THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Daido Group Limited (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

DAIDO

DAIDO GROUP LIMITED

大同集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 544)

VERY SUBSTANTIAL ACQUISITION

A letter from the board of directors of the Company is set out on pages 4 to 21 of this circular.

A notice convening a special general meeting of the Company (the "SGM") to be held at Plaza I–III, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 4 September 2006 at 10:00 a.m. is set out on pages 105 to 106 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar in Hong Kong, Union Registrars Limited at 311–312 Two Exchange Square, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

21 August 2006

CONTENTS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares and the Sale Loan on the terms contained in the Agreement
"Agreement"	the conditional sale and purchase agreement dated 29 May 2006 as supplemented by the supplemental agreement dated 15 August 2006 entered into among the Purchaser, the Vendor and the Guarantor relating to the sale and purchase of the Sale Shares and the Sale Loan
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of the Directors
"Bondholder(s)"	holder(s) of the Convertible Bond
"Business Day"	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Daido Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares and the Sale Loan in accordance with the terms and conditions of the Agreement
"Completion Date"	the date of Completion
"connected persons"	has the meaning ascribed thereto in the Listing Rules
"Conversion Price"	the initial conversion price of HK$0.116 per Conversion Share, subject to adjustments, pursuant to the terms of the Convertible Bond
"Conversion Shares"	the Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bond
"Convertible Bond"	the convertible bond in the principal amount of HK$104.4 million, to be issued by the Company in favour of the Vendor upon Completion
"Deposits"	together the Initial Deposit, the Second Deposit and a further deposit of HK$50 million to be paid by the Purchaser to the Vendor on the date of despatch of this circular to the Shareholders
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Ever Achieve"	Ever Achieve Enterprises Limited, being the substantial Shareholder interested in 1,011,615,665 Shares or 29.07% of the entire issued share capital of the Company
"Gambling Ordinance"	Gambling Ordinance (Chapter 14 of the Laws of Hong Kong)
"Group"	the Company and its subsidiaries

"Guarantor"	Mr. Fung Ho Sum, the guarantor under the Agreement and is the legal and beneficial owner of the entire issued share capital of the Vendor
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Hotel"	Grand Waldo Complex, a five star hotel resort complex located at Site A1, Avenida Marginal Flor de Lotus close to Ratunda do Dique Oeste Cotai, Macau
"Hotel Holding Companies"	Richbo Enterprises Limited, Hoover International Limited, Fast Profit Investments Limited, Topmore Limited and Great China Company Limited, save for Great China Company Limited which owns the Hotel, all of which are investment holding companies
"Initial Deposit"	the initial deposit in the amount of HK$50 million paid by the Company to the Vendor on the date of signing of the LOI
"Latest Practicable Date"	16 August 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LOI"	the non-legally binding letter of intent dated 2 May 2006 entered into between the Company and the Vendor setting out the preliminary understanding in relation to the possible acquisition of the Sales Shares
"Macau"	Macau Special Administrative Region of the People's Republic of China
"Promissory Notes"	ten promissory notes to be executed by the Company in the favour of the Vendor upon Completion
"Purchaser"	Grand Decade Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly owned subsidiary of the Company and the purchaser under the Agreement
"Sale Loan"	the shareholder's loan owed by the Target to the Vendor on Completion which amounted to HK$144.0 million as at the date of the Agreement, which is unsecured, not guaranteed and do not carry any interest and is repayable by the Target to the Vendor upon demand by the Vendor
"Sale Shares"	100 shares of US$1.00 each in the share capital of the Target, representing the entire issued share capital of the Target, which is legally and beneficially owned by the Vendor
"Second Deposit"	the second deposit in the amount of HK$50 million paid by the Purchaser to the Vendor on the date of signing of the Agreement
"SFC"	Securities and Futures Commission of Hong Kong

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened on Monday, 4 September 2006 at 10:00 a.m. to consider and, if thought fit, approve the Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the 480,000,000 Shares by Top Synergy pursuant to the placing and subscription agreement dated 22 May 2006 entered into among Top Synergy, the Company as issuer and Pacific Foundation Securities Limited as placing agent, details of which please refer to the announcement of the Company dated 23 May 2006
"Subsidiary"	Brilliant Gold International Limited, a company incorporated in the British Virgin Islands with limited liability, and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is an investment holding company for holding its 16% indirect beneficial interests in the Hotel and 75% of its entire issued share capital is owned by the Target
"Target"	Jumbonet International Profits Limited, a company incorporated in the British Virgin Islands with limited liability
"Target Group"	the Target and the Subsidiary
"Top Synergy"	Top Synergy Associates Limited
"Valuer"	Grant Sherman Appraisal Limited, an independent qualified valuer
"Vendor"	Ever Apollo Limited, a company incorporated in the British Virgin Islands with limited liability, the vendor of the Sale Shares and the Sale Loan and, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is an investment holding company for holding its indirect beneficial interests in the Hotel, and, save and except that its beneficial owner is the independent non-executive director of China Star Entertainment Limited, is not a connected person of the Company and is an independent third party not connected with the Company and its connected persons
"Vision Harvest"	Vision Harvest Limited
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

DAIDO GROUP LIMITED
大同集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 544)

Directors:
Executive Directors:
Mr. Fung Wa Ko *(Chairman)*
Mr. Tang Tsz Man, Philip

Independent non-executive Directors:
Mr. Leung Chi Hung
Mr. Leung, Tsz Fung David Ferreira
Mr. Tse Yuen Ming

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Unit No. 1906, 19/F.
West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

21 August 2006

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 3 May 2006, the Board announced that the Company entered into the LOI with the Vendor to acquire the entire issued share capital of the Target. The parties were to enter into a formal agreement on or before 29 May 2006.

On 7 June 2006, the Board announced that the Purchaser, a wholly owned subsidiary of the Company, as purchaser had on 29 May 2006 entered into the Agreement with the Vendor as vendor and the Guarantor as guarantor, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares and the Sale Loan. The Agreement is supplemented by a supplemental agreement dated 15 August 2006 to extend the long-stop date of the Agreement.

The Acquisition constitutes a very substantial acquisition on the part of the Company under Rule 14.06 of the Listing Rules and is subject to approval of the Shareholders at the SGM.

The purpose of this circular is to provide you with, among other things, further details of the Acquisition and the notice of SGM.

* *For identification purpose only*

THE AGREEMENT

Date:	29 May 2006
Parties:	
Purchaser:	the Purchaser, a wholly owned subsidiary of the Company
Vendor:	the Vendor
Guarantor:	the Guarantor, who guarantees in favour of the Purchaser the due and punctual performance of the Vendor under the Agreement

Save and except that the Guarantor, being the beneficial owner of the Vendor, is the independent non-executive director of China Star Entertainment Limited, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor, its ultimate beneficial owner and their associates do not have any interests in the Shares, are not connected person of the Company and are independent third parties not connected with the Company and its connected persons.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, being 100 shares of US$1.00 each in the share capital of the Target representing 100% of the entire issued share capital of the Target, and the Sale Loan.

Consideration

The total consideration for the Sale Shares and the Sale Loan is HK$336 million and shall be satisfied by the Purchaser in the following manner:

(i) HK$181.6 million in cash of which, HK$50 million has been paid by the Company on the date of signing of the LOI as initial deposit, HK$50 million has been paid by the Purchaser on the date of signing of the Agreement as second deposit, HK$50 million will be payable on the date of despatch of this circular to the Shareholders as third deposit and the remaining HK$31.6 million will be payable on the Completion Date;

(ii) HK$104.4 million by procuring the Company to issue the Convertible Bond on the Completion Date; and

(iii) HK$50 million by procuring the Company to issue the Promissory Notes on the Completion Date.

The HK$336 million is the aggregate consideration for both the Sale Shares and the Sale Loan. No adjustment will be made to the consideration for any changes in the amount of the Sale Loan since the date of the Agreement. As at 31 December 2005, the Sale Loan was about HK$108 million. As at 30 April 2006, the Sale Loan was about HK$144 million.

The consideration was determined with reference to the 12% indirect attributable interests of the Target in the Hotel and the valuation of the Hotel conducted by the Valuer, an independent qualified valuer. The Hotel was valued at HK$3.029 billion as at 29 May 2006. As such, the value of the Target (i.e. the total assets) is estimated by the Board at approximately HK$363 million, based on the Target's 12% attributable interests on the valuation of the Hotel at HK$3.029 billion. The Hotel has been valued by the Valuer on the basis of market value which the Valuer would define as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The Valuer has valued the Hotel by reference to sales evidence as available on the market and where appropriate on the basis of capitalisation of net income of the Hotel based on the future trading potential and level of turnover likely to be achieved by the Hotel. The Valuer has allowed for outgoings of the Hotel and made provisions for reversionary income potential of the Hotel. The hotel portion of the Hotel is valued as ongoing hotel operations by capitalisation of net operating profits.

As at the Latest Practicable Date, the Group has paid the Initial Deposit and the Second Deposit to the Vendor. As security for the performance of the Vendor to repay the Deposits, if necessary, a share charge on the Sale Shares and an assignment of all the obligations, liabilities and other debts owing or incurred by the Target to the Vendor have been executed by the Vendor in favour of the Company.

The cash consideration of HK$181.6 million has been or will be funded as to approximately i) HK$54 million by proceeds from the Subscription; and ii) the balance of HK$127.6 million by internal resources of the Group.

The consideration was agreed between the Purchaser and the Vendor after arm's length negotiation and in line with the valuation report prepared by the Valuer. The Directors (including the independent non-executive Directors), consider the payment terms of the consideration under the Agreement to be fair and reasonable.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target, its subsidiary and associated companies;

(b) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Agreement and the transactions contemplated thereunder having been obtained;

(c) the passing by the Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder, including but not limited to i) the issue of the Convertible Bond to the Vendor; and ii) the execution of the Promissory Notes;

(d) the obtaining of a Macau legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transaction contemplated under the Agreement;

(e) the warranties given by the Vendor under the Agreement remaining true and accurate in all respects;

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares; and

(g) if necessary, the Bermuda Monetary Authority granting consent to the allotment and issue of the Conversion Shares.

Conditions (a), (d) and (e) are waivable by the Purchaser under the Agreement. The Purchaser has no current intention to waive any of the conditions above. As at the Latest Practicable Date, condition (g) has been satisfied.

Completion

Completion shall take place at 4:00 p.m. on the second Business Day after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

The Company will issue the Convertible Bond and the Promissory Notes on the Completion Date.

The Vendor has no current intention to appoint any representatives to the Board upon Completion.

Long-stop date

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) at or before 4:00 p.m. on 7 September 2006 (or such later date as the parties may agree), the Deposits paid by the Group shall be refunded on the same date without interest by the Vendor and the Agreement shall cease and determine.

TERMS OF CONVERTIBLE BOND

The terms of the Convertible Bond have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

HK$104.4 million

Interest

The Convertible Bond will not bear any interest.

Maturity

A fixed term of five years from the date of issue of the Convertible Bond. Unless previously redeemed, converted or cancelled as provided in the agreement pursuant to which the Convertible Bond was issued, the Company shall redeem the outstanding principal amount of the Convertible Bond on the maturity date.

Conversion

Provided that the conversion does not trigger off a mandatory offer under rule 26 of The Codes on Takeovers and Mergers in Hong Kong on the part of the Bondholder(s), the Bondholder(s) may convert the whole or part (in multiples of HK$1 million) of the principal amount of the Convertible Bond into new Shares at the Conversion Price from the issue date up to the maturity date.

Conversion Price

The Conversion Price is HK$0.116 per Conversion Share subject to adjustments.

The adjustments for Conversion Price include the following:

(i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe new Shares being made by the Company to Shareholders (in their capacity as such);

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares and the total effective consideration per Share receivable for such securities is less than 80% of the market price on the date of announcement of the terms of the issue of such securities;

(vi) an issue of Shares wholly for cash at a price per Share which is less than 80% of the market price on the date of announcement of the terms of such issue; and

(vii) an issue of Shares for the acquisition of assets at a total effective consideration per Share which is less than 80% of the market price of the date of the announcement of the terms of such issue.

The Conversion Price represents (i) a discount of approximately 3.33% to the closing price of HK$0.120 per Share as quoted on the Stock Exchange on 29 May 2006, being the date of the Agreement; (ii) a discount of approximately 1.69% to the average of the closing prices of approximately HK$0.118 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 29 May 2006, being the date of the Agreement; (iii) a discount of approximately 3.33% to the average of the closing prices of HK$0.120 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 29 May 2006, being the date of the Agreement; (iv) a premium of approximately 38.10% over the closing price of HK$0.084 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a premium of approximately 10.48% over the net asset value per Share of approximately HK$0.105 with reference to the audited net asset value of the Company based on the audited net asset value of the Company as at 31 December 2005 as shown in the annual report of the Company for year ended 31 December 2005.

The Conversion Price was determined by the Purchaser and the Vendor on an arm's length basis with reference to the current market price of the Shares and the duration of the Convertible Bond.

Conversion Shares

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bond in the aggregate principal amount of HK$104.4 million at the Conversion Price by the Bondholder(s), the Company will issue an aggregate of 900 million new Shares, representing (i) approximately 25.86% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 20.55% of the issued share capital of the Company as enlarged by the exercise of the conversion rights in full of the conversion rights attaching to the Convertible Bond. The Conversion Shares will be issued pursuant to the specific mandate to be sought at the SGM.

Early redemption

The Company could, at its option, redeem the Convertible Bond in whole or in part at a redemption premium of 5% of the amount to be redeemed by giving a prior ten Business Days' written notice to the Bondholder(s), at any time commencing from the Completion Date and prior to the maturity date, subject to the prior full repayment of the sum due from the Promissory Notes.

Ranking

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with all existing Shares in issue at the date of the conversion notice.

Status of the Convertible Bond

The Convertible Bond constitutes a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

Transferability

With the prior notification to the Company, the Convertible Bond may be transferred or assigned by the Bondholder(s). The Convertible Bond is not transferable to any connected persons of the Company. The Company will notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bond by any connected persons of the Company.

Voting rights

The Convertible Bond does not confer any voting rights at any meetings of the Company.

Application for listing

No application will be made by the Company for the listing of the Convertible Bond. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

TERMS OF PROMISSORY NOTES

The terms of the Promissory Notes have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer

The Company

Principal amount

Ten promissory notes with a principal amount of HK$5 million each.

Interest

The Promissory Notes will not carry any interest.

Maturity

Of the ten Promissory Notes, one Promissory Note is repayable on the first anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the second anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the third anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the fourth anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the fifth anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the sixth anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the seventh anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the eighth anniversary of the date of issue of the Promissory Notes, one Promissory Note is repayable on the ninth anniversary of the date of issue of the Promissory Notes and one Promissory Note is repayable on the tenth anniversary of the date of issue of the Promissory Notes.

Early repayment

The Company could, at its option, repay the Promissory Notes in whole or in part in multiples of HK$1 million by giving a prior ten Business Days' written notice to the Vendor, commencing on the date three months after the Completion Date and up to the date immediately prior to the maturity date. There will not be any premium or discount to the payment obligations under the Promissory Notes for any early repayment.

Assignment

With the prior notification to the Company, the Promissory Notes may be transferred or assigned by the holder(s) of the Promissory Notes. The Promissory Notes are not transferable to any connected persons of the Company.

CHANGES IN SHAREHOLDING STRUCTURE

The Acquisition will not result in a change in control of the Company. The following table sets out the shareholding structure of the Company as at the Latest Practicable Date, and immediately after Completion and after allotment and issue of the Conversion Shares (assuming full conversion of the Convertible Bond):

	As at the Latest Practicable Date		**Immediately after Completion and after allotment and issue of Conversion Shares (assuming full conversion of the Convertible Bond)**	
	No. of Shares	**Approximate %**	**No. of Shares**	**Approximate %**
Ever Achieve *(Note 1)*	1,011,615,665	29.07	1,011,615,665	23.10
Classical Statue Limited *(Note 2)*	723,140,000	20.78	723,140,000	16.51
The Vendor	—	—	900,000,000	20.55
Public	1,745,244,335	50.15	1,745,244,335	39.84
Total:	3,480,000,000	100.00	4,380,000,000	100.00

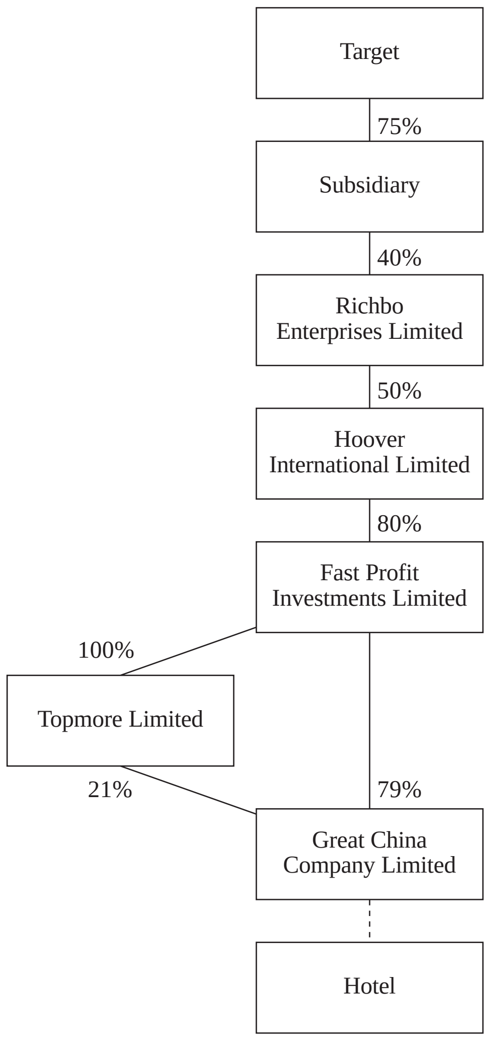
Note 1: The entire issued share capital of Ever Achieve is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares.

Note 2: Classical Statue Limited is a wholly-owned subsidiary of China Star Entertainment Limited which is a company listed on the main board of the Stock Exchange.

INFORMATION OF THE TARGET GROUP

Each of the Target and the Subsidiary is an investment holding company incorporated in the British Virgin Islands. Based on the representation of the Vendor, the principal asset of the Target is its 12% indirect attributable interests in the Hotel. The Hotel is directly owned by Great China Company Limited.

The shareholding structure of the Target Group and the Hotel Holding Companies is as follows:



As the Target Group does not have any board seat or any control in the board of directors of the Hotel Holding Companies which hold direct or indirect interests in the Hotel, the Target Group cannot exercise a significant influence on the Hotel Holding Companies. Accordingly, the Hotel Holding Companies are not considered to be associated companies of the Target. In particular, the 40% equity interest in Richbo Enterprises Limited is treated as an investment by the Target Group. Immediately before Completion, the Vendor holds 16% indirect attributable interests in the Hotel. Immediately after Completion, the Vendor, through its 25% equity interest in the Subsidiary, will hold 4% indirect attributable interests in the Hotel. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save and except that the Vendor (the beneficial owner of which is the independent non-executive director of China Star Entertainment

Limited) will still hold 25% equity interest in the Subsidiary, the other shareholders of the Hotel Holding Companies are not connected person of the Company and are independent third parties not connected with the Company and its connected persons.

Based on the advice from the Company's Macau legal adviser, Great China Company Limited is duly incorporated and validly existing under the laws of Macau. Great China Company Limited is the lawful sole grantee and registered owner of the land on which the Hotel was built, and the Hotel and Great China Company Limited have all the licences required to conduct its business (including holding the premises in which the gaming activities are carried out by the operator), and is in compliance with all relevant laws and regulations.

Target is an investment company holding, through the Subsidiary and the Hotel Holding Companies, 12% indirect attributable interests in the Hotel. To the best information and knowledge of the Directors, the sole investment of the Target Group and the Hotel Holding Companies is the Hotel which is run by Great China Company Limited. As the Hotel has not commenced its operations until 22 May 2006, based on the accountants' report on the Target Group from 9 September 2004, being the date of incorporation of the Target, to 30 April 2006 as set out in Appendix II to this circular, no turnover and no profit have been recorded. As at 30 April 2006, the audited consolidated total assets of the Target Group is approximately HK$201.0 million and the audited consolidated total liabilities of the Target Group is approximately HK$120.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out in Appendix II to this circular is the accountants' report on the Target Group for the period from 9 September 2004 (being the date of incorporation of the Target) to 31 December 2004, the year ended 31 December 2005 and for the four months ended 30 April 2006. Below is the management discussion and analysis on the performance of the Target Group for each of the aforesaid period:

(i) For the period from 9 September 2004 (being the date of incorporation of the Target) to 31 December 2004

Business review and Results

As the Target is an investment holding company and the Hotel has not commenced business until 22 May 2006, no turnover and result were recorded during the period.

Capital structure, financial resources and liquidity

Borrowing and banking facilities

As at 31 December 2004, save for the shareholder's loan from the Vendor of approximately HK$31.8 million (which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) for the funding of the Hotel (according to its proportional interest), the Target Group had no bank borrowing or long-term liabilities.

Capital structure

During the period under review, 100 shares of US$1.00 each was issued by the Target.

Charges on the Target Group's assets

As at 31 December 2004, the Target Group had no charges on its assets.

Capital commitments

As at 31 December 2004, the Target Group had no material capital commitments.

Remuneration policies and employee information

Other than the sole director of the Target (who is the Guarantor), the Target Group had no full time employees and no staff costs were paid or payable during the period.

Significant investments and material acquisition

On 13 September 2004, the Target acquired 75% equity interest in the Subsidiary from an independent third party at a cash consideration of US$750. On 14 September 2004, the Subsidiary subscribed for 40 new shares, representing 40% equity interest in Richbo Enterprises Limited at a cash consideration of US$40, thereby holding a 16% indirect interest in the Hotel through the Hotel Holding Companies. The purchase consideration and investment costs paid by the Target for the investment in the Subsidiary and Richbo Enterprises Limited was financed through shareholder's loan. As at 31 December 2004, the Target Group had advanced a loan of approximately HK$31.8 million (which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) to Richbo Enterprises Limited for the funding of the Hotel.

Gearing ratio

As at 31 December 2004, the gearing ratio of the Target Group, expressed as a percentage of total borrowings over total assets, was nil.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any hedging policies.

Contingent liabilities

As at 31 December 2004, the Target Group did not have any significant contingent liabilities.

(ii) For the year ended 31 December 2005

Business review and Results

As the Hotel has not commenced business until 22 May 2006, no turnover and results were recorded during the period.

Capital structure, financial resources and liquidity

Borrowing and banking facilities

As at 31 December 2005, save for the shareholder's loan from the Vendor of approximately HK$91.4 million (which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) for the funding of the Hotel (according to its proportional interest), the Target Group had no bank borrowing or long-term liabilities.

Capital structure

As at 31 December 2005, the issued and fully paid up share capital of the Target amounted to US$100 divided into 100 shares of US$1.00 each. There was no change in the capital structure of the Target throughout the year.

Charges on the Target Group's assets

As at 31 December 2005, the Target Group had no charges on its assets.

Capital commitments

As at 31 December 2005, the Target Group had no material capital commitments.

Remuneration policies and employee information

Other than the sole director of the Target (who is the Guarantor), the Target Group had no full time employees and no staff costs were paid or payable during the year.

Significant investments and material acquisition

During the year under review, the Target Group had further advanced a loan of approximately HK$59.6 million (which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) to Richbo Enterprises Limited for the funding of the Hotel.

Gearing ratio

As at 31 December 2005, the gearing ratio of the Target Group, expressed as a percentage of total borrowings over total assets, was nil.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any hedging policies.

Contingent liabilities

As at 31 December 2005, the Target Group did not have any significant contingent liabilities.

(iii) For the four months ended 30 April 2006

Business review and Results

As the Hotel has not commenced business until 22 May 2006, no turnover and result were recorded during the period.

Capital structure, financial resources and liquidity

Borrowing and banking facilities

As at 30 April 2006, save for the shareholder's loan from the Vendor of approximately HK$120.3 million (comprising loan from the Vendor to the Target of approximately HK$90.2 million and loan from the Vendor to the Subsidiary of approximately HK$30.1 million, which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) for the funding of the Hotel (according to its proportional interest), the Target Group had no bank borrowing or long-term liabilities.

Capital structure

As at 30 April 2006, the issued and fully paid up share capital of the Target amounted to US$100 divided into 100 shares of US$1.00 each. There was no change in the capital structure of the Target throughout the period.

Charges on the Target Group's assets

As at 30 April 2006, the Target Group had no charges on its assets.

Capital commitments

As at 30 April 2006, the Target Group had no material capital commitments.

Remuneration policies and employee information

Other than the sole director of the Target (who is the Guarantor), the Target Group had no full time employees and no staff costs were paid or payable during the period.

Significant investments and material acquisition

During the period under review, the Target Group had further advanced a loan of approximately HK$28.9 million (which is unsecured, not guaranteed, non-interest bearing and has no fixed repayment date) to Richbo Enterprises Limited for the funding of the Hotel.

Gearing ratio

As at 30 April 2006, the gearing ratio of the Target Group, expressed as a percentage of total borrowings over total assets, was nil.

Foreign exchange exposure

The Target Group did not have any hedging activities against its foreign exchange exposure nor did it adopt any hedging policies.

Contingent liabilities

As at 30 April 2006, the Target Group did not have any significant contingent liabilities.

INFORMATION OF THE HOTEL

Based on the representation of the Vendor, the principal asset of the Target is its indirect 12% attributable interest in the Hotel. The Hotel is a five star hotel complex located at site A1, Avenida Marginal Flôr de Lótus close to Rotunda do Dique Oeste Cotai, Macau.

Development of the Hotel is divided into two phases. Under phase one (which was completed in early 2006), the hotel complex of the Hotel is divided into 3 portions, namely, the casino block, the hotel block and the entertainment block of approximately 44,000 square metres, approximately 23,000 square metres and approximately 22,000 square metres respectively. The casino block comprises of 4 storeys and has an opening gaming hall and 24 VIP suites. The hotel block is a five-star standard 12 storeys building with around 318 rooms (including junior suites) of international standard. The entertainment block is another 4 storeys building with sauna and massage centre, sleeping booths for economy short stays, nightclub, spa and beauty salon, restaurants and food court, indoor and outdoor swimming pools, bar and karaoke rooms, children's play area, games room and gymnasium. Operation of the Hotel is funded by the shareholders' loans from the Target Group (which are in the proportion of each shareholder involved) and the Hotel Holding Companies, and bank loan.

The Hotel has officially commenced its operation on 22 May 2006. There has been no operation since the completion of construction of the Hotel up to 22 May 2006. The Hotel does not carry out the casino operations at the casino block. The main sources of income of the Hotel are income from the operation of the hotel business at the hotel block and rental income from tenants (all of them, to the best knowledge of the Directors, are independent of the Target Group, its beneficial owners and the Hotel Holding Companies) which occupy and operate the casino business and the entertainment businesses at the casino block and the entertainment block. Based on the advice from the Company's Macau legal adviser, the Hotel is not required to obtain any licence under Macau law to lease the casino block to the operator of the casino business, and it is the operator who has to obtain authorisation before it can operate the casino business. To the best information of the Directors and based on the due diligence so far conducted by the Company (including but not limited to the representation from the Vendor), the relevant authorisation has been obtained by the casino operator to legally operate the casino.

To the best information of the Directors, the time and the funding requirement, if any, for developing phase two of the Hotel is not determined. In the event that there is funding requirement from the Group for the phase two development, the Group will then assess if the funding requirement is to be met by internal resources and/or external financing. The Company will comply with all reporting, announcement and/or shareholders' approval requirement under the Listing Rules in future as and when appropriate if the phase two of the Hotel is developed and funding is made by the Group.

REASONS FOR THE ACQUISITION

The Purchaser is an investment holding company. The Group is principally engaged in the provision of cold storage services, the manufacturing and trading of ice in Hong Kong and the provision of logistics services and properties investment. It is the intention of the Board to continue with the existing principal activities of the Group.

With the changes in the laws and regulation in the People's Republic of China, the restrictions on mainland tourists to visit Macau has been lifted. The tourist industry in Macau has been growing rapidly. The increase in the business travel and mainland individuals visit to Macau have created a large demand on hotel rooms and other tourist-related services in Macau, in particular restaurants, bars, casino, etc.

The value of the properties in Macau has increased significantly in the past few years. It is expected by the Board that the property value in Macau would continue to increase given the rapid growth in the economy of Macau in recent years.

With the recent conversion of a number of casinos from the traditional gaming area to Las Vegas style gaming area and the construction and opening of a number of Las Vegas style gaming area in Macau, it is expected that the demand and the property value of the international standard hotels, equipped with auxiliary facilities, will increase.

The Directors believe that the Acquisition will provide the Group with an opportunity to benefit from i) the rapid growth in the tourist industry in Macau; ii) the rising property market in Macau; and iii) the increase in the demand of international standard hotels in Macau. The Directors also believe that the Macau tourist industry, property market and the demand for international standard hotel will continue to grow in the coming years.

Taking into account the benefits of the Acquisition as described above, the Board is of the view that the terms of the Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. The Acquisition provides a good opportunity for the Group to commence investing in the booming Macau economy.

Moreover, the Board also considers that the payment terms of the Acquisition provide flexibility to the Group in fulfillment of its payment obligation. The Directors consider that by a combination of issue of Convertible Bond and Promissory Notes for the payment of the consideration, the Company could have the flexibility in making future payment in form of the early repayment of the Convertible Bond and Promissory Notes at the option of the Company.

The Group has no current intention to acquire any further interests in the Hotel.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Group and the assets, liabilities and earnings of the Target Group will be consolidated into the accounts of the Group.

The Group had an audited net asset value of approximately HK$315 million and an audited net tangible asset value of approximately HK$315 million as at 31 December 2005. After taking into account the pro forma adjustments set out in the pro forma financial information of the Enlarged Group in Appendix III to this circular and assuming Completion took place as of 31 December 2005, the Acquisition would increase the unaudited total asset value of the Enlarged Group to approximately HK$636 million and increase the unaudited total liabilities to approximately HK$148 million. The Acquisition would also give rise to the recognition of interest expenses of approximately HK$11 million mainly arising from the issuance of the Promissory Notes and the Convertible Bond and result in a net cash outflow of approximately HK$130 million mainly due to the payment of the cash consideration (after netting off the proceeds from the Subscription of about

HK$54 million). The benefit arising from the Acquisition, however, is not fully reflected from the pro forma financial information set out in Appendix III to this circular as it depends on the business and prospects of the Target Group in future. Please see the section below for further details.

PROSPECTS OF THE ENLARGED GROUP

Prospects of the Group

With Gross Domestic Product on the Mainland China expected to grow by 8–9% in 2006, according to the estimate made by the chief economist at the National Bureau of Statistics in 2005, the economic climate should be highly favourable and opportunities continue to develop throughout the Pearl River Delta region. Hong Kong as the southern doorstep of Mainland China is perfectly positioned and equipped to capitalise on the economic expansion. The Closer Economic Partnership Arrangement lays the foundation for business platform that reaffirms the role of Hong Kong in the Mainland China's next phase of economic development. Therefore, the Directors believe that the demand for cold storage warehousing facilities and logistics services will offer an optimistic prospect for 2006. In early January 2006, the Group completed an acquisition of Best Merchant Limited and its subsidiaries Brilliant Top In Logistics Limited and Brilliant Cold Storage Management Limited (the "Best Merchant Group") at a consideration of HK$56 million. The Group will continue to provide one-stop logistics and cold storage services between Hong Kong and Mainland China, as well as expand its logistics arm by increasing the number of trucks used for deployment, by using the collective expertise of Best Merchant Group. The Group will also exploit and capitalise on the good profit margins of cold storage and logistics in order that they make a significant contribution to the Group's overall turnover. The Group's properties investment business has remained vacant and it is the intention of the Directors to either lease or sell the investment properties when a suitable investor is identified.

Prospects of the Target Group

As mentioned in the paragraph headed "Reasons for the Acquisition" above, the tourist industry in Macau has been growing rapidly. The increase in the business travel and mainland individuals visit to Macau have created a large demand on hotel rooms and other tourist-related services in Macau, in particular restaurants, bars, casino, etc. The value of the properties in Macau has increased significantly in the past few years. It is expected that the property value in Macau would continue to increase given the rapid growth in the economy of Macau in recent years.

Based on the above, it is expected by the Board that long term benefits will be accrued to the Enlarged Group arising from (i) the increase in the value of the Hotel; and (ii) the profitability of the Hotel.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is subject to the approval by the Shareholders at the SGM. To the best of the Directors' knowledge, no Shareholder has any material interests in the Acquisition, and the Vendor, the Guarantor, the other Shareholders of the Hotel Holding Companies and their respective associates do not hold any Shares as at the Latest Practicable Date. The beneficial owner of the Vendor is a director of China Star Entertainment Limited and Classical Statue Limited, a substantial Shareholder, is a wholly owned subsidiary of China Star Entertainment Limited. However, the beneficial owner of the Vendor is only an independent non-executive director of China Star Entertainment Limited and does not own any shares in the capital of China Star Entertainment Limited. The Vendor, Classical

Statue Limited and China Star Entertainment Limited are separate legal entities and the decision of Classical Statue Limited and China Star Entertainment Limited to determine whether to vote in favour of or against the Acquisition will not be affected by the Vendor. In the case where China Star Entertainment Limited holds a board meeting to determine whether to vote in favour of or against the Acquisition, the beneficial owner of the Vendor as a director of China Star Entertainment Limited who is interested in the Acquisition will have to abstain from voting at such board meeting. As such, Classical Statue Limited should not be required to abstain from voting at the SGM. Accordingly no Shareholder will be required to abstain from voting for the relevant resolution to approve the Acquisition at the SGM.

Shareholders should be aware that under the guidelines issued by the Stock Exchange in relation to "Gambling Activities Undertaken by Listing Applicants and/or Listed Issuers" dated 11 March 2003, should the Group engage in gambling activities and operation of such gambling activities but (i) fail to comply with the applicable laws in the areas with such activities operate and/or; (ii) contravene the Gambling Ordinance such that the Company or its business may be considered unsuitable for listing under Rule 8.04 of the Listing Rules, the Stock Exchange may direct the Company to take remedial action, and/or may suspend the dealings in, or may cancel the listing of, its securities.

As at the Latest Practicable Date, the Company has obtained legal opinions regarding (i) the validity and legality of the Acquisition; and (ii) the operation of the Hotel (including holding the premises in which the gaming activities are carried out by the operator) being in compliance with Macau laws and does not contravene the Gambling Ordinance.

As long as the Company has an indirect interests in Great China Company Limited, the Company will use its best endeavours (as far as it is able in its capacity as a shareholder of the Target to do so) to ensure that the Hotel and the gambling business carried out therein will comply with the applicable laws in Macau and will not contravene the Gambling Ordinance.

SGM

A notice convening the SGM to be held at Plaza I–III, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 4 September 2006 at 10:00 a.m. is set out on pages 105 to 106 on this circular.

The SGM will be convened and held to consider and, if thought fit, to approve, among other things, the Acquisition and the transactions contemplated thereunder.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar in Hong Kong, Union Registrars Limited at 311–312 Two Exchange Square, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

According to bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy 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 shares conferring that right.

RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the terms of the Agreement (including the terms of the Convertible Bonds and Promissory Note) are fair and reasonable and on normal commercial terms, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Shareholders to vote in favour of the ordinary resolution as set out in the notice of the SGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
Daido Group Limited
Fung Wa Ko
Chairman

1. SUMMARY OF FINANCIAL INFORMATION

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2005. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company for 2004 and 2005 is set out below:

Results

	For the year ended 31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	97,495	109,247	152,112
Direct costs	(89,588)	(57,532)	(88,067)
Gross profit	7,907	51,715	64,045
Other operating income	6,914	1,066	1,589
Selling and distribution costs	(3,112)	(2,900)	(3,433)
Administrative expenses	(11,584)	(10,605)	(17,887)
Impairment loss recognised in respect of trade and other receivables	(521)	(1,369)	(108)
Write back of impairment loss on bad and doubtful debts	542	66	682
Reversal of impairment loss in respect of prepaid lease payments, and property, plant and equipment	—	55,946	—
Impairment loss arising from adjustment to fair value less costs to sell	(74,879)	—	—
Amortisation of goodwill	—	(555)	(463)
Finance costs	(994)	(8,463)	(11,397)
Gain on disposal of subsidiaries	5,289	—	505
Loss on disposal of subsidiaries	—	—	(8,823)
Fair value gain on investment properties	52	—	—
Amortisation of goodwill in an associate	—	(166)	—
Share of results of an associate	(116)	(288)	—
Impairment loss in respect of interest in an associate	(1,430)	—	—
(Loss) profit before tax	(71,932)	84,447	24,710
Taxation	(1,518)	1,972	(3,879)
(Loss) profit for the year	(73,450)	86,419	20,831
Dividend	—	—	—
(Loss) earnings per share — basic	(2.45) cents	2.88 cents	0.69 cents

Assets and liabilities

	AT 31ST DECEMBER		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	340,284	770,931	629,294
Total liabilities	(25,578)	(382,775)	(427,557)
	314,706	388,156	201,737

2. AUDITED FINANCIAL STATEMENTS

The following is the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2005:

		Continuing operations		Discontinued operation		Total	
		2005	**2004**	**2005**	**2004**	**2005**	**2004**
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*5*	41,590	41,194	55,905	68,053	97,495	109,247
Direct costs		(50,087)	(742)	(39,501)	(56,790)	(89,588)	(57,532)
Gross (loss) profit		(8,497)	40,452	16,404	11,263	7,907	51,715
Other income	*6*	4,810	817	2,104	249	6,914	1,066
Selling and distribution costs		(7)	—	(3,105)	(2,900)	(3,112)	(2,900)
Administrative expenses		(2,960)	(3,326)	(8,624)	(7,279)	(11,584)	(10,605)
Impairment loss recognised in respect of trade and other receivables		—	—	(521)	(1,369)	(521)	(1,369)
Reversal of impairment loss recognised in respect of trade and other receivables		—	—	542	66	542	66
Reversal of impairment loss in respect of prepaid lease payments, and property, plant and equipment	*7*	—	—	—	55,946	—	55,946
Impairment loss arising from adjustment to fair value less costs to sell	*43(iii)*	—	—	(74,879)	—	(74,879)	—
Amortisation of goodwill		—	(555)	—	—	—	(555)
Finance costs	*8*	(994)	(8,463)	—	—	(994)	(8,463)
Gain on disposal of subsidiaries	*9*	5,289	—	—	—	5,289	—
Fair value gain on investment properties		52	—	—	—	52	—
Amortisation of goodwill in an associate		—	(166)	—	—	—	(166)
Share of results of an associate		(116)	(288)	—	—	(116)	(288)
Impairment loss in respect of interest in an associate	*10*	(1,430)	—	—	—	(1,430)	—
(Loss) profit before tax		(3,853)	28,471	(68,079)	55,976	(71,932)	84,447
Taxation	*11*	(664)	2,502	(854)	(530)	(1,518)	1,972
(Loss) profit for the year	*12*	(4,517)	30,973	(68,933)	55,446	(73,450)	86,419
Dividend	*14*					—	—
(Loss) earnings per share — basic	*15*						
— from continuing and discontinued operations						(2.45) HK cents	2.88 HK cents
— from continuing operations						(0.15) HK cents	1.03 HK cents

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties	16	17,000	609,000
Property, plant and equipment	17	776	65,798
Goodwill	18	—	4,534
Interest in an associate	19	—	1,546
Long-term receivables	20	—	13,724
Rental deposits paid		71,292	—
Prepaid lease payments	21	—	24,992
Deposit paid for acquisition of subsidiaries		10,000	—
Deferred tax assets	32	—	942
		99,068	720,536
CURRENT ASSETS			
Inventories	22	—	5,929
Trade and other receivables	23	2,814	23,001
Prepaid lease payments	21	—	605
Loans receivable	24	—	7,875
Tax recoverable		—	122
Bank balances and cash		199,936	12,863
		202,750	50,395
Assets classified as held for sale	43(iii)	38,466	—
		241,216	50,395
CURRENT LIABILITIES			
Amounts due to customers for contract work	26	—	13,545
Trade and other payables	27	1,722	24,664
Borrowings	28	—	150,865
Obligations under a finance lease	29	127	—
Unclaimed dividends		19	20
		1,868	189,094
Liabilities associated with assets classified as held for sale	43(iii)	13,294	—
		15,162	189,094
NET CURRENT ASSETS (LIABILITIES)		226,054	(138,699)
		325,122	581,837

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
CAPITAL AND RESERVES			
Share capital	30	30,000	30,000
Reserves		284,706	358,156
		314,706	388,156
NON-CURRENT LIABILITIES			
Borrowings	28	—	187,181
Obligations under a finance lease	29	366	—
Rental deposits received		10,050	—
Guarantee money payable		—	3,000
Deferred tax liabilities	32	—	3,500
		10,416	193,681
		325,122	581,837

	Share capital HK$'000	**Investment properties revaluation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1st January, 2004	30,000	3,014	168,723	201,737
Surplus on revaluation of investment properties recognised directly in equity	—	100,000	—	100,000
Profit for the year	—	—	86,419	86,419
Total recognised income for the year	—	100,000	86,419	186,419
At 31st December, 2004	30,000	103,014	255,142	388,156
At 1st January, 2005	30,000	103,014	255,142	388,156
Effect of changes in accounting policies	—	(103,014)	103,014	—
As restated	30,000	—	358,156	388,156
Total recognised expenses for the year — loss for the year	—	—	(73,450)	(73,450)
At 31st December, 2005	30,000	—	284,706	314,706

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
OPERATING ACTIVITIES			
(Loss) profit before tax		(71,932)	84,447
Adjustments for:			
Allowance for inventories		45	178
Amortisation of goodwill		—	555
Amortisation of goodwill in an associate		—	166
Depreciation and amortisation		6,825	5,797
Fair value gain on investment properties		(52)	—
Finance costs		994	8,463
Gain on disposal of interests in subsidiaries		(5,289)	—
Gain on disposal of property, plant and equipment		(21)	—
Impairment loss in respect of interest in an associate		1,430	—
Impairment loss recognised in respect of trade and other receivables		521	1,369
Reversal of impairment loss recognised in respect of prepaid lease payments, and property, plant and equipment		—	(55,946)
Impairment loss arising from adjustment to fair value less costs to sell		74,879	—
Interest income		(5,789)	(1,055)
Reversal of impairment loss recognised in respect of trade and other receivables		(542)	(66)
Share of results of an associate		116	288
Operating cash flows before movements in working capital		1,185	44,196
Decrease (increase) in inventories		161	(957)
Decrease in trade and other receivables and deposits		43,403	9,369
Decrease in amounts due from customers for contract work		—	2
Decrease in amounts due to customers for contract work		(9,528)	(1,322)
Decrease in trade and other payables, rental deposits and guarantee money received		(3,389)	(4,260)
Decrease in amount due to ultimate holding company		—	(900)
Net cash generated from operations		31,832	46,128
Hong Kong Profits Tax paid		(365)	(2,205)
NET CASH FROM OPERATING ACTIVITIES		31,467	43,923
INVESTING ACTIVITIES			
Interest received		5,787	1,155
Purchase of investment properties		(16,948)	—
Purchase of property, plant and equipment		(362)	(733)
Proceeds from disposal of property, plant and equipment		21	—
Acquisition of an associate		—	(2,000)
Disposal of subsidiaries, net of cash and cash equivalent disposed of	33	525,217	—
Decrease in other loans receivable		—	4,875
Deposit paid for acquisition of subsidiaries		(10,000)	—
NET CASH FROM INVESTING ACTIVITIES		503,715	3,297

	2005 *HK$'000*	2004 *HK$'000* *(restated)*
FINANCING ACTIVITIES		
Dividend paid	(1)	(80)
Interest paid	(4,172)	(10,222)
Repayment of borrowings	(338,046)	(31,876)
Repayment of obligations under a finance lease	(45)	—
CASH USED IN FINANCING ACTIVITIES	(342,264)	(42,178)
NET INCREASE IN CASH AND CASH EQUIVALENTS	192,918	5,042
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	12,863	7,821
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	205,781	12,863
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	205,781	12,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's parent and ultimate holding company is Top Synergy Associates Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The principal activities of the Group are manufacture, sales and installation of autoclaved aerated lightweight concrete blocks and panels ("ALC products"), sub-leasing of properties and properties investment.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3, *Business combinations*. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. With respect to goodwill previously capitalised on the consolidated balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,018,000 with a corresponding decrease in the cost of goodwill (see note 18). Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Non-current assets held for sale and discontinued operations

HKFRS 5 *Non-current assets held for sale and discontinued operations* requires non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets (or disposal group) are available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amounts and fair values less costs to sell.

In addition, HKFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.

The transitional provisions of HKFRS 5 applied prospectively. Accordingly, the the Group shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the consolidated balance sheet for prior periods to reflect the classification in the consolidated balance sheet for the latest period presented.

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial instruments: Disclosure and presentation* and HKAS 39 *Financial instruments: Recognition and measurement*. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instrument in the Group's financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss ("other financial liabilities")". Other financial liabilities are carried at amortised cost using the effective interest method. The application of HKAS 39 has had no material effect on the presentation of financial instrument in the Group's financial statements.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. As a result of the adjustments, property, plant and equipment and prepaid lease payments at 1st January, 2004 were decreased by HK$4,767,000 and increased by HK$4,767,000 respectively. Amortisation of prepaid lease payments and depreciation for the year ended 31st December, 2004 was increased by HK$440,000 and decreased by HK$440,000 respectively. The financial effect of the adoption is further disclosed in note 3.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment properties revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment properties revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment properties revaluation reserve at 1st January, 2005 of HK$103,014,000 has been transferred to the Group's retained profits. Comparative figures have not been restated.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Decrease in amortisation of goodwill	93	—
Increase in fair value gain on investment properties	52	—
Decrease in gain on disposal of subsidiaries	(103,014)	—
Increase in impairment loss arising from adjustment to fair value less costs to sell	(74,879)	—
Increase in loss for the year	(177,748)	—

The cumulative effects of the application of the new HKFRSs at 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004, (originally stated) *HK$'000*	Effect on HKAS 17 *HK$'000*	At 31st December, 2004 (restated) *HK$'000*	Effect on HKAS 40 *HK$'000*	At 1st January, 2005 (restated) *HK$'000*
Property, plant and equipment	91,395	(25,597)	65,798	—	65,798
Prepaid lease payments	—	25,597	25,597	—	25,597
Total effect on assets and liabilities		—		—	
Investment properties revaluation reserve	103,014	—	103,014	(103,014)	—
Retained profits	255,142	—	255,142	103,014	358,156
Total effect on equity		—		—	

The adoption of new HKFRSs has no material impact on the equity as at 1st January, 2004.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain assets, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Impairment of goodwill

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recoverable principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Others

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories of ALC products comprises direct materials and, where applicable, direct labour costs and those production overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method.

Net realisable value represents the expected selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade and other receivables.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to defined contribution retirement benefit plan/the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Trade and other receivables, loans receivable

Trade and other receivables, loan receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. Appropriate impairment for estimated irrecoverable amounts is recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value. Bank balances are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

Borrowings

Borrowings are initially recorded at the proceeds and are subsequently measured at amortised cost, using the effective interest method. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables, unclaimed dividends and guarantee money payable

Trade and other payables, unclaimed dividends and guarantee money payable are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

5. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Continuing operations		
Rental income	41,590	41,194
Discontinued operation		
Revenue from construction work contracting and sales of concrete products	55,905	68,053
	97,495	109,247

Business segments

For management purposes, the Group is currently organised into three operating divisions — construction work contracting and sales of concrete products, sub-leasing of properties and property investment. Sub-leasing of properties is a new segment in the current year.

In December 2004, the Group entered into a conditional sale and purchase agreement to dispose of the entire issued capital in certain subsidiaries, all of which carried on property investment businesses. The property investment businesses became discontinued upon the completion of the disposal on 15th February, 2005 and the property investment business was disclosed as discontinued operation in last year's consolidated financial statements.

During the year, the Group has purchased investment properties and explored this business again. Accordingly, the property investment segment is disclosed as continuing operations for the year, and the comparative figures of property investment segment was re-classified from discontinued operation as continuing operations.

On 22nd February, 2006, the Company announced that a conditional sale and purchase agreement was entered into among one of its wholly-owned subsidiaries and the purchaser on 17th February, 2006 in respect of the disposal of the entire issued capital in certain subsidiaries which carried out construction work contracting and sales of concrete products. The disposal was approved by the shareholders on 6th March, 2006. Details of the disposal were set out in the circular of the Company dated 22nd March, 2006. Accordingly, the business segment of construction work contracting and sales of concrete products was classified as discontinued operation, and the comparative figures of construction work contracting and sales of concrete products was re-classified from continuing operations as discontinued operation.

Segment information about these businesses is presented below as primary segment information.

2005

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	36,445	5,145	41,590	55,905	97,495
SEGMENT RESULT	(13,778)	5,067	(8,711)	6,800	(1,911)
Unallocated corporate income					4,429
Unallocated corporate expenses					(2,372)
Impairment loss arising from adjustment to fair value less costs to sell	—	—	—	(74,879)	(74,879)
Finance costs	—	(994)	(994)	—	(994)
Gain on disposal of subsidiaries	—	5,289	5,289	—	5,289
Fair value gain on investment properties	—	52	52	—	52
Share of results of an associate					(116)
Impairment loss in respect of interest in an associate					(1,430)
Loss before tax					(71,932)
Taxation					(1,518)
Loss for the year					(73,450)

BALANCE SHEET

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Segment assets	88,636	17,065	105,701	38,466	144,167
Unallocated corporate assets					196,117
Consolidated total assets					340,284
LIABILITIES					
Segment liabilities	10,632	74	10,706	13,294	24,000
Unallocated corporate liabilities					1,578
Consolidated total liabilities					25,578

OTHER INFORMATION

	Continuing operations			Discontinued operation	
	Sub-leasing	**Property investment**	**Total**	**Construction work contracting and sales of concrete products**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Allowance for inventories	—	—	—	45	45
Capital expenditure	800	16,948	17,748	100	17,848
Depreciation and amortisation	23	—	23	6,802	6,825
Gain on disposal of property, plant and equipment	—	—	—	(21)	(21)
Guarantee money forfeited	—	—	—	(106)	(106)
Impairment loss recognised in respect of trade and other receivables	—	—	—	521	521
Reversal of impairment loss recognised in respect of trade and other receivables	—	—	—	(542)	(542)
Write back of provision for staff commission	—	—	—	(203)	(203)

2004

	Continuing operation Property investment *HK$'000*	Discontinued operation Construction work contracting and sales of concrete products *HK$'000*	Consolidated *HK$'000*
REVENUE	41,194	68,053	109,247
SEGMENT RESULT	39,854	(149)	39,705
Amortisation of goodwill	(555)	—	(555)
Unallocated corporate expenses			(1,732)
Reversal of impairment loss in respect of prepaid lease payments, and property, plant and equipment	—	55,946	55,946
Finance costs	(8,463)	—	(8,463)
Amortisation of goodwill in an associate			(166)
Share of results of an associate			(288)
Profit before tax			84,447
Taxation			1,972
Profit for the year			86,419

BALANCE SHEET

	Continuing operation Property investment *HK$'000*	Discontinued operation Construction work contracting and sales of concrete products *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	627,415	135,817	763,232
Interest in an associate			1,546
Unallocated corporate assets			6,153
Consolidated total assets			770,931
LIABILITIES			
Segment liabilities	3,742	35,327	39,069
Unallocated corporate liabilities			343,706
Consolidated total liabilities			382,775

OTHER INFORMATION

	Continuing operation Property investment *HK$'000*	Discontinued operation Construction work contracting and sales of concrete products *HK$'000*	Consolidated *HK$'000*
Allowance for inventories	—	178	178
Capital expenditure	—	733	733
Depreciation and amortisation	—	5,797	5,797
Impairment loss recognised in respect of trade and other receivables	—	1,369	1,369
Reversal of impairment loss recognised in respect of trade and other receivables	—	(66)	(66)

Geographical segments

More than 90% of the activities of the Group are based in Hong Kong and more than 90% of the Group's turnover and loss/profit during the year are derived from customers located in Hong Kong.

More than 90% of the Group's assets are located in Hong Kong and more than 90% of additions to property, plant and equipment and investment properties during the year are incurred in Hong Kong.

6. OTHER INCOME

	Continuing operations		Discontinued operation		Consolidated	
	2005 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2004 *HK$'000*
Exchange gain, net	—	—	—	8	—	8
Gain on disposal of property, plant and equipment	—	—	21	—	21	—
Guarantee deposits forfeited	—	—	106	—	106	—
Interest income from						
— bank deposits	4,501	—	705	6	5,206	6
— loans receivable	309	817	274	232	583	1,049
Write back of provision for staff commission	—	—	203	—	203	—
Sundry income	—	—	795	3	795	3
	4,810	817	2,104	249	6,914	1,066

7. REVERSAL OF IMPAIRMENT LOSS IN RESPECT OF PREPAID LEASE PAYMENTS, AND PROPERTY, PLANT AND EQUIPMENT

Discontinued operation

During last year, the directors had reviewed the carrying values of the prepaid lease payments for land and buildings by reference to a professional valuation made by Vigers Appraisal & Consulting Limited, an independent firm of professional property valuers, on 30th April, 2004 on open market value basis. Impairment loss recognised before of HK$21,270,000 and HK$34,676,000 in respect of the prepaid lease payments, and property, plant and equipment has been reversed accordingly. The directors considered that the value of the prepaid lease payments for land and buildings as at 31st December, 2004 was not materially different from the professional valuation made at 30th April, 2004.

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on bank and other loans wholly repayable within five years	994	8,463	—	—	994	8,463

9. GAIN ON DISPOSAL OF SUBSIDIARIES

On 30th December, 2004, the Company announced that a conditional sale and purchase agreement was entered into among one of its indirectly wholly-owned subsidiary, the purchaser and the Company on 13th December, 2004 in respect of the disposal of entire issued capital in Best Goal International Limited and Double Worth Profits Limited, both are indirectly wholly-owned subsidiaries of the Company (the "Disposed Group"), which carried on property investment businesses, for a cash consideration of HK$650,000,000 (the "Disposal"). Details of the Disposal were set out in the circular of the Company dated 20th January, 2005.

At the special general meeting held on 7th February, 2005, an ordinary resolution proposed to approve the Disposal and the new lease arrangement was duly passed by the shareholders. On 15th February, 2005, the board of directors announced that all conditions under the sale and purchase agreement were satisfied and the completion of the Disposal took place, and the new lease arrangement executed on the same date.

The gain on disposal of subsidiaries was HK$5,289,000. No tax charge or credit arose on the Disposal.

The carrying amounts of the assets and liabilities of the Disposed Group at date of disposal are disclosed in note 33.

10. IMPAIRMENT LOSS IN RESPECT OF INTEREST IN AN ASSOCIATE

Continuing operations

During the year, based on the Group's assessment of the carrying amount of the interest in the associate by considering the continuous operating loss since recent years, the directors consider that an impairment loss of HK$1,430,000 in respect of the goodwill to be recognised.

11. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The charge (credit) comprises:						
Hong Kong Profits Tax						
Current year	342	970	—	—	342	970
Underprovision in respect of prior years	—	1,113	—	—	—	1,113
	342	2,083	—	—	342	2,083
Deferred tax (note 32)						
Current year	322	(4,585)	854	530	1,176	(4,055)
Tax charge (credit)	664	(2,502)	854	530	1,518	(1,972)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

The tax charge (credit) for the year can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
(Loss) profit before tax	(71,932)	84,447
Tax at the Hong Kong Profits Tax rate of 17.5%	(12,588)	14,778
Tax effect of expenses not deductible for tax purpose	13,269	397
Tax effect of income not taxable for tax purpose	(3,596)	(9,854)
Utilisation of tax losses previously not recognised	(835)	(3,768)
Tax effect of tax losses previously not recognised but recognised in current year	—	(2,618)
Tax effect of deductible temporary differences not recognised	260	—
Tax effect of tax losses not recognised	5,124	—
Depreciation allowances claimed subsequently not agreed by the Inland Revenue Department and utilised in current year	—	(1,967)
Underprovision in respect of prior years	—	1,113
Others	(116)	(53)
Tax charge (credit) for the year	1,518	(1,972)

12. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(restated)*
(Loss) profit for the year has been arrived at after charging (crediting):						
Allowance for inventories	—	—	45	178	45	178
Amortisation of prepaid lease payments	—	—	605	440	605	440
Auditors' remuneration	415	345	305	305	720	650
Depreciation for property, plant and equipment						
Owned assets	5	—	6,197	5,357	6,202	5,357
Assets held under finance leases	18	—	—	—	18	—
Exchange loss, net	—	—	10	—	10	—
Minimum lease payments for operating leases in respect of rented premises	56	—	685	695	741	695
Gross rental income from investment properties *(note)*	(5,145)	(41,194)	—	—	(5,145)	(41,194)
Less: Direct expenses from investment properties that generated rental income during the year	136	2,156	—	—	136	2,156
	(5,009)	(39,038)	—	—	(5,009)	(39,038)
Other rental income	(36,445)	—	—	—	(36,445)	—
Less: Direct expenses from other properties that generated rental income during the year	49,995	—	—	—	49,995	—
	13,550	—	—	—	13,550	—
Staff costs	565	411	15,858	27,462	16,423	27,873
Less: Amount capitalised in contract work	—	—	(4,979)	(13,216)	(4,979)	(13,216)
	565	411	10,879	14,246	11,444	14,657

Note: No contingent rental income for the year (2004: HK$994,000).

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	To Shu Fai	Fung Wa Ko	Tang Tsz Man, Philip	Tse Yuen Ming	Kwok Shun On	Leung Chi Hung	Leung, Tsz Fung David Ferreira	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	80	40	80	40	240
Other emoluments								
Salaries and other benefits	200	920	120	—	—	—	—	1,240
Contributions to retirement benefits scheme	—	35	2	—	—	—	—	37
Total emoluments	200	955	122	80	40	80	40	1,517

	To Shu Fai	Fung Wa Ko	Tang Tsz Man, Philip	Tse Yuen Ming	Kwok Shun On	Leung Chi Hung	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	80	80	80	240
Other emoluments							
Salaries and other benefits	—	650	170	—	—	—	820
Contributions to retirement benefits scheme	—	30	2	—	—	—	32
Total emoluments	—	680	172	80	80	80	1,092

No director waived any emoluments in the years ended 31st December, 2005 and 2004.

(b) Employees' emoluments

The five highest paid individuals included one (2004: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2004: four) individuals, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	2,389	2,389
Contribution to retirement benefits scheme	126	124
	2,515	2,513

Their emoluments were within the following band:

	2005 Number of employees	2004 Number of employees
Nil to HK$1,000,000	4	4

14. DIVIDEND

No interim dividend is paid during the year (2004: nil).

The directors do not recommend the payment of a dividend for the year.

15. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share	(73,450)	86,419
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earnings per share	3,000,000	3,000,000

From continuing operations

The calculation of the basic (loss) earnings per share from continuing operations is based on the following data:

	2005	2004
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the year	(73,450)	86,419
Less: loss (profit) for the year from discontinued operation	68,933	(55,446)
(Loss) earnings for the purposes of basic (loss) earnings per share from continuing operations	(4,517)	30,973

The denominators used are the same as those detailed above for basic (loss) earnings per share.

From discontinued operation

Basic loss per share for discontinued operation is 2.30 HK cents (2004: basic earnings per share of 1.85 HK cents) per share, based on the loss for the year from discontinued operation of HK$68,933,000 (2004: profit of HK$55,446,000). The denominators used are the same as those detailed above for basic (loss) earnings per share.

The following table summarises the impact on basic (loss) earnings per share as a result of:

	Impact on (loss) earnings per share	
	2005	**2004**
	HK cents	*HK cents*
Reported figures before adjustments	3.47	2.88
Adjustments arising from changes in accounting policies *(see note 3)*	(5.92)	—
Restated	(2.45)	2.88

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2004	509,000
Surplus on revaluation	100,000
At 31st December, 2004	609,000
Disposal upon disposal of subsidiaries	(609,000)
Addition	16,948
Gain on change in fair value	52
At 31st December, 2005	17,000

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that date by RHL Appraisal Ltd., an independent firm of professional property valuers not connected with the Group. RHL Appraisal Ltd. are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All the investment properties of the Group are situated in Hong Kong and held under medium-term leases. The investment properties disposed of during the year were rented out under operating leases. The investment properties as at 31st December, 2005 are vacant.

All of the Group's leasehold interests in land held under operating leases to earn rentals are measured using the fair value model and are classified and accounted as investment properties.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land *HK$'000*	Industrial buildings *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Plant and machinery and equipment *HK$'000*	Total *HK$'000*
COST						
At 1st January, 2004 as originally stated	31,415	71,111	1,114	452	131,945	236,037
Effect of changes in accounting policies *(note 2)*	(31,415)	—	—	—	—	(31,415)
At 1st January, 2004 as restated	—	71,111	1,114	452	131,945	204,622
Additions	—	—	3	—	730	733
Disposals	—	—	—	—	(84)	(84)
At 31st December, 2004	—	71,111	1,117	452	132,591	205,271
Additions	—	—	180	574	146	900
Transferred to assets classified as held for sale	—	(71,111)	(956)	(365)	(132,504)	(204,936)
Disposals	—	—	(162)	(123)	(148)	(433)
At 31st December, 2005	—	—	179	538	85	802
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2004 as originally stated	26,648	63,617	1,083	378	103,798	195,524
Effect of changes in accounting policies *(note 2)*	(26,648)	—	—	—	—	(26,648)
At 1st January, 2004 as restated	—	63,617	1,083	378	103,798	168,876
Provided for the year	—	2,183	8	56	3,110	5,357
Impairment loss reversed	—	(34,676)	—	—	—	(34,676)
Eliminated on disposals	—	—	—	—	(84)	(84)
At 31st December, 2004	—	31,124	1,091	434	106,824	139,473
Provided for the year	—	3,018	8	30	3,164	6,220
Transferred to assets classified as held for sale	—	(34,142)	(933)	(322)	(109,837)	(145,234)
Eliminated on disposals	—	—	(162)	(123)	(148)	(433)
At 31st December, 2005	—	—	4	19	3	26
CARRYING VALUES						
At 31st December, 2005	—	—	175	519	82	776
At 31st December, 2004	—	39,987	26	18	25,767	65,798

The above items of property, plant and equipment are depreciated on a straight-line method at the following rate per annum:

Industrial buildings	Over the shorter of the terms of the leases, or 20 to 25 years
Furniture and fixtures	10%–33$^1/_3$%
Motor vehicles	20%–33$^1/_3$%
Plant and machinery and equipment	5%–50%

The industrial buildings of the Group are situated in Hong Kong and are held under medium-term leases.

The carrying value of motor vehicles includes an amount of HK$520,000 (2004: nil) in respect of asset held under finance leases.

18. GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 2005	5,552
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 2)	(1,018)
Eliminated on disposal of subsidiaries	(4,534)
At 31st December, 2005	—
AMORTISATION	
At 1st January, 2004	463
Amortised for the year	555
At 1st January, 2005	1,018
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 2)	(1,018)
At 31st December, 2005	—
CARRYING VALUES	
At 31st December, 2005	—
At 31st December, 2004	4,534

Prior to 31st December, 2004, goodwill was amortised using the straight-line method over its estimated useful life of ten years.

19. INTEREST IN AN ASSOCIATE

	2005	**2004**
	HK$'000	*HK$'000*
Cost of investment in an associate	3,257	3,257
Share of post-acquisition losses, net of dividends received	(1,827)	(1,711)
Less: Impairment	(1,430)	—
	—	1,546

Prior to 31st December, 2004, goodwill was amortised using the straight-line method over its estimated useful life of five years.

Included in the cost of investment in an associate is goodwill of nil (2004: HK$1,257,000) arising on acquisition of the associate in prior year.

As at 31st December, 2005, the Group has interest in the following associate:

Name	Form of business structure	Place of incorporation and operation	Class of shares held	Proportion of nominal value of issue capital held indirectly by the Company	Principal activities
iNeTalk.com Limited	Incorporated	Hong Kong	Ordinary	16% *(note)*	Development and deployment of high quality Internet-based communication services

Note: This company has been accounted for as an associate as, in the opinion of the directors, the Group is in a position to exercise significant influence over the management of this company as majority of the board of directors are also directors of the Company.

Summarised unaudited financial information in respect of the Group's associate is set out below:

	2005	2004
	HK$'000	*HK$'000*
Total assets	3,478	3,856
Total liabilities	(2,483)	(2,048)
Net assets	995	1,808
Group's share of associate's net assets	—	289
Revenue	7,230	12,413
Loss for the year	(725)	(1,800)
Group's share of associate's net loss	(116)	(288)

20. LONG-TERM RECEIVABLES

	2005	2004
	HK$'000	*HK$'000*
Other loans *(note a)*	—	13,406
Retention receivables *(note b)*	—	6,923
	—	20,329
Less: amounts due within one year included in		
— trade and other receivables	—	(1,730)
— loans receivable *(note a)*	—	(4,875)
Amounts due after one year	—	13,724

(a) Included loans of HK$10,406,000 to the tenant of the Group's investment properties for the purpose of upgrading the machinery and equipment in the cold storage warehouses are secured, bore interest at Hong Kong Prime Lending Rate per annum and repayable by 16 quarterly instalments commencing on 19th December, 2003. The loans had been fully repaid during the year.

(b) The retention receivables were not yet due at the balance sheet date according to the provisions in the construction contracts and hence, no aged analysis is presented.

The directors consider the carrying amounts of other loans and retention receivables approximate to their fair values.

21. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
Prepayments for leasehold interest in land in Hong Kong held under medium-term leases	—	4,327
Reversal of impairment loss	—	21,270
	—	25,597
Analysed for reporting purposes as:		
Current assets	—	605
Non-current assets	—	24,992
	—	25,597

22. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Raw materials	—	1,790
Work in progress	—	1,095
Finished goods	—	2,836
Supplies	—	208
	—	5,929

23. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 15 to 45 days to its customers.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

	2005	2004
	HK$'000	*HK$'000*
0–30 days	—	13,642
31–60 days	—	3,315
61–90 days	—	647
91–120 days	—	174
More than 120 days	—	1,286
	—	19,064

The directors consider the carrying amounts of trade and other receivables approximate to their fair values.

24. LOANS RECEIVABLE

	2005	2004
	HK$'000	*HK$'000*
Interest bearing at 9.12% per annum	—	3,000
Interest bearing at 5.125% per annum	—	4,875
	—	7,875

Notes: The directors consider the carrying amounts of loans receivable approximate to their fair values.

25. OTHER FINANCIAL ASSETS

Other financial assets include deposit paid for acquisition of subsidiaries, rental deposits paid and bank balances and cash. Bank balances and cash comprise short term bank deposits at prevailing market interest rates and fixed interest rate of 3.85% per annum. The directors consider the rental deposits paid and bank balances and cash approximate to their fair values.

26. AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2005	**2004**
	HK$'000	*HK$'000*
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus attributable profits less recognised losses	—	137,400
Progress payments received and receivable	—	(150,945)
	—	(13,545)
Analysed for reporting purposes as:		
Amounts due to customers for contract work	—	(13,545)

27. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

	2005	**2004**
	HK$'000	*HK$'000*
0–30 days	—	3,111
31–60 days	—	2,588
61–90 days	—	850
91–120 days	—	—
More than 120 days	—	528
	—	7,077

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

28. BORROWINGS

	2005	**2004**
	HK$'000	*HK$'000*
Secured		
Bank loans *(note 1)*	—	222,655
Other loans *(note 2)*	—	115,391
	—	338,046

The borrowings are repayable as follows:

	2005	**2004**
On demand or within one year	—	150,865
In the second year	—	39,075
In the third to fifth years inclusive	—	148,106
	—	338,046
Less: Amounts due for settlement within one year shown under current liabilities	—	(150,865)
Amounts due for settlement after one year	—	187,181

Notes:

1. The bank loans were secured by the investment properties previously owned by the Group, an assignment of rental over the investment properties and the shares of certain subsidiaries, bore interest at 2.04% per annum and repayable by instalments. The last instalment of one bank loan is repayable in September 2007 while another bank loan is repayable in June 2009. The bank loans had been fully repaid during the year.

2. The other loans were secured by the shares of certain subsidiaries, bore interest at 3% per annum and repayable within one year. The loans were advanced from independent third parties. The other loans had been fully repaid during the year.

3. The directors consider that the carrying amounts of the loans approximate to their fair values.

29. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payment		Present value of minimum lease payment	
	2005	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
Within one year	153	—	127	—
In the second to fifth year inclusive	395	—	366	—
	548	—	493	—
Less: future finance charges	(55)	—		
Present value of lease obligations	493	—		
Less: Amount due for settlement within one year shown under current liabilities			(127)	—
Amount due for settlement after one year			366	—

The obligations under a finance lease represents the finance lease for one motor vehicle. The term of the lease is for four years at a fixed rate of 2.5% per annum and is secured by the lessor's charge over the leased asset.

30. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st January, 2004, 31st December, 2004 and 2005	5,000,000,000	50,000
Issued and fully paid:		
At 1st January, 2004, 31st December, 2004 and 2005	3,000,000,000	30,000

31. SHARE OPTION SCHEME

Pursuant to the Share Option Scheme (the "Option Scheme") of the Company adopted on 29th August, 2000 which became effective on 10th November, 2000 for the primary purpose of providing incentive to directors and eligible employees, and which will expire ten years after the date of adoption, the directors of the Company may grant options to executive directors or full time employees of the Group to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer of the options or the nominal value of the shares, whichever is the greater. The maximum number of shares in respect of which options may be granted under the Option Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the Option Scheme. No employee may be granted options which would enable him or her to subscribe for an aggregate of more than 25% of the aggregate number of shares under the Option Scheme. Upon acceptance of option, the grantee shall pay HK$1 to the Company as consideration.

The directors noted that an announcement was issued by the Stock Exchange on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities — Share Option Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1st September, 2001.

Prior to 1st September, 2001, the exercise price is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing prices of the shares for the five business days immediately preceding the date of grant.

As the Option Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Option Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the Scheme will continue to be exercisable in accordance with the Option Scheme.

No share option was granted or exercised during the year and outstanding at 31st December, 2004 and 2005.

In relation to share options granted before 1st January, 2005, the Group elected not to apply HKFRS 2 *Share-based payment* with respect to share options granted on or before 7th November, 2002 and vested before 1st January, 2005.

32. DEFERRED TAX

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior years.

	Tax losses	Accelerated tax depreciation	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1st January, 2004	1,472	(8,085)	(6,613)
Credit for the year	2,418	1,637	4,055
At 31st December, 2004	3,890	(6,448)	(2,558)
(Charge) credit for the year	(1,386)	210	(1,176)
Eliminated on disposal of subsidiaries	(2,346)	6,168	3,822
Amount transferred to liabilities associated with assets classified as held for sale	(88)	—	(88)
At 31st December, 2005	70	(70)	—

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	—	942
Deferred tax liabilities	—	(3,500)
	—	(2,558)

At the balance sheet date, the Group has unused tax losses of HK$154,002,000 (2004: HK$150,820,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$905,000 (2004: HK$22,231,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$153,097,000 (2004: HK$128,589,000) due to the unpredictability of future profit streams.

At the balance sheet date, the Group has deductible temporary difference of HK$1,486,000 (2004: nil). No deferred tax assets has been recognised in relation to such deductible temporary differences as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

33. DISPOSAL OF SUBSIDIARIES

As referred to in note 9, in February 2005, the Group disposed of certain subsidiaries. The net assets of the subsidiaries at the time of disposal were as follows:

	2005
	HK$'000
Net assets disposed of:	
Investment properties	609,000
Goodwill	4,534
Long-term receivables	13,406
Trade and other receivables	105
Tax recoverable	145
Bank balances and cash	3,215
Trade and other payables	(48)
Amounts due to the disposed subsidiaries	(103,392)
Deferred tax liabilities	(3,822)
Net assets disposed of	523,143
Gain on disposal of interests in subsidiaries	5,289
Net consideration	528,432
Satisfied by:	
Net cash consideration	528,432
Net cash inflow arising on disposal:	
Net cash consideration	528,432
Bank balances and cash disposed of	(3,215)
	525,217

The subsidiaries disposed of during the year has constitute a cash outflow of HK$191,000 in the Group's operating activities, cash inflow of HK$156,000 in the investing activities and cash outflow of HK$740,000 in financing activities.

The subsidiaries disposed of during the year contributed HK$5,145,000 to the Group's turnover and a gain of HK$3,131,000 to the Group's loss for the year.

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into a finance lease in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the lease of HK$538,000 (2004: nil).

35. PLEDGE OF ASSETS

At 31st December, 2004, the Group had pledged its investment properties of HK$609,000,000 as securities against bank loans granted to the Group. The pledge was released and the bank loans had been settled during the year.

At 31st December, 2004, the Group has pledged the shares of certain of its subsidiaries to a bank and other independent third parties as securities for bank and other loans granted to the Group. The pledge was released and the loans had been settled during the year.

36. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

(i) At 27th September, 2002, a Dangerous Hillside Order was issued by the Buildings Department requiring necessary improvement works to be carried out on the hillside adjacent to the Group's investment properties, which had been disposed of in February 2005 through the disposal of subsidiaries. After the disposal, the Group is still liable to the necessary improvement works. Final tender for the relevant improvement works was made to a contractor for a sum of HK$856,262 on 7th November, 2005. The total cost for the work is estimated to be HK$1,500,000.

(ii) At 15th February, 2005, a deed of indemnity in the amount of HK$5,000,000 in respect of taxation was entered into among one of the subsidiaries and the Disposed Group which were indirectly wholly-owned subsidiaries of the Company and disposed of by the Company in early 2005 regarding the potential tax claims by tax authority to the Disposed Group. The directors are of the opinion that the potential for the tax claims was remote and hence, will not give rise to any material adverse impact on the financial position of the Group. No provision has been made in the consolidated financial statements.

(iii) At 31st December, 2004, certain subsidiaries have been named as defendant in High Court actions in respect of injury claims from the workers with accidents occurred in 1999 and 2000 and the injury claims amounted to approximately HK$7,500,000. The claims had been settled during the year.

37. CAPITAL COMMITMENTS

At 31st December 2005, the Group entered into an agreement to acquire subsidiaries for a total consideration of HK$56 million (subject to adjustment) and a deposit of HK$10 million has been paid during the year.

38. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Within one year	57,514	—
In the second to fifth years inclusive	228,033	—
Over five years	291,486	—
	577,033	—

At 31st December, 2005, leases are negotiated for terms of fourteen years and can be terminated by surrendering one year notice after the first ten years of tenancy. Monthly rental are fixed and recognised over the terms of the leases.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005	2004
	HK$'000	*HK$'000*
Within one year	56,875	10,050
In the second to fifth year inclusive	227,501	—
After five years	291,486	—
	575,862	10,050

At 31st December, 2005, leases are negotiated for terms of fourteen years and can be terminated by surrendering one year notice after the first ten years of tenancy. Monthly rental are fixed and recognised over the terms of the leases.

At 31st December, 2004, leases are negotiated for terms of three years and can be terminated by surrendering three months' notice from the landlord or the tenant after the first year lease. Monthly rental are recognised over the terms of the leases. Contingent rent income were calculated based on the excess of certain amount of turnover of the relevant operation that occupied the properties over the pre-determined monthly rentals agreed by both parties.

39. RETIREMENT BENEFITS SCHEMES

The Group participated in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The original ORSO Scheme operated by the Group were cancelled accordingly. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were switched to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntary contributes 0.5% to 5%, depends on the years of service of the employee, to the MPF Scheme.

Where there are employees who leave the MPF Scheme prior to vesting fully in the contributions, the market value of the unvested portion will be refunded to the Group.

The total cost charged to the consolidated income statement of HK$791,000 (2004: HK$852,000) represents contributions payable to the MPF Scheme, after forfeited contributions utilised in the MPF Scheme of HK$25,000 (2004: HK$225,000), by the Group during the year.

40. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005	2004
	HK$'000	*HK$'000*
Office rent paid to a related company *(note)*	627	684

Note: The related company is beneficially held by Mr. To Shu Fai, a director of the Company.

Compensation of key management

The key management of the Group comprises all directors and the four highest paid employees, details of their remuneration are disclosed in note 13. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below:

Estimated impairment on trade and loans receivable

Management regularly reviews the recoverability and/or aging of the trade and loans receivable. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the originally effective interest rate and its carrying value.

42. FINANCIAL RISKS AND MANAGEMENT

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at 31st December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet.

The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 53% (2004: 66%) of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks and creditworthy financial institutions.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

Market risk

(i) *Foreign exchange risk*

The Group's functional and presentation currency has been in Hong Kong dollars since the operations are mainly in Hong Kong dollars and the operating expenses incurred are denominated in Hong Kong dollars. Accordingly, the directors consider the foreign exchange risk is not significant.

(ii) *Interest rate risk*

The Group's interest rate risk which relates primarily to the bank deposits, obligations under a finance lease and borrowings is minimal due to their short-term nature. The management will closely monitor the interest rate exposures.

43. POST BALANCE SHEET EVENTS

(i) The Board announced that on 17th October, 2005, Newton Luck Limited ("Newton"), a wholly-owned subsidiary of the Company, entered into the an agreement with Choice Master Investments Limited ("Choice Master"), an independent third party, and Mr. Yeung Ming Kwong, Tony, the sole and beneficial shareholder and director of Choice Master pursuant to which Newton conditionally agreed to acquire and Choice Master conditionally agreed to sell to Newton the entire share of Best Merchant Limited for a total consideration of HK$56 million (subject to adjustment), and the Mr. Yeung Ming Kwong, Tony agreed to guarantee to Newton the performance of the obligations and duties of Choice Master under the agreement to pay, on demand, any sum which Choice Master fails to pay Newton in accordance with the agreement. The acquisition had been completed on January 2006.

The net assets acquired in the transaction, and the goodwill arising, approximate to acquiree's carrying amount before combination, as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	23,438
Trade and other receivables	39,460
Bank and cash balances	2,229
Trade and other payables	(13,322)
Deferred tax liability	(1,523)
Borrowing	(3,436)
Tax payable	(6,859)
	39,987
Goodwill	16,013
Total consideration satisfied by:	
Cash	56,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(56,000)
Cash and cash equivalents acquired	2,229
	(53,771)

The goodwill arising on the acquisition of Best Merchant Limited is attributable to the anticipated profitability and the future operating synergies from the combination.

(ii) The directors also proposed to adopt a new share option scheme which will be put to shareholders for approval at the special general meeting. The existing share option scheme of the Company, which was adopted on 29th August, 2000, will be terminated upon and subject to the adoption of the new share option scheme.

Details of the above are set out in the circular of the Company dated 23rd December, 2005. The above resolutions were approved by the shareholders during the special general meeting of the Company being convened on 9th January, 2006.

(iii) On 22nd February, 2006, the Company announced that a conditional Sale and Purchase Agreement was entered into among one of its wholly-owned subsidiaries and the purchaser on 17th February, 2006 in respect of the disposal of the entire issued capital in Daido Building Materials Limited, Daido Home International (B.V.I.) Limited, Daido Home International Limited and Ytong Hong Kong Limited, all are indirect wholly-owned subsidiaries of the Company, which carried on business of construction work contracting and sales of concrete products, for a cash consideration of HK$25,000,000. The disposal was approved by the shareholders on 6th March, 2006. Details of the disposal were set out in the circular of the Company dated 22nd March, 2006.

The major classes of assets and liabilities of construction works contracting and sales of concrete products as at 31st December, 2005 are as follows:

	HK$'000
Properties, plant and equipment	59,702
Long-term receivables	5,636
Prepaid lease payments	24,992
Inventories	5,723
Trade and other receivables	8,245
Rental deposits paid	114
Loans receivable	3,000
Deferred tax assets	88
Bank balances and cash	5,845
Impairment loss arising from adjustment to fair value less costs to sell	(74,879)
Assets classified as held for sale	38,466
Amounts due to customers for contract work	4,017
Trade and other payables	9,190
Guarantee money received	87
Liabilities associated with assets classified as held for sale	13,294

The subsidiaries disposed of during the year has constitute a cash inflow of HK$21,256,000 (2004: HK$25,029,000) in the Group's operating activities, cash outflow of HK$900,000 (2004: HK$495,000) in the investing activities and did not have cash flow in respect of financing activities for both years.

The subsidiaries to be disposed of contributed HK$55,905,000 to the Group's turnover and a loss of HK$68,933,000 to the Group's loss for the year.

44. COMPANY'S BALANCE SHEET

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSET			
Investments in subsidiaries	*i*	123,239	123,239
CURRENT ASSETS			
Other receivables		107	110
Amounts due from subsidiaries		—	258
Bank balances and cash		34	36
		141	404
CURRENT LIABILITIES			
Other payables		1,295	1,079
Amounts due to subsidiaries		842	—
Unclaimed dividends		19	20
		2,156	1,099
NET CURRENT LIABILITIES		(2,015)	(695)
		121,224	122,544
CAPITAL AND RESERVES			
Share capital		30,000	30,000
Reserves	*ii*	91,224	92,544
		121,224	122,544

Notes:

(i) Investments in subsidiaries

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	123,239	123,239

Particulars of the principal subsidiaries at 31st December, 2005 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Best Shining Limited	Hong Kong	HK$1 Ordinary share	—	100%	Property investment
Daido (BVI) Limited	British Virgin Islands	US$2 Ordinary shares	100%	—	Investment holding
Daido Building Materials Limited	Hong Kong	HK$20 Ordinary shares HK$10,000 Non-voting deferred shares*	—	100%	Manufacture and sales of ALC products
Daido Home International Limited	Cayman Islands	HK$225,375,000 Ordinary shares HK$91,500,000 Convertible redeemable preference shares**	—	100%	Investment holding, sales and installation of ALC products and sales of building materials
Diamond Sparkling Limited	Hong Kong	HK$10 Ordinary shares	—	100%	Sub-leasing of investment properties
Newton Luck Limited	British Virgin Islands	US$1 Ordinary share	—	100%	Investment holding
Ytong Hong Kong Limited	Hong Kong	HK$20 Ordinary shares HK$10,000 Non-voting deferred shares*	—	100%	Installation of ALC products

* The deferred shares practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

** The convertible redeemable preference shares of Daido Home International Limited carry 2% dividend per annum and have the right to receive notice of, attend, speak and vote at meetings of members only for those circumstances as mentioned in its Articles of Association.

Except for the convertible redeemable preference shares of Daido Home International Limited, none of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

(ii) Reserves

	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
As 1st January, 2004	84,239	8,174	92,413
Profit for the year	—	131	131
At 31st December, 2004	84,239	8,305	92,544
Loss for the year	—	(1,319)	(1,319)
At 31st December, 2005	84,239	6,986	91,225

Notes:

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Contributed surplus	84,239	84,239
Retained profits	6,986	8,305
	91,225	92,544

3. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

Set out below is the management discussion and analysis extracted from each of the annual report of the Company for the three years ended 31 December 2005:

(i) For the year ended 31 December 2003

2003 was a year presented with substantial difficulties and challenges. Our core business continued to face these barriers because of the SARS outbreak, structural changes in the property market, intense competition and reduced profit margins.

Under the leadership of our experienced management team and highly skilled work force coupled with our versatile strategic move, the Group recorded the following results:

Financial performance

During the year, the Group achieved a turnover of HK$152 million, representing a slight decline of 4% from the previous year. The performance was primarily abated by the steel & metal product business, which operation had been disposed in July 2003. Profit attributable to shareholders was HK$21 million, with earnings per share at HK0.6944 cents, both registering 28% increase from the preceding year.

The Group had a market capitalisation of around HK$306 million and remains a significant innovative building materials company.

Despite being a slow growth year in profitability, the Group had increased its cash generation capability through investing in cold storage business, which formed a steady source of rental income.

Operation performance

Autoclaved aerated lightweight concrete ("ALC") products

As the Group's core competence, ALC constituted 50% of the Group's overall turnover. Amid intense competition from Mainland China and decline in the volume of construction projects in Hong Kong, the Group accomplished a surge in the turnover of ALC by 21% as compared to 2002. This was attributable to the growth in private projects. The profit margin, however, had eroded by 25% as explained by ferocious rivalry causing cut back in prices.

Cold storage

In March 2003, the Group acquired two cold storage warehouses in Kwai Chung with a total area of approximately 674,000 square feet at a cost of HK$75 million. The investment generated a turnover of approximately HK$33.5 million, contributing to a net profit margin of 65% during the year under review.

Steel & metal products

After the acquisition of the Group by Top Synergy from the Company's former major shareholder, Golik Holdings Ltd. ("Golik"), Golik had taken over this part of the business. Prior to the disposal to Golik, there was a 22% decrease in total turnover of the steel and metal business on the ground of fierce price war.

Liquidity & financial resources

The Group's capital expenditure and investments were funded from cash on hand, internal cash generation and bank loans.

As at 31st December, 2003, total borrowings of the Group amounted to HK$370 million, which included bank borrowings of HK$255 million and third party loans of HK$115 million. Of the total borrowings, 40% were repayable within one year and 60% repayable after one year. The Group's financing activities continued to be well received and fully supported by its bankers.

The Group had an increased gearing ratio at 110%, which was calculated as long term debts over shareholders' equity. This was largely due to further borrowings to finance for the cold storage investment. With the support of our bankers, the Group envisaged no difficulty to meet its financial obligations as and when they fall due for the foreseeable future.

The Group's monetary assets were principally denominated in Hong Kong dollars and United States dollars. The group believed that its exposure to exchange rate risk was not material due to the currency peg of Hong Kong dollars and United State dollars.

Contingent liabilities

As at 31 December 2003, the Group had contingent liabilities in respect of certain employee injury claims of approximately HK$11 million, improvement works to be carried out on the hillside adjacent to the investment properties under a Dangerous Hillside Order, corporate guarantees to the extent of HK$270 million issued to banks by the Company for banking facilities granted to certain subsidiaries and corporate guarantees to main contractors to the extent of HK$2.6 million. The extent of the facilities utilized by certain subsidiaries in respect to the corporate guarantees issued to banks by the Company was approximately HK$254.5 million.

Employment and remuneration policy

As at the end of 2003, the total number of employees of the Group was 130. (2002: 175). The Group provided an incentive package for employees including Provident Fund Scheme and various awards to encourage performance.

The Group recognised that our employees' safety and health is paramount to ensure high morale and productivity and a good corporate image. During the year, we had introduced a series of occupational safety training programmes and safety awards schemes to enhance employees' awareness on Occupational Health and Safety.

Prospect

The business environment for the Group remained challenging in 2003. The Group, however, was well-positioned to meet the barriers as demonstrated by our solid asset base, cash generation capability and operating profit.

Against the difficulties, we had been restless to seize every opportunity.

Heightened demands in the Mainland China property market and recovery of the Hong Kong economy had gathered our strength to expand our product line. We pursued a dual strategy of marketing new building material from external suppliers and building up our product range through mergers and acquisition going forward.

Positive rebound of the Hong Kong property market gave us ground to penetrate the private sector and forge ahead with increasing sales of building material in the local market.

Effort to diversify into the cold storage demonstrated our versatility to respond to the soaring importance of Hong Kong as a logistic heart of the Pearl River Delta Region. We continued to make further move into this new business line through mergers and acquisition.

In light of these strategy we believed the Group will deliver optimal performance and create high returns for its shareholders in the years ahead.

(ii) For the year ended 31 December 2004

Benefiting from the closer economic ties with Mainland China, and a more favourable international investment atmosphere, Hong Kong's economy rebounded robustly. Unfortunately, the construction sector's performance was still lagging behind, hence businesses in building materials suffered a hard time. However, through the visionary decision of our experienced management team, the Group strategically disposed of two cold storage properties in early 2005. The proceeds had been used to reduce the Group's liabilities, laying a healthier financial foundation for future business endeavours. The Group had achieved the following business results in the last year and identified areas with profit potential:

Financial performance

In 2004, the Group recorded a turnover of HK$109 million, a 28% decline compared with the previous year. This performance was primarily due to the unfavorable business atmosphere in the private and public construction sectors in Hong Kong. Net profit attributable to shareholders was HK$86 million, with earnings per share at HK2.88 cents, registering 315% increase from the preceding year. The surge was due to the reversal of impairment loss in respect of property, plant and equipment in 2004 of approximately HK$56 million and the loss on disposal of subsidiary companies in 2003 of approximately HK$9 million.

As the property market revived significantly last year, the Group seized the chance to dispose of two cold storage warehouses in Kwai Chung. The transaction was a conditional purchase and sale agreement, involving a consideration of HK$650 million and a lease arrangement of the two disposed properties as an integral part of the disposal.

The Group had contributed HK$15 million to the Repair and Maintenance Fund, and a further HK$10 million to the Business Enhancement Fund for the maintenance, promotion and marketing of the cold storage business operating at the properties. The Group believed after the first 3-years lease period, larger profit from the potential rental difference will occur.

Based on the audited consolidated financial information of the Group, our audited total bank and other borrowings of approximately HK$338 million had been repaid entirely by the proceeds from the disposal. The Group's financial situation has been greatly strengthened.

Operation performance

(1) *Autoclaved aerated lightweight concrete ("ALC") products*

The Group's flagship product, ALC, contributing over 50% of the company's turnover, faced a decline of 19% in sale last year. This was mainly affected by the sluggish housing policy of the Hong Kong government. Additionally, the construction quantity in the private market had also slackened. All these factors led to the reducing demand for building materials in recent years.

The Group emphasized its business efforts on both the public and private construction sectors. In the coming years, business potential will re-appear in the public sector as the Housing Authority planned to provide around 88,000 public housing units in the following five years starting from 2004–2005.

(2) *Cold storage*

The Group had recorded significant rental returns from the two cold storage warehouse properties in Kwai Chung. The storage capacity of the two properties was almost rented out last year, contributing HK$41 million in turnover and 38% of net profit margin to the Group. The disposal of the two cold storage properties was completed in the financial year of 2005, while the memorandum of understanding was entered in November 2004.

Liquidity & financial resources

The Group's capital expenditure and investments were funded from cash on hand, internal cash generation and bank loans.

As at 31st December, 2004, total borrowings of the Group amounted to HK$338 million, which included bank borrowings of HK$223 million and third party loans of HK$115 million. Of the total borrowings, 45% were repayable within one year and 55% repayable after one year. The Group's financial activities continued to be sound and fully supported by its bankers.

The Group's gearing ratio was 48% as at 31st December, 2004. With the support of our bankers and third party loans, the Group envisages no difficulty in meeting its financial obligations as and when they fall due for the foreseeable future.

The Group's monetary assets were principally denominated in Hong Kong dollars and United States dollars. Due to the existing currency peg between the two currencies, the Group believed its exposure to exchange rate risk is minimal.

Contingent liabilities

As at 31 December 2004, the Group had contingent liabilities in respect of certain employee injury claims of approximately HK$7.5 million, improvement works to be carried out on the hillside adjacent to the investment properties under a Dangerous Hillside Order, corporate guarantees issued to banks by the Company to the extent of HK$270 million for general banking facilities granted to certain subsidiaries and corporate guarantees to main contractors to the extent of approximately HK$4.8 million. The extent of the facilities utilized by certain subsidiaries in respect to the corporate guarantees issued to banks by the Company was approximately HK$223 million.

Employment and remuneration policy

The total number of employees of the Group was 138 at the end of 2004. (2003: 130). In order to boost performance, the Group provided an incentive package for our employees, which includes Provident Fund Scheme and various awards.

Ensuring our employees' safety and health was our priority. This was the key to attaining high morale, quality and productivity. It had become our custom to launch occupational safety programmes and safety awards schemes regularly, as well as keeping and enhancing our employees' constant awareness of Occupational Health and Safety.

Product development

The Group was confident that the upturn of the economy will stimulate the sluggish construction market in the near future, and was well-prepared and positioned to gauge potential demand. Throughout the years, the Group had commenced its diversification into new product lines. These included fireproof panels and fireproof glass which could both meet the stringent requirements of the government regulations and our customers' needs.

In order to offer our clients quality choices of building materials, the Group planed to invest adequately in research and development. Our experienced and well-trained sales team had professional knowledge to introduce these excellent products to our customers. We believed the Group will have a better chance to secure more new projects in the coming years.

Prospects

The positive signals of the Hong Kong economy had strengthened business confidence substantially — economy blossomed, unemployment rate lowered, businesses making more profits. The property market had steadily picked up, reflected by the accelerating property prices. The recovery of the property market in turn catalyse the construction market, creating a demand for quality building materials which the Group could readily supply.

As the Hong Kong government continued gearing its efforts to regional integration with the Pearl River Delta, closer economic ties with the regional cities of Mainland China and Macau fostered immense market opportunities for the Group. The prospering tourism industry was pressing the region to provide new supporting facilities. Moreover, the wave of individual travelers from Mainland China had also prompted investors into the property market of Hong Kong. Land and factory properties in industrial areas sold readily in recent months, waiting to be built or renovated into stylish hotels, shopping arcades or offices. These were golden opportunities for marketing the Group's high grade products.

Turning to Macau, according to its government officials, the city enjoyed 25% economic growth in 2004, and double-digit growth for three years. In the coming three to five years, the construction industry will reach its peak. It is estimated that the numerous construction contracts will amount to 70 billion Macau dollars. The Group will be vigilant towards these enormous market opportunities.

Pursuing business projects with sizable revenue remained the Group's priority. Centred in the logistics hub of the Pearl River Delta region, logistics ventures like cold storage warehouses had been a successful formula for the Group. Further mergers and acquisitions will proceed when mature.

As the Hong Kong economy regained vitality, the Group will respond with dynamic strategies to embrace challenges and opportunities in the coming years. Creating optimal returns was our commitment to all our shareholders.

(iii) For the year ended 31 December 2005

Introduction

Driven by a strong rebound of the Hong Kong economy, the property market entered a healthy growth over the past year. Under such favourable condition, the two cold storage facilities located in Kwai Chung were sold for $650 million, giving the Group the opportunity to repay all its existing bank loans and thus substantially improve its liquidity. However, the recovery of local economy failed to act as a catalyst for improvement in the public housing construction industry. One of the Group's core business segments, Autoclaved Aerated Lightweight Concrete ("ALC"), continued to downsize in 2005 and the Board finally decided to discontinue this operation at the beginning of 2006. The reasons of downsizing and disposal will be discussed in more detail in the analysis. The business results for 2005 are, then, as follows:

Financial Performance

In 2005, the Group's turnover was approximately HK$97 million, representing a 11% decrease over the previous year. Net loss attributable to shareholders was approximately HK$73 million (as compared to HK$86 million net profit in 2004). This significant decline in profit was due primarily to the creation of rental payment as a result of the sale and lease back arrangement and the disposal of the two cold storage warehouses as disclosed in the circular of the Company dated 20th January, 2005 of approximately HK$14 million and the impairment loss arising from adjustment to fair value less costs to sell of HK$75 million.

Business Review

Property investment

The two cold storage warehouse properties in Kwai Chung (the "Properties") contributed HK$5 million to turnover and HK$5 million to profit to the Group from January to mid-February before the completion of disposal of the Properties. As explained in the circular of the Company dated 20th January, 2005, the disposal of the Properties improved the financial position of the Group by reducing the gearing of the Group to a healthy level and at the same time increases the cash and reserve of the Group for future expansion.

Sub-leasing

The sub-leasing arrangement contributed HK$36 million to turnover and HK$14 million to the loss for the year.

The sub-leasing of the Properties were an integral part of the disposal of the Properties under which, one of the subsidiaries of the Group leased the Properties from the landlord for fourteen years with rental review in every three-year period and sub-leased the Properties to Best Merchant Group (the "Tenant") also for fourteen years and also with a rental review in every three-year period. Under the sub-leasing arrangement, the Group received HK$3,350,000 per month from the Tenant from 15th February, 2005 to 30th November, 2005 and thereafter HK$4,739,600 per month until 14th February, 2008, nevertheless the Group paid HK$4,739,600 per month to the landlord from 15th February, 2005 to 14th February, 2008. The difference of the rent received and the rent paid during the period from 15th February, 2005 to 30th November, 2005 of approximately HK$14 million significantly affected the result of the Group for the year.

The directors, anticipates the sub-leasing arrangement may benefit the Group after 15th February, 2008 when the first rental review takes place.

Autoclaved Aerated Lightweight Concrete ("ALC") Business

The ALC business registered a turnover of HK$56 million, which represented a 18% decrease compared to the previous year (2004: HK$68.1 million). It is to be noted that turnover in this business sector has decreased year on year since 2003. It has fallen from HK$84 million in 2003, to HK$68.1 million in 2004, and now finally to HK$56 million in 2005.

The production of ALC blocks and panels is one of the Group's core business, which accounts for the majority of its overall turnover previously. However, with continuous contracting in turnover and profit, the directors decided to cease operating in the building materials sector.

There are many reasons why the ALC business continued to downsize, among others, including firstly the Hong Kong Housing Authority endorsed resale of surplus Home Ownership Scheme flats from 2007 onwards, thus reducing the construction of Home Ownership Scheme flats in future. Secondly, the construction of public rental house flats is actually falling. According to the Hong Kong Housing Authority's website, the number of public rental house flats constructed is expected to fall from 21,000 units in 2005 to

15,600 units per year for the next five years. As ALC product mainly supplied to the construction of Home Ownership Scheme flats and public rental house flats, it was the opinion of the Board that profits and operational turnover were unlikely to improve in 2006. In an ever-competitive market, material prices also drove to the detriment of our profit margins. Furthermore, tapping into the Macau market has not yet been materialised. It became apparent that the ALC business was no longer economically viable. The Board would rather re-direct the resources to other viable business opportunity using the proceeds from the disposal of this business segment.

Liquidity & Financial Resources

For the year ended 31st December, 2005 the Group recorded net current assets of HK$226 million, of which approximately HK$206 million is cash and bank deposits. Current liabilities were HK$15 million. The gearing ratio was just 3.3%. With regard to foreign currency exposure, the monetary assets and liabilities of the Group are principally denominated in Hong Kong dollars. The directors consider that the Group's exposure to the exchange rate risk is not significant.

Employment & Remuneration Policy

For the year ended 31st December, 2005, the Group had 44 employees, all of whom were located in Hong Kong. The Group provides a remuneration package to employees including employer voluntary contribution under the Mandatory Provident Fund Scheme and various allowances.

Future Prospects

With Gross Domestic Product on the Mainland China expected to grow by 8–9% in 2006, according to the National Bureau of Statistics, the economic climate should be highly favourable and opportunities continue to develop throughout the Pearl River Delta region. Hong Kong as the southern doorstep of Mainland China is perfectly positioned and equipped to capitalise on the economic expansion. The Closer Economic Partnership Arrangement lays the foundation for business platform that reaffirms the role of Hong Kong in the Mainland China's next phase of economic development. Therefore, the directors believe that the demand for cold storage warehousing facilities and logistics services will offer an optimistic prospect for 2006. In early January 2006, the Group completed an acquisition of Best Merchant Limited and its subsidiaries Brilliant Top In Logistics Limited and Brilliant Cold Storage Management Limited (the "Best Merchant Group") at a consideration of HK$56 million. The Group will continue to provide one-stop logistics and cold storage services between Hong Kong and Mainland China, as well as expand its logistics arm by increasing the number of trucks used for deployment, by using the collective expertise of Best Merchant Group. The Group will also exploit and capitalise on the good profit margins of cold storage and logistics in order that they make a significant contribution to the Group's overall turnover.

4. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005 (being the date to which the latest audited consolidated financial statements of the Group were made up).

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

21 August 2006

The Directors
Daido Group Limited

Dear Sirs,

We set out below our report on the financial information of Jumbonet International Profits Limited (the "Target") and its subsidiary (hereinafter collectively referred to as the "Target Group") for the period from 9 September 2004 (date of incorporation) to 31 December 2004, for the year ended 31 December 2005 and for the four months ended 30 April 2006 (the "Relevant Periods") for inclusion in the circular of Daido Group Limited (the "Company") dated 21 August 2006 (the "Circular") in connection with the proposed acquisition of the entire interest in the Target by the Company.

The Target was incorporated as an International Business Company with limited liability in the British Virgin Islands ("BVI") on 9 September 2004. The Target is an investment holding company since its incorporation.

Particular of the Target's subsidiary as at 30 April 2006 are as follows:

Name	Place and date of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held directly by the Target	Principal activity
Brilliant Gold International Limited	BVI 28 August 2003	US$1,000 Ordinary shares	75%	Investment holding

The Target acquired 75% interest in Brilliant Gold International Limited on 13 September 2004, and the acquisition is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Target in exchange for control of the Brilliant Gold International Limited plus any costs directly attributable to the business combination. Brilliant Gold International Limited is an inactive company at the date of acquisition, and no goodwill or discount on acquisition is resulted from the acquisition.

No audited financial statements of the Target and Brilliant Gold International Limited for the Relevant Periods were prepared as there is no statutory requirement to do so.

For the purpose of this report, the sole director of the Target has prepared consolidated financial statements of the Target Group for the Relevant Periods (the "HKGAAP accounts") in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of

Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures on the HKGAAP accounts for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the HKGAAP accounts of the Target Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the HKICPA.

The consolidated income statements and consolidated statements of changes in equity of the Target Group for the Relevant Periods and the consolidated balance sheets of the Target Group as at 31 December 2004 and 2005 and 30 April 2006 together with the notes thereon (the "Financial Information") set out in this report have been prepared from the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the sole director of the Target who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2004 and 2005 and 30 April 2006 and of the results of the Target Group for the period from 9 September 2004 (date of incorporation) to 31 December 2004, the year ended 31 December 2005 and the four months ended 30 April 2006.

The comparative consolidated financial information of the Target Group for the four months ended 30 April 2005 has been extracted from the Target Group's consolidated financial information for the same period which was prepared by the sole director of the Target solely for the purpose of this report. We have reviewed the consolidated financial information for the four months ended 30 April 2005 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquires of Target Group management and applying analytical procedures to the consolidated financial information for the four months ended 30 April 2005 and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the consolidated financial information for the four months ended 30 April 2005. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the consolidated financial information for the four months ended 30 April 2005.

A. FINANCIAL INFORMATION

Consolidated income statements

	9.9.2004 to 31.12.2004 *HK$'000*	1.1.2005 to 31.12.2005 *HK$'000*	1.1.2005 to 30.4.2005 *HK$'000* *(unaudited)*	1.1.2006 to 30.4.2006 *HK$'000*
Imputed interest income on loans to an investee	1,551	5,026	712	2,457
Imputed interest expense on loans from ultimate holding company	(1,551)	(5,026)	(712)	(2,457)
Result before taxation	—	—	—	—
Taxation	—	—	—	—
Result for the period/year	—	—	—	—

Consolidated balance sheets

			As at	
		31.12.2004	**31.12.2005**	**30.4.2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Available-for-sale investments	*7*	19,618	59,171	80,753
Loans to an investee	*8*	31,805	91,407	120,282
		51,423	150,578	201,035
Current asset				
Amount due from a minority shareholder of a subsidiary	*9*	2	2	2
		51,425	150,580	201,037
Capital and reserve				
Share capital	*10*	1	1	1
Reserve		14,714	44,379	60,565
Equity attributable to the equity holder		14,715	44,380	60,566
Minority interest		4,905	14,793	20,189
		19,620	59,173	80,755
Non-current liability				
Loans from ultimate holding company	*11*	31,805	91,407	120,282
		51,425	150,580	201,037

Consolidated statements of changes in equity

	Attributable to equity holders of the Company				
	Share capital	**Other reserve**	**Total**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 9 September 2004	—	—	—	—	—
Share issued during the period	1	—	1	—	1
Shares issued to minority shareholder of a subsidiary	—	—	—	2	2
Fair value adjustments on additional advance of loans from ultimate holding company	—	14,714	14,714	4,903	19,617
At 31 December 2004	1	14,714	14,715	4,905	19,620
Fair value adjustments on additional advance of loans from ultimate holding company	—	29,665	29,665	9,888	39,553
At 31 December 2005	1	44,379	44,380	14,793	59,173
Fair value adjustments on additional advance of loans from ultimate holding company	—	16,186	16,186	5,396	21,582
At 30 April 2006	1	60,565	60,566	20,189	80,755
At 1 January 2005	1	14,714	14,715	4,905	19,620
Fair value adjustments on additional advance of loans from ultimate holding company	—	4,193	4,193	1,397	5,590
At 30 April 2005	1	18,907	18,908	6,302	25,210

Other reserve represent the fair value adjustments on additional advance of loans from ultimate holding company upon their initial recognition.

Notes to the Financial Information

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Target is incorporated as an International Business Company with limited liability in the British Virgin Islands. The Target's ultimate holding company is Ever Apollo Limited, a company which is incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Target is Sea Meadow House, Blackburne Highway, Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of the Target.

The principal activities of the Target Group are engaged in investment holding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Financial Information has been prepared in accordance with the accounting policies which are in conformity with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "HKFRSs") issued by the HKICPA.

In 2004 and 2005, the HKICPA issued a number of new or revised HKFRSs which are effective for accounting periods beginning on or after either 1 January 2005, 1 December 2005 or 1 January 2006. For the purposes of preparing and presenting Financial Information of the Relevant Periods, the Target Group has early adopted all of the new and revised HKFRSs that are relevant to its operations and either effective for accounting periods beginning on 1 January 2005, 1 December 2005 or 1 January 2006 from the beginning of the Relevant Periods.

However, the Target Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at the date of this report. The sole director anticipates that the application of these standards, amendments and interpretations will have no material impact on the Financial Information of the Target Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-INT 8	Scope of HKFRS 2[3]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 March 2006.

3 Effective for annual periods beginning on or after 1 May 2006.

4 Effective for annual periods beginning on or after 1 June 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis. The principal accounting policies which have been adopted in preparing the Financial Information and which conform with HKFRSs are as follows:

Basis of consolidation

The Financial Information incorporate the financial information of the Target and its subsidiary made up to each balance sheet date.

The result of subsidiary acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Target Group have been eliminated on consolidation.

Minority interest in the net assets of consolidated subsidiary is presented separately from the Group's equity therein. Minority interest in the net assets consists of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans to an investee and amount due from a minority shareholder of a subsidiary) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans from ultimate holding company

Loans from ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Target are recorded at the proceeds received, net of direct issue costs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other period/year, and it further excludes income statement items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period/year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are discussed below.

Recoverability of the loans to an investee

The assessment of the recoverability of the loans to an investee requires the use of management's judgment and estimation. The calculation of fair value requires the Target Group to estimate future cash flows expected to arise from the loans and suitable discount rate. Where the expectation is different from the original estimate, such difference will impact the carrying value of the loans and the profit or loss for the period/year.

5. FINANCIAL RISK MANAGEMENT

The Target Group is exposed to minimal currency risk as the main assets and liabilities are denominated in Hong Kong dollars, the functional currency of the Target.

The Target Group's principal exposure to credit risk is in relation to loans to an investee. The Target Group also reviews the recoverable amount of the loans at each balance sheet date by obtaining the financial performance of the projects undertaken by the investee to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the sole director of the Target considers that the Target Group's credit risk is significantly reduced.

6. RESULT FOR PERIOD/YEAR

The formation expenses and auditors' remuneration were borne by the ultimate holding company. The sole director considers that other expenses borne by the ultimate holding company for the Target for the Relevant Periods are insignificant.

No remuneration was paid or payable to any directors and employees of the Target Group during the Relevant Periods.

No provision for income tax is made in the Financial Information as the Target Group does not have any assessable profit that is subject to income tax.

No tax reconciliation is presented as the Target Group has no profit or loss during the Relevant Periods.

7. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31.12.2004	As at 31.12.2005	As at 30.4.2006
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares	1	1	1
Fair value adjustments on loans to an investee *(note 8)*	19,617	59,170	80,752
	19,618	59,171	80,753

The above unlisted shares represent 40% equity investment in unlisted equity securities issued by a private entity incorporated in the British Virgin Islands. The private entity is Richbo Enterprises Limited, a company principally engages in investment holding. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the sole director of the Target is of the opinion that their fair values cannot be measured reliably.

In the opinion of the sole director of the Target, the Target Group does not have any significant influence nor any power to exercise significant influence over the management of the investee and accordingly, the investments are not classified as associate.

8. LOANS TO AN INVESTEE

The loans are unsecured, interest-free and will not be demanded for repayment within twelve months from the respective balance sheet dates. Accordingly, the amounts are shown as non-current.

The interest-free loans are measured at amortised cost determined using the effective interest method at initial recognition and at subsequent the balance sheet dates. The effective interest rate of each batch of loans advanced is 5.06%, 6.11%, 5.08% and 7.81% during the period from 9 September 2004 (date of incorporation) to 31 December 2004, the year ended 31 December 2005, and each of the four months ended 30 April 2005 and 2006 respectively. The adjustments of the fair values of the interest-free loans are included in available-for-sale investments in note 7 above.

The fair values of the amounts at respective balance sheet dates, determined based on the present value of the estimated future cash inflows discounted using the prevailing market rate at the balance sheet dates, approximate to their carrying amounts.

9. AMOUNT DUE FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand.

The fair value of the balance at the respective balance sheet dates approximates to its carrying amount.

10. SHARE CAPITAL

	Number of shares	Amount
		US$
Ordinary shares of US$1 each		
Authorised:		
On 9 September 2004 (date of incorporation), at 31 December 2004, 31 December 2005 and 30 April 2006	50,000	50,000
Issued and fully paid:		
Shares issued on 9 September 2004 (date of incorporation), at 31 December 2004, 31 December 2005 and 30 April 2006	100	100
Equivalent to		HK$780

11. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured, interest-free and will not be demanded for repayment within twelve months from the respective balance sheet dates. Accordingly, the amounts are shown as non-current.

The interest-free loans are measured at amortised cost determined using the effective interest method at initial recognition and at subsequent balance sheet dates. The effective interest rate of each batch of loans advanced is 5.06%, 6.11%, 5.08% and 7.81% during the period from 9 September 2004 (date of incorporation) to 31 December 2004, the year ended 31 December 2005, and each of the four months ended 30 April 2005 and 2006 respectively, and the imputed interest as at 31 December 2004 and 2005, and 30 April 2006 represent the deemed contribution from the ultimate holding company made on the recognition of the loans from ultimate holding company.

The fair value of the amounts at respective balance sheet dates, determined based on the present value of the estimated future cash outflows discounted using the prevailing market rate at the balance sheet dates, approximates to their carrying amounts.

12. RELATED PARTY TRANSACTIONS

Except for the balances due from/to related parties at respective balance sheet dates, there were no significant related party transactions entered into during the Relevant Periods.

13. SEGMENT INFORMATION

The Target Group is engaged in investment holding and its assets and liabilities are mainly located in Macau.

14. MAJOR NON-CASH TRANSACTIONS

No consolidated cash flow statement is prepared as the Target Group did not have any bank accounts and cash transactions during the Relevant Periods and for the four months ended 30 April 2005. Except for the interest-free loans from the ultimate holding company of HK$49,872,000, HK$94,128,000 and HK$47,989,000 during the Relevant Periods and HK$15,728,000 during the four months ended 30 April 2005 which were directly advanced to an investee, the Target Group does not have any other major non-cash transactions.

15. CONTINENT LIABILITIES

As at 30 April 2006, the Target Group has no contingent liabilities.

16. POST BALANCE SHEET EVENTS

There are no significant events took place subsequent to 30 April 2006.

B. DIRECTORS' REMUNERATION

No remuneration has been paid or payable to the Target's sole director by the Target Group during the Relevant Periods.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies in the Target Group in respect of any period subsequent to 30 April 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out below is for illustrative purpose only and does not form part of the accountants' report prepared by the reporting accountants of Daido Group Limited, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix II to this circular.

The accompanying unaudited pro forma financial information of Daido Group Limited and its subsidiaries (collectively referred to as the "Group") has been prepared to illustrate the effect to the Group's proposed acquisition of the entire interest in Jumbonet International Profits Limited (the "Target") and its subsidiary (the "Target Group") (the "Acquisition"). Details of which are set out in section headed "Letter from the Board" in this circular.

To provide additional financial information, the unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005 and of the Target Group as at 30 April 2006, which have been extracted from Appendice I and II to this circular. The unaudited pro forma consolidated balance sheet is prepared on the basis as if the Acquisition had been completed on 31 December 2005.

To provide additional financial information, the unaudited pro forma consolidated income statement and consolidated cash flow statement of the Enlarged Group have been prepared based on the audited consolidated income statement and consolidated cash flow statement of the Group and the audited consolidated income statement of the Target Group for the year ended 31 December 2005, which have been extracted from Appendice I and II to this circular. The unaudited pro forma consolidated income statement and consolidated cash flow statement are prepared on the basis as if the Acquisition had been completed on 1 January 2005.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2005 or any future date and the results and cash flows for the period presented or for any future period.

(i) Unaudited pro forma consolidated income statement

	Audited consolidated income statement of the Group for the year ended 31 December 2005 *HK$'000*	Audited consolidated income statement of the Target Group for the year ended 31 December 2005 *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
Revenue	97,495	—	—		97,495
Direct costs	(89,588)	—	—		(89,588)
Gross profit	7,907	—	—		7,907
Other income	6,914	5,026	—		11,940
Selling and distribution costs	(3,112)	—	—		(3,112)
Administrative expenses	(11,584)	—	—		(11,584)
Impairment loss recognised in respect of trade and other receivables	(521)	—	—		(521)
Reversal of impairment loss recognised in respect of trade and other receivables	542	—	—		542
Impairment loss arising from adjustment to fair value less costs to sell for assets held for sale	(74,879)	—	—		(74,879)
Finance costs	(994)	(5,026)	(6,117)	2 & 6	(12,137)
Gain on disposal of subsidiaries	5,289	—	—		5,289
Fair value gain on investment properties	52	—	—		52
Share of results of an associate	(116)	—	—		(116)
Impairment loss in respect of interest in an associate	(1,430)	—	—		(1,430)
Loss before tax	(71,932)	—	(6,117)		(78,049)
Taxation	(1,518)	—	—		(1,518)
Loss for the year	(73,450)	—	(6,117)		(79,567)

(ii) Unaudited pro forma consolidated balance sheet

	Audited consolidated balance sheet of the Group as at 31 December 2005	Audited consolidated balance sheet of the Target Group as at 30 April 2006	Pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
Non-current assets					
Investment properties	17,000	—	—		17,000
Property, plant and equipment	776	—	—		776
Available-for-sale investments	—	80,753	224,195	1	304,948
Loans to an investee	—	120,282	—		120,282
Rental deposits paid	71,292	—	—		71,292
Deposit paid for acquisition of subsidiaries	10,000	—	—		10,000
	99,068	201,035	224,195		524,298
Current assets					
Trade and other receivables	2,814	—	—		2,814
Amount due from minority shareholder of a subsidiary	—	2	—		2
Bank balances and cash	199,936	—	(129,852)	1b & 3	70,084
	202,750	2	(129,852)		72,900
Assets classified as held for sale	38,466	—	—		38,466
	241,216	2	(129,852)		111,366
Current liabilities					
Trade and other payables	1,722	—	—		1,722
Obligations under finance leases	127	—	—		127
Promissory notes	—	—	4,545	1	4,545
Unclaimed dividends	19	—	—		19
	1,868	—	4,545		6,413
Liabilities associated with assets classified as held for sale	13,294	—	—		13,294
	15,162	—	4,545		19,707
Net current assets	226,054	2	(134,397)		91,659
	325,122	201,037	89,798		615,957

	Audited consolidated balance sheet of the Group as at 31 December 2005	Audited consolidated balance sheet of the Target Group as at 30 April 2006	Pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
Capital and reserves					
Share capital	30,000	1	4,799	1a & 3	34,800
Share premium	—	—	49,148	3	49,148
Other reserve	—	60,565	(60,565)	1a	—
Equity component of convertible bond	—	—	42,444	5	42,444
Retained profits	284,706	—	—		284,706
Equity attributable to equity holders	314,706	60,566	35,826		411,098
Minority interest	—	20,189	56,049	1	76,238
Total equity	314,706	80,755	91,875		487,336
Non-current liabilities					
Obligations under a finance lease	366	—	—		366
Rental deposits received	10,050	—	—		10,050
Loans from the ultimate holding company	—	120,282	(120,282)	1 & 4	—
Amount due to minority shareholder of a subsidiary	—	—	30,071	4	30,071
Promissory notes	—	—	26,178	1	26,178
Convertible bond	—	—	61,956	5	61,956
	10,416	120,282	(2,077)		128,621
	325,122	201,037	89,798		615,957

(iii) Unaudited pro forma consolidated cash flow statement

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2005 *HK$'000*	Consolidated cash flow statement of the Target Group for the year ended 31 December 2005 *HK$'000* *(Note 8)*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
OPERATING ACTIVITIES					
(Loss) profit before tax	(71,932)	—	(6,117)	2 & 6	(78,049)
Adjustments for:					
Allowance for inventories	45	—	—		45
Depreciation and amortisation	6,825	—	—		6,825
Fair value gain on investment properties	(52)	—	—		(52)
Finance costs	994	5,026	6,117	2 & 6	12,137
Gain on disposal of interests in subsidiaries	(5,289)	—	—		(5,289)
Gain on disposal of property, plant and equipment	(21)	—	—		(21)
Impairment loss in respect of interest in an associate	1,430	—	—		1,430
Impairment loss recognised in respect of trade and other receivables	521	—	—		521
Impairment loss arising from adjustment to fair value less costs to sell	74,879	—	—		74,879
Interest income	(5,789)	(5,026)	—		(10,815)
Reversal of impairment loss recognised in respect of trade and other receivables	(542)	—	—		(542)
Share of results of an associate	116	—	—		116
Operating cash flows before movements in working capital	1,185	—	—		1,185
Decrease in inventories	161	—	—		161
Decrease in trade and other receivables and deposits	43,403	—	—		43,403
Decrease in amounts due to customers for contract work	(9,528)	—	—		(9,528)
Decrease in trade and other payables, rental deposits and guarantee money received	(3,389)	—	—		(3,389)
Net cash generated from operations	31,832	—	—		31,832
Hong Kong Profits Tax paid	(365)		—		(365)
NET CASH FROM OPERATING ACTIVITIES	31,467	—	—		31,467

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2005	Consolidated cash flow statement of the Target Group for the year ended 31 December 2005	Pro forma adjustments	*Notes*	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*
		(Note 8)			
INVESTING ACTIVITIES					
Interest received	5,787	—	—		5,787
Purchase of investment properties	(16,948)	—	—		(16,948)
Purchase of property, plant and equipment	(362)	—	—		(362)
Proceeds from disposal of property, plant and equipment	21	—	—		21
Acquisition of subsidiaries	—	—	(183,800)	1b	(183,800)
Disposal of subsidiaries, net of cash and cash equivalent disposed of	525,217	—	—		525,217
Deposit paid for acquisition of subsidiaries	(10,000)	—	—		(10,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	503,715	—	(183,800)		319,915
FINANCING ACTIVITIES					
Dividend paid	(1)	—	—		(1)
Net proceeds from issue of shares	—	—	53,948	3	53,948
Interest paid	(4,172)	—	—		(4,172)
Repayment of borrowings	(338,046)	—	—		(338,046)
Repayment of obligations under a finance lease	(45)	—	—		(45)
CASH (USED IN) FROM FINANCING ACTIVITIES	(342,264)	—	53,948		(288,316)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	192,918	—	(129,852)		63,066
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	12,863	—	—		12,863
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	205,781	—	(129,852)		75,929
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	205,781	—	(129,852)		75,929

Notes:

The adjustments of the pro forma financial information on the Enlarged Group include:

(1) For the purposes of presenting the pro forma balance sheet, the Acquisition of the Target Group by the Group was assumed to be completed on 31 December 2005 and with reference to the net assets value of the Target Group as at 30 April 2006:

	HK$'000	*HK$'000*
Net assets attributable to equity holders of the Target Group acquired (note 1a)		60,566
Changes in fair values of available-for-sale investments		224,195
Changes in fair values of available-for-sale investments attributable to minority interest		(56,049)
Consideration used to acquire 100% interest in the Target and 75% effective interest in the Subsidiary		228,712
Fair value of loan due to Vendor being assigned to the Company (note 1c)		90,211
Total consideration		318,923
Consideration satisfied by:		
Cash (note 1b)		183,800
Promissory notes	50,000	
Less: fair value adjustment	(19,277)	30,723
Convertible bond		104,400
		318,923

(a) Being elimination of share capital of HK$780 and other reserve of HK$60,565,000.

(b) Cash consideration represents the cost of acquisition of HK$181,600,000 and estimated professional fees of HK$2,200,000 incurred on the Acquisition.

(c) Being Sale Loan of HK$144.0 million as at 30 April 2006 less fair value adjustment of HK$53.8 million after taking into account of estimated future cash outflows discounting using the prevailing market rate.

(2) Being elimination of imputed interest expenses of HK$3,770,000 payable by the Target to the Group in respect of the Sale Loan assigned to the Company.

(3) For the purpose of financing the Acquisition, the former controlling shareholder Top Synergy Associates Limited had arranged a top up placing and subscription of 480,000,000 share at HK$0.116 per share. The net proceed received by the Company was HK$53,948,000. The share capital of the Company has been increased by HK$4,800,000, and the share premium arising from the placing is HK$49,148,000. The Company used the entire proceed from such placing to carry out the Acquisition and therefore the adjustment is directly attributable to the Acquisition to be included in the pro forma financial information of the Enlarged Group. Details of such are shown in the announcement dated 15 August 2006.

(4) The ultimate holding company of the Target is the Vendor and is also the minority shareholder of the Subsidiary before the Acquisition. The loans from the ultimate holding company as at 30 April 2006 is HK$120,282,000 as stated in the section A of the accountants' report on the Target Group as set out in Appendix II. Part of the loans are the Sale Loan being assigned to the Company as stated in note 1(c)

above. The remaining balance of the loans of HK$30,071,000 is continued to be borne by the Subsidiary. The adjustment is to reclassify such loan to amount due to minority shareholder of the Subsidiary upon the Completion of the Acquisition.

(5) The convertible bond, being compound financial instrument (that contains both financial liability and equity components), is split between the equity element of HK$42,444,000 and a liability component of HK$61,956,000, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, representing the fair value of the contractual obligation to deliver cash to the convertible bond holders.

(6) Being effective interests on promissory notes of HK$3,072,000 at 10% per annum and convertible bond of HK$6,815,000 at 11% per annum for the year ended 31 December 2005. The effective interest rate of convertible bond is determined by reference to the assessment made by an independent valuer which forms the basis for the Company to determine the effective interest rate of promissory notes.

(7) Except for notes 1 to 5 above, only the effective interests on promissory notes and convertible bond are expected to have a continuing effect on the Group.

(8) As mentioned in note 14 of section A of the accountants' report on the Target Group as set out in Appendix II, no consolidated cash flow statement is prepared as the Target Group did not have any bank accounts and cash transactions during the Relevant Periods. Except for the interest-free loans from the ultimate holding company during the Relevant Periods which were directly advanced to an investee, the Target Group does not have any major non cash transactions. The amounts shown represent the effect of those non-cash items which have been accounted for in the consolidated income statement for the year ended 31 December 2005.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF DAIDO GROUP LIMITED

We report on the unaudited pro forma financial information of Daido Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed acquisition of the entire interest in Jumbonet International Limited and its subsidiary (the "Acquisition"), might have affected the financial information presented, for inclusion in Appendix III of the circular dated 21 August 2006 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 81 to 88 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2005 or any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2005 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group: and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 21 August 2006

3. INDEBTEDNESS

Borrowings

As at 30 June 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding secured obligations under a finance lease of HK$0.4 million, unsecured borrowing (with no guarantee) from the Vendor of HK$60 million and unsecured bank borrowings of HK$1.5 million.

Security

As at 30 June 2006, banking facilities to the extent of approximately HK$3.3 million of the Group were secured by the fixed and floating assets of the Group. The carrying value of these assets pledged was HK$64 million as at 30 June 2006.

As at 30 June 2006 fixed deposits of HK$56.9 million are deposited to a bank which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months rent payable by the Group under tenancy agreements.

As at 30 June 2006, finance lease to the extent of approximately HK$0.4 million was secured by fixed assets of a subsidiary of the Company, Diamond Sparkling Limited with a carrying value of HK$0.5 million.

Contingent Liabilities

As at 30 June 2006, the Group had the following contingent liabilities:

(a) At 27 September 2002, a Dangerous Hillside Order was issued by the Buildings Department requiring necessary improvement works to be carried out on the hillside adjacent to the Group's investments properties, which had been disposed of in February 2005 through the disposal of subsidiaries. After the disposal, the Group is still liable to the necessary improvement works. Final tender for the relevant improvement works was made to a contractor for a sum of HK$856,262 on 7 November 2005. The total cost for the work is estimated to be approximately HK$1,500,000 and the work is expected to be completed by the end of 2006.

(b) As at 15 February 2005, a deed of indemnity in the amount of approximately HK$5 million in respect of taxation was entered into among one of the subsidiaries and Best Goal International Limited, Double Worth Profit Limited, Brilliant Gain Investments Limited and Ultimate Profits Limited which were indirectly wholly-owned subsidiaries of the Company and disposed of by the Company in early 2005 regarding the potential tax claims by tax authority to Best Goal International Limited, Double Worth Profit Limited, Brilliant Gain Investments Limited and Ultimate Profits Limited. The Directors are of the opinion that the potential for the tax claims was remote and hence, will not give rise to any material adverse impact on the financial position of the Group. No provision has been made in the financial statements of the Group; and

(c) The Company provided corporate guarantees to the extent of approximately HK$4.4 million to main contractors (which are independent third parties) to secure the due performance of its former subsidiaries in certain ALC panel projects. The purchaser of these former subsidiaries has undertaken to procure the corporate guarantees to be released after completion of disposal of the former subsidiaries on 31 March 2006 and also to indemnify and keep the Company indemnified in full against all losses, damages, claims etc. suffered or incurred by the Company in connection with or arising from the corporate guarantees. The Company will request the purchaser to release the corporate guarantee as soon as possible.

Disclaimer

Save as aforesaid and apart from intra-Group liabilities, the Enlarged Group did not, at the close of business on 30 June 2006 have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills and payables), acceptance credits or any guarantees or other contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 30 June 2006.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the internal resources and all the presently available credit facilities to the Enlarged Group, the Enlarged Group will have sufficient working capital to satisfy its present requirements for the period ending 12 months from the date of this circular on the following basis:

— the Company will redeem the outstanding principal amount of the Convertible Bond on the maturity date, which is five years from the date of the issue of Convertible Bond, and the Company will not, at its option, early redeem the Convertible Bond at any time commencing from the date of this circular and prior to the maturity date; and

— the Company will repay the Promissory Notes in accordance with the maturity dates set out in the term of the Promissory Notes, and the Company will not early repay the Promissory Notes before the respective maturity dates.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Grant Sherman Appraisal Limited, an independent valuer, in connection with its valuation as at 29 May 2006 of the Hotel.

GRANT SHERMAN APPRAISAL LIMITED

Room 904
9th Floor, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

21 August 2006

The Board of Directors
Daido Group Limited
Unit No. 1906, 19/F.,
West Tower, Shun Tak Centre,
168–200 Connaught Road Central,
Hong Kong

Dear Sirs,

Re: Valuation of Phase One Development on Site A1 Avenida Marginal Flor de Lotus close to Rotunda do Dique Oeste Cetai, Macau

In accordance with your instructions for us to value the captioned property interests to be acquired by Daido Group Limited (hereinafter known as the "Company") or its subsidiaries (hereinafter together know as the "Group") in Macau. We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 29 May 2006.

We have valued the property interests on the basis of market value which we would define as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Our valuation has been made on the assumption that the owners sell the properties on the open market without the benefit of a deferred term contract, leaseback, join venture, management agreement or any similar arrangement, which would serve to increase the values of the property interests.

We have valued the property interest by reference to sales evidence as available on the market and where appropriate on the basis of capitalization of net income based on the future trading potential and level of turnover likely to be achieved, following consultation with the client. We have allowed for outgoings and made provisions for reversionary income potential. The hotel portion of the property is valued as ongoing hotel operations by capitalization of net operating profits.

No land search record is able be accessed from Conservatoria do Registo Predial in relation to the property. The land lease conditions and ownership information are therefore according to the Official Gazette No. 49/2004 published by the Land, Public Works and Transport Bureau. We have not examined the original documents to verify ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. We have not examined the original documents to verify the existing titles to the property interest in Macau or any material encumbrances that might be attached to the property interest or any lease amendments. In the course of our valuation we have relied on the information provided by the Company and assumed that the owner of the property has enforceable title and has free and uninterrupted rights to use, occupy, assign or transfer the property.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas and all other relevant matters. We have not verified the truth and accuracy of the information and we have relied on the instructing party's confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information to reach an informed view. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and leases provided to us and are therefore only approximations.

We have inspected the exterior of the property valued and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restriction and outgoing of an onerous nature which could affect their values.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
Grant Sherman Appraisal Limited
Peggy Y.Y. Lai
MRICS MHKIS RPS
Associate Director Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Register Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in the PRC, Hong Kong, Macau and the Asian Region.

VALUATION CERTIFICATE

Property to be acquired by the Group in Macau for investment

Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 29 May 2006 *(HK$)*
Phase One Development on Site A1 Avenida Marginal Flor de Lotus close to Rotunda do Dique Oeste Cotai, Macau	The property comprises a roughly triangular shaped land with a site area of approximately 36,640 sq.m. The development is divided into two phases. Phase one consists of a 12 storeys hotel block, a 4 storeys casino block, a 4 storeys entertainment block and a 6 storeys parking block completed in May, 2006. A serviced apartment block with a proposed gross floor area of approximately 20,000 sq.m., is planned to be constructed as Phase Two. The hotel block will be of 5-star standard with some 318 rooms. Restaurants, bar, ballroom, function rooms, retails shops, hair salon, swimming pool, etc. will be provided. The casino block comprises of opening gaming hall, VIP gaming rooms, restaurants, 24 VIP suites and car parking spaces. The entertainment block comprises of Sauna & Massage Centre, nightclub, karaoke parlor, restaurants, gymnasium, children's play area, game room, etc. The parking block comprises of 280 car parking spaces. The gross floor areas of the four towers (Phase One) stated below: **Tower** — **GFA** *(sq.m.)* Hotel — 23,121.55 Casino — 44,593.40 Entertainment — 22,637.25 Parking — 11,440.00 Total — 101,792.20 The property is held on a leasehold concession contract from the Government of Macau for a term of 25 years from 5 May 2004 and renewable for further 10 years. The annual ground rent is MOP 402,400 and will be revised in every 5 years.	The property is currently operated as a Hotel-Casino-Entertainment Resort Complex under the trade name of Grand Waldo Complex.	3,028,500,000

Notes:

(i) According to the Official Gazette No. 49/2004 published by the Land, Public Works and Transport Bureau, the subject site has been granted to Great China Company Limited for commercial and recreational use.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Ltd., an independent valuer, in connection with its valuation as at 30 June 2006 of the property interests of the Group.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices – Corporate Valuation and Property Consultancy
Lincense No.: C-015672

HONG KONG 香港
Room 1010, Star House
Tsimshatsui, Hong Kong

香港尖沙咀星光行1010室

T +852 2730 6212
F +852 2736 9284
E info@rhl-int.com
W www.rhl-int.com

21 August 2006

The Board of Directors
Daido Group Limited
Unit No. 1906, 19/F
West Tower, Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

Dear Sirs,

Re: Valuation of Unit Nos. 80, 81, 93, Coffee Shop and Unit No. 80A on the Basement Floor Hunghom Commercial Centre, Nos. 37–39 Ma Tau Wai Road, Kowloon

In accordance with the instructions from **Daido Group Limited** (the "Company"), we have undertaken an appraisal on the interest in the captioned property (the "Property"). We confirm that we have carried out an inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the Property as at **30 June 2006** (the "date of valuation").

Basis of Valuation

Our valuation of the property represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Valuation Methodology

In assessing the market value, the direct comparison has been employed in the valuation of the property interest by assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the market. This approach rest on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowance for variable factors.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the property interest valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the Property, we have complied with all the requirements contained in Chapter 5 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition) published by the Royal Institution of Surveyors and effective from May 2003; and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective from 1 January 2005.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have caused searches to be made at the Hong Kong Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment.

We have not carried out detailed site measurements to verify the correctness of the floor area in respect of the property but have assumed that the areas shown on the developer's sale brochure are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

All monetary sums stated in this report are in Hong Kong Dollars.

The valuation certificate is attached herewith.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.
Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Mr. Tse Wai Leung is a Registered Professional Surveyor with over 14 years' experience in valuation of properties in Hong Kong, the PRC and the Asia Pacific Region. Mr. Tse is a member of The Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors as well as an eligible real estate appraiser in the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2006
Unit Nos. 80, 81, 93, Coffee Shop and Unit No. 80A on the Basement Floor Hunghom Commercial Centre Nos. 37–39 Ma Tau Wai Road Kowloon.	Hunghom Commercial Centre comprises 2 high-rise office towers erected over a commercial podium. The property comprises 4 commercial units and a coffee shop area on the Basement Floor of the 4-storey commercial podium completed in 1982. The gross floor area of the property is 9,056 square feet. (841.32 sq.m.).	The property is currently vacant	HK$17,000,000.
184/12841st share of the Remaining Portion of Section O of Kowloon Marine Lot No. 40.	The property is held under a Government Lease for a term of 75 years renewable for 75 years commencing from 15 September 1897. The annual government rent for the subject lot is HK$531,378.00.		

Note: The registered owner of the property is Best Shining Limited (a wholly-owned subsidiary of the Company) registered via memorial no. 05121300940031 dated 30 November 2005.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

Authorised		*HK$*
5,000,000,000	Shares	50,000,000
Issued and to be issued, fully paid or credited as fully paid		
3,480,000,000	Shares in issue as at the Latest Practicable Date	34,800,000
900,000,000	Shares to be allotted and issued pursuant to the exercise of the conversion rights attaching to the Convertible Bond	9,000,000
4,380,000,000	Shares	43,800,000

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being the Directors or the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would 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 who were directly or indirectly 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 member of the Enlarged Group:

(i) *Long positions in ordinary shares:*

Name of Shareholder	**Capacity**	**No. of Shares held**	**Percentage of total issued share capital**
Ever Achieve *(Note 1)*	Beneficial owner	1,011,615,665	29.07%
China Star Entertainment Limited *(Note 4)*	Interest of controlled corporation	723,140,000	20.78%
Equity Capital Group Limited *(Note 2)*	Beneficial owner	311,615,664	8.95%
So Yiu Ming, Sunny *(Note 2)*	Interest of controlled corporation	311,615,664	8.95%
Lam Fung Yee, Venue *(Note 2)*	Spouse interest	311,615,664	8.95%
DKR SoundShore Oasis Holding Fund Ltd. *(Note 5)*	Beneficial owner	178,200,000	5.12%
DKR Capital Inc. *(Note 5)*	Interest of controlled corporation	178,200,000	5.12%
DKR Oasis Management Company LP *(Note 5)*	Investment manager	178,200,000	5.12%
Oasis Management Holdings LLC *(Note 5)*	Interest of controlled corporation	178,200,000	5.12%
DKR Capital Partners LP *(Note 5)*	Interest of controlled corporation	178,200,000	5.12%
DKR Management Co. Inc. *(Note 5)*	Interest of controlled corporation	178,200,000	5.12%
The Vendor *(Note 3)*	Beneficial owner	900,000,000	25.86%
Fung Ho Sum *(Note 3)*	Interest of controlled corporation	900,000,000	25.86%
Wong Ka May *(Note 3)*	Spouse interest	900,000,000	25.86%

Notes:

1 The entire issued share capital of Ever Achieve is owned by Mr. Chung Chiu Pui, Ms. Foo Hang Luen, Monita, Ms. Lee Yun and Mr. Yuen Kin Wing in equal shares.

2. Ms. Lam Fung Yee, Venue is the spouse of Mr. So Yiu Ming, Sunny who is the beneficial owner of Equity Capital Group Limited.

3. The Vendor is deemed to have interest in the share capital of the Company in respect of the number of Shares which may fall to be allotted and issued to it upon exercise of the conversion right attaching to the Convertible Bond under the SFO. Ms. Wong Ka May is the spouse of Mr. Fung Ho Sum who is the beneficial owner of the Vendor.

4. China Star Entertainment Limited is deemed to be interested in the 723,140,000 Shares which are held by its wholly-owned subsidiary, Classical Statue Limited.

5. To the best knowledge and information of the Directors, these companies are under the same group of companies and their notification of interests under the SFO was made at the same time.

(ii) *Long positions in shares of members of the Enlarged Group:*

Name of company	Name of substantial Shareholder	Percentage of shareholding
The Subsidiary	The Vendor	25%

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would 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 who was directly or indirectly 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 member of the Enlarged Group.

(c) Director's interests in competing business, contracts and assets

As at the Latest Practicable Date:

(i) none of the Directors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, which the business of the Group;

(ii) there was no contract or arrangement entered into by any member of the Enlarged Group subsisting at such date in which any Director is materially interested and which is significant to the business of the Enlarged Group; and

(iii) none of the Directors had any direct or indirect interests in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2005 (being the date to which the latest audited consolidated financial statements of the Group were made up).

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

5. LITIGATION

At the Latest Practicable Date, the Enlarged Group was engaged in the following litigation:

By a magistrate's summons dated 1 March 2006, the Company was charged by the SFC with the offence under the SFO and such charge relates to a copy of the announcement dated 16 October 2003 being provided by the Company to the Stock Exchange, which contained allegedly false or misleading information and the Company allegedly knowing or being reckless as to whether the information was false or misleading. The Company has pleaded not guilty to the charge and the date of the trial is yet to be fixed by the court.

Save for the above, no members of the Enlarged Group was engaged in any litigation or arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by any member of the Enlarged Group.

6. MATERIAL CONTRACTS

Save as disclosed below, there are no contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are, or may be material:

(a) the sale and purchase agreement dated 13 December 2004 entered into between Lubrano Properties Limited, an indirect wholly owned subsidiary of the Company as vendor, two private funds managed by LaSalle Investment Management Asia Pty. Ltd., as the purchasers and the Company, for a consideration of HK$650 million in respect of the disposal of certain cold storage properties;

(b) the leasing agreements dated 15 February 2005 at an initial rental of approximately HK$4.7 million per month for the first 3 years entered into between Diamond Sparkling Limited, a wholly-owned subsidiary of the Company and Brilliant Gain Investments Limited and Ultimate Profits Limited, two former subsidiaries of the Company and sub-leasing agreements dated 15 February 2005 at an initial rental of approximately HK$3.4 million per month up to 30 November 2005, and thereafter at approximately HK$4.7 million per month up to 14 February 2008 entered into between Diamond Sparkling Limited and Brilliant Cold Storage Management Limited in relation to leasing and sub-leasing of certain properties disposed of by the Group in early 2005, details of which can be referred to the circular of the Company dated 20 January 2005;

(c) the conditional sale and purchase agreement dated 17 October 2005 entered into among Choice Master Investments Limited ("Choice Master"), an independent third party as vendor, Newton Luck Limited, a wholly owned subsidiary of the Company as purchaser and Mr. Yeung Ming Kwong, Tony, the sole and beneficial shareholder and director of Choice Master as guarantor in respect of the acquisition of all the issued share capital of Best Merchant Limited by Newton Luck Limited at a consideration of HK$56 million;

(d) the memorandum of agreement dated 31 October 2005 pursuant to which Diamond Sparkling Limited, a wholly-owned subsidiary of the Company as purchaser, has agreed to purchase and GE Capital (Hong Kong) Limited as vendor, has agreed to sell the properties situated at coffee shop, unit no. 80A, unit no. 80, unit no. 81 and unit no. 93 on the basement floor of Hunghom Commercial Centre, nos. 37–39 Ma Tau Wai Road, Kowloon, Hong Kong for a consideration of HK$16.1 million;

(e) the conditional agreement dated 17 February 2006 entered into between Daido (BVI) Limited as the vendor and Noble Star Pacific Limited as purchaser in relation to the sale and purchase of the entire issued share capital of each of Daido Building Materials Limited, Daido Home International (B.V.I.) Limited, Daido Home International Limited and Ytong Hong Kong Limited at a total consideration of HK$25 million;

(f) the agreement for the Subscription; and

(g) the Agreement.

To the best information, belief and knowledge of the Directors, no material contract was entered into by the Target Group within the two years immediately preceding the Latest Practicable Date.

7. QUALIFICATION AND CONSENT OF EXPERTS

Each of Deloitte Touche Tohmatsu, Grant Sherman Appraisal Limited, RHL Appraisal Ltd. and Goncalves Pereira, Rato, Ling, Vong & Cunha has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion, letter or advice and/or references to its name, in the form and context in which it appears.

The following are the respective qualifications of the experts who have been named in this circular or have given their opinions, letters or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
Grant Sherman Appraisal Limited	Professional Valuer
RHL Appraisal Ltd.	Professional Valuer
Goncalves Pereira, Rato, Ling, Vong & Cunha	Macau legal adviser

Each of Deloitte Touche Tohmatsu, Grant Sherman Appraisal Limited, RHL Appraisal Ltd. and Goncalves Pereira, Rato, Ling, Vong & Cunha is not interested in any Shares or shares in any member of the Group nor does it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or shares in any member of the Group.

8. MISCELLANEOUS

(a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

(b) The company secretary and qualified accountant of the Company is Mr. Choy Kai Sing, a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(c) The Company's branch share registrar and transfer office is Union Registrars Limited at 311–312 Two Exchange Square, Central, Hong Kong.

(d) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the principal place of business of the Company in Hong Kong, from the date of this circular up to the date of SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(c) the written consent of the experts referred to in the paragraph headed "Qualification and consent of experts" in this appendix;

(d) the accountants' report on the Target Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in appendix II to this circular;

(e) the letter from Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in appendix III to this circular;

(f) the valuation report prepared by Grant Sherman Appraisal Limited in relation to the Hotel, the text of which is set out in appendix IV to this circular;

(g) the valuation report prepared by RHL Appraisal Ltd. in relation to the property interests of the Group, the text of which is set out in appendix V to this circular;

(h) the annual reports of the Company for the two financial years ended 31 December 2004 and 31 December 2005; and

(i) the circular of the Company in relation to the discloseable transaction for the payment of the Initial Deposit dated 16 May 2006.

DAIDO GROUP LIMITED

大同集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 544)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Daido Group Limited (the "**Company**") will be held at Plaza I–III, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Monday, 4 September 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without modifications, as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement (the "**Agreement**") dated 29 May 2006 (as supplemented by a supplemental agreement dated 15 August 2006) entered into among Grand Decade Enterprises Limited, a wholly owned subsidiary of the Company, as purchaser, Ever Apollo Limited ("**Ever Apollo**") as vendor and Mr. Fung Ho Sum as the guarantor relating to the sale and purchase of the 100 shares of US$1.00 each in the share capital of Jumbonet International Profits Limited ("**Jumbonet**") and the shareholder's loan owed by Jumbonet to Ever Apollo for a total consideration of HK$336 million, a copy of the Agreement and the supplemental agreement dated 15 August 2006 having been produced to this Meeting marked "A" and "B" respectively and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) any one or more of the directors (the "**Directors**") of the Company be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary or expedient in their absolute discretion to implement and/or give effect to the Agreement and the transactions contemplated thereunder;

(c) the issue of the convertible bond (the "**Convertible Bond**") in the principal amount of HK$104.4 million by the Company in accordance with the terms and conditions of the Agreement and the transactions contemplated therein be and are hereby approved; and

(d) any one or more of the Directors be and are hereby authorised to take all steps necessary or expedient in their opinion to implement and/or give effect to the issue of Convertible Bond including but not limited to the allotment and issue of 900,000,000 shares of HK$0.01 each in the share capital of the Company which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bond."

By order of the Board
Daido Group Limited
Fung Wa Ko
Chairman

Hong Kong,

21 August 2006

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
Unit No. 1906, 19/F.
West Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the Meeting is enclosed. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Union Registrars Limited at 311–312 Two Exchange Square, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above Meeting or any adjournment thereof, should he/she so wishes.

3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

* *For identification purpose only*