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DAIDO GROUP LIMITED

大同集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00544)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

The board of directors (the “Board”) of Daido Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2016, together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

| | <i>Note</i> | Six months ended 30.6.2016 <i>HK\$'000</i> (unaudited) | Six months ended 30.6.2015 <i>HK\$'000</i> (unaudited) |
|-----------------------------------|-------------|--|--|
| Revenue | 3 | 144,527 | 129,104 |
| Direct costs | | <u>(117,556)</u> | <u>(107,821)</u> |
| Gross profit | | 26,971 | 21,283 |
| Other income | 4 | 335 | 1,093 |
| Other gains and losses | 5 | (157) | 606 |
| Other expense | | - | (619) |
| Selling and distribution expenses | | (7,344) | (5,876) |
| Administrative expenses | | (21,063) | (17,788) |
| Share of loss of a joint venture | | (7,947) | (1,681) |
| Finance costs | 6 | <u>(3,267)</u> | <u>(4,330)</u> |
| Loss before tax | | (12,472) | (7,312) |
| Income tax expense | 7 | <u>-</u> | <u>-</u> |
| Loss for the period | 8 | <u>(12,472)</u> | <u>(7,312)</u> |

*For identification purpose only

| | <i>Note</i> | Six months ended 30.6.2016 HK\$'000 (unaudited) | Six months ended 30.6.2015 HK\$'000 (unaudited) |
|---|-------------|--|---|
| Other comprehensive (expense) income | | | |
| Item that may be subsequently reclassified to profit or loss | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | <u>(9)</u> | <u>79</u> |
| Total comprehensive expense for the period | | <u>(12,481)</u> | <u>(7,233)</u> |
| Loss for the period attributable to: | | | |
| Owners of the Company | | (12,472) | (7,312) |
| Non-controlling interests | | <u>-</u> | <u>-</u> |
| | | <u>(12,472)</u> | <u>(7,312)</u> |
| Total comprehensive expense for the period attributable to: | | | |
| Owners of the Company | | (12,481) | (7,233) |
| Non-controlling interests | | <u>-</u> | <u>-</u> |
| | | <u>(12,481)</u> | <u>(7,233)</u> |
| Loss per share – basic | <i>10</i> | <u>HK(0.51) cents</u> | <u>HK(0.3) cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30TH JUNE, 2016

| | <i>Note</i> | 30.6.2016 HK\$'000 (unaudited) | 31.12.2015 HK\$'000 (audited) |
|--------------------------------|-------------|---|-------------------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 12,809 | 14,482 |
| Goodwill | | 8,581 | 8,581 |
| Interest in a joint venture | | - | 7,947 |
| Available-for-sale investments | | 38,502 | 38,502 |
| Rental deposits paid | | 21,786 | 21,783 |
| Pledged bank deposits | | 90,000 | 90,000 |
| Loans receivable | | <u>31,000</u> | <u>54,650</u> |
| | | <u>202,678</u> | <u>235,945</u> |

| | <i>Note</i> | 30.6.2016 HK\$'000 (unaudited) | 31.12.2015 HK\$'000 (audited) |
|---|-------------|---|---|
| CURRENT ASSETS | | | |
| Inventories | | 2,115 | 2,200 |
| Trade and other receivables, deposits and prepayments | <i>11</i> | 72,162 | 64,986 |
| Deposit held on escrow | | 2,680 | - |
| Loans receivable | | 34,000 | 17,850 |
| Amount due from non-controlling interests of a subsidiary | | 9,760 | 9,760 |
| Held for trading investments | | 534 | 698 |
| Bank balances and cash | | <u>124,933</u> | <u>125,214</u> |
| | | 246,184 | 220,708 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | <i>12</i> | 28,429 | 25,641 |
| Deposit received | | 2,680 | - |
| Amount due to an investee | | 39,042 | 39,042 |
| Obligations under finance leases | | 1,951 | 1,924 |
| Promissory notes | | <u>4,935</u> | <u>4,762</u> |
| | | 77,037 | 71,369 |
| NET CURRENT ASSETS | | <u>169,147</u> | <u>149,339</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>371,825</u> | <u>385,284</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 24,323 | 24,323 |
| Share premium and reserves | | <u>230,819</u> | <u>243,300</u> |
| Equity attributable to owners of the Company | | 255,142 | 267,623 |
| Non-controlling interests | | <u>14,923</u> | <u>14,923</u> |
| | | 270,065 | 282,546 |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | | 1,760 | 2,738 |
| Bonds | | <u>100,000</u> | <u>100,000</u> |
| | | 101,760 | 102,738 |
| | | <u>371,825</u> | <u>385,284</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

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, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2015.

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 that are relevant for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|--|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 - 2014 Cycle |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operation |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements |

The application of the 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

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

Specifically, the Group’s reportable and operating segments under HKFRS 8 “Operating Segments” are as follows:

1. Cold storage and related services in Hong Kong (“Cold storage and related services”)
2. Trading and related services in the People’s Republic of China (the “PRC”) (“Trading and related services”)
3. Money lending services in Hong Kong (“Money lending services”)

The following is an analysis of the Group’s revenue and results from continuing operations by reportable and operating segments:

Six months ended 30.6.2016 (unaudited)

| | Cold storage and related services <i>HK\$’000</i> | Trading and related services <i>HK\$’000</i> | Money lending services <i>HK\$’000</i> | Total <i>HK\$’000</i> |
|--|--|---|---|----------------------------------|
| Revenue | <u>112,724</u> | <u>27,312</u> | <u>4,491</u> | <u>144,527</u> |
| Segment profit (loss) | <u>7,683</u> | <u>(5,776)</u> | <u>1,440</u> | 3,347 |
| Unallocated income | | | | 335 |
| Unallocated expenses | | | | (4,776) |
| Change in fair value of held for trading investments | | | | (164) |
| Share of loss of a joint venture | | | | (7,947) |
| Finance costs | | | | <u>(3,267)</u> |
| Loss before tax | | | | <u>(12,472)</u> |

Six months ended 30.6.2015 (unaudited)

| | Cold storage and related services <i>HK\$’000</i> | Trading and related services <i>HK\$’000</i> | Money lending services <i>HK\$’000</i> | Total <i>HK\$’000</i> |
|--|--|---|---|----------------------------------|
| Revenue | <u>109,666</u> | <u>18,052</u> | <u>1,386</u> | <u>129,104</u> |
| Segment profit (loss) | <u>8,456</u> | <u>(5,290)</u> | <u>(549)</u> | 2,617 |
| Unallocated income | | | | 1,093 |
| Unallocated expenses | | | | (4,968) |
| Change in fair value of held for trading investments | | | | (43) |
| Share of loss of a joint venture | | | | (1,681) |
| Finance costs | | | | <u>(4,330)</u> |
| Loss before tax | | | | <u>(7,312)</u> |

Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of interest income, certain sundry income, central administration costs including part of auditor’s remuneration and directors’ remuneration, change in fair value of held for trading investments, share of loss of a joint venture and finance costs. This is the measure reported to the chief operating decision makers and the executive directors, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

| | 30.6.2016 <i>HK\$'000</i> (unaudited) | 31.12.2015 <i>HK\$'000</i> (audited) |
|--|--|---|
| ASSETS | | |
| Cold storage and related services | 94,796 | 87,639 |
| Money lending services | 72,403 | 75,439 |
| Trade and related services | 15,497 | 11,714 |
| | <hr/> | <hr/> |
| Total segment assets | 182,696 | 174,792 |
| Unallocated assets | 266,166 | 281,861 |
| | <hr/> | <hr/> |
| Consolidated assets | 448,862 | 456,653 |
| | <hr/> | <hr/> |
| LIABILITIES | | |
| Cold storage and related services | 20,214 | 19,555 |
| Money lending services | 70,171 | 75,262 |
| Trade and related services | 7,396 | 5,745 |
| | <hr/> | <hr/> |
| Total segment liabilities | 97,781 | 100,562 |
| Unallocated liabilities | 81,016 | 73,545 |
| | <hr/> | <hr/> |
| Consolidated liabilities | 178,797 | 174,107 |
| | <hr/> | <hr/> |
| 4. OTHER INCOME | | |
| | Six months ended 30.6.2016 <i>HK\$'000</i> (unaudited) | Six months ended 30.6.2015 <i>HK\$'000</i> (unaudited) |
| Bank interest income | 287 | 336 |
| Sundry income | 48 | 757 |
| | <hr/> | <hr/> |
| | 335 | 1,093 |
| | <hr/> | <hr/> |
| 5. OTHER GAINS AND LOSSES | | |
| | Six months ended 30.6.2016 <i>HK\$'000</i> (unaudited) | Six months ended 30.6.2015 <i>HK\$'000</i> (unaudited) |
| Change in fair value of held for trading investments | (164) | (43) |
| Gain on disposals of property, plant and equipment | 7 | 649 |
| | <hr/> | <hr/> |
| | (157) | 606 |
| | <hr/> | <hr/> |

6. FINANCE COSTS

| | Six months ended 30.6.2016 HK\$'000 (unaudited) | Six months ended 30.6.2015 HK\$'000 (unaudited) |
|--|--|---|
| Interest on obligations under finance leases | 94 | 71 |
| Imputed interest expense on promissory notes | 173 | 332 |
| Interest on bonds | 3,000 | 2,257 |
| Bank charges | - | 70 |
| Bond placing commission | - | 1,600 |
| | <u>3,267</u> | <u>4,330</u> |

7. INCOME TAX EXPENSE

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

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

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

8. LOSS FOR THE PERIOD

| | Six months ended 30.6.2016 HK\$'000 (unaudited) | Six months ended 30.6.2015 HK\$'000 (unaudited) |
|--|--|---|
| Loss for the period has been arrived at after charging the following item: | | |
| Depreciation of property, plant and equipment | <u>2,644</u> | <u>2,371</u> |

9. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

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 30.6.2016 HK\$'000 (unaudited) | Six months ended 30.6.2015 HK\$'000 (unaudited) |
|--|--|---|
| Loss for the purpose of basic loss per share, attributable to owners of the Company | <u>(12,472)</u> | <u>(7,312)</u> |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>2,432,304</u> | <u>2,432,304</u> |

No dilutive effect to the loss per share as there were no potential ordinary shares in issue for the period ended 30th June, 2016 and 2015.

11. 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, trading and related services.

Included in trade and other receivables are trade receivables, net of allowance for doubtful debts, of HK\$60,848,000 (31.12.2015: HK\$49,878,000).

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date.

| | 30.6.2016 HK\$'000 (unaudited) | 31.12.2015 HK\$'000 (audited) |
|--------------------|---|-------------------------------------|
| 0 – 30 days | 25,259 | 22,272 |
| 31 – 60 days | 19,261 | 17,475 |
| 61 – 90 days | 9,415 | 8,775 |
| 91 – 120 days | 6,236 | 1,088 |
| More than 120 days | <u>677</u> | <u>268</u> |
| | <u>60,848</u> | <u>49,878</u> |

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$11,545,000 (31.12.2015: HK\$8,439,000).

The following is an aged analysis of trade payables by age, presented based on the invoice date.

| | 30.6.2016 HK\$'000 (unaudited) | 31.12.2015 <i>HK\$'000</i> (audited) |
|--------------------|---|--|
| 0 – 30 days | 7,682 | 6,650 |
| 31 – 60 days | 2,140 | 1,280 |
| 61 – 90 days | 950 | 92 |
| 91 – 120 days | 59 | 86 |
| More than 120 days | 714 | 331 |
| | <u>11,545</u> | <u>8,439</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

For the six months ended 30th June, 2016, the Group generated a total revenue of approximately HK\$145 million, representing a growth of about 12% compared to HK\$129 million in the previous year. During the period under review, the Group recorded the loss for the period attributable to owners of the Company of HK\$12 million approximately for the six months ended 30th June, 2016 in excess to the loss for the corresponding period in 2015. Loss per share was HK0.51 cent.

The loss is primarily attributable to the share of loss of a joint venture which is operating a logistic business in the PRC and the operating loss of the trading business in the PRC.

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

BUSINESS REVIEW

Cold Storage and related business

Cold Storage

Revenue of the cold storage and related business increased 3% to HK\$113 million in the period under review. The improvement shows that this business segment had maintained its competitiveness as a core business of the Group. To cope with the higher operational cost, owing to increases in salaries, utility bills, rental fee as well as repair and maintenance cost, the Group had raised the rental of its cold-storage warehousing facilities, successfully in the early part of this year without seeing a reversal of demand.

Logistics services

This segment was impacted by keen market competition and increases in operation cost. In order to remain competitive, the Group found it difficult to raise the fee for its services, especially when smaller logistics firms were engaged in a price war. Operational costs had also gone up but the room for price increment remained limited not only for the Group, but the logistics industry as a whole.

Since this business segment primarily aims to cater primarily for the company's cold-storage and warehousing customers, it accounts for only a small portion of the Group's overall business portfolio.

Industrial ice bars (for construction use)

The Group saw a decline in revenue for its industrial ice bars business. Due to the increased operational cost, the prices of its ice bars were adjusted upwards but the demand fell as the market could not absorb the price increases implemented. Moreover, the demand for ice bars for construction use is lower during the first half of the year with its rainy weather and cooler temperature conditions.

However, the Group anticipates the performance of this business segment to improve in summer and the early autumn period ahead.

Trading and related business in the PRC

The Group is involved in the distribution of Korean and Austrian dairy products, alongside traditional snacks made in Korea, through a network of supermarkets and convenience stores across China. Improvements in revenue were reported during the review period, but spiraling operational costs had dampened the profitability of this segment.

Money lending services

The Group's money lending business in Hong Kong was aimed to provide a value-added service to the customers of its cold storage and warehousing business and for other money lending opportunities. Since it was launched two years ago, the business operation has recorded a stable performance but contributed minimal revenue to the Group.

PLEDGE OF ASSETS

As at 30th June, 2016, banking facilities to the extent of HK\$3.5 million (31st December, 2015: HK\$3.5 million) of the Group were secured by the bank deposits amounting to HK\$3.5 million (31st December, 2015: HK\$3.5 million). The amount utilised at 30th June, 2016 was approximately HK\$3.5 million (31st December, 2015: approximately HK\$3.5 million).

As at 30th June, 2016, bank deposits of approximately HK\$87 million (31st December, 2015: approximately HK\$87 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, 2016, the Group had cash and bank balances of approximately HK\$125 million (31st December, 2015: approximately HK\$125 million).

The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 39.88% as at 30th June, 2016 (31st December, 2015: approximately 38.39%). The increase was mainly attributable to the share of loss of a joint venture.

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 trading business to be operated in the 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 mainly financed by finance leases and internal resources.

In 2014, the Group announced for the placement of bonds in an aggregated principal amount of up to HK\$500 million within the placing period. The net proceeds from the issue of the bonds will be utilised as the general working capital of the Group. For further details, please refer to the announcements of the Company dated 13th November, 2014, 26th January and 23rd April, 2015. As at 30th June, 2016, it is noted that the bonds in an aggregate principal amount of HK\$100 million have been subscribed by the placees and issued by the Company, which is the same as those as at 30th June, 2015.

SHARE CAPITAL STRUCTURE

As at 30th June, 2016, the total issued share capital of the Company was HK\$24,323,040 divided into 2,432,304,000 ordinary shares with a par value of HK\$0.01 each, which is the same as those as at 31st December, 2015.

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2016, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 250 and 60 respectively (31st December, 2015: approximately 250 Hong Kong employees; 60 PRC employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, staff quarter, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

PROSPECTS

Although economic sentiments have been softening, the Group is optimistic that it will continue to perform well for the rest of the year. Our cold storage business has been providing a stable income to the Group, partly due to the rising demand for temperature-controlled warehousing facilities and partly because such infrastructure remains under-supplied in Hong Kong over the past ten years.

According to the data of Rating & Valuation Department of Hong Kong Government, private warehousing stock increased by just 7% from 2006 to 2015. The rezoning of industrial land for non-industrial use along with the redevelopment and revitalisation of older industrial buildings for commercial uses has further reduced availability.

Demand for frozen food has been growing unabated despite the economic slowdown, as evident in the continued acceleration of the restaurant industry. In a study conducted by CBRE Research in 2015, there were 73 new international entrants to the Hong Kong retail market, of which 37 were food & beverage (“F&B”) brands. In the first half of this year, the pace of F&B expansion grew even faster, with 26 out of 35 new entrants from the F&B sector. Such a trend is favorable to the refrigerated warehousing business and hence, the Group’s long-term profitability.

Cold Storage and related business

Cold Storage

The Group currently operates two warehouses in Kwai Chung, Hong Kong, providing 720,000 sq. ft of cold storage space. At Warehouse 1, space usage and inventory turnover are considered satisfactory owing to effective management. But for Warehouse II, there is still room for improvement and the Group aims to improve its operational efficiency. However, this measure will take a longer time to implement as negotiations with its existing customers will be necessary to rearrange their cargoes to provide more space for new clients, before a higher inventory turnover could be facilitated.

One of the immediate challenges facing the Group is the imminent arrival of new warehouses in Hong Kong, such as a new cold storage facility and logistic centre located at the New Territories.

Confronted with the new competition anticipated, the Group maintains its confidence towards the local cold storage industry, as the demand for cold storage facilities in Hong Kong will increase continually and remain high as ever.

Industrial ice bars (construction use)

The Group’s industrial ice bars business has been stable and is expected to grow during the summer and early autumn months.

The Group is optimistic towards the outlook in this business line, which will continue to thrive on a significant number of large-scale infrastructure projects to come online in the near future. Demand for its industrial ice bars will be fueled by the several projects on the pipeline, including the Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macau Bridge, the third airport runway and over 40 major projects across Hong Kong, such as the Kai Tak development and the 2016-17 Land Sale Programme, promising a supply of 18,000 private flats.

Trading and related business in the PRC

The Group maintains an active presence in the trading of dairy products and snack foods, including milk, sour milk, probiotics drinks as well as Korean-made kimchi and rice cakes, in the PRC to capitalize on its mass consumer market.

Entering the fourth year operating this business line, the Group has seen its business performance improving but still falls short of achieving its business targets. Apart from forming the right management team locally, the Group will restructure the operations of this segment with a view of elevating its performance and efficiency.

Subsequent to the reporting period, the Group disposed of its entire interest in a wholly-owned subsidiary, a PRC joint-venture company providing logistics services to the trading business, as the latter’s performance has been unfavourable.

Money lending services

After acquiring a money lending company in 2014, the Group entered this line of business, to provide its higher quality cold storage customers with a value-added service. Since then, the Group has made efforts to seek other money-lending opportunities. However, the regulatory environment in Hong Kong is stringent, with a number of curbs on nonbank lenders under the Money Lenders Ordinance. In the face of this challenge, the Group will continue to uncover opportunities and introduce more proactive marketing initiatives to broaden its client base.

CORPORATE STRATEGY AND A LONG-TERM BUSINESS MODEL

A predominant focus of the Group is to continue bolstering its cold-storage and logistics operations, in order to sustain its growth momentum and achieve better business results, while developing businesses of a high potential for profitability in Hong Kong and the PRC.

This vision has translated into tangible measures taken to raise the level of operating efficiency for its cold-storage and related warehousing businesses, to ensure a high inventory turnover rate and retain its major customers successfully, in the increasingly competitive industry. To achieve this, we will incrementally build a one-stop range of storage and logistics services, encompassing warehousing and storage to distribution, delivery, transportation, container hauling and devanning. But at the same time, we are committed to improving our operational and business efficiencies, throughout this process.

Concurrent with efforts to strengthen the profit margin of its core business, the Group is also dedicated to enhancing its food trading business with strategies of effective market competition. This is reflected in measures taken to expand its product categories and distribution network on the PRC. In view of China's vast demography, the market potential it offers is enormous and this will deliver long-term contributions to the Group in turnover and revenue. After years of trading in this market, the experience gained will help the Group further streamline its operations and augment its profitability.

The Board takes overall responsibility for the Company's environmental, social and governance ("ESG") strategy and reporting. ESG reporting has been undertaken to promote disclosure of the Group's handling of environmental and social issues. During the period, preparations of our ESG reporting for the year 2016 have commenced and the results will be disclosed in the Group's 2016 annual report. We are committed to using resources prudently, in order to ensure the long term sustainability of our business and a positive impact on the environment.

Being the operator of an increasingly diversified business mix, the Group remains firmly committed to optimize the returns of its shareholders with a strategy calculated to enhancing the profitability and sustainability of its core operations, while tapping the growth of its trading business and secondary operations and upgrading them.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2016 (2015: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2016.

CORPORATE GOVERNANCE

Corporate Governance Code

For the first half of 2016, the Board of the Directors is of the view that the Company has complied with the principles and the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 (the “CG Code”) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), save for an exception specified and explained below:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period, there have been no Chairman in the Company. Mr. Au Tat Wai and Mr. Choy Kai Sing acted as the Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Au Tat Wai is responsible for all day-to-day corporate management matters and Mr. Choy Kai Sing is responsible for corporate financial matters.

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 of the CG Code if necessary.

Model Code for Securities Transactions by Directors

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

Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Securities Dealing Policy during the period under review. 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, 2016 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 has responsibility for maintaining appropriate and effective risk management and internal control systems (the "Internal Control Systems") of the Group and reviewing its effectiveness through the Audit Committee. The purpose of the Internal Control Systems is to manage rather than eliminate risks of failure in operational systems so that the Company's objective can be achieved.

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 Systems, Executive Directors and the senior management would meet at least once a week to review the financial and operating performance of each department. The senior management of each department is also required to keep Executive Directors informed of material developments of the department's business and implementation of the strategies and policies set by the Board on a regular basis.

To further strengthen the internal control of the Group, the Company has engaged an independent professional adviser (the "internal control adviser") to conduct an annual review (the "IC Review") of and make recommendations to improve the Group's internal controls in relation to compliance with code provision C.3.3(i) of the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules.

During the period, the Audit Committee, with the assistance of the Internal Control Adviser, reviewed the effectiveness of the cold storage and related business' Internal Control Systems in various aspects including revenue and receipt cycle, procurement and expenditure cycle, inventory cycle and financial reporting cycle.

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

1. Conducting interviews with relevant management and staff members relating to the risk management and internal controls
2. Conducting walk-through relating to the IC Review
3. Reviewing relevant documentation on site relating to the IC Review
4. Identifying significant deficiencies in the design of the risk management and internal controls
5. Communicate the significant findings with the Management so as to confirm the factual accuracy of the findings

After the IC Review, the Management will provide an action plan so as to mitigate those identified deficiencies in a timely manner. All internal control findings will be properly followed up in the second half of 2016 to ensure that internal control procedures are implemented and will be monitored in an on-going basis.

During the six months ended 30th June, 2016, the Board was satisfied that the Company's internal control processes are adequate to meet the needs of the Company in its current business environment and that nothing has come to its attention to cause the Board to believe the Group's Internal Control Systems is inadequate. Moreover, the Internal Control Systems will continue to be reviewed, added on or updated to provide for changes in the operating environment.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the HKExnews website at www.hkexnews.hk and the Company's website at www.irasia.com/listco/hk/daido/index.htm.

The 2016 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the websites of the HKExnews and the Company in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises executive directors, namely, Mr. Au Tat Wai, Mr. Choy Kai Sing and Mr. Ho Hon Chung, Ivan; non-executive director, namely, Mr. Fung Wa Ko; and independent non-executive directors, namely, Mr. Fung Siu Kit, Ronny, Mr. Leung Chi Hung and Mr. Tse Yuen Ming.

By order of the Board
Daido Group Limited
Au Tat Wai
Executive Director

Hong Kong, 25th August, 2016