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**DAIDO**

## **DAIDO GROUP LIMITED**

**大同集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 544)**

### **MAJOR TRANSACTION INVOLVING THE DISPOSAL AND RESUMPTION OF TRADING**

**Financial adviser to Daido Group Limited**



**TIS Securities (HK) Limited**

The Board announced that the Disposal Agreement was entered into between the Vendor and the Purchaser on 17 February 2006 under which the Vendor agreed to sell, and the Purchaser agreed to purchase, the entire interests in the Disposal Group in respect of the Disposal for a consideration of HK\$25 million, subject to terms and conditions in the Disposal Agreement.

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.40 of the Listing Rules, the Disposal is conditional on, among other things, approval by the Shareholders at the special general meeting or written approval of Shareholders be accepted by the Stock Exchange in lieu of holding the said meeting (as the case may be). Top Synergy Associates Limited, being the controlling Shareholder since July 2003, interested in approximately 67.44% of the issued Shares but have no interest in the Disposal Agreement (save and except its equity interest in the Company which is the same as those of other Shareholders) has given written approval in respect of the Disposal. The Company therefore has met the requirements of the Rule 14.44 of the Listing Rules for not holding the said meeting.

A circular containing further information on the Disposal will be despatched by the Company to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on Monday, 20 February 2006 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on Thursday, 23 February 2006.

#### **THE DISPOSAL AGREEMENT**

##### **Major terms of the Disposal Agreement**

Date: 17 February 2006

Vendor: Daido (BVI) Limited, a wholly-owned subsidiary of the Company

Purchaser: Noble Star Pacific Limited, a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in the business of the construction of concrete batching plants, construction of cement plants and civil engineering

Assets to be sold: the entire issued share capital of each company comprised of the Disposal Group, each of which is either a direct or an indirect wholly-owned subsidiary of the Vendor

\* For identification purpose

## **Consideration**

The total consideration for the entire interests in the Disposal Group is HK\$25 million, payable in cash by the Purchaser in full to the Vendor or its nominee in the following manners:

- Upon fulfillment of the conditions set out below, HK\$5 million as deposit and part payment of the total consideration to the Vendor; and
- the balance of the total consideration upon the completion of the Disposal Agreement.

The consideration has been arrived at after arm's length negotiations between the parties thereto having taken into account the unaudited consolidated net asset value of the Disposal Group (after deducting the amount due from the Vendor of approximately HK\$41 million) as at 31 December 2005 of approximately HK\$67.8 million. The consideration represents a discount of approximately 63% to the unaudited consolidated net asset value of the Disposal Group as at 31 December 2005. The Directors consider the terms under the Disposal Agreement are on normal commercial terms that are fair and reasonable and in the interest of the Shareholders.

## **Conditions of the Disposal Agreement**

Completion of the Disposal Agreement is conditional upon, among other things:

- a. the result of the due diligence exercise carried out by the Purchaser in the assets and liabilities and business of the Disposal Group within 30 days from the date of the Disposal Agreement being satisfactory in all respects to the Purchaser and written notice to that effect having been given to the Vendor.
- b. if required, the Disposal Agreement and the Disposal being approved by the Shareholders who are required under the Listing Rules to vote at the special general meeting of the Shareholders convened by the Company or written approval of Shareholders be accepted by the Stock Exchange in lieu of holding a special general meeting of Shareholders (as the case may be);
- c. if required, all waivers, consents or approval of the Stock Exchange in relation to the Disposal and the implementation of the Disposal Agreement having been obtained; and
- d. proof of good title of Daido Building Materials Limited, being a member of the Disposal Group, to the Property which is held by Daido Building Materials Limited under a sublease in accordance with Section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) to the Purchaser.

The Purchaser may from time to time waive any of the conditions (excluded condition b and condition c) as stated above by notice to the Vendor.

In the event that the above conditions are not fulfilled within 90 days from the date of the Disposal Agreement, i.e. 18 May 2006 or such later date as the Vendor and the Purchaser may agree in writing, the Disposal Agreement shall lapse and the Deposit (with interest accrued thereon) shall on the next Business Day following receipt by the Vendor's solicitors of a written notice from the Purchaser be refunded to the Purchaser without prejudice to any of its other rights in respect thereof.

## **Completion of the Disposal Agreement**

Completion shall take place within 5 Business Days after all the conditions as stated above have been fulfilled or, if applicable, waived by the Purchaser at the offices of the Purchaser (or at such other time or place as the Vendor and the Purchaser may agree).

## **Information on the Disposal Group**

The Disposal Group consists of four companies, each of which is either a direct or an indirect wholly-owned subsidiary of Daido (BVI) Limited, which are principally engaged in the manufacture, sale and installation of autoclaved aerated lightweight concrete ("ALC") products. Such products are mainly used in the building of Home Ownership Scheme flats and the public rental house flats.

The key financial figures of the Disposal Group for each of the financial years 2003 and 2004 and for the six months ended 30 June 2005 are set out below:

**31 December 2003**

	<b>Disposal Group</b> <i>(HK\$ million)</i>	<b>% of the Group</b>
Turnover	77.6	51.0
Profit before taxation	24.7	100.0
Net profit	24.6	118.3
– operating profits	15.2	73.1
– non-operating profits**	9.4	45.2
Net asset value^^	76.6	38.0

**31 December, 2004**

	<b>Disposal Group</b> <i>(HK\$ million)</i>	<b>% of the Group</b>
Turnover	68.1	62.3
Profit before taxation	58.8	69.7
Net profit	58.3	67.5
– operating profits	(0.2)	N.A.
– non-operating profits##	58.5	67.7
Net asset value^^	134.9	34.7

**For the six months ended 30 June 2005**

	<b>Disposal Group</b> <i>(HK\$ million)</i>	<b>% of the Group</b>
Turnover	38.4	65.6
Profit before taxation	3.4	77.3
Net profit	3.3	89.2
– operating profits	2.6	70.3
– non-operating profits	0.7	18.9
Net asset value^^	138.2	35

*Notes:*

\*\* The non-operating profits in 2003 mainly comprised gain on disposal of a subsidiary company of approximately HK\$4.5 million and net loan interest income of approximately HK\$1.7 million and net management fee income from fellow subsidiaries of approximately HK\$3.6 million.

## The non-operating profits in 2004 mainly comprised reversal of impairment loss in respect of property, plant and machinery of approximately HK\$56 million and net loan interest income of approximately HK\$3.9 million.

^^ The respective net asset value includes the respective amount due from the Vendor.

The audited consolidated net asset value for the two years ended 31 December 2004 and the unaudited consolidated net asset value for the six months ended 30 June 2005 of the Disposal Group are approximately HK\$76.6 million, HK\$134.9 million and HK\$138.2 million respectively.

The principal assets of the Disposal Group include an ALC manufacturing factory with a gross site area of approximately 25,000 square metres erected on a piece of land held by Daido Building Materials Limited by way of sub-lease which is situated at No. 50 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong and the production machinery therein whose legal title is possessed and beneficially owned by Daido Building Materials Limited. The unaudited book value of the ALC manufacturing factory and the production machinery as at 31 December 2005 as adjusted on the basis of independent valuation report prepared by RHL Surveyors Ltd. amounted to HK\$52 million.

As at 31 December 2005, the other major assets of the Disposal Group include retention receivable of approximately HK\$5.8 million, account receivables of approximately HK\$7 million, inventories of approximately HK\$6 million and amount due from the Vendor of approximately HK\$41 million. Except for the amount due from the Vendor amounted to approximately HK\$41 million which will be waived and released by the Disposal Group upon Completion, all the other assets (other than the ALC manufacturing factory and the production machinery) sold at cost based on the value on 31 December 2005.

As at 31 December 2005, the major liabilities of the Disposal Group include account payable and other payable of approximately HK\$8 million and amount due to customers for contract works of approximately HK\$4 million. All the liabilities will be transferred to the Purchaser based on the value on 31 December 2005.

### **Reason for, and financial effect of, the Disposal**

The consideration under the Disposal Agreement of HK\$25 million has been arrived at after arm's length negotiations between the Purchaser and the Vendor, having taken into account the net asset value of the Disposal Group, being the unaudited net asset value of the Disposal Group after deducting the amount due from the Vendor of approximately HK\$41 million as at 31st December, 2005 of HK\$67.8 million and the business prospect of ALC in Hong Kong.

According to the interim report of the Company for the six months ended 30 June 2005 (the "**Interim Report**"), the Directors are expecting the performance of ALC products would improve in the year 2006 as (i) in public sector, HKSAR government planned to construct approximately 88,000 units of public rental housing in the five years from 2004 onwards, (ii) in private sector, construction projects like hotels and A-class office buildings to increase with a prospering property market and (iii) the possibility of tapping the Macau construction market.

However, in January 2006, the Housing Authority endorsed sale of surplus Home Ownership Scheme flats, currently standing at 16,641 units, in two phases per year and about 2000 to 3000 units per phase from 2007 onwards. Unlike the previous arrangements, the Housing Authority would decline all buyback offers and no mortgage subsidy would be provided to purchasers. According to the statistic from the website of the Housing Authority on 11 November 2005, the construction of public rental house flats would decrease from approximately 21,000 units in 2005 to approximately 15,600 units per year for the coming next five year period from 2005/06 to 2009/10. The demand for the Disposal Group's ALC products in construction projects like hotels and A-class office buildings is not as optimistic as that previously stated in the Interim Report and the tapping of the opportunity in the Macau construction market has not yet materialised.

In light of the above, the Directors take the view that (i) the sale of surplus Home Ownership Scheme flats would have negative impact on the property development market in Hong Kong and further dampen the construction of new private housing flats; (ii) the policy of ceasing construction and sale of Home Ownership Scheme flats remains unchanged and the decrease in the number of the construction of public rental house flats for the next five years which would have negative impact on the business of the Disposal Group since the products of the Disposal Group were mainly used for the construction of the Home Ownership Scheme flats and the public rental house flats; and (iii) the demand for the Disposal Group's ALC products in construction projects like hotels and A-class office buildings has not yet materialised.

Notwithstanding the above, the Directors consider that (i) the increasingly competitive environment in the business of ALC in Hong Kong as competitors are pricing their products at "cut-throat" prices which led to the operating losses of the Disposal Group for the year ended 31 December 2004; (ii) the increasing pressure on surging cost of raw materials, labour and transportation in Hong Kong; (iii) the heavy fixed overhead burden in maintaining an ALC manufacturing factory in Hong Kong with continuous under-production level, and (iv) the high opportunity cost of the resources deployed in running the ALC business, which has generated declining rate of return from the first six month period in 2005 onwards and such resources can be utilized in other business opportunities given the general economy has recently improved, and, therefore, the Directors believe that the Disposal represents a good opportunity for the Company to realize the business of ALC, which is a loss-making business (in terms of the operating loss) for the year 2004 and with keen competition and less favourable prospects, at a reasonable price.

As stated above, the principal assets of the Disposal Group include an ALC manufacturing factory and the production machinery with an unaudited book value of approximately HK\$52 million as at 31 December 2005 according to the Valuation Report. The Directors consider that since it is difficult to find potential buyers in the market that are interested to engage in the manufacturing of ALC products and willing to buy the Property and the production machinery, especially at a price close to that stated in the Valuation Report, discount made to the net asset value of the Disposal Group in arriving at the consideration for the Disposal is unavoidable. In addition, the Directors consider that if the assets of the Disposal Group were disposed of to different buyer(s) separately instead of to the Purchaser, the Disposal Group as a going concern business, it is uncertain that (i) whether there are immediate buyer(s) to the aforesaid assets in the near future; (ii) whether the aggregate of the respective considerations would be more favourable than that for the Disposal; and (iii) the quantum of the claims and compensation to which the Group may be exposed in terminating the underlying business and disposing of the assets separately.

Based on the above factors, i.e. (i) the keen competition environment in the ALC market in Hong Kong; (ii) loss making of Disposal Group in terms of the operating loss (iii) difficulty in locating potential buyer due to the keen competition environment in the ALC market in Hong Kong and (iv) the uncertainty that whether there is any buyer in the near future, the Directors including the independent non-executive Directors consider the terms for the Disposal Agreement to be fair and reasonable and in the best interest to the Shareholders.

The proceeds from the realization of the business through the Disposal enables the Group to diversify into other business opportunities which enhances the continuous business growth of the Group. Currently, no target has been identified by the Company and the Company has no concrete plan so far as to the diversification of the business of the Group in the near future.

It is estimated that, as a result of the Disposal, the Group will record, subject to review by the auditors of the Company, a book loss of approximately HK\$42.8 million, which is equal to the difference between the unaudited carrying value of the Disposal Group (after deducting the amount due from the Vendor of approximately HK\$41 million) as at 31 December 2005 and the consideration for the Disposal.

Upon completion of the Disposal Agreement, all the members of the Disposal Group will cease to be subsidiaries of the Company.

### **General**

The principal activities of the Group after the Disposal are the provision of cold storage services, the manufacturing and trading of ice in Hong Kong and the provision of logistics services.

To the best of the Directors' knowledge, information and belief after making all reasonable enquiries, the Purchaser and its ultimate beneficial owners are independent third parties of the Company and no Shareholder has a material interest in the Disposal other than through its interest in the Company, and none of the Purchaser and its ultimate beneficial owners and any of their associates have any interest in the Shares.

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Pursuant to Rule 14.40 of the Listing Rules, the Disposal is conditional on, among other things, approval by the Shareholders at the special general meeting or written approval of Shareholders be accepted by the Stock Exchange in lieu of holding the said meeting (as the case may be). Top Synergy Associates Limited, being the controlling Shareholder since July 2003, interested in approximately 67.44% of the issued Shares but have no interest in the Disposal Agreement (save and except its equity interest in the Company which is the same as those of other Shareholders) has given written approval in respect of the Disposal. The Company therefore has met the requirements of the Rule 14.44 of the Listing Rules for not holding the said meeting.

A circular setting out details of the Disposal Agreement will be despatched to the Shareholders as soon as practicable.

### **Suspension and resumption of trading**

Trading in the Shares were suspended at the request of the Company as from 9:30 a.m. on Monday, 20 February 2006 pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m., on Thursday, 23 February 2006.

### **DEFINITIONS**

“Board”	The board of Directors
“Business Day”	a day (other than Saturday and days on which a tropical cyclone warning No.8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are generally open in Hong Kong for general banking business
“Company”	Daido Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal pursuant to the Disposal Agreement
“Completion Date”	date on which Completion takes place
“Directors”	directors of the Company
“Disposal”	The disposal of the Disposal Group by the Vendor pursuant to the Disposal Agreement
“Disposal Group”	Daido Building Materials Limited, Daido Home International (B.V.I.) Limited, Daido Home International Limited, Ytong Hong Kong Limited, each of them is either a direct or an indirect wholly-owned subsidiary of the Vendor
“Disposal Agreement”	The conditional agreement dated 17 February, 2006 entered into between Daido (BVI) Limited as the vendor and Noble Star Pacific Limited as the purchaser in relation to the sale and purchase of the entire issued share capital of the Disposal Group.

“Group”	The Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Housing Authority”	The Hong Kong Housing Authority
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People Republic of China, and the purpose of this announcement, excluding Hong Kong and the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Property”	a ALC manufacturing factory with a gross floor area of approximately 25,000 square metres erected on a piece of land held by Daido Building Materials Limited by way of sub-lease, which is situate at No. 50 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong whose legal title is possessed and beneficially owned by Daido Building Materials Limited, being one of members of the Disposal Group
“Purchaser”	Noble Star Pacific Limited, a company incorporated in British Virgin Islands with limited liability, which is an independent third party who is not connected person of the Company, the directors, chief executive or substantial shareholders of the Company and its subsidiaries and associates of any of them (as defined under the Listing Rules)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	Holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Report”	An independent valuation report prepared by RHL Surveyors Ltd. in relation to the Property and the production machinery
“Vendor”	Daido (BVI) Limited, a company incorporated in British Virgin Islands with limited liability and wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars
“%”	per cent.

As at the date of this announcement, the board of the directors of the Company comprises executive directors, namely, Mr. To Shu Fai, Mr. Fung Wa Ko and Mr. Tang Tsz Man, Philip and independent non-executive directors, namely, Mr. Leung Chi Hung, Mr. Leung, Tsz Fung David Ferreira and Mr. Tse Yuen Ming, Valent.

By Order of the Board  
**Choy Kai Sing**  
*Company Secretary*

Hong Kong, 22 February, 2006