



DAIDO

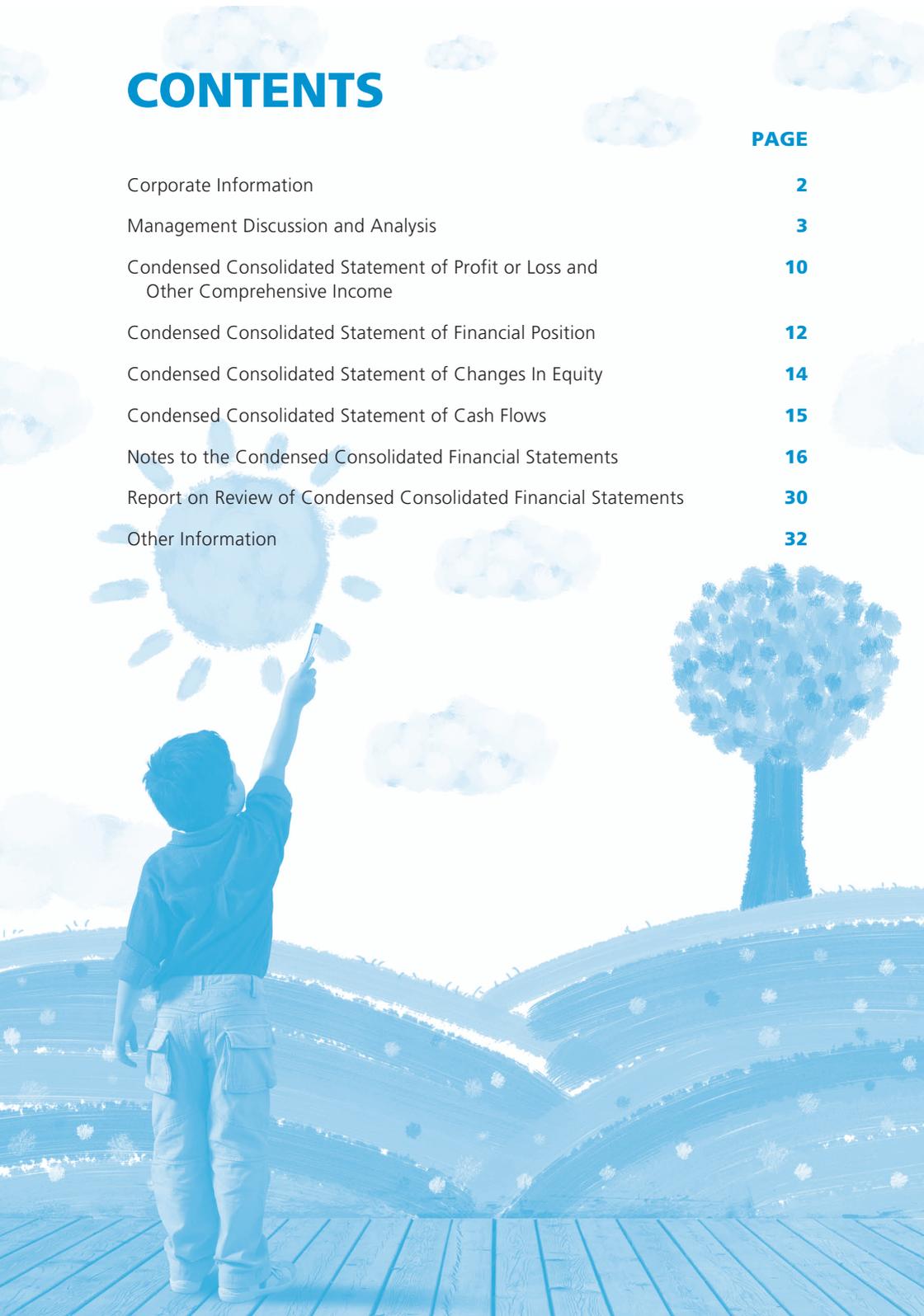
Stock Code 股份代號: 00544

Interim Report
中期報告 **2016**

DAIDO
GROUP LIMITED
大同集團有限公司

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Fung Wa Ko

Independent Non-executive Directors

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

COMMITTEES

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

COMPANY SECRETARY

Mr. Choy Kai Sing

STOCK CODE

00544

WEBSITE

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITOR

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

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

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 approximately HK\$12 million 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Cold Storage and related business (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

Trading and related business in the PRC (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE STRATEGY AND A LONG-TERM BUSINESS MODEL (continued)

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	NOTES	Six months ended 30.6.2016 HK\$'000 (unaudited)	Six months ended 30.6.2015 HK\$'000 (unaudited)
Revenue	3	144,527	129,104
Direct costs		(117,556)	(107,821)
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	(3,267)	(4,330)
Loss before tax		(12,472)	(7,312)
Income tax expense	7	–	–
Loss for the period	8	(12,472)	(7,312)
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		(9)	79
Total comprehensive expense for the period		(12,481)	(7,233)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	NOTES	Six months ended 30.6.2016 HK\$'000 (unaudited)	Six months ended 30.6.2015 HK\$'000 (unaudited)
Loss for the period attributable to:			
Owners of the Company		(12,472)	(7,312)
Non-controlling interests		–	–
		(12,472)	(7,312)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(12,481)	(7,233)
Non-controlling interests		–	–
		(12,481)	(7,233)
Loss per share — basic	10	HK(0.51) cents	HK(0.3) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2016

	NOTES	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	12,809	14,482
Goodwill		8,581	8,581
Interest in a joint venture		–	7,947
Available-for-sale investments	12	38,502	38,502
Rental deposits paid		21,786	21,783
Pledged bank deposits		90,000	90,000
Loans receivable	13	31,000	54,650
		202,678	235,945
CURRENT ASSETS			
Inventories		2,115	2,200
Trade and other receivables, deposits and prepayments	14	72,162	64,986
Deposit held on escrow	15	2,680	–
Loans receivable	13	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		124,933	125,214
		246,184	220,708
CURRENT LIABILITIES			
Trade and other payables	16	28,429	25,641
Deposit received	15	2,680	–
Amount due to an investee		39,042	39,042
Obligations under finance leases		1,951	1,924
Promissory notes		4,935	4,762
		77,037	71,369
NET CURRENT ASSETS			
		169,147	149,339
TOTAL ASSETS LESS CURRENT LIABILITIES			
		371,825	385,284

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2016

	NOTES	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
CAPITAL AND RESERVES			
Share capital	17	24,323	24,323
Share premium and reserves		230,819	243,300
Equity attributable to owners of the Company		255,142	267,623
Non-controlling interests		14,923	14,923
		270,065	282,546
NON-CURRENT LIABILITIES			
Obligations under finance leases		1,760	2,738
Bonds	18	100,000	100,000
		101,760	102,738
		371,825	385,284

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Translation reserve HK\$'000			
At 1st January, 2015 (audited)	24,323	374,226	39,984	(163,888)	152	274,797	14,923	289,720
Loss for the period	-	-	-	(7,312)	-	(7,312)	-	(7,312)
Exchange differences arising on translation	-	-	-	-	79	79	-	79
Total comprehensive (expense) income for the period	-	-	-	(7,312)	79	(7,233)	-	(7,233)
At 30th June, 2015 (unaudited)	24,323	374,226	39,984	(171,200)	231	267,564	14,923	282,487
At 1st January, 2016 (audited)	24,323	374,226	39,984	(170,332)	(578)	267,623	14,923	282,546
Loss for the period	-	-	-	(12,472)	-	(12,472)	-	(12,472)
Exchange differences arising on translation	-	-	-	-	(9)	(9)	-	(9)
Total comprehensive expense for the period	-	-	-	(12,472)	(9)	(12,481)	-	(12,481)
At 30th June, 2016 (unaudited)	24,323	374,226	39,984	(182,804)	(587)	255,142	14,923	270,065

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, 2016

	Six months ended 30.6.2016 HK\$'000 (unaudited)	Six months ended 30.6.2015 HK\$'000 (unaudited)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	5,057	(67,364)
NET CASH USED IN INVESTING ACTIVITIES:		
Additions of property, plant and equipment	(971)	(2,982)
Increase in amount due from non-controlling interests of a subsidiary	–	(3,812)
Other investing activities	287	986
	(684)	(5,808)
NET CASH (USED IN) FROM FINANCING ACTIVITIES:		
Increase in amount due to an investee	–	15,247
Proceeds from issue of bonds	–	60,000
Payment of obligations under finance leases	(951)	(449)
Interest paid	(3,694)	(71)
	(4,645)	74,727
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(272)	1,555
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	125,214	149,151
Effect of foreign exchange rate changes	(9)	79
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	124,933	150,785

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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")

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

3. SEGMENT INFORMATION (continued)

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 HK\$'000	Trading and related services HK\$'000	Money lending services HK\$'000	Total HK\$'000
Revenue	112,724	27,312	4,491	144,527
Segment profit (loss)	7,683	(5,776)	1,440	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				(3,267)
Loss before tax				(12,472)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

3. SEGMENT INFORMATION (continued)

Six months ended 30.6.2015 (unaudited)

	Cold storage and related services HK\$'000	Trading and related services HK\$'000	Money lending services HK\$'000	Total HK\$'000
Revenue	109,666	18,052	1,386	129,104
Segment profit (loss)	8,456	(5,290)	(549)	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				(4,330)
Loss before tax				(7,312)

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

3. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (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
Total segment assets	182,696	174,792
Unallocated assets	266,166	281,861
Consolidated assets	448,862	456,653
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
Total segment liabilities	97,781	100,562
Unallocated liabilities	81,016	73,545
Consolidated liabilities	178,797	174,107

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

4. OTHER INCOME

	Six months ended 30.6.2016 HK\$'000 (unaudited)	Six months ended 30.6.2015 HK\$'000 (unaudited)
Bank interest income	287	336
Sundry income	48	757
	335	1,093

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2016 HK\$'000 (unaudited)	Six months ended 30.6.2015 HK\$'000 (unaudited)
Change in fair value of held for trading investments	(164)	(43)
Gain on disposals of property, plant and equipment	7	649
	(157)	606

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

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
	3,267	4,330

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

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	2,644	2,371

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	(12,472)	(7,312)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	2,432,304	2,432,304

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group incurred approximately HK\$971,000 (for the six months ended 30th June, 2015: HK\$5,832,000) on additions of property, plant and equipment.

12. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Unlisted shares, at cost	149,120	149,120
Less: Impairment	(110,618)	(110,618)
	38,502	38,502

The available-for-sale investments represent 30% effective equity interest in a private entity incorporated in the British Virgin Islands which previously held 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 Stock Exchange of Hong Kong Limited, to dispose of the underlying properties of hotel resort complex and other assets in some subsidiaries of its major shareholders at a cash consideration of HK\$3,250,000,000. The disposal of these assets was completed on 17th July, 2013. According to the assets purchase agreement, the first payment for the disposal of HK\$2,600,000,000 was received on 17th July, 2013 and the second payment of HK\$650,000,000 was received on 16th January, 2015.

The Group re-assessed the recoverable amount of the available-for-sale investments taking into account the expected future cash flows of the investments including the cashflows generated from the aforesaid disposal. No further impairment loss was recognised for the six months ended 30th June, 2016 and 30th June, 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

13. LOANS RECEIVABLE

	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Secured loans	39,000	56,500
Unsecured loans	26,000	16,000
	65,000	72,500
Less: Amount due within one year and classified under current assets	(34,000)	(17,850)
Amount due after one year	31,000	54,650

The secured loans with aggregated carrying amount to HK\$39,000,000 (2015: HK\$56,500,000) are secured by the properties of the borrowers. All the loans bear interests from 11% to 22% per annum and with maturity ranged from 6 months to 20 years.

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, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

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

	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	677	268
	60,848	49,878

15. DEPOSIT HELD ON ESCROW/DEPOSIT RECEIVED

The amount represents a deposit received held on escrow by a law firm from a purchaser of the property in respect of the outstanding and overdue balance of a secured borrower, in which the property has been secured in favour of the Group for loan granted to that borrower by the Group who default in the payment.

The transaction is expected to be completed in twelve months from the reporting period end, accordingly, the deposit is classified as current asset.

16. 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 HK\$'000 (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
	11,545	8,439

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

17. SHARE CAPITAL

	Authorised		Issued and fully paid	
	Number of shares	Amount	Number of shares	Amount
	'000	HK\$'000	'000	HK\$'000
Ordinary shares of HK\$0.01 each				
At 1st January, 2015,				
30th June, 2015,				
31st December, 2015				
and 30th June, 2016	60,000,000	600,000	2,432,304	24,323

18. BONDS

On 13th November, 2014, the Company and a placing agent entered into the placing agreement, pursuant to which the placing agent has agreed to, on a best effort basis, to procure independent placees to subscribe in cash for the bonds in an aggregated principal amount of up to HK\$500,000,000. The bonds bear interest at 6% per annum and payable annually in arrears, up to the maturity date of the relevant bonds. The maturity date is the seventh anniversary of the date of issue of the relevant bond.

As at 30th June, 2016 and 31st December, 2015, the Company issued bonds with total principal amounts of HK\$100,000,000. Interest on bonds payables at par value is payable annually and the principal is repayable in full upon maturity.

19. PLEDGE OF ASSETS

As at 30th June, 2016, banking facilities to the extent of HK\$3,500,000 (31.12.2015: HK\$3,500,000) of the Group were secured by bank deposits amounting to HK\$3,500,000 (31.12.2015: HK\$3,500,000). The amount utilised at 30th June, 2016 was approximately HK\$3,480,000 (31.12.2015: approximately HK\$3,480,000).

As at 30th June, 2016, bank deposits of approximately HK\$86,500,000 (31.12.2015: approximately HK\$86,500,000) were pledged to a bank which provides bank guarantees in favour of two landlords for a sum equivalent to twelve months rent payable by the Group under tenancy agreements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities 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).

	Fair value hierarchy Level 1	
	30.6.2016 HK\$'000 (unaudited)	31.12.2015 HK\$'000 (audited)
Held for trading investments		
Equity securities listed in Hong Kong (note)	534	698

Note: The fair value of listed equity securities is determined with reference to quoted market bid price from the relevant stock exchange.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2016

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost (including pledged bank deposits, loans receivable, trade and other receivables, deposit held on escrow, bank balances and cash, trade and other payables, promissory notes, amount due from non-controlling interests of a subsidiary, amount due to an investee and bonds) 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.

21. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group disposed of its entire interest in a wholly-owned subsidiary, which held an interest in a joint venture, at consideration of United States dollar ("US\$") 1 resulting in a loss on disposal of HK\$45,000.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF DAIDO GROUP LIMITED

(incorporated in Bermuda with limited liability)

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 10 to 29, which comprise the condensed consolidated statement of financial position as of 30th June, 2016 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

25th August, 2016

DISCLOSURE OF INTERESTS

Interests of Directors

As at 30th June, 2016, none of the Company's 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 Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Interests of Substantial Shareholders

As at 30th June, 2016, save as disclosed below, so far as is known to the Company's Directors and chief executives of the Company, no person (other than the Company's Director or a chief executive of the Company) had an interest or short position in any shares or underlying shares of the Company which will fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register of interests required to be kept by the Company under Section 336 of the SFO and no person (other than the Company's Director or a chief executive of the Company), had an interest or short position in any 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.

OTHER INFORMATION

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 <i>(Note 1)</i>	Beneficial owner	202,323,133	8.32%
Yuen Kin Wing <i>(Note 1)</i>	Interest of controlled corporation	202,323,133	8.32%
Bingo Chance Limited <i>(Note 2)</i>	Beneficial owner	140,000,000	5.76%
Elite Plan Investments Limited <i>(Note 2)</i>	Interest of controlled corporation	140,000,000	5.76%
Wulglar Wai Wan <i>(Note 2)</i>	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.

Share Option Scheme

At the annual general meeting of the Company held on 29th May, 2015, the shareholders approved the adoption of a new share option scheme (the "2015 Scheme") and the termination of the share option scheme which was adopted on 9th January, 2006 (the "2006 Scheme"). The 2015 Scheme became effective on 2nd June, 2015 (the "Adoption Date") and, unless otherwise terminated earlier by shareholders at a general meeting, will remain in force for a period of 10 years from 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 2015 Scheme.

OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Share Option Scheme (continued)

No share option was outstanding as at 1st January, 2016 and 30th June, 2016 and no share option was granted under the 2015 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, 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").

OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

Model Code for Securities Transactions by Directors (continued)

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.

OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

Internal Control (continued)

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.