

DAIDO

(Incorporated in Bermuda and its members' liability is limited)

(在百慕達成立為法團，而其成員的法律責任是有限度的)

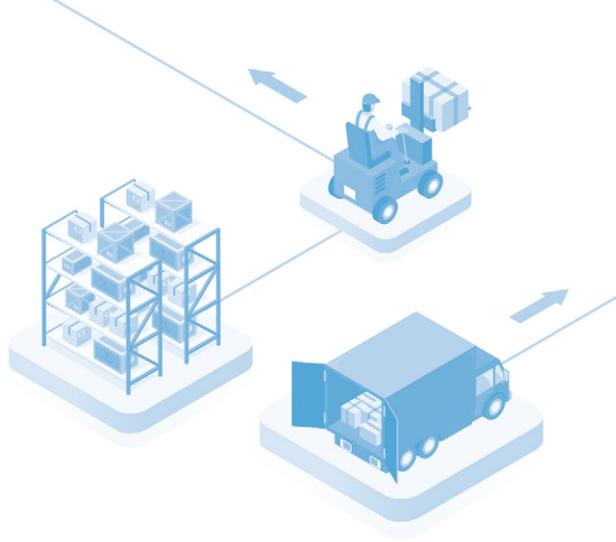
Stock Code 股份代號：00544



DAIDO

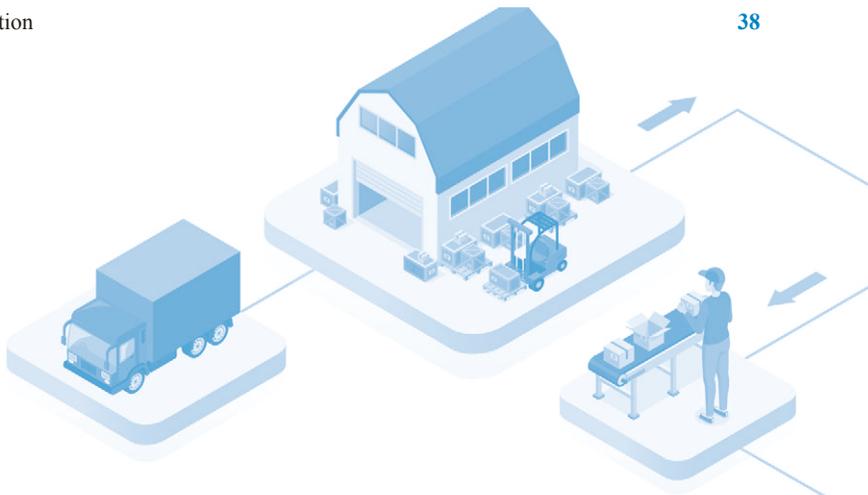
GROUP LIMITED
大同集團有限公司

INTERIM REPORT 中期報告 2020



CONTENTS

	PAGES
Corporate Information	02
Management Discussion and Analysis	03
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Condensed Consolidated Statement of Financial Position	12
Condensed Consolidated Statement of Changes in Equity	14
Condensed Consolidated Statement of Cash Flows	15
Notes to the Condensed Consolidated Financial Statements	16
Other Information	38





CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ho Hon Chung, Ivan
(Acting Chief Executive Officer)
Mr. Fung Pak Kei

Non-executive Directors

Mr. Au Tat Wai
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. Cheung Hoi Kin
(appointed on 5th June, 2020)
Mr. Choy Kai Sing
(resigned on 5th June, 2020)

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. 1301, Level 13, Tower 1
Kowloon Commerce Centre
No. 51 Kwai Cheong Road
Kwai Chung, New Territories
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
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, 2020, the Group's total revenue amounted to approximately HK\$135 million, representing a decrease of about 9.3%, compared to approximately HK\$149 million from the same period last year.

During the current interim period, the Group recorded a loss of approximately HK\$26.4 million compared to a loss of approximately HK\$25.6 million for the previous corresponding period.

The Group recorded a steady overall and core business growth in the interim period. The encouraging outcome is due to enhanced operational efficiency of all business units. The management's effort to widen profit margins by sourcing new clients and business opportunities is another reason. While operational expenses continue to be high, particularly the cost of warehouse air-conditioning for the summer months, the Group has put in place an efficient cost-control mechanism.

REVIEW OF OPERATING SEGMENTS

The Group's activities include cold storage and related business in Hong Kong; trading of food and beverage business in Mainland China; provision of money lending services in Hong Kong and investment holding.

Cold storage & logistics

The cold storage business is a core segment and principal revenue source of the Group. Apart from offering temperature-controlled storage space for leasing, it also provides transportation and distribution, container hauling and devanning, packaging and other related logistics services for its warehouse customers.

Against a challenging period of economic uncertainties and social unrest in Hong Kong, exacerbated by the COVID-19 pandemic more recently, the Group reports a steady performance of its existing warehouse facility in Kwai Hei Street. Overall, the performance of its cold storage business during the first half was largely similar to that of the corresponding period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATING SEGMENTS (continued)

Cold storage & logistics (continued)

In addition, the Group operates a newer warehouse at Tsing Yi in collaboration with a joint venture (“JV”), in which it holds a 30% stake. So far, this facility has turned in a satisfactory performance from 2019, due to efficient operation and cost control under a professional management team. The Group also runs a bonded warehouse in Tsuen Wan for storage of alcohol and tobacco products. Negatively affected by the COVID-19 pandemic, the sales of these products declined, with a slower inventory turnover that reduced the warehouse’s earnings. Still, the bonded warehouse was able to generate an income to sustain business.

The logistics business that the Group engages in to support its cold-storage clients has remained stable.

Money lending

The Group continues to run a money lending business established some years ago to provide credit support for its cold storage and logistics customers. However, the segment will not receive new financial input, as any fresh resources will be used for further development of more promising segments, including cold storage & logistics and trading of food and beverage products.

Trading of food and beverage products

The Group conducts its distribution business of food and beverage products through a growing network of supermarkets and convenience stores in Mainland China. Compared to last year, this trading business recorded a much better performance in the period of review, owing to higher operational efficiency of the Group’s distribution network, a more diversified portfolio with new products including Australian-made fresh dairy products and local branded fresh juices; consistent consumer demand and affordable pricing.

Though our trading business turned sluggish upon the COVID-19 outbreak late last year, consumer demand picked up late in the first quarter of 2020 onwards.

PROSPECTS

Entering 2020 amid a slowdown, Hong Kong's economy in the first quarter contracted 8.9% over a year earlier, the largest decline on record since 1974. Months of street protests and the trade dispute between the United States and China had also weighed on the local economy with the onset of COVID-19 pandemic pushing the city deeper into recession. The unemployment rate rose in May of this year to the highest level since September 2005. Retail sales plummeted by over a third in the same month. In mid-July, the Trump administration banned exports of sensitive technologies and Hong Kong will face the same scrutiny as Mainland China, which will likely hamper the external sector and business investments ahead.

During the first half of 2020, domestic demand weakened markedly, echoing the severe disruptions caused by the COVID-19 threat and subdued business sentiment. Considering the sharp economic contraction, the uncertainties surrounding the pandemic and the tough global economic situation, balanced with the cushioning effects of relief measures rolled out by the government, the real GDP growth forecast for 2020 as a whole had been revised downwards to -4% to -7%.

The bleak macroeconomic outlook has prompted the Group to be conservative with its operational and business investment plans. On this cautious note, the management's strategy for growth is centred on the allocation of resources for business activities that are more likely to generate revenues and profit, including cold storage & logistics and the trading of food and beverage products.

Cold storage & logistics

The Group's cold storage & logistics business features a customer mix of catering groups and frozen food distributors, one that is considered healthy in times of growth. But under the adverse impact of COVID-19, Hong Kong's food and beverage industry saw its earnings plummeting by a record of 31.2% as of May 2020, with negative implications for the warehousing sector.

While frozen food sales have surged in the supermarkets, the city's food outlets, especially Chinese restaurants specializing in A La Carte dining and banquet are experiencing financial hardship, as consumers spend less on dining out. This has caused a slower inventory turnover in the Group's warehouses, thereby reducing earnings for the first half of the current year.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (continued)

Cold storage & logistics (continued)

As the Group's warehouse in Kwai Hei Street is due for overhaul, the owner has made plans for its renovation. The makeover project is likely to lead to longer downtimes and fluctuating overall income for the Group. For its cold-storage facility in Tsing Yi, construction work to expand the storage area is underway. When completed, it will increase the warehouse's storage capabilities.

Despite the bleak market outlook, the Group believes that the cold storage and logistics business is more resilient than other sectors and is therefore better positioned to recover from recession.

Trading of food and beverage products

The Group is committed to growing its trading business by diversifying and broadening the portfolio of food and beverage products it distributes via a network of supermarkets and convenience stores in Mainland China. One of the latest initiatives adopted is to strategically evaluate this retail network, with a view of identifying geographical districts, including but not limited to Mainland China, capable of optimising the Group's income. Moving ahead with the digital age, it is turning to e-commerce solutions for reaching out to a larger consumer base.

From the aspect of operation, the Group supplies products to a few retail chains in Mainland China which, under the pressure of intense pricing competition in the market, requested to have their retail prices lowered to enhance saleability. In response, the Group has taken action to ensure the profitability of the products is maintained.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2020, the Group had cash and bank balances of approximately HK\$59.0 million (31st December, 2019: approximately HK\$118.0 million), which was denominated in Hong Kong dollars ("HK\$") and Renminbi ("RMB") as to 87.67% and 12.33%, respectively. The decrease in cash and bank balances was mainly due to repayments of bank loan, placement of pledged bank deposits and net cash used in operating activities.

The gearing ratio, measured as non-current borrowings (excluded derivative financial instruments and lease liabilities) over equity attributable to owners of the Company was approximately 114.0% as at 30th June, 2020 (31st December, 2019: approximately 88.1%). The increase of the gearing ratio was because of the drop of the equity attributable to owners of the Company.

FINANCIAL REVIEW (continued)

Liquidity and financial resources (continued)

In 2014, the Group announced for the placement of bonds in an aggregated principal amount of up to HK\$500 million within the placing period commencing from 13th November, 2014 and ending on 12th November, 2015. The net proceeds from the issue of the bonds will be utilised as the general working capital of the Group. For further details, please refer to the announcements of the Company dated 13th November, 2014, 26th January and 23rd April, 2015. As at 30th June, 2020, it is noted that the bonds in an aggregate principal amount of HK\$100 million have been subscribed by the placees and issued by the Company, which is the same as those as at 31st December, 2019.

As at 30th June, 2020, the Group had a bank loan of HK\$35 million (31st December, 2019: HK\$65 million) denominated in HK\$. The Group's bank borrowing interest rate at 5% per annum and the maturity borrowing is up to April 2021 (31st December, 2019: the Group's bank borrowing interest rate is at 7% per annum and the maturity of borrowing is up to April 2020). As at 30th June, 2020, the banking facility utilised was HK\$35 million (31st December, 2019: fully utilised).

During the current interim period, the Group's capital expenditure was mainly financed by internal resources and bank borrowing.

Treasury policies

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

Exposure to fluctuations in exchange rates and related hedges

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (continued)

Share capital structure

As at 30th June, 2020, 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, 2019.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

During the current interim period, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Charges on assets

As at 30th June, 2020, banking facilities, for providing guarantees by a bank for the Group's operation of cold storage service, to the extent of HK\$3.5 million (31st December, 2019: HK\$3.5 million) were secured by bank deposits amounting to HK\$3.5 million (31st December, 2019: HK\$3.5 million). The amount utilised at 30th June, 2020 was approximately HK\$1.4 million (31st December, 2019: approximately HK\$3.5 million).

As at 30th June, 2020, bank deposits of approximately HK\$64.3 million (31st December, 2019: approximately HK\$62.1 million) are pledged to a bank, which provides bank guarantee in favour of one landlord for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

In addition, within the Group's lease liabilities of approximately HK\$237.2 million (31st December 2019: approximately HK\$268.9 million), approximately HK\$0.009 million (31st December 2019: approximately HK\$0.08 million) were secured by the lessors' charge over the leased assets with carrying value of approximately HK\$0.017 million (31st December, 2019: approximately HK\$0.3 million).

Future plans for material investments or capital assets

During the current interim period, the Group did not have any concrete future plans for material investments or capital assets save for the JV, which is the same as those as at 31st December, 2019.

Contingent liabilities

As at 30th June, 2020, the Group did not have any contingent liabilities (31st December, 2019: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYMENT AND REMUNERATION POLICY

As at 30th June, 2020, the total number of full time employees of the Group in Hong Kong and Mainland China were approximately 240 and 90 respectively (31st December, 2019: approximately 220 Hong Kong employees; 120 Mainland China employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

The Board of Directors (the “Board”) of Daido Group Limited (the “Company”) would like to report the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30th June, 2020, together with the comparative figures for the corresponding period in 2019. The interim financial results have been reviewed by the Audit Committee of the Company but have not been reviewed by the auditor of the Company.

	<i>Notes</i>	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Revenue	3		
– Provision of cold storage and related services		83,885	104,339
– Trading of food and beverage		51,000	42,238
– Interest income from money lending services		190	2,333
Total revenue		135,075	148,910
Direct costs		(120,157)	(119,993)
Gross profit		14,918	28,917
Other income	4	4,386	3,151
Other gains and losses	5	(537)	(716)
Selling and distribution expenses		(7,687)	(9,300)
Administrative expenses		(23,239)	(24,316)
Share of loss of an associate		(4,072)	(11,767)
Finance costs	6	(10,199)	(11,562)
Loss before tax		(26,430)	(25,593)
Taxation	7	–	–
Loss for the period	8	(26,430)	(25,593)
Other comprehensive expense for the period <i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		627	117
Total comprehensive expense for the period		(25,803)	(25,476)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

		Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
	<i>Notes</i>		
Loss for the period attributable to:			
Owners of the Company		(26,430)	(25,593)
Non-controlling interests		–	–
		(26,430)	(25,593)
Total comprehensive expense for the period attributable to:			
Owners of the Company		(25,803)	(25,476)
Non-controlling interests		–	–
		(25,803)	(25,476)
Loss per share – basic	10	(HK1.09 cents)	(HK1.05 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2020

	Notes	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment	11	9,073	10,374
Right-of-use assets	12	229,318	264,329
Goodwill		68	68
Interest in an associate	13	–	4,072
Loan to an associate	13	40,621	39,255
Financial assets at fair value through profit or loss (“FVTPL”)		408	686
Equity instrument at fair value through other comprehensive income (“FVTOCI”)		–	–
Rental deposits paid		16,073	14,901
Pledged bank deposits	21	67,785	65,568
		363,346	399,253
Current Assets			
Inventories		1,419	2,715
Trade and other receivables, deposits and prepayments	14	64,979	55,474
Amount due from an associate	13	12,316	8,077
Loan receivables	15	2,015	1,975
Bank balances and cash		59,013	117,966
		139,742	186,207

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30TH JUNE, 2020

	Notes	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Current Liabilities			
Trade and other payables	16	28,000	23,209
Contract liabilities		4,971	4,894
Bank borrowing		35,000	65,000
Lease liabilities	17	65,487	63,475
		133,458	156,578
Net Current Assets			
		6,284	29,629
Total Assets Less Current Liabilities			
		369,630	428,882
Capital and Reserves			
Share capital	18	24,323	24,323
Share premium and reserves		63,433	89,236
Equity attributable to owners of the Company		87,756	113,559
Non-controlling interests		3,163	3,163
		90,919	116,722
Non-current Liabilities			
Lease liabilities	17	171,727	205,435
Derivative financial instruments	19	6,984	6,725
Bonds	20	100,000	100,000
		278,711	312,160
		369,630	428,882

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note)	FVTOCI reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
At 1st January, 2019 (audited)	24,323	374,226	39,984	(110,078)	(1,475)	(145,326)	181,654	5,163	186,817
Adjustment from the adoption of HKFRS 16	-	-	-	-	22	(8,530)	(8,508)	-	(8,508)
At 1st January, 2019 (restated)	24,323	374,226	39,984	(110,078)	(1,453)	(153,856)	173,146	5,163	178,309
Loss for the period	-	-	-	-	-	(25,593)	(25,593)	-	(25,593)
Other comprehensive expense for the period	-	-	-	-	117	-	117	-	117
Total comprehensive expense for the period	-	-	-	-	117	(25,593)	(25,476)	-	(25,476)
Dividend recognised as return on equity instrument at FVTOCI	-	-	-	8,000	-	-	8,000	-	8,000
Distribution to non-controlling interests	-	-	-	-	-	-	-	(2,000)	(2,000)
At 30th June, 2019 (unaudited)	24,323	374,226	39,984	(102,078)	(1,336)	(179,449)	155,670	3,163	158,833
At 1st January, 2020 (audited)	24,323	374,226	39,984	(102,078)	(1,914)	(220,982)	113,559	3,163	116,722
Loss for the period	-	-	-	-	-	(26,430)	(26,430)	-	(26,430)
Other comprehensive expense for the period	-	-	-	-	627	-	627	-	627
Total comprehensive expense for the period	-	-	-	-	627	(26,430)	(25,803)	-	(25,803)
At 30th June, 2020 (unaudited)	24,323	374,226	39,984	(102,078)	(1,287)	(247,412)	87,756	3,163	90,919

Note:

On 24th November, 2009, every five issued and unissued existing shares of HK\$0.01 each in share capital of the Company was consolidated into one consolidated share of HK\$0.05 (the "Share Consolidation"). After the 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"). 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, 2020

	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	15,247	82,454
NET CASH (USED IN) FROM INVESTING ACTIVITIES		
Interest received	1,057	535
Purchase of property, plant and equipment	(909)	(6,260)
Purchase of right-of-use assets	–	(325)
Payments for disposal of right-of-use assets	(17)	–
Payments for rental deposits of right-of-use assets	(897)	–
Loan to an associate	–	(10,957)
Placement of pledged bank deposits	(2,217)	–
Withdrawal from pledged bank deposits	–	39,785
Dividend income from equity instrument at FVTOCI	–	8,000
Distribution to non-controlling interests	–	(2,000)
	(2,983)	28,778
NET CASH USED IN FINANCING ACTIVITIES		
Interest expense on lease liabilities	(5,904)	(6,179)
Interest paid for bank borrowing and bonds	(4,895)	(5,983)
Rental deposits paid	–	(2,294)
Rental deposits received	–	9,946
Repayments of bank borrowing	(30,000)	–
Repayments of lease liabilities	(31,045)	(42,292)
	(71,844)	(46,802)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(59,580)	64,430
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	117,966	55,898
Effect of foreign exchange rate changes	627	117
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	59,013	120,445



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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, 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2019.

New and amended Hong Kong Financial Reporting Standards (“HKFRSs”) adopted as at 1st January, 2020

In the current interim period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group’s operations and effective for the Group’s condensed consolidated financial statements for the annual period beginning on 1st January, 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

The adoption of the new and amend HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

Issued but not yet effective HKFRSs

The Group has not applied any new and amended HKFRSs that have been published by the HKICPA but are not yet effective for the current accounting period. The Group has commenced an assessment of the impact of these new standards and amendments, but is not yet in a position to state whether they would have a significant impact on its results and financial position. The directors expected that the new and amended HKFRSs issued but not effective are not expected to have a material impact on the Group’s condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

3. REVENUE AND SEGMENT INFORMATION

Segment information

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

Specifically, the Group's reportable 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 of food and beverage in Mainland China ("Trading of food and beverage")
3. Money lending services in Hong Kong ("Money lending services")

Segments revenue and results

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

Six months ended 30.6.2020 (unaudited)

	Cold storage and related services HK\$'000	Trading of food and beverage HK\$'000	Money lending services HK\$'000	Total HK\$'000
Revenue	83,885	51,000	190	135,075
Segment (loss) profit	(13,976)	(2,131)	89	(16,018)
Unallocated income				939
Unallocated expenses				(8,122)
Change in fair value of financial assets at FVTPL				(278)
Finance costs				(2,951)
Loss before tax				(26,430)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

3. REVENUE AND SEGMENT INFORMATION (continued)

Segments revenue and results (continued)

Six months ended 30.6.2019 (unaudited)

	Cold storage and related services HK\$'000	Trading of food and beverage HK\$'000	Money lending services HK\$'000	Total HK\$'000
Revenue	104,339	42,238	2,333	148,910
Segment (loss) profit	(11,622)	(4,621)	1,170	(15,073)
Unallocated income				533
Unallocated expenses				(8,118)
Change in fair value of derivative financial instruments				(1,069)
Finance costs				(1,866)
Loss before tax				(25,593)

Segment (loss) profit represents the (loss incurred) profit earned by each segment without allocation of certain other income, central administration costs that mainly include partly auditor's remuneration, rental expenses and directors' remuneration, change in fair value of derivative financial instruments, change in fair value of financial assets at FVTPL and certain finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

3. REVENUE AND SEGMENT INFORMATION (continued)

Segments assets and liabilities

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Assets		
Cold storage and related services	344,975	366,308
Trading of food and beverage	25,699	28,346
Money lending services	2,097	2,056
Total segment assets	372,771	396,710
Unallocated assets	130,317	188,750
Consolidated assets	503,088	585,460
Liabilities		
Cold storage and related services	292,377	348,602
Trading of food and beverage	14,016	13,603
Money lending services	5,230	3,138
Total segment liabilities	311,623	365,343
Unallocated liabilities	100,546	103,395
Consolidated liabilities	412,169	468,738

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

3. REVENUE AND SEGMENT INFORMATION (continued)

Revenue

Disaggregation of revenue from contracts with customers

	Six months ended 30.6.2020 (unaudited)	
	Cold storage and related services Total HK\$'000	Trading of food and beverage Total HK\$'000
Types of goods or services		
Revenue from provision of cold storage and related services		
– Cold storage	54,372	–
– Loading and handling services	2,179	–
– Logistic and packing services	27,334	–
	83,885	–
Revenue from trading of food and beverage	–	51,000
Total	83,885	51,000
Geographical markets		
Mainland China	–	51,000
Hong Kong	83,885	–
Total	83,885	51,000
Timing of revenue recognition		
A point in time	–	51,000
Over time	83,885	–
Total	83,885	51,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

3. REVENUE AND SEGMENT INFORMATION (continued)

Revenue (continued)

Disaggregation of revenue from contracts with customers (continued)

	Six months ended 30.6.2019 (unaudited)	
	Cold storage and related services Total HK\$'000	Trading of food and beverage Total HK\$'000
Types of goods or services		
Revenue from provision of cold storage and related services		
– Cold storage	76,481	–
– Loading and handling services	2,179	–
– Logistic and packing services	25,679	–
	104,339	–
Revenue from trading of food and beverage	–	42,238
Total	104,339	42,238
Geographical markets		
Mainland China	–	42,238
Hong Kong	104,339	–
Total	104,339	42,238
Timing of revenue recognition		
A point in time	–	42,238
Over time	104,339	–
Total	104,339	42,238

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

4. OTHER INCOME

	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Government grants	1,902	–
Imputed interest income on loan to an associate	1,366	1,877
Imputed interest income on rental deposits paid	367	398
Interest income from bank deposits	604	535
Sundry income	147	341
	4,386	3,151

5. OTHER GAINS AND LOSSES

	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Change in fair value of derivative financial instruments	(259)	(1,069)
Change in fair value of financial assets at FVTPL	(278)	–
Loss on disposal of property, plant and equipment	–	(177)
Reversal of impairment loss on loan receivables	–	502
Reversal of impairment loss on trade receivables	–	28
	(537)	(716)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

6. FINANCE COSTS

	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Interest expense on bank borrowing	1,295	2,383
Interest expense on bonds	3,000	3,000
Interest expense on lease liabilities	5,904	6,179
	10,199	11,562

7. TAXATION

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Enterprise Income Tax Law of the People’s Republic of China (the “EIT Law”) and the Detailed Rules for the Implementation of the EIT Law, the tax rate of Mainland China subsidiaries is 25% for both periods.

No provision for Hong Kong Profits Tax and Enterprise Income Tax has been made as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profits for both periods presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

8. LOSS FOR THE PERIOD

	Six months ended 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Loss for the period has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	1,717	1,581
Depreciation for right-of-use assets	34,470	37,943
Net foreign exchange loss (gain)	36	(30)

9. DIVIDEND

No dividends were paid, declared or proposed during the interim period (six months ended 30th June, 2019: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended 30th June, 2019: Nil).

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 30.6.2020 HK\$'000 (unaudited)	Six months ended 30.6.2019 HK\$'000 (unaudited)
Loss for the purpose of basic loss per share attributable to owners of the Company	(26,430)	(25,593)
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	2,432,304	2,432,304

No diluted loss per share is presented as there were no potential ordinary shares in issue for the six months ended 30th June, 2020 and 30th June, 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased approximately HK\$909,000 (six months ended 30th June, 2019: HK\$6,260,000) on additions of property, plant and equipment, and no disposal of property, plant and equipment (six months ended 30th June, 2019: disposed of certain items of property, plant and equipment with total carrying amount of approximately HK\$177,000).

12. RIGHT-OF-USE ASSETS

	Cold storage warehouses HK\$'000	Offices HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At as 31st December, 2019				
(audited)				
Carrying amount	259,565	4,622	142	264,329
At as 30th June, 2020 (unaudited)				
Carrying amount	226,363	2,938	17	229,318
For the six months ended				
30th June, 2020 (unaudited)				
Depreciation charge	(33,293)	(1,052)	(125)	(34,470)
Exchange adjustments	–	(1)	–	(1)
Total cash outflow for leases				36,949
Additions to right-of-use assets				264

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

12. RIGHT-OF-USE ASSETS (continued)

For both periods, the Group leases certain offices premises and cold storage warehouses for its operations. Lease contracts are entered into for fixed term of 24 months to 8 years, but may have extension and/or termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

13. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Interest in an associate (<i>Note a</i>):		
Cost of investment in an associate	—*	—*
Fair value adjustment on non-current interest-free loan to an associate	42,079	42,079
Share of post-acquisition losses and other comprehensive expense	(34,579)	(29,975)
Share of post-acquisition losses and other comprehensive expense arising from adoption of HKFRS 16	—	(532)
Impairment loss recognised	(7,500)	(7,500)
	—	4,072
Loan to an associate (<i>Note b</i>)	40,621	39,255
Amount due from an associate	12,316	8,077

* Less than HK\$1,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

13. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE/ AMOUNT DUE FROM AN ASSOCIATE (continued)

Notes:

- a. Details of the associates held by the Group as at 30th June, 2020 and 31st December, 2019 are as follows:

Name of associates	Country of incorporation/ principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2020	2019	2020	2019	
		%	%	%	%	
Direct associate						
Loving Peace International Limited ("Loving Peace")	British Virgin Islands/ Hong Kong	30	30	20	20	Investment holding
Indirect associate						
Brilliant Cold Chain Solutions Limited ("BCCS")	Hong Kong	30	30	20	20	Provision of cold storage and related services

The Group holds 30% of the issued share capital of Loving Peace. Under the investment agreement, the Group and the other two shareholders has the rights to nominate or appoint one and four directors to the board of directors of Loving Peace, respectively, in which the Group has 20% of the voting right of Loving Peace. The directors of the Company consider that the Group does have significant influence or any power to exercise significant influence over the management and participate in the financial and operating decisions of Loving Peace, accordingly, the investment is classified as associate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

13. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE (continued)

Notes: (continued)

- b. At 30th June, 2020 and 31st December, 2019, loan to an associate is unsecured, interest-free and not expected to be repaid within one year after the reporting period. Fair value of the loan to an associate on initial recognition is determined based on effective interest rate of 7% (31.12.2019: 7%) per annum. The difference between the principal amount of the loan and its fair value determined on initial recognition amounting to HK\$23,060,000 (31.12.2019: HK\$23,060,000), has been included in the investment cost in an associate as deemed contribution to the associate during the current period. Loan to an associate is considered as long-term interest that, in substance form part of the Group's net investments in the relevant associate.

Summarised financial information of an associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs. The associate is accounted for using the equity method in these condensed consolidated financial statements.

Consolidated financial information regarding Loving Peace and its subsidiary is set out below:

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Current assets	24,510	21,249
Non-current assets	272,326	314,324
Current liabilities	(84,342)	(77,124)
Non-current liabilities	(226,914)	(246,106)
	(14,420)	12,343
Revenue	36,518	49,198
Loss and other comprehensive expense for the period/year	(26,858)	(73,180)
Share of loss of an associate	(4,072)	(21,954)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

13. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE/ AMOUNT DUE FROM AN ASSOCIATE (continued)

Summarised financial information of an associate (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the condensed consolidated financial statements:

	30.06.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Net (liabilities) assets of the associate	(14,420)	12,343
Proportion of the Group's ownership interest in the associate	30%	30%
The Group's share of net (liabilities) assets of the associate	(4,326)	3,703
Other adjustment	7,841	7,869
Unrecognised share of loss of the associate for the period	3,985	–
Less: Impairment loss recognised	(7,500)	(7,500)
Carrying amount of the Group's interest in the associate	–	4,072



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

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 logistics services. No interest is charged on any outstanding trade receivables.

As at 30th June, 2020, included in trade and other receivables, deposits and prepayments are trade receivables, net of allowance for credit loss, of HK\$59,901,000 (31.12.2019: HK\$50,337,000).

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
0 to 30 days	20,829	20,897
31 to 60 days	20,694	17,413
61 to 90 days	6,375	6,468
91 to 120 days	5,071	2,477
More than 120 days	6,932	3,082
	59,901	50,337

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

15. LOAN RECEIVABLES

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Loan receivables	2,880	2,840
Less: Allowance for credit loss	(865)	(865)
	2,015	1,975

As at 30th June, 2020, unsecured loan receivables carry fixed-rate interests ranged from 12% to 24% (31.12.2019: 11% to 12%) per annum and with maturity ranged from 3 months to 1 year (31.12.2019: 6 months to 2.5 years). All amounts of principal will be receivable on respective maturity dates.

16. TRADE AND OTHER PAYABLES

As at 30th June, 2020, included in trade and other payables are trade payables of HK\$12,510,000 (31.12.2019: HK\$10,911,000).

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
0 to 30 days	5,940	2,271
31 to 60 days	767	889
61 to 90 days	5,798	6,953
91 to 120 days	5	470
More than 120 days	–	328
	12,510	10,911

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

17. LEASE LIABILITIES

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Lease liabilities payable:		
Within one year	65,487	63,475
Within a period of more than one year but not more than two years	65,022	67,899
Within a period of more than two years but not more than five years	106,705	137,536
	237,214	268,910
Less: Amount due for settlement with twelve months shown under current liabilities	(65,487)	(63,475)
Amount due for settlement after twelve months shown under non-current liabilities	171,727	205,435

18. 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 31st December, 2019 (audited) and 30th June, 2020 (unaudited)	60,000,000	600,000	2,432,304	24,323



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

19. DERIVATIVE FINANCIAL INSTRUMENTS

On 6th September, 2018, the Group entered into an agreement (the “JV Agreement”) with two independent investors, in which the Group, and the two investors were committed to invest 30%, 60% and 10% of the shareholdings in Loving Peace, an associate of the Group, respectively. In accordance with the agreement, the Group grants two put options to the investor who invests 60% of the shareholding of in Loving Peace (“Investor A”) as follow:

1. The Group grants to Investor A an option whereby Investor A has the right to require the Group to purchase from Investor A all or part of its shares in Loving Peace (the “Relevant Shares”) and the Investor A’s committed loan advanced to Loving Peace and its subsidiaries, amounted to US\$5,000,000, and outstanding from time to time (the “Shareholder Loan”), at the exercise price determined in the agreement (the “First Put Option”). The First Put Option shall be exercisable by Investor A (subject to its fulfillment of its obligation under the JV agreement) in the event that the Group, as a manager, fails to meet the key performance indicators (the “KPIs”) of BCCS in accordance with a management service agreement, which entered into by BCCS and the Group, for three consecutive quarters within thirty-six months after the date of management service agreement. The First Put Option shall be exercisable by Investor A within thirty-six months after the date of the management service agreement.

Under the First Put Option, the price of the Relevant Shares and Shareholder Loan shall be determined based on the pro-rata share of the valuation of Loving Peace which is the higher of (i) the total investment amount, which is US\$33,000,000 in accordance with the agreement, plus any additional investments with an annual return of 15% and (ii) the fair value of the equity in Loving Peace and the Shareholder Loan.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- The Group grants to Investor A an option whereby Investor A has the right to require the Group to purchase from Investor A all or part of its Relevant Shares and Shareholder Loan, at the exercise price determined in the agreement (the “Second Put Option”). The Second Put Option shall be exercisable by Investor A after the expiration of thirty-six months after the date of the agreement, irrespective of whether the Group is able to meet the KPIs.

Under the Second Put Option, the price of the Relevant Shares and the Shareholder Loan shall be equal to the summation of the outstanding amount of the Shareholder Loan and US\$1,000,000 (or if Investor A subsequently disposed of its shares, US\$1,000,000 multiplied by the number of shares held by Investor A at the time when Investor A exercises the Second Put Option divided by the number of shares held by Investor A upon completion of share subscription in accordance with the agreement).

20. BONDS

The bonds bear interest at 6% per annum and payable annually in arrears, up to the maturity date of the relevant bonds. The maturity dates are the seventh anniversary of the dates of issue of the relevant bonds ranging from November 2021 to May 2022.

21. PLEDGE OF ASSETS

As at 30th June, 2020, bank facilities for providing guarantees by a bank for the Group’s operation of cold storage service, to the extent of HK\$3,500,000 (31.12.2019: HK\$3,500,000) are secured by bank deposits amounting to HK\$3,500,000 (31.12.2019: HK\$3,500,000). The amount utilised at 30th June, 2020 was HK\$1,410,000 (31.12.2019: HK\$3,480,000).

As at 30th June, 2020, bank deposits of HK\$64,285,000 (31.12.2019: HK\$62,068,000) are pledged to a bank, which provides bank guarantee in favour of one landlord for a sum equivalent to 12 months’ rent payable by the Group under tenancy agreements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

		Fair value hierarchy	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
<i>Financial assets at FVTPL</i>				
Held for trading listed equity securities (Note 1)	Level 1		408	686
<i>Equity instrument at FVTOCI</i>				
Unlisted equity instrument (Note 2)	Level 3		–	–
<i>Financial liabilities</i>				
Derivative financial liability (Note 3)	Level 3		6,984	6,725

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Notes:

1. The fair value of listed equity securities is determined with reference to quoted market bid prices from the Stock Exchange.
2. Since the underlining companies in the equity instrument at FVTOCI remains inactive and has insignificant amount of net asset value as at 30th June, 2020 and 31st December, 2019. The management considers that the fair value of the equity instrument is minimal.
3. The fair value of derivative financial instrument was calculated using Binomial Model. The significant unobservable input mainly include expected volatility of 35.66% (31.12.2019: 35.78%), taking account into volatility of other comparable listed companies. A slight decrease in the expected volatility used in isolation would result in a decrease in the fair value measurement of the derivative, and vice versa. A 3% increase/decrease in the volatility holding all other variables constant would increase the carrying amount of the derivative by HK\$989,000 (31.12.2019: HK\$1,010,000)/decrease the carrying amount of the derivative by HK\$1,012,000 (31.12.2019: HK\$993,000).

There were no transfers between Levels 1 and 3 during the periods.

Reconciliation of Level 3 fair value measurements

	Equity instrument at FVTOCI HK\$'000	Derivative financial instruments HK\$'000	Total HK\$'000
At 31st December, 2019 (audited)	–	6,725	6,725
Change in fair value	–	259	259
At 30th June, 2020 (unaudited)	–	6,984	6,984

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2020

23. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

1. A subsidiary of the Company entered into the management service agreement with the Group's associate in accordance with the terms of the JV Agreement dated 6th September, 2018 to operate the cold storage business of the associate. The subsidiary shall assist the associate for its daily operations of the cold storage business, and the associate shall pay to a subsidiary a monthly management fee for the management services rendered. During the six months ended 30th June, 2020, the management fee income amounted to HK\$5,485,000 (six months ended 30th June, 2019: HK\$2,254,000) was recognised as revenue in profit or loss.
2. Key management compensation (including directors' emoluments)

	Six months ended 30.6.2020 HK\$'000	Six months ended 30.6.2019 HK\$'000
Directors' fees	552	421
Other emoluments		
– Salaries and other benefits	3,044	2,980
– Performance related bonuses	–	410
– Contributions to retirement benefits scheme	112	156
Total emoluments	3,708	3,967

The Group did not enter into any other transaction with its related parties during the six months ended 30th June, 2020 and 2019.



OTHER INFORMATION

DISCLOSURE OF INTERESTS

Interests of Directors

As at 30th June, 2020, save as disclosed below, 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.

Associated corporation of the Company

Mr. Fung Pak Kei was deemed to be interested in shares of the following associated company of the Company through corporation controlled by him:

Name of associated corporation	No. of shares held	Percentage of total issued share capital
Loving Peace International Limited <i>(Note)</i>	20	10%

Note:

Loving Peace International Limited ("Loving Peace") is a company incorporated in the British Virgin Islands with limited liability and is owned as to 30% by the Group and as to 10% GIK Business Consulting Limited ("GIK"). The entire issued share capital of GIK is beneficially owned by Mr. Fung Pak Kei, an Executive Director of the Company.

The 10% shareholdings of Loving Peace were held by GIK directly. Loving Peace is the sole shareholder of Brilliant Cold Chain Solutions Limited.

OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Interests of substantial shareholders

As at 30th June, 2020, 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.

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, who 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.



OTHER INFORMATION

DISCLOSURE OF INTERESTS (continued)

Share option scheme

At the annual general meeting of the Company held on 29th May, 2015, the shareholders of the Company 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.

No share option was outstanding as at 1st January, 2020 and 30th June, 2020 and no share option was granted under the 2015 Scheme during the period since adoption.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Save as disclosed in the paragraph headed “Interests of Directors” above, as far as the Directors are aware of, none of the Directors have any interests in a business apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the Group’s business during the six months ended 30th June, 2020.

CONNECTED TRANSACTIONS AND DIRECTOR’S INTEREST IN CONTRACTS

Upon the appointment of Mr. Fung Pak Kei (“Mr. Fung”) as Executive Director with effective from 4th June, 2019, by virtue of Mr. Fung owning the entire interests in GIK Business Consulting Limited (“GIK”), GIK has become a connected person of the Company under Chapter 14A of the Listing Rules after the appointment of Mr. Fung. The following transaction entered into prior to the appointment of Mr. Fung have become connected transaction of the Company accordingly.



OTHER INFORMATION



CONNECTED TRANSACTIONS AND DIRECTOR'S INTEREST IN CONTRACTS (continued)

Joint venture agreement

On 6th September, 2018, Sky Elegant Development Limited (“Sky Elegant”), an indirect wholly-owned subsidiary of the Company, together with Sub-Zero (HK) Limited (“Sub-Zero (HK)”), GIK and Loving Peace International Limited (“JV Company”) entered into a joint venture agreement (“JV Agreement”) in relation to the operation and management of the JV Company. Immediately after completion, the issued share capital of the JV Company will be owned as to 30% by Sky Elegant, as to 60% by Sub-Zero (HK) and as to 10% by GIK. The JV Company would be principally engaged in cold storage business in Hong Kong and/or the PRC. Completion of the JV Agreement has taken place during the year ended 31st December, 2018 in accordance with the terms thereof.

Please refer to the announcements of the Company dated 6th September, 2018 and 29th October, 2018, and the circular of Company dated 31st October, 2018 for further details of the JV Agreement and the transactions thereunder.

The Directors (including all Independent Non-executive Directors) have reviewed and confirmed that this transaction was entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) in accordance with the relevant agreement governing them and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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, 2020.



OTHER INFORMATION

CORPORATE GOVERNANCE

Code on corporate governance practices

For the first half of 2020, the Board 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 the exceptions specified and explained below:

According to the 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. Ho Hon Chung, Ivan (“Mr. Ho”) and Mr. Choy Kai Sing (“Mr. Choy”) acted as Acting Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Ho is responsible for all day-to-day corporate management matters and Mr. Choy is responsible for corporate financial matters. In June 2020, Mr. Choy was resigned as the Chief Financial Officer and Mr. Cheung Hoi Kin, currently, is a Director of Strategy and Development Department of the Group, has been appointed as Chief Financial Officer and is responsible for corporate financial matters in place of Mr. Choy.

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

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

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 risk management, internal control and financial reporting matters including a review of the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2020 with the Directors. The Audit Committee is of the opinion that the unaudited condensed consolidated results of the Group for the six months ended 30th June, 2020 comply with the applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosure has been made.

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.

Risk management and internal control

The Board has responsibility for maintaining appropriate and effective risk management and internal control systems (the “RM and IC Systems”) of the Group and reviewing its effectiveness through the Audit Committee. The purpose of the RM and IC Systems are designed to manage rather than eliminate risks of failure in operational systems so that the Company’s objective can be achieved, and can only provide reasonable but not absolute assurance against material misstatements or losses.

The Group has adopted a series of internal control measures including the strengthening of reporting lines of senior management. As a routine procedure and part of the RM and IC Systems, Executive Directors and the senior management meet regularly to review the financial and operating performance of the key operating subsidiaries. Senior management of each department is also required to keep Executive Directors informed of material developments of the department’s business as well as implementation of the strategies and policies set by the Board on a regular basis.



OTHER INFORMATION

CORPORATE GOVERNANCE (continued)

Risk management and internal control (continued)

To further strengthen the RM and IC systems of the Group, the Company has engaged an independent professional adviser (the “Internal Control Adviser”) to carry out the internal audit functions by performing independent appraisal of the adequacy and effectiveness of certain subsidiaries’ RM and IC systems. The Internal Control Adviser is in the process of carrying out its appraisal for the current fiscal year as of the report date.

During the six months ended 30th June, 2020, the Audit Committee, with the assistance of the Internal Control Adviser, has developed current year’s RM and IC systems appraisal plan. The scope of the current fiscal year’s RM and IC systems appraisal plan focuses on reviewing (i) the operating controls of the trading business and related services segment in Mainland China (expenditure cycle); (ii) design of the written policies and procedures of the trading business and related services segment in Mainland China (revenue and receivable cycle; purchase and payable cycle; expenditure cycle; and human resources cycle); (iii) the compliance risk management control of the Group; (iv) the financial reporting and disclosure control of the Group; and (v) follow up on the recommendations in the 2019 report.

During the six months ended 30th June, 2020, the Board was satisfied that the Group’s risk management and internal control processes are adequate to meet the needs of the Group in its current business environment and that nothing has come to its attention to cause the Board to believe the Group’s RM and IC Systems are inadequate. Moreover, the existing RM and IC Systems are effective and adequate, and will continue to be reviewed, strengthened or updated in response to changes in the operating environment.

By order of the Board
HO HON CHUNG, IVAN
Executive Director

Hong Kong, 28th August, 2020