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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Daido Group Limited, you should at once pass this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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DAIDO GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 544)

**PROPOSED ELECTION OF DIRECTORS
AT THE ANNUAL GENERAL MEETING
AND
PROPOSALS FOR
GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES
AND
AMENDMENTS TO THE BYE-LAWS**

A notice convening an annual general meeting of Daido Group Limited to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 25th May 2006 at 10:00 a.m. is contained in the 2005 Annual Report. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrars, Union Registrar Limited, at 311-312 Two Exchange Square, Central, Hong Kong as soon as possible but in any event by no later than 48 hours before the time appointed for the holding of the meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the meeting should you so desire.

29th April, 2006

The logo for Daido Group Limited, featuring the word "DAIDO" in white, bold, sans-serif capital letters centered within a solid black square.

DAIDO GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 544)

Executive Directors:

Mr. To Shu Fai (*Chairman*)
Mr. Fung Wa Ko (*Deputy Chairman*)
Mr. Tang Tsz Man, Philip

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11

Independent Non-executive Directors:

Mr. Tse Yuen Ming
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira

*Head office and principal place
of business:*

Room 1906, 19th Floor, West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

29th April, 2006

To the shareholders of the Company

Dear Sir or Madam,

**PROPOSED ELECTION OF DIRECTORS
AT THE ANNUAL GENERAL MEETING
AND
PROPOSALS FOR
GENERAL MANDATES
TO ISSUE AND REPURCHASE SHARES
AND
AMENDMENTS TO THE BYE-LAWS**

INTRODUCTION

The purpose of this circular is to provide you with information regarding the resolutions to be proposed at the forthcoming annual general meeting (“**Annual General Meeting**”) of Daido Group Limited (the “**Company**”) to be held on 25th May, 2006 at 10:00 a.m. These include (i) the ordinary resolutions proposing election of directors of the Company who are due to retire at the Annual General Meeting, (ii) the ordinary resolutions granting the Board of Directors general mandates to issue and repurchase shares of HK\$0.01 each of the Company (“**Shares**”) and (iii) proposed amendments to the Bye-laws of the Company.

LETTER FROM THE CHAIRMAN

PROPOSED ELECTION OF DIRECTORS

In accordance with Clause 86(2) and 87 of the Company's Bye-Laws and the Code on Corporate Governance Practices, Messrs. Leung Tsz Fung David Ferreira, Tse Yuen Ming and Leung Chi Hung retire by rotation and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Details of the above Directors that are required to be disclosed under the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") ("**Listing Rules**") are set out in Appendix I to this circular.

PROPOSED GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

At the annual general meeting of the Company held on 27th May, 2005, ordinary resolutions were passed granting general mandates to the directors of the Company ("**Directors**"), inter alia, (i) to repurchase Shares not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at 27th May, 2005 ("**Repurchase Mandate**"); and (ii) to allot, issue and otherwise deal with additional Shares not exceeding 20 per cent. of the aggregate nominal amount of the issued share capital of the Company in issue as at 27th May, 2005 ("**Issue Mandate**") and Shares not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at 27th May, 2005 repurchased by the Company pursuant to the Repurchase Mandate (the Repurchase Mandate and the Issue Mandate, the "**Existing Mandates**").

In accordance with the provisions of the Listing Rules and the terms of the general mandates granted to the Directors at the annual general meeting of the Company held on 27th May, 2005, the Existing Mandates shall expire at the conclusion of the forthcoming Annual General Meeting of the Company to be held on 25th May, 2006.

The Directors propose to seek the approval of the shareholders of the Company ("**Shareholders**") of the resolutions to be proposed and set out in the notice of the Annual General Meeting to grant to the Directors new general mandates (i) to repurchase Shares not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the Annual General Meeting ("**Proposed Repurchase Mandate**"); and (ii) to allot, issue and otherwise deal with additional Shares not exceeding 20 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the Annual General Meeting ("**Proposed Issue Mandate**") and Shares not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the Annual General Meeting repurchased by the Company pursuant to the Proposed Repurchase Mandate.

As at 21st April, 2006 being the latest practicable date ("**Latest Practicable Date**") prior to the printing of this circular, the Company had in issue 3,000,000,000 Shares.

Subject to the passing of the resolution granting the Proposed Issue Mandate and on the basis that no further Shares are issued (whether generally or pursuant to the exercise of outstanding options) or repurchased before the Annual General Meeting, the Company will be allowed to issue a maximum of 600,000,000 Shares pursuant to the Proposed Issue Mandate.

An explanatory statement required by the Listing Rules in connection with the Proposed Repurchase Mandate containing all information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolutions at the Annual General Meeting is set out in the Appendix II to this circular.

LETTER FROM THE CHAIRMAN

PROPOSED AMENDMENTS TO THE BYE-LAWS OF THE COMPANY

The Listing Rules have been amended by the Stock Exchange by replacing the Code of Best Practice in Appendix 14 by the Code on Corporate Governance Practices. Subject to certain transitional arrangements, the amendments took effect from 1st January, 2005. In addition, paragraph 4(3) of Appendix 3 of the Listing Rules regarding the removal of the directors have been amended and the amendment took effect from 1 March 2006.

In view of the Code on Corporate Governance Practices and the amended paragraph 4(3) of Appendix 3, the Directors propose to make amendments to the Bye-laws accordingly. The major amendments are summarised as follows:

- (a) effect voting by way of a poll as required by the Listing Rules;
- (b) disclose the voting figure on a poll if required by the Listing Rules;
- (c) specify that every Director, including those appointed for a specific term, will be subject to retirement by rotation at least once every three years;
- (d) at least 14 days' notice be given for the regular meetings of the board of directors of the Company; and
- (e) to remove Directors at any general meeting by ordinary resolution at any time before the expiration of his period of office.

The proposed amendments to the Bye-laws are subject to the approval of the Shareholders by way of a special resolution to be proposed at the AGM. Apart from the proposed amendments, all existing provisions in the Bye-laws shall remain the same. Full text of the proposed amendments to the Bye-laws is set out in resolution no. 7 in the notice of AGM as a special resolutions.

ANNUAL GENERAL MEETING

The resolutions referred to above are set out in full in the notice of the Annual General Meeting as contained in the Company's 2005 Annual Report. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrars, Union Registrar Limited, at 311-312 Two Exchange Square, Central, Hong Kong as soon as possible but in any event by no later than 48 hours before the time appointed for the holding of the meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the meeting should you so desire.

PROCEDURE FOR SHAREHOLDER TO DEMAND FOR POLL

Pursuant to Bye-Law 66 of the Bye-Laws of the Company, a poll can be demanded by:

- (a) the chairman of the meeting;
- (b) at least three members present in person or by proxy or authorised representative for the time being entitled to vote at the meeting;

LETTER FROM THE CHAIRMAN

- (c) any member or members present in person or by proxy or authorised representative and representing not less than one-tenth of the total voting rights of all members having the right to attend and vote at meeting; or
- (d) any member or members present in person or by proxy or authorised representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

The Directors consider that the ordinary resolutions and the special resolutions as set out in the notice of the Annual General Meeting are all in the best interests of the Company and the Shareholders as a whole, and accordingly recommend all Shareholders to vote in favour of the resolutions to be proposed at the Annual General Meeting.

Yours faithfully,
For and on behalf of
Daido Group Limited
To Shu Fai
Chairman

LEUNG, TSZ FUNG DAVID FERREIRA

Mr. Leung, Tsz Fung David Ferreira, aged 38, joined the Group as an independent non-executive director in July 2005. He is a merchant with extensive experience trading in Asia countries. Mr. Leung also serves as business consultants in various advertising and event marketing companies.

Mr. Leung has not held any other directorship in any listed company in the last three years.

Mr. Leung does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in Shares within the meaning of Part XV of the SFO.

There was no service contract entered into between Mr. Leung and the Company and there was no specific length of service with the Company but was subject to retirement by rotation and re-election under Bye-law 86(2) of the Company. However, the Company will enter into a service contract with Mr. Leung for an initial period of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if he is re-elected in the coming annual general meeting but is also subject to retirement by rotation and re-election under Bye-laws of the Company. Mr. Leung received a fixed remuneration of HK\$80,000 per annum from the Company as director's fee. The emoluments of Mr. Leung are determined by reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry and the prevailing market conditions. Mr. Leung is the Chairman of the Remuneration Committee. He is also a member of the Audit Committee and the Nomination Committee of the Company.

There is no other information relating to Mr. Leung that is required to be disclosed pursuant to rules 13.51 (2) (h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Save as disclosed above, Mr. Leung is not aware of any other matters that need to be brought to the attention of the Shareholders.

TSE YUEN MING

Mr. Tse Yuen Ming, aged 38, joined the Group as an independent non-executive director in August 2003. He is a partner of Messrs. Tung, Ng, Tse & Heung. Mr. Tse holds a bachelor of laws degree with honours from the University of Hong Kong and admitted to The Supreme Court of Hong Kong as a solicitor in 1993. He is also a director in various companies engaging in animation, trading, card games and construction business in Hong Kong.

Mr. Tse has not held any other directorship in any listed company in the last three years.

Mr. Tse does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in Shares within the meaning of Part XV of the SFO.

There was no service contract entered into between Mr. Tse and the Company and there was no specific length of service with the Company but was subject to retirement by rotation and re-election under Bye-law 87(1) of the Company. However, the Company will enter into a service contract with Mr. Tse for an initial period of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if he is re-elected in the coming

annual general meeting but is also subject to retirement by rotation and re-election under Bye-laws of the Company. Mr. Tse received a fixed remuneration of HK\$80,000 per annum from the Company as director's fee. The emoluments of Mr. Tse are determined by reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry and the prevailing market conditions. Mr. Tse is the Chairman of the Nomination Committee. He is also a member of the Audit Committee and the Remuneration Committee of the Company.

There is no other information relating to Mr. Tse that is required to be disclosed pursuant to rules 13.51 (2) (h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Save as disclosed above, Mr. Tse is not aware of any other matters that need to be brought to the attention of the Shareholders.

LEUNG CHI HUNG

Mr. Leung Chi Hung, aged 50, joined the Group as an independent non-executive director in September 2003. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. Mr. Leung is also a certified public accountant (Practising) in Hong Kong and a director of the corporate practice Arthur Mo & Co. Limited.

Mr. Leung is also independent non-executive director of Teem Foundation Group Ltd., a company listed on the Stock Exchange.

Save as disclosed above, Mr. Leung has not held any other directorship in any listed company in the last three years.

Mr. Leung does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in Shares within the meaning of Part XV of the SFO.

There was no service contract entered into between Mr. Leung and the Company and there was no specific length of service with the Company but was subject to retirement by rotation and re-election under Bye-law 87(1) of the Company. However, the Company will enter into a service contract with Mr. Leung for an initial period of one year and will continue thereafter unless and until terminated by either party given the other not less than three months' notice, if he is re-elected in the coming annual general meeting but is also subject to retirement by rotation and re-election under Bye-laws of the Company. Mr. Leung received a fixed remuneration of HK\$80,000 per annum from the Company as director's fee. The emoluments of Mr. Leung are determined by reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry and the prevailing market conditions. Mr. Leung is the Chairman of the Audit Committee. He is also a member of the Remuneration Committee and the Nomination Committee of the Company.

There is no other information relating to Mr. Leung that is required to be disclosed pursuant to rules 13.51 (2) (h) to (v) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Save as disclosed above, Mr. Leung is not aware of any other matters that need to be brought to the attention of the Shareholders.

This explanatory statement contains the information that are required by the Listing Rules to be included in an explanatory statement to enable Shareholders to make an informed view on whether to vote for or against the resolutions to be proposed at the Annual General Meeting in relation to the repurchase by the Company of its own securities.

LISTING RULES FOR REPURCHASE OF SECURITIES

The relevant sections of the Listing Rules which permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions are summarised below.

SHAREHOLDERS' APPROVAL

The Listing Rules provide that all proposed repurchases of securities by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by a specific approval of a particular transaction.

NUMBER OF REPURCHASED SHARES

It is proposed that the Proposed Repurchase Mandate will authorise the repurchase by the Company not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the Annual General Meeting. As at the Latest Practicable Date, the Company had in issue 3,000,000,000 Shares.

Subject to the passing of the resolution granting the Proposed Repurchase Mandate and on the basis that no further Shares are issued (whether generally or pursuant to the exercise of outstanding options) or repurchased before the Annual General Meeting, the Company will be allowed to repurchase a maximum of 300,000,000 Shares during the period ending on the earlier of the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required to be held by law (or the date upon which such authority is revoked or varied by an ordinary resolution of the Shareholders in general meeting).

Any Shares repurchased pursuant to the Proposed Repurchase Mandate must be fully-paid up.

SOURCE OF FUNDS

Repurchases must be funded out of funds legally available for the purpose and in accordance with the Company's memorandum of association and bye-laws and the applicable laws of the jurisdiction in which the Company is incorporated or otherwise established. Bermuda law provides that the amount of capital repaid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant Shares, or the profits that would otherwise be available for distribution by way of dividend or the proceeds of a new issue of shares made for such purpose. The amount of premium payable on a repurchase may only be paid out of either the profits that would otherwise be available for distribution by way of dividend or out of the share premium or contributed surplus accounts of the Company. It is envisaged that the Company would derive the funds from such sources.

REASON FOR REPURCHASE

The Directors believe that it is in the best interests of the Company and the Shareholders to seek a general authority from the Shareholders to enable the Company to repurchase the Shares on the Stock Exchange. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or earnings per share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

The exercise of the Proposed Repurchase Mandate in full could have a material adverse impact on the working capital position and gearing position of the Company as compared with the position as disclosed in the Company's most recent published audited financial statements for the year ended 31st December, 2005. The Directors do not propose to exercise the mandate to repurchase Shares to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company as compared with the position disclosed in the latest published audited financial statements or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

CONNECTED PARTIES

To the best of the Directors' knowledge, having made all reasonable enquiries, none of the Directors nor any of their associates currently intend to sell Shares to the Company or its subsidiaries, in the event the Proposed Repurchase Mandate is approved by the Shareholders.

No connected person, as defined in the Listing Rules, has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so in the event the Company is authorised to make repurchase of Shares.

UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Proposed Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

EFFECT OF THE TAKEOVER CODE

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition of voting rights for the purposes of The Hong Kong Code on Takeovers and Mergers ("**Code**"). Accordingly, a Shareholder, or group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, Top Synergy Associates Limited ("**TSAL**") held 2,023,231,329 Shares, representing approximately 67.44 per cent. of the issued share capital of the Company.

In the event that the Directors were to exercise in full the Proposed Repurchase Mandate, the shareholding of TSAL would be increased to approximately 74.93 per cent. of the issued share capital of the Company. To the best of the knowledge and belief of the Directors, such increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Code. The

Listing Rules prohibit a company from making repurchases on the Stock Exchange if the result of such repurchases would be that less than 25 per cent. (or such other prescribed minimum percentage as determined by the Stock Exchange) of the issued share capital would be in public hands. The Directors do not propose to repurchase Shares which would result in less than the prescribed minimum percentage of Shares being in public hands.

GENERAL

The Company has not repurchased any securities of the Company on the Stock Exchange in the six months preceding the date of this circular.

SHARE PRICE

The following table shows the highest and lowest prices at which the Shares has been traded on the Stock Exchange in each of the last twelve months:

	Shares	
	Highest (HK\$)	Lowest (HK\$)
2005		
April	0.137	0.081
May	0.110	0.080
June	0.104	0.091
July	0.098	0.089
August	0.092	0.082
September	0.091	0.082
October	0.082	0.076
November	0.092	0.075
December	0.115	0.080
2006		
January	0.097	0.079
February	0.085	0.074
March	0.103	0.076
April (up to the Latest Practicable Date)	0.115	0.089