Loss for the period	**–**	**–**	**–**	**(94,457)**	**–**	**–**	**(94,457)**	**–**	**(94,457)**
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**–**	**273**	**273**	**–**	**273**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**(94,457)**	**–**	**273**	**(94,184)**	**–**	**(94,184)**
Issues of shares pursuant to a placing arrangement	**2,879**	**28,213**	**–**	**–**	**–**	**–**	**31,092**	**–**	**31,092**
Transaction costs attributable to issue of new shares	**–**	**(339)**	**–**	**–**	**–**	**–**	**(339)**	**–**	**(339)**
Deemed contribution on interest-free advance from non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,701**	**1,701**
At 30th June, 2012 (unaudited)	**17,273**	**289,575**	**39,984**	**(13,327)**	**–**	**666**	**334,171**	**13,223**	**347,394**

Note: On 24th November, 2009, every five issued and unissued existing shares of HK$0.01 each in share capital of the Company 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") and 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2012

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(33,785)**	(40,361)
NET CASH (USED IN) FROM INVESTING ACTIVITIES:		
Additions of property, plant and equipment	**(25,351)**	(1,307)
Acquisition of subsidiaries	**—**	(392)
Proceeds on disposal of investment properties	**—**	19,000
Other investing activities	**674**	(146)
	(24,677)	17,155
NET CASH FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	**31,092**	46,981
Other financing activities	**(545)**	(997)
	30,547	45,984
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(27,915)**	22,778
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**89,572**	153,561
Effect of foreign exchange rate changes	**93**	—
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**61,750**	176,339

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2011. In addition, the Group has applied the following accounting policies in relation to inventory and amendments to HKAS 12 during the interim period.

Inventory

Inventories comprising food and beverage are stated at the lower of cost and net realisable value. Cost is calculated using 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.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

- amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*; and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*

Under the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets*, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. If the presumption is not rebutted, the deferred taxes shall reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of the investment properties.

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

Six months ended 30.6.2012

	Cold storage and related services HK$'000	Karaoke outlets and related services HK$'000	Total HK$'000
Revenue	86,350	6,172	92,522
Segment loss	(4,163)	(70,208)	(74,371)
Unallocated income			3,079
Unallocated expenses			(6,297)
Change in fair value of financial instruments			729
Adjustment on loans to an investee			(5,109)
Impairment loss on available-for-sale investments			(10,000)
Finance costs			(2,488)
Loss before tax			(94,457)

3. SEGMENT INFORMATION (continued)

Six months ended 30.6.2011

	Cold storage and related services HK$'000	Karaoke outlets and related services HK$'000	Total HK$'000
Revenue	83,728	—	83,728
Segment profit (loss)	606	(4,973)	(4,367)
Unallocated income			3,589
Unallocated expenses			(5,833)
Change in fair value of financial instruments			(488)
Change in fair value of investment properties			500
Finance costs			(3,539)
Loss before tax			(10,138)

Segment result represents the (loss) profit from each segment without allocation of interest income, certain sundry income, central administration costs, change in fair value of financial instruments and investment properties, adjustment on loans to an investee, impairment loss on available-for-sale investments and finance costs. This is the measure reported to the chief operating decision makers, the executive directors, for the purposes of resource allocation and performance assessment.

4. OTHER INCOME

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
Bank interest income	**372**	567
Imputed interest income from loans to an investee	**2,707**	2,695
Sundry income	**466**	425
	3,545	3,687

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
Gain on disposal of property, plant and equipment	**260**	55
Fair value gain (loss) on financial assets at fair value through profit or loss	**630**	(377)
Fair value gain (loss) on held-for-trading investments	**99**	(111)
Change in fair value of investment properties	**—**	500
Adjustment on loans to an investee *(Note 13)*	**(5,109)**	—
	(4,120)	67

6. FINANCE COSTS

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
Interest on obligations under finance leases	**34**	24
Imputed interest expense on amount due to non-controlling interests of a subsidiary	**1,701**	1,701
Imputed interest expense on promissory notes	**753**	870
Imputed interest expense on convertible bonds	**—**	944
	2,488	3,539

7. LOSS BEFORE TAX

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
Loss before tax for the period has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**6,123**	3,039
Other operating expenses *(Note)*	**30,001**	4,973

Note: HK$25,298,000 (for the six months ended 30th June, 2011: HK$4,973,000) of the amount represents pre-operating expenses including rental expenses and staff cost of incurred in the development of karaoke outlets and related services in the People's Republic of China (the "PRC"). The remaining amounts represent provision of HK$4,703,000 (for the six months ended 30th June, 2011: nil) to settle a legal case as disclosed in Note 18.

8. INCOME TAX EXPENSE

Income tax expense for prior period represented PRC Enterprise Income Tax ("EIT") calculated at the applicable tax rate of 25%. No provision for EIT is made for current period as the individual companies comprising the Group had no assessable profit.

No provision for Hong Kong Profits Tax is required as the individual companies comprising the Group had no assessable profit for both periods.

9. DIVIDEND

No dividends were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2012 and 30th June, 2011.

10. LOSS PER SHARE

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

	Six months ended 30.6.2012 HK$'000 (unaudited)	Six months ended 30.6.2011 HK$'000 (unaudited)
Loss for the purposes of basic and diluted loss per share	**(94,457)**	(10,165)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,537,490**	1,092,381

The weighted average number of ordinary shares has been adjusted for share issue as disclosed in Note 16.

10. LOSS PER SHARE (continued)

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for period ended 30th June, 2012.

The computation of diluted loss per share for period ended 30th June, 2011 did not assume the conversion of convertible bonds since it would result in a decrease in loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$55 million (for the six months ended 30th June, 2011: HK$1.4 million) on additions of property, plant and equipment for upgrading compartments for freezer storage, karaoke outlets and operating use.

During the period, the performance of karaoke outlets and related services are worse than prior year cash flow projections. The directors of the Company considered these were impairment indicators and an impairment reviews for the relevant cash generating units ("CGU") were conducted. For impairment review purpose, the Group identifies each of the four regions, namely Shanghai, Beijing, Jiangsu and Hunan, in which the karaoke outlets operate as four cash generating units ("CGUs") respectively. The recoverable amounts of the respective CGUs have been determined based on value in use calculation. The value in use calculations were based on the cash flow projections based on the latest financial budgets approved by the management covering a period of 3.5 years at a discount rate of 20% per annum. In financial budgets, all the karaoke outlets are expected to be in operation by 2013 and the growth rates of the karaoke outlets are estimated at 29% and 18% in 2014 and 2015 respectively. The cash flows beyond the 3.5-year period are extrapolated up to end of the relevant lease periods using a zero growth rate. The key assumptions for the value in use calculations related to the estimation of budgeted sales and gross margin, such estimation was based on the expectation for the market development based on the management's estimate. Total impairment losses of HK$30,000,000 were recognised in respect of all the four CGUs in the condensed consolidated statement of comprehensive income (for the six months ended 30th June, 2011: nil) and were allocated to reduce the carrying amounts of the property, plant and equipment of the respective CGUs on a pro-rata basis.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
Unlisted shares, at cost	**149,120**	149,120
Less: Impairment	**(105,500)**	(95,500)
	43,620	53,620

The available-for-sale investments represent 6% effective interest in a hotel resort complex operation in Macau.

During the period, the management of that hotel resort complex operation has changed the strategic plans and the cash flow projection is revised. Accordingly, the Group re-assessed the recoverable amount of the available-for-sale investments taking into account the expected future cash flows of the investments. Based on the revised cash flow projections and assumptions covering a 4.5-year period, discount rate of 16.94% (2011: 16.94%) per annum and cash flows beyond 4.5-year period of a zero growth rate, an impairment loss of HK$10,000,000 is recognised (for the six months ended 30th June, 2011: nil).

13. LOANS TO AN INVESTEE

The loans are unsecured, interest-free and with no fixed repayment terms. At 30th June, 2012, the Group re-assessed the future repayment schedule of the outstanding loans and considered the repayment of the loans will change to be in five yearly installments commencing from 2016 onwards after taking into account the financial ability of the investee and the project development plan. Accordingly, the carrying amount of the loans was recalculated by computing the present value of revised estimated future cash flows using the original effective interest rate of 8.5% per annum. An adjustment to the carrying amount of HK$5,109,000 has been charged to the profit or loss in the current period.

During the six months ended 30th June, 2012, the Group recognised interest income of HK$2,707,000 (for the six months ended 30th June, 2011: HK$2,695,000).

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Except for certain customers who are allowed 30 to 60 days credit period, no credit period is allowed by the Group in respect of provision of cold storage and related services.

Included in trade and other receivables are trade receivables, net of allowance for doubtful debts, of HK$38,780,000 (31.12.2011: HK$39,739,000).

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

	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
0–30 days	**14,949**	15,012
31–60 days	**12,029**	12,094
61–90 days	**7,254**	5,398
91–120 days	**2,448**	3,987
More than 120 days	**2,100**	3,248
	38,780	39,739

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$8,331,000 (31.12.2011: HK$4,556,000).

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

	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
0–30 days	**3,831**	3,235
31–60 days	**1,413**	1,205
61–90 days	**3,087**	116
	8,331	4,556

Included in other payables are accrual for the acquisition of property, plant and equipment and construction cost payables in aggregate amounting to HK$15,462,000 (31.12.2011: nil) for the development of karaoke outlets and related service in the PRC. Another HK$4,088,000 (31.12.2011: nil) represents provision to settle a legal case as disclosed in Note 18.

16. SHARE CAPITAL

	Authorised		**Issued and fully paid**	
	Number of shares '000	**Amount** HK$'000	**Number of shares** '000	**Amount** HK$'000
Ordinary shares of HK$0.01 each				
At 1st January, 2011	60,000,000	600,000	999,600	9,996
Issue of new shares pursuant to placing and subscription arrangements *(Note 1)*	—	—	199,920	1,999
At 30th June, 2011	60,000,000	600,000	1,199,520	11,995
Issue of new shares pursuant to a placing arrangement *(Note 2)*	—	—	239,900	2,399
At 31st December, 2011	60,000,000	600,000	1,439,420	14,394
Issue of new shares pursuant to a placing arrangement *(Note 3)*	—	—	287,884	2,879
At 30th June, 2012	60,000,000	600,000	1,727,304	17,273

16. SHARE CAPITAL (continued)

Notes:

1. On 30th March, 2011, arrangements were made for a placement to independent private investors of 199,920,000 shares of HK$0.01 each in the Company held by the existing shareholder, Ever Achieve Enterprises Limited ("Ever Achieve"), at a placing price of HK$0.235 per share representing a discount of approximately 18.97% to the closing market price of the Company's shares on 30th March, 2011. The placement was completed on 4th April, 2011.

   Pursuant to a subscription agreement of 30th March, 2011, Ever Achieve subscribed for 199,920,000 new shares of HK$0.01 each in the Company at a subscription price of HK$0.235 per share. The subscription was completed on 8th April, 2011. The proceeds were used to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 9th June, 2010 and rank pari passu with other shares in issue in all respects.

2. On 12th July, 2011, an arrangement was made for a placement to independent private investors of 239,900,000 new shares of HK$0.01 each in the Company at a price of HK$0.199 per share representing a discount of approximately 17.08% to the closing market price of the Company's shares on 12th July, 2011. The placement was completed on 21st July, 2011. The proceeds were used to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27th May, 2011 and rank pari passu with other shares in issue in all respects.

3. On 19th April, 2012, an arrangement was made for a placement to independent private investors of 287,884,000 new shares of HK$0.01 each in the Company at a price of HK$0.108 per share representing a discount of approximately 16.92% to the closing market price of the Company's shares on 19th April, 2012. The placement was completed on 30th April, 2012. The proceeds were used to provide additional working capital for the Group. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on 2nd September, 2011 and rank pari passu with other shares in issue in all respects.

17. PLEDGE OF ASSETS

As at 30th June, 2012, banking facilities to the extent of HK$3,500,000 (31.12.2011: HK$3,500,000) of the Group were secured by bank deposits amounting to HK$3,500,000 (31.12.2011: HK$3,500,000).

As at 30th June, 2012, bank deposits of approximately HK$75,218,000 (31.12.2011: HK$75,218,000) were pledged to a bank which provides bank guarantees in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

18. EVENT AFTER THE REPORTING PERIOD

In 2011, two subsidiaries of the Group had dispute with a customer over the handling of the customer's goods. As against the two subsidiaries, the customer alleged that in the course of business, certain goods to which it claimed ownership were not delivered on demand, and claimed compensation for damages of goods and other losses.

On 3rd August, 2012, order was made by the Deputy High Court to settle the case. Accordingly, the Group has provided for EUR195,000 (approximately HK$1,865,000) and HK$2,838,000 as compensation to the customer, and the related costs of legal proceedings as estimated by the legal advisor, respectively, as at 30th June, 2012.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF DAIDO GROUP LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Daido Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 13 to 30, which comprises the condensed consolidated statement of financial position as of 30th June, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30th August, 2012

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Interests of Directors

As at 30th June, 2012, none of the directors, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Interests of Substantial Shareholders

As at 30th June, 2012, to the best knowledge of the directors or chief executives of the Company, the following parties (other than the directors or chief executives of the Company), had interests or short positions in the shares or underlying shares of the Company which would fall 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 are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO are as follows:

DISCLOSURE OF INTERESTS (continued)

Interests of Substantial Shareholders (continued)

Long positions of the substantial shareholder in the shares and underlying shares of the Company:

Name of shareholder	Capacity	No. of shares held	Percentage of total issued share capital
Ever Achieve Enterprises Limited *(Note 1)*	Beneficial owner	202,323,133	11.71%
Yuen Kin Wing *(Note 1)*	Interest of controlled corporation	202,323,133	11.71%
Bingo Chance Limited *(Note 2)*	Beneficial owner	140,000,000	8.11%
Elite Plan Investments Limited *(Note 2)*	Interest of controlled corporation	140,000,000	8.11%
Wulglar Wai Wan *(Note 2)*	Interest of controlled corporation	140,000,000	8.11%

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 the 140,000,000 shares which are held by Bingo Chance Limited under the SFO.

DISCLOSURE OF INTERESTS (continued)

Interests of Substantial Shareholders (continued)

Save as disclosed above, as at 30th June, 2012, the directors or chief executives of the Company are not aware of any other person (other than a director or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which are 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 are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

On 9th January, 2006, a share option scheme (the "Scheme") was approved by the then shareholders of the Company for a period of 10 years commencing on the adoption date. Since the adoption date, the Board may, at its discretion, grant share options to any eligible participants to subscribe for the shares in the Company subject to the terms and conditions as stipulated in the Scheme. On 2nd September, 2011, the then shareholders of the Company approved to refresh the scheme mandate limit of the Scheme up to a new 10% limit.

No share option was outstanding as at 1st January, 2012 and 30th June, 2012 and no share option was granted under the Scheme during the period since adoption.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2012.

OTHER INFORMATION

CORPORATE GOVERNANCE

Corporate Governance Code

For the first half of 2012, the Board of the Directors is of the view that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, save for a few exceptions specified and explained below:

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period, there is no Chairman in the Company. Mr. Au Tat Wai and Mr. Choy Kai Sing have 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.

The Board does not have the intention to fill the position of Chairman at present and believes that the absence of a Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the Executive Directors. 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 code provision A.2.1 if necessary.

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

In order to comply with the code provisions, the Company entered into letters of appointment with all Directors (including Executive Directors, Non-executive Director and Independent Non-executive Directors) on 28th March, 2012 for an initial term 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.

CORPORATE GOVERNANCE (continued)

Model Code for Securities Transactions by Directors

The Company has adopted a set of code of conduct for securities transactions by directors, the terms of which are not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Company's Model Code"). Having made specific enquiry of all directors of the Company, all directors have confirmed that they had complied with the required standard set out in the Company's Model Code during the period under review.

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

Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial information for the six months ended 30th June, 2012 with the Directors. At the request of Audit Committee, the Group's external auditors have carried out a review of the unaudited interim financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee comprises all of the three Independent Non-executive Directors, namely Mr. Leung Chi Hung, Mr. Fung Siu Kit, Ronny and Mr. Tse Yuen Ming. Mr. Leung Chi Hung is the chairman of the Audit Committee.

Internal Control

The Board is committed to strengthening the Group's internal control system and improving the workflow with a view to enhancing efficiency and minimising any significant business risks.

CORPORATE GOVERNANCE (continued)

Internal Control (continued)

The Board is also responsible for monitoring on the adequacy of internal controls over financial reporting and the effectiveness of disclosure controls and procedures. Through the Audit Committee, the Board reviews the effectiveness of these systems.

During the review period, the whistleblowing policy was adopted by the Audit Committee. The policy is 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.

During the six months ended 30th June, 2012, the Board was satisfied that the internal control system is effective and that nothing has come to its attention to cause the Board to believe the Group's internal control system is inadequate. Moreover, the system will continue to be reviewed, added on or updated to provide for changes in the operating environment.