DAIDO

Stock Code 股份代號: 00544

DAIDO 大同集團有限公司
GROUP LIMITED

2013 Interim Report 中期報告

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Chung Siu Wah
(resigned on 5th August, 2013)
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

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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.
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, 2013, total revenue of the Group amounted to approximately HK$117 million, up approximately 25.8% when compared to approximately HK$93 million in the first half of the previous financial year.

The loss for the period attributable to owners of the Company was approximately HK$33 million, compared with the loss of approximately HK$94 million in the same period of the previous financial year. The decrease in loss was mainly attributable to (i) positive adjustment on loans to an investee; (ii) reduction of impairment loss on available-for-sale investments; and (iii) significant amount of pre-operating expenses in the development of karaoke outlets and related services in the PRC in previous period. Revenue derived from the Group's cold storage and related services operation remains stable for the period under review. Loss per share was HK1.38 cents.

During the period under review, the overall turnover and the profit margins of the Group's operations maintained at around the same levels of the previous year.

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

BUSINESS REVIEW

Cold storage and related services

During the six-month period, the performance of the Group's core business, the cold storage and related services operation, remained stable, as the Hong Kong economy continued to expand moderately during the period, with the robust performance of the inbound tourism offsetting the lackluster performance of the external trade sector.

While the external sector still faced an unsteady global economic environment, the domestic sector remained relatively resilient. Hong Kong's gross domestic product ("GDP") grew by a revised 2.9% year-on-year in real terms in the first quarter of 2013, slightly higher than the 2.8% expansion in the preceding quarter, according to data from the Census and Statistics Department ("C&SD"). At current market prices, the GDP increased by 4.3% in the first quarter of 2013 over the same period of the previous year. In the second quarter of 2013, Hong Kong's GDP growth accelerated to 3.3% year-on-year in real terms and eased to 4.0% year-on-year in nominal terms.

BUSINESS REVIEW (continued)

Cold storage and related services (continued)

Amidst an inflationary environment, the Group managed to raise the rental rates for the cold storage at the beginning of 2013 and again in July 2013. The overall turnover of the cold storage business remained stable after the two counts of rental increase.

The rising operating costs in terms of property rental, staff salary, electricity bills, water bills and maintenance fees have taken their toll on the Group's cold storage business, and continue to pose a challenge to the operation. Cost control will remain a key task for the Management. The Management has implemented various strategies to raise the efficiency of the cold storage operation, and will continue to do so in the course of business operation. The Management will also continue to upgrade and improve services to retain the existing customers and gain new customers.

The Group's logistic services business also remained stable performance during the six-month period. The logistic services operation mainly serves the Group's cold storage customers, which account for around 80-90% of the overall clientele of the logistic services. This operation is a value-added service that helps the Group retain its cold storage customers and boost the overall profit margins of the cold storage and related services operation.

The Group produces industrial ice bars for construction use, and has snatched up a certain market share in the local industrial ice market. The Group's industrial ice bars business grew steadily during the first half of 2013 as construction works are progressing on several large-scale public infrastructure projects in Hong Kong such as the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Kai Tak Development project, the Kwun Tong Line Extension, the South Island Line and the Shatin to Central Link. Demand for industrial ice bars is expected to continue to grow in the foreseeable future as construction works progress in full speed while the real estate boom in Hong Kong is also likely to generate continuous demand for industrial ice bars. Both of these scenarios bode well for the profit prospect for the Group's industrial ice business.

BUSINESS REVIEW (continued)

Karaoke outlets and related services ("KTV")

In pursuit of business diversification and expansion, the Group expanded into KTV operation in the PRC by setting up joint ventures since 2010, targeting the business potential brought by growing leisure and cultural consumption in the PRC. However, due to cultural and regulatory differences between the Chinese mainland and Hong Kong, the Group has encountered various problems in its mainland KTV operation in terms of license application, project renovation, materials procurement, etc.

The Group's KTV operation has been running at a loss partly due to the above-mentioned problems and is expected to require further large capital commitment before achieving the economics of scale and a turnaround.

The Management decided to dispose of the KTV business after a comprehensive strategic evaluation on this operation and the overall business strategy of the Group.

On 21st June, 2013, the Group entered into two disposal agreements (the "Disposal Agreements") with Golden Channel Limited, an independent third party, for the sale of the Company's certain subsidiaries, which are principally engaged in the operation of karaoke outlets, food and beverage outlets in the PRC as well as wine and beverage trading business in the PRC, (collectively known as the "Disposal Group") to the latter (the "Transactions").

The Disposal Agreements and the Transactions were already approved by the shareholders of the Group by way of a poll at a special general meeting held on 26th July, 2013 and the Transactions have been completed on 1st August, 2013. The net proceeds from the Transactions will be used as general working capital of the Group.

In view of the unsatisfactory loss-making results of the Disposal Group for the two years ended 31st December, 2012. The Directors believe that the disposal of the KTV business segment is in the interest of the Group and its shareholders as a whole, as it allows the Group to exit from the loss-making business, free up capital commitment and allocate more resources to the Group's cold storage and related services.

For further details, please refer to the announcements and/or circulars of the Company dated 26th July, 2013, 11th July, 2013, 21st June, 2013 and 24th May, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Investment (Hotel and resort operation in Macau)

The Group, through its subsidiaries and certain investment vehicles, held 6% effective interest in Great China Company Limited ("Great China") and the Grand Waldo Hotel resort complex in Macau, which was majority-owned and controlled by the Group's business partner Get Nice Holdings Limited ("Get Nice", HKEx: 0064).

Get Nice decided to dispose of the Grand Waldo Hotel resort complex (the "Disposal") after a thorough evaluation on the merits of the Disposal.

Great China has received the first payment (pro rata) for the Disposal after the Disposal was completed on 17th July, 2013, and will receive the second payment after 18 months. The Group has received repayment of the loans to an investee on 24th July, 2013.

Get Nice believes that the Disposal presents a good opportunity for it to realise its investment in the Grand Waldo Hotel resort complex operation, which has posted unsatisfactory operating results.

The Disposal generated considerable cash inflow for the Group to strengthen its working capital, providing more capital resources for exploring other more promising business and investment opportunities.

For further details, please refer to the announcements and/or circulars of Get Nice dated 17th July, 2013, 24th May, 2013 and 5th May, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30th June, 2013, banking facilities to the extent of HK$3.5 million (31st December, 2012: HK$3.5 million) of the Group were secured by the pledge of bank deposits amounting to HK$3.5 million (31st December, 2012: HK$3.5 million). The amount utilised at 30th June, 2013 was approximately HK$3.5 million (31st December, 2012: approximately HK$3.5 million).

As at 30th June, 2013, bank deposits of approximately HK$75 million (31st December, 2012: 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, 2013, the Group had cash and bank balances of approximately HK$71 million (31st December, 2012: approximately HK$55 million). The increase was mainly due to the proceeds from the issuance of new shares. The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 8.7% as at 30th June, 2013 (31st December, 2012: approximately 16.8%). The decrease was mainly attributable to reclassification of amount due to non-controlling interests of a subsidiary to current liabilities and the increase 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 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, 2012, the total issued share capital of the Company was HK$20,723,040 divided into 2,072,304,000 ordinary shares with a par value of HK$0.01 each.

On 17th January, 2013, the Company entered into a share placing agreement for the placement of 360,000,000 new shares at HK$0.128 each. The share placing arrangement was completed on 25th January, 2013. The net proceeds of approximately HK$45.6 million are used for general working capital of the Group.

For further details, please refer to the announcements of the Company dated 25th January, 2013 and 17th January, 2013.

As a result of the share placing arrangement, 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 as at 30th June, 2013.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2013, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 260 and 300 respectively (31st December, 2012: approximately 270 Hong Kong employees; 570 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 and professional tuition/training subside for employees' benefit.

PROSPECTS

The prospects for the Group's operations are improving along with the global and local macroeconomic environment.

With a visible recovery in the U.S. housing sector and a stabilising labour market, the U.S. economy, the world's largest, is gaining strength, albeit still at a slow pace. The growth in the U.S. GDP has accelerated to 1.7% in the second quarter of 2013 from a revised 1.1% in the first quarter, according to data from the Bureau of Economic Analysis, a unit of the U.S. Department of Commerce.

PROSPECTS (continued)

Meanwhile, the Chinese economy, the world's second largest, has sustained solid growth. China's GDP growth slightly eased to 7.5% in the second quarter of 2013 from 7.7% in the first quarter, data from the National Bureau of Statistics ("NBS") of China shows. Growth in the first half of the year stood at 7.6%, which was above the government's full-year target of 7.5%.

Benefiting from the strong mainland economy, Hong Kong's economy is expected to maintain moderate growth in the months ahead. The Hong Kong government maintained its GDP growth forecast of 1.5-3.5% for 2013 in the First Quarter Economic Report 2013 released on 10th May, 2013.

Cold storage and logistics services

With the macroeconomic environment improving, the Group sees a brighter outlook for its cold storage and related services, which will particularly benefit from the robust domestic consumption and the thriving inbound tourism.

The domestic consumption in Hong Kong is expected to stay resilient, underpinned by the healthy growth in household incomes amidst the still largely favourable labour market conditions, said Helen Chan, the Government Economist, in the First Quarter Economic Report 2013.

The unemployment in Hong Kong declined to 3.3% in June 2013 from 3.4% in May 2013, according to statistics of the C&SD. The current jobless rate is lower than the average jobless rate of 3.75% from 1981 until June 2013.

Private consumption expenditure in Hong Kong grew by 7.0% in real terms in the first quarter of 2013 from a year earlier, according to the First Quarter Economic Report 2013. Meanwhile, median household income rose by 5.8% in nominal terms in the first quarter over a year earlier, or by 2.0% in real terms after discounting inflation.

PROSPECTS (continued)

Cold storage and logistics services (continued)

Visitor arrivals in Hong Kong totalled 25.4 million in the first six months of 2013, an increase of 13.6% when compared with the same period of the previous year, according to data from the Hong Kong Tourism Board. In 2012 whole year, a total of 48.6 million visitors, almost seven times the size of Hong Kong's local population, came to the city, representing a 16% increase from 2011. Total tourism expenditure associated to inbound tourism in 2012 amounted to HK$296.6 billion, 14.6% more than in 2011.

The improving external trade situation in Hong Kong, the transhipment hub in the region, also bodes well for the cold storage industry in the city. According to data from the Census and Statistics Department (C&SD), merchandise imports totalled HK$1,391 billion in the first five months of 2013, an increase of 4.7% over the same period of 2012. The pace in import growth has accelerated from the 3.9% recorded in the whole year of 2012. Merchandise re-exports amounted to 1,371 billion in the first five month of 2013, up 4.0% over the same period of 2012. The pace in re-export growth has also accelerated from the 3.2% recorded in the whole year of 2012.

Outlook for industrial ice

The Management also remains optimistic about the outlook for industrial ice bars business in the coming years.

Aside from the numerous on-going large-scale public infrastructure projects, the Northeast New Territories development project is also likely to generate huge demand for industrial ice bars, when the new town development project is eventually adopted and implemented by the Hong Kong government.

Challenges ahead

While remaining optimistic about the prospects for the Group's businesses, the Management keeps a watchful eye on the challenges ahead.

Despite some improvement, the global economic landscape is not without challenges. The eurozone is still mired in its longest recession, with a record high unemployment rate of 12.1% in May, according to data from the EU statistics office Eurostat. The recovery in the U.S. economy remains feeble while China's economy has showed signs of deceleration amidst structural reform.

PROSPECTS (continued)

Challenges ahead (continued)

Amidst the inflationary environment, cost control continues to be a major challenge to all kind of business including those of the Group. Hong Kong's Composite Consumer Price Index ("CPI") rose 3.9% year-on-year in May 2013, according to data from the C&SD.

Rising labour cost, fuel prices, electricity and water bills and maintenance fees weigh on the profit margins of the Group's cold storage and logistic services operations. Wages in both the merchandise trade and transportation sectors in Hong Kong increased by 3.6% in March 2013, compared with the same period of 2012, according to data from the C&SD. Crude oil is hovering at a relatively high level of around US$106 per barrel in New York trading.

Corporate strategy/long-term business model

The Group has established a clear corporate strategy of focusing on its core businesses, the cold storage and logistic operations, while seeking promising new business opportunities.

In the face of the rising pressure of operating costs, the Management will vigorously explore various cost control measures to maintain the Group's profit margins. The Management will also continue to improve the efficiency of the cold storage operation by optimising the warehouse management system and prioritising customers with high stock turnover rates.

Providing value-added services to our customers through technological innovation is another way for the Group to improve the efficiency of its cold storage operation. The Management will also maintain flexibility in its operational strategy, adjusting its operational direction in response to new developments and changes in the market. The Management has demonstrated such flexibility over the years, as indicated by the move to convert chillers into bonded warehouse in response to market demand in recent years.

In line with its established corporate strategy of maximising shareholders' value, the Management will continue to explore business opportunities in promising sectors that are expected to benefit from global and local economic growth in the long term.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th June, 2013

	Notes	**Six months ended 30.6.2013 HK$'000 (unaudited)**	Six months ended 30.6.2012 HK$'000 (unaudited)
Revenue	*3*	**117,434**	92,522
Direct costs		**(123,869)**	(92,481)
Gross (loss) profit		**(6,435)**	41
Other income	*4*	**3,712**	3,545
Other gains and losses	*5*	**39,897**	(4,120)
Selling and distribution expenses		**(7,645)**	(3,380)
Administrative expenses		**(24,776)**	(18,054)
Other operating expenses	*7*	**–**	(30,001)
Impairment loss on property, plant and equipment	*11*	**(31,448)**	(30,000)
Impairment loss on available-for-sale investments	*12*	**(4,500)**	(10,000)
Finance costs	*6*	**(2,342)**	(2,488)
Loss before tax	*7*	**(33,537)**	(94,457)
Income tax expense	*8*	**–**	–
Loss for the period		**(33,537)**	(94,457)
Other comprehensive (expense) income			
Item that may be subsequent reclassified to profit or loss			
Exchange difference arising on translation of financial statements of the foreign operations		**(1,049)**	273
Total comprehensive expense for the period		**(34,586)**	(94,184)
Loss for the period attributable to:			
Owners of the Company		**(32,961)**	(94,457)
Non-controlling interests		**(576)**	–
		(33,537)	(94,457)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(34,010)**	(94,184)
Non-controlling interests		**(576)**	–
		(34,586)	(94,184)
Loss per share — basic	*10*	**HK(1.38) cents**	HK(6.14) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Notes	**30.6.2013 HK$'000 (unaudited)**	31.12.2012 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**42,528**	77,798
Goodwill		**8,513**	8,513
Available-for-sale investments	*12*	**39,120**	43,620
Financial assets at fair value through profit or loss	*18*	**8,149**	8,207
Loans to an investee	*13*	**–**	69,107
Deposits for acquisition of property, plant and equipment		**4,371**	2,880
Rental deposits paid		**25,202**	24,592
Pledged bank deposits		**78,718**	78,718
		206,601	313,435
CURRENT ASSETS			
Trade and other receivables, deposits and prepayments	*14*	**48,826**	51,117
Inventories		**2,307**	2,075
Loans to an investee	*13*	**112,000**	–
Held-for-trading investments	*18*	**892**	877
Bank balances and cash		**70,874**	54,916
		234,899	108,985
CURRENT LIABILITIES			
Trade and other payables	*15*	**58,060**	53,698
Obligations under finance leases		**381**	375
Promissory notes		**9,934**	9,762
Amount due to non-controlling interests of a subsidiary		**26,295**	–
		94,670	63,835
NET CURRENT ASSETS		**140,229**	45,150
TOTAL ASSETS LESS CURRENT LIABILITIES		**346,830**	358,585

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2013

	Notes	**30.6.2013 HK$'000 (unaudited)**	31.12.2012 HK$'000 (audited)
CAPITAL AND RESERVES			
Share capital	*16*	**24,323**	20,723
Share premium and reserves		**282,070**	274,074
Equity attributable to owners of the Company		**306,393**	294,797
Non-controlling interests		**13,769**	14,237
		320,162	309,034
NON-CURRENT LIABILITIES			
Obligations under finance leases		**156**	347
Amount due to non-controlling interests of a subsidiary		**–**	24,594
Promissory notes		**12,840**	12,392
Other liabilities		**13,672**	12,218
		26,668	49,551
		346,830	358,585

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2013

	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	Translation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
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 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
At 1st January, 2013 (audited)	20,723	332,220	39,984	(98,769)	639	294,797	14,237	309,034
Loss for the period	–	–	–	(32,961)	–	(32,961)	(576)	(33,537)
Exchange differences arising on translation	–	–	–	–	(1,049)	(1,049)	–	(1,049)
Total comprehensive expense for the period	–	–	–	(32,961)	(1,049)	(34,010)	(576)	(34,586)
Issues of shares pursuant to placing arrangement	3,600	42,480	–	–	–	46,080	–	46,080
Transaction costs attributable to issue of new shares	–	(474)	–	–	–	(474)	–	(474)
Capital contribution from non-controlling interests	–	–	–	–	–	–	108	108
At 30th June, 2013 (unaudited)	24,323	374,226	39,984	(131,730)	(410)	306,393	13,769	320,162

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 the 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, 2013

	Note	Six months ended 30.6.2013 HK$'000 (unaudited)	30.6.2012 HK$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES		**(34,993)**	(33,785)
NET CASH FROM (USED IN) INVESTING ACTIVITIES:			
Additions of property, plant and equipment		**(3,292)**	(25,351)
Deposit received	*15*	**10,000**	–
Other investing activities		**490**	674
		7,198	(24,677)
NET CASH FROM FINANCING ACTIVITIES:			
Proceeds from issue of new shares		**46,080**	31,092
Other financing activities		**(581)**	(545)
		45,499	30,547
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**17,704**	(27,915)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**54,916**	89,572
Effect of foreign exchange rate changes		**(1,746)**	93
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		**70,874**	61,750

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2013

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th June, 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"):

- HKFRS 10 *Consolidated Financial Statements*;
- HKFRS 11 *Joint Arrangements*;
- HKFRS 12 *Disclosure of Interests in Other Entities*;
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*;
- HKFRS 13 *Fair Value Measurement*;
- HKAS 19 (as revised in 2011) *Employee Benefits*;
- HKAS 27 (as revised in 2011) *Separate Financial Statements*;
- HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*;
- Amendments to HKFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to HKFRSs *Annual Improvements to HKFRSs 2009–2011 Cycle*; and
- HK(IFRIC)-Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 13 *Fair Value Measurement*

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information in accordance with the consequential amendments to HKAS 34 are set out in note 18. The Group have extended the disclosures on financial assets at fair value through profit or loss and held for trading investments.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income. Under the amendments to HKAS 1, the Group's statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

The directors consider that the application of HKFRS 10, HKFRS 11, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011), together with amendments relating to the transitional guidance on the application of these HKFRS has no impact on the amounts reported in the consolidated financial statements.

The directors expect that the application of HKFRS 12, a disclosure standard applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities, will result in more extensive disclosure in the financial statements for the year ending 31st December, 2013.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Amendments to HKAS 34 *Interim Financial Reporting* *(as part of the Annual Improvements to HKFRSs 2009–2011 Cycle)*

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009–2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment. As a result, such information is presented in note 3.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported 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 30.6.2013

	Cold storage and related services HK$'000	Karaoke outlets and related services HK$'000	Total HK$'000
Revenue	91,107	26,327	117,434
Segment loss	(1,262)	(62,544)	(63,806)
Unallocated income			3,442
Unallocated expenses			(6,228)
Change in fair value of financial instruments			(59)
Adjustment on loans to an investee			39,956
Impairment loss on available-for-sale investments			(4,500)
Finance costs			(2,342)
Loss before tax			(33,537)

3. SEGMENT INFORMATION (continued)

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)

Segment result represents the loss from each segment without allocation of interest income, certain sundry income, central administration costs, change in fair value of financial instruments, 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.

3. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	30.6.2013 HK$'000	31.12.2012 HK$'000
ASSETS		
Cold storage and related services	77,314	82,563
Karaoke outlets and related services	51,747	82,833
Total segment assets	129,061	165,396
Unallocated assets	312,439	257,024
Consolidated assets	441,500	422,420
LIABILITIES		
Cold storage and related services	16,429	16,354
Karaoke outlets and related services	44,214	49,127
Total segment liabilities	60,643	65,481
Unallocated liabilities	60,695	47,905
Consolidated liabilities	121,338	113,386

4. OTHER INCOME

	Six months ended 30.6.2013 HK$'000 (unaudited)	Six months ended 30.6.2012 HK$'000 (unaudited)
Bank interest income	505	372
Imputed interest income from loans to an investee	2,937	2,707
Sundry income	270	466
	3,712	3,545

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2013 HK$'000 (unaudited)	Six months ended 30.6.2012 HK$'000 (unaudited)
Fair value (loss) gain on financial assets at fair value through profit or loss	**(58)**	630
Fair value (loss) gain on held-for-trading investments	**(1)**	99
Gain on disposal of property, plant and equipment	**–**	260
Adjustment on loans to an investee *(note 13)*	**39,956**	(5,109)
	39,897	(4,120)

6. FINANCE COSTS

	Six months ended 30.6.2013 HK$'000 (unaudited)	Six months ended 30.6.2012 HK$'000 (unaudited)
Interest on obligations under finance leases	**21**	34
Imputed interest expense on amount due to non-controlling interests of a subsidiary	**1,701**	1,701
Imputed interest expense on promissory notes	**620**	753
	2,342	2,488

7. LOSS BEFORE TAX

	Six months ended 30.6.2013 HK$'000 (unaudited)	Six months ended 30.6.2012 HK$'000 (unaudited)
Loss before tax for the period has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**6,900**	6,123
Other operating expenses *(Note)*	**–**	30,001

Note: For the six months ended 30th June, 2012, HK$25,298,000 represents pre-operating expenses including rental expenses and staff cost 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 to settle a legal case in prior period.

8. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable tax rate of 25%.

No provision for Hong Kong Profits Tax and EIT are required as the individual companies comprising the Group incurred a loss 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, 2013 and 30th June, 2012.

10. LOSS PER SHARE

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

	Six months ended 30.6.2013 HK$'000 (unaudited)	Six months ended 30.6.2012 HK$'000 (unaudited)
Loss for the purpose of basic loss per share	**(32,961)**	(94,457)

	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,384,569**	1,537,490

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

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for the period ended 30th June, 2013 and 2012.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$2,000,000 (for the six months ended 30th June, 2012: HK$55,000,000) on additions of property, plant and equipment for upgrading compartments for freezer storage, karaoke outlets and operating use.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

During the current period, the performance of the karaoke outlets and related services are worse than cash flow projections. On 21st June, 2013, the Group entered into the disposal agreements with Golden Channel Limited, an independent third party, for the disposal of the entire issued share capital of certain subsidiaries (collectively the "Disposal Group") which carried the Group's entire karaoke outlets and related services operations at a net consideration of HK$30,000,000 (the "Proposed Disposal"). Deposit of HK$10,000,000 was received from Golden Channel Limited up to 30th June, 2013. As disclosed in note 19, the completion of the Proposed Disposal is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent set out in the circular publicly published on 11th July, 2013. The directors of the Company re-assessed the recoverable amounts of the karaoke outlets and related services taking into consideration the revision of cash flow projections and the Proposed Disposal. The recoverable amounts of the karaoke outlets and related services have been determined based on the higher of fair value less costs to sell and value in use calculation. As at 30th June, 2013, the fair value less costs to sell of the operation of karaoke outlets and related services is based on the net consideration less related transaction costs. As a result, an impairment loss of HK$31,448,000 is recognised in profit or loss in respect of the property, plant and equipment related to karaoke outlets and related services based on the fair value less costs to sell, after taking into account the other assets and liabilities to be disposed of within the Disposal Group.

In prior period, the recoverable amount of the karaoke outlets and related services has been determined on the basis of value in use, the calculations of which 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 the 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 in prior period. An impairment loss of HK$30,000,000 was recognised in prior period.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2013 HK$'000 (unaudited)	31.12.2012 HK$'000 (audited)
Unlisted shares, at cost	**149,120**	149,120
Less: Impairment	**(110,000)**	(105,500)
	39,120	43,620

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

On 4th May, 2013, the indirectly owned investee, which holds 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 Hong Kong Stock Exchange, to dispose of the underlying properties of hotel resort complex and other assets in some subsidiaries of its major shareholder at a cash consideration of HK$3,250,000,000. The disposal of these assets is subsequently completed on 17th July, 2013. The Group re-assessed the recoverable amount of the available-for-sale investments taking into account the expected future cash flows of the investments including the cash flows generated from the aforesaid disposal. An impairment loss of HK$4,500,000 is recognised in current period as the recoverable amount is lower than the carrying value (for the six months ended 30th June, 2012: HK$10,000,000).

13. LOANS TO AN INVESTEE

The loans are due to the investee, of which the investment in this investee is classified as available for sale investments, and the term is unsecured, interest-free and with no fixed repayment terms.

The loans are initially measured at fair value and subsequently measured at amortised cost determined using the effective interest method. The effective interest rate of the loans is 8.5% per annum.

At 31st December, 2012, the Group re-assessed the future repayment schedule of the outstanding loans and considered the repayment of the loans will 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 prior period.

At 30th June, 2013, it is expected that the investee will repay the loans in full in July 2013 and the Group re-assessed the future repayment schedule of the outstanding loans. An adjustment to the carrying amount of HK$39,956,000 has been credited to profit or loss in the current period. The balance was subsequently received in July 2013.

During the six months ended 30th June, 2013, the Group recognised interest income of HK$2,937,000 (for the six months ended 30th June, 2012: HK$2,707,000).

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$35,655,000 (31.12.2012: HK$40,364,000).

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

	30.6.2013 HK$'000 (unaudited)	31.12.2012 HK$'000 (audited)
0–30 days	**16,474**	15,370
31–60 days	**12,058**	11,785
61–90 days	**7,123**	9,086
91–120 days	**–**	4,067
More than 120 days	**–**	56
	35,655	40,364

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$9,272,000 (31.12.2012: HK$9,547,000).

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

	30.6.2013 HK$'000 (unaudited)	31.12.2012 HK$'000 (audited)
0–30 days	6,199	4,353
31–60 days	1,203	2,797
61–90 days	415	209
91–120 days	1,455	2,188
	9,272	9,547

Included in other payables are accrual for the acquisition of property, plant and equipment and construction cost payables in aggregate amounting to HK$17,124,000 (31.12.2012: HK$21,301,000) for the development of karaoke outlets and related service in the PRC and deposit received from the Proposed Disposal as disclosed in note 11 amounting to HK$10,000,000 (31.12.2012: nil).

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, 2012	60,000,000	600,000	1,439,420	14,394
Issue of new shares pursuant to placing arrangement *(Note 1)*	–	–	287,884	2,879
At 30th June, 2012	60,000,000	600,000	1,727,304	17,273
Issue of new shares pursuant to placing arrangement *(Note 2)*	–	–	345,000	3,450
At 31st December, 2012	60,000,000	600,000	2,072,304	20,723
Issue of new shares pursuant to placing arrangement *(Note 3)*	–	–	360,000	3,600
At 30th June, 2013	60,000,000	600,000	2,432,304	24,323

16. SHARE CAPITAL (continued)

Notes:

1. 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.

2. On 21st September, 2012, an arrangement was made for a placement to independent private investors of 345,000,000 new shares of HK$0.01 each in the Company at a price of HK$0.125 per share. On 24th September, 2012, the Company and the placing agent entered into a supplemental placing agreement, under which the placing price has been adjusted to HK$0.135 per share representing a discount of approximately 10% to the closing market price of the Company's shares on 24th September, 2012. The placement was completed on 3rd October, 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 annual general meeting of the Company held on 21st May, 2012 and rank pari passu with other shares in issue in all respects.

3. On 17th January, 2013, an arrangement was made for a placement to independent private investors of 360,000,000 new shares of HK$0.01 each in the Company at a price of HK$0.128 per share representing a discount of approximately 9.86% to the closing market price of the Company's shares on 17th January, 2013. The placement was completed on 25th January, 2013. 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 7th January, 2013 and rank pari passu with other shares in issue in all respects.

17. PLEDGE OF ASSETS

As at 30th June, 2013, banking facilities to the extent of HK$3,500,000 (31.12.2012: HK$3,500,000) of the Group were secured by bank deposits amounting to HK$3,500,000 (31.12.2012: HK$3,500,000). The amount utilised at 30th June, 2013 was approximately HK$3,480,000 (31.12.2012: HK$3,480,000).

As at 30th June, 2013, bank deposits of approximately HK$75,218,000 (31.12.2012: 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. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

At 30th June, 2013

	Fair value hierarchy		
	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss			
Foreign exchange linked note *(note a)*	–	8,149	8,149
Held-for-trading investments			
Listed equity securities *(note b)*	892	–	892
	892	8,149	9,041

There were no transfer between Levels 1 and 2 during the six-months ended 30th June, 2013.

Notes:

(a) The fair value of the note is calculated using discounted cash flows analysis derived from quoted exchange rates, discounted at a rate that reflects the credit risk of various counterparty, which are observable data at the end of the reporting period.

(b) The fair value of listed equity securities is determined with reference to quoted market bid price from relevant stock exchanges.

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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

The available-for-sale investments are 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 their fair values cannot be measured reliably.

19. EVENT AFTER THE REPORTING PERIOD

As disclosed in note 11, the completion of the Proposed Disposal is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent set out in the circular publicly published on 11th July, 2013. The Proposed Disposal was approved by the Company's shareholders at the special general meeting of the Company on 26th July, 2013. The Proposed Disposal is subsequently completed on 1st August, 2013. Upon the completion of the Proposed Disposal, the Group ceased all operations and business of the Disposal Group which will be presented as a discontinued operation in the consolidated financial statements of the Group in the period in which the disposal occurs. The directors of the Company considered that no material gain or loss will be resulted in profit or loss.

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 12 to 35, which comprise the condensed consolidated statement of financial position as of 30th June, 2013 and the related condensed consolidated statement of profit or loss and other 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 the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29th August, 2013

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Interests of Directors

As at 30th June, 2013, none of the Directors or chief executives of the Company nor their respective associates had any interests and short positions in any shares, underlying shares and 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 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 maintained by the Company pursuant to Section 352 of the SFO, or which were otherwise required to notify 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, 2013, save as disclosed below, so far as is known to the Directors and the chief executives of the Company, no person (other than a Director or a chief executive of the Company) has an interest or short position in the shares or underlying shares of the Company which will fall to be disclosed to the Company 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 and no person (other than the Directors or chief executives of the Company), has an interest or short position in the shares or underlying shares of the Company, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or has any options in respect of such capital.

DISCLOSURE OF INTERESTS (continued)

Interests of Substantial Shareholders (continued)

Long positions of the substantial shareholder 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 the 140,000,000 shares which are held by Bingo Chance Limited under the SFO.

DISCLOSURE OF INTERESTS (continued)

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 7th January, 2013, 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, 2013 and 30th June, 2013 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, 2013.

CORPORATE GOVERNANCE

Corporate Governance Code

For the first half of 2013, 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 an exception 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.

CORPORATE GOVERNANCE (continued)

Corporate Governance Code (continued)

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.

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, 2013 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.

OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

Nomination Committee

In order to comply with the amendments to the CG code on board diversity effective on 1st September, 2013, the Board Diversity Policy of the Company was adopted by the Board on 29th August, 2013. This Policy aims to set out the approach to achieve diversity on the Board. The Nomination Committee shall give due regard to the benefits of diversity on the Board against objective criteria in reference to this Policy when performing duties.

Internal Control

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

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

During the six months ended 30th June, 2013, 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.