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**DAIDO GROUP LIMITED**

大同集團有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 00544)

**MAJOR TRANSACTION:  
ENTERING INTO OF JOINT VENTURE AGREEMENT  
AND  
PROVISION OF MANAGEMENT SERVICE**

On 6 September 2018, Sky Elegant, an indirect wholly-owned subsidiary of the Company, together with Sub-Zero (HK), GIK Business and the JV Company entered into the JV Agreement in relation to the JV Company. Immediately after Completion, the issued share capital of the JV Company will be owned as to 30% by Sky Elegant, as to 60% by Sub-Zero (HK) and as to 10% by GIK Business. The JV Company will be principally engaged in cold storage business in Hong Kong and/or the PRC.

Pursuant to the JV Agreement, Brightway shall enter into a Management Service Agreement with Gold View, an indirect wholly-owned subsidiary of the Company, pursuant to which Gold View will be appointed as a manager of the JV Company to operate and management the cold store business in accordance with the terms and conditions therein.

As the highest applicable percentage ratio in respect of the JV Agreement is more than 25% but is less than 75%, the entering into of the JV Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, among others, further details of the JV Agreement and the transactions contemplated thereunder and notice of EGM is expected to be despatched to the Shareholders on or before 31 October 2018.

**Completion is subject to the fulfilment of various condition precedents and therefore the JV Agreement together with the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

The Board announces that on 6 September 2018, Sky Elegant, an indirect wholly-owned subsidiary of the Company, together with Sub-Zero (HK), GIK Business and the JV Company entered into the JV Agreement in relation to the operation and management of the JV Company. Immediately after Completion, the issued share capital of the JV Company will be owned as to 30% by Sky Elegant, as to 60% by Sub-Zero (HK) and as to 10% by GIK Business. The JV Company will be principally engaged in cold storage business in Hong Kong and/or the PRC. Principal terms of the JV Agreement are set out as follows:

## THE JV AGREEMENT

<b>Date</b>	:	6 September 2018
<b>Parties</b>	:	(i) Sky Elegant; (ii) Sub-Zero (HK); (iii) GIK Business; and (iv) the JV Company

Sky Elegant is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company.

Sub-Zero (HK) is a company incorporated in Hong Kong with limited liability and is principally engaged in investment holding business. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sub-Zero (HK) and its ultimate beneficial owner(s) are Independent Third Parties.

GIK Business is a company incorporated in Hong Kong with limited liability and is principally engaged in consulting business. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, GIK Business and its ultimate beneficial owner(s) are Independent Third Parties.

### **The JV Company and Brightway**

The JV Company is a company incorporated in the British Virgin Islands with limited liability and will hold the entire issued share capital of Brightway. Brightway is a company incorporated in Hong Kong with limited liability and will be principally engaged in cold storage business in Hong Kong, the PRC and other countries as the board of directors of the JV Company (the "**JV Board**") may from time to time determine. Pursuant to the JV Agreement, the JV Company and Brightway shall not engage in any other business unless otherwise agreed by the parties to the JV Agreement.

At Completion, the share capital of the JV Company is US\$100 divided into 100 shares which are owned as to 30% by Sky Elegant, 60% by Sub-Zero (HK) and 10% by GIK Business.

Brightway has entered into an offer to lease (the "**Offer to Lease**") with an Independent Third Party on 14 June 2018 in relation to the tenancy of premises in Hong Kong for the Hong Kong JV Project (as defined below) from 1 September 2018 to 31 August 2023 with options to renew.

Upon formation of the JV Company, the JV Company will be classified as an associate of the Company under the applicable accounting standards.

## Investment Commitment

The cold storage business shall first commence in Hong Kong (the “**Hong Kong JV Project**”). The initial total investment amount of the Hong Kong JV Project shall be in the sum of up to US\$33,000,000 (the “**Total Investment Amount**”) which shall be used solely in relation to the Hong Kong JV Project, including but not limited to, leasing a warehouse and installation of the necessary cold storage system and other facilities and equipment necessary for the implementation of the cold storage business and working capital requirement of the Hong Kong JV Project as the JV Board may decide from time to time.

The Total Investment Amount in the sum of US\$33,000,000 is expected to be funded in the following manner:

- (a) up to US\$28,000,000 to be funded by way of borrowings from banks or other financial institutions to the JV Group on such terms (including interest, repayment and security) satisfactory to the JV Board (the “**Bank Borrowings**”); and
- (b) up to US\$5,000,000 to be funded by way of unsecured interest-free shareholder loan (without fixed term of repayment) from Sub-Zero (HK) to fund working capital needs of the JV Group, to be approved by the JV Board, during the course of the business within the first two years of its business operation (the “**Sub-Zero (HK) Loan**”).

Sky Elegant and GIK Business shall provide cash collateral or equivalent security of up to US\$9,900,000 and US\$3,300,000, respectively, in favour of the financing bank as security for the Bank Borrowings to be provided to the JV Group above. Each of the parties to the JV Agreement shall provide a guarantee (which shall be in proportion to the shareholding held by the parties in the JV Company respectively) in favour of the financing bank to secure the JV Group’s obligations under the Bank Borrowings on a several basis.

The Total Investment Amount is determined after arm’s length negotiations of the parties to the JV Agreement with referencing to the capital needs of the Hong Kong JV Project.

## Conditions precedent

Completion of the JV Agreement and the transactions contemplated thereunder shall be conditional upon the fulfilment and/or waiver of the following conditions precedent:

- (a) the entering into of the formal tenancy agreement (the “**Formal Tenancy Agreement**”) as referred to in the Offer to Lease by Brightway in the form and substance satisfactory to each of the parties to the JV Agreement;
- (b) the passing of the resolution(s) by the Shareholders in general meeting of the Company approving the JV Agreement and the transactions contemplated thereunder;
- (c) all necessary consents, licenses and approvals required to be obtained by the parties to the JV Agreement in respect of the JV Agreement and the transactions contemplated hereunder having been obtained and remained in full force and effect;
- (d) the entering into Management Service Agreement (in form and substance satisfactory to the JV Board) between Brightway and Gold View in which a designated subsidiary of the Company, shall undertake the performance of Gold View’s obligations under the Management

Service Agreement; and

- (e) completion of the transfer of the entire issued shares of Brightway to the JV Company.

The parties to the JV Agreement may at their absolute discretion at any time waive in writing conditions (a), (c) and (d). For the avoidance of doubt, conditions (b) and (e) are incapable of being waived. If the conditions set out above have not been satisfied (or waived) on or before 20 December 2018 or such later date as the parties to the JV Agreement may agree, the JV Agreement shall cease and determine (save as otherwise provided therein) and neither party shall have any obligations nor liabilities towards each other save for any antecedent breaches.

### **Board composition**

The board of directors of the JV Company will comprise of five directors. Each of Sky Elegant and GIK Business shall have the right to appoint one (1) director respectively. Sub-Zero (HK) shall have the right to (a) appoint up to two (2) directors, (b) appoint a non-executive director who shall be an independent professional.

### **Provision of management service**

Pursuant to the JV Agreement, Brightway shall enter into a Management Service Agreement with Gold View, an indirect wholly-owned subsidiary of the Company, pursuant to which Gold View will be appointed as a manager of the JV Company to operate and management the cold store business in accordance with the terms and conditions therein.

### **Dividend policy**

Subject to the JV Agreement and the articles of association of the JV Company and the terms of any loans to the JV Group, having regard to the financial position of the JV Group, the outstanding financial covenant to which the JV Group is subject, the availability of surplus cash required to finance the working capital requirements of the JV Group and any future business as the JV Board considers appropriate, the JV Board may procure that up to 90% of the distributable profits available for distribution in respect of each financial year to be distributed by the JV Company to the then shareholders of the JV Company in accordance with their then respective shareholdings in the JV Company by way of interim dividend or annual dividend.

### **Exit Option**

#### **(A) First Put Option**

In consideration of the mutual covenants in the JV Agreement, Sky Elegant grants to Sub-Zero (HK) an option (the “**First Put Option**”) whereby Sub-Zero (HK) has the right to, by way of a written notice (the “**Option Notice**”), require Sky Elegant or its designated person(s) to purchase from Sub-Zero (HK) all or part of its Shares (the “**Relevant Shares**”) and the Sub-Zero (HK) Loan advanced to the JV Group and outstanding from time to time (the “**Shareholder Loan**”), at the exercise price determined below. The First Put Option shall be exercisable by Sub-Zero (HK) in the event that Gold View fails to meet the Key Performance Indicators (KPIs) for three consecutive quarters in accordance with the Management Service Agreement (subject to the Management Service Agreement having been entered into in accordance with the JV Agreement). The First Put Option shall be exercisable by Sub-Zero (HK) within thirty-six (36) months after the date of the Management Service Agreement (the “**First Put Option Period**”). In case the KPIs

may not be met in the last quarter of the First Put Option Period, the expiry date of the First Put Option Period shall be extended by further six months (the “**Extended First Put Option Period**”) to ascertain if the KPIs can be met in the last three consecutive quarters prior to the expiry of the Extended First Put Option Period.

Under the First Put Option, the price of the Relevant Shares and Shareholder Loan shall be determined based on the pro-rata share of the valuation of the Company which is the higher of (i) the Total Investment Amount plus any additional investments approved by the JV Board together with an annual return of 15% and (ii) the fair value (the “**Fair Value**”) of the equity in the JV Company and the Shareholder Loan as determined by a firm of independent public accountants, which shall be one of the “**Big Four**” accounting firms based in Hong Kong, to be selected and appointed by the JV Company (“**Big Four CPA firms**”). Such a firm of independent public accountants shall certify in writing the sum which, in their opinion, is the Fair Value of the Relevant Shares and the Shareholder Loan. The cost of obtaining the certification shall be borne by the JV Company. Completion of the sale and purchase of the Relevant Shares and Shareholder Loan and full payment of the considerations shall take place within 120 days from the date of the Option Notice.

#### (B) Second Put Option

In consideration of the mutual covenants in the JV Agreement, Sky Elegant hereby further grants to Sub-Zero (HK) an option (the “**Second Put Option**”) whereby Sub-Zero (HK) has the right to, by way of an Option Notice, require Sky Elegant or its designated person(s) to purchase from Sub-Zero (HK) all or part of its Relevant Shares and Shareholder Loan advanced by Sub-Zero (HK) to the JV Group, at the exercise price determined below. The Second Put Option shall be exercisable by Sub-Zero (HK) after the expiration of thirty-six (36) months after the date of the JV Agreement. For the avoidance of doubt, the Second Put Option shall be exercisable by Sub-Zero (HK) irrespective of whether Gold View is able to meet the KPIs in accordance with the Management Service Agreement or not.

Under the Second Put Option, the price of the Relevant Shares and the Shareholder Loan shall be equal to the summation of the outstanding amount of the Sub-Zero (HK) Loan and US\$1,000,000 (or if Sub-Zero (HK) subsequently disposed of its shares, US\$1,000,000 multiplied by the number of shares held by Sub-Zero (HK) at the time when Sub-Zero (HK) exercises the Second Put Option divided by the number of shares held by Sub-Zero (HK) upon Completion). Completion of the sale and purchase of the relevant Shares and Shareholder Loan and full payment of the considerations shall take place within 120 days from the date of the Option Notice, subject to an approved refinancing arrangement from bank or financing institution having been put in place for the JV Company.

The Company will comply with the relevant Listing Rules requirements in the event of the exercise of the exit options by Sub-Zero (HK).

### **REASONS FOR ENTERING INTO OF THE JV AGREEMENT AND THE MANAGEMENT SERVICE AGREEMENT**

The Group is principally engaged in cold storage and related business in Hong Kong; trading of food and beverage business in the PRC; provision of money lending business in Hong Kong and investment holding.

The Company is seeking opportunities in order to increase the return to its Shareholders. The Company considers that there will be growth potential in investment of cold storage business in Hong Kong and the PRC. The JV Company will allow the Group to utilise its experience in provision of management services regarding cold storage business without substantial capital expenditure. On the other hand, the Group can have stable revenue stream from the management fees under the Management Service Agreement. The Company is optimistic as to the prospect of the JV Company.

Taking into account of the future prospect of the JV Company, the Directors (including the independent non-executive Directors) consider that the entering into of the JV Agreement and the Management Service Agreement and the terms and conditions thereunder are fair and reasonable and on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

As the highest applicable percentage ratio in respect of the JV Agreement is more than 25% but is less than 75%, the entering into of the JV Agreement constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

A circular containing, among others, further details of the JV Agreement and the transactions contemplated thereunder and notice of EGM is expected to be despatched to the Shareholders on or before 31 October 2018.

**Completion is subject to the fulfilment of various condition precedents and therefore the JV Agreement together with the transactions contemplated thereunder including but not limited to the entering into of the Management Service Agreement may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Brightway”	Brightway Logistics Limited, a company incorporated in Hong Kong with limited liability
“Company”	Daido Group Limited, a company incorporated in Bermuda with limited liability the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	Completion of the JV Agreement in accordance with the terms thereof
“connected person”	has the meaning ascribed to it in the Listing Rules

“Director(s)”		the director(s) of the Company
“EGM”		the extraordinary general meeting of the Company to be held and convened to consider and approve the JV Agreement and the transactions contemplated thereunder
“GIK Business”		GIK Business Consulting Limited, a company incorporated in Hong Kong with limited liability
“Gold View”		Gold View Management Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company
“Group”		the Company and its subsidiaries
“Hong Kong”		the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”		any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third party(ies) independent of the Company and its connected persons in accordance with the Listing Rules
“JV Agreement”		the conditional joint venture agreement dated 6 September 2018 and entered into among Sky Elegant, Sub-Zero (HK), GIK Business and the JV Company in relation to, among others, the JV Company and the provision of management service
“JV Company”		Loving Peace International Limited, a company incorporated in the British Virgin Islands with limited liability
“JV Group”		the JV Company and its subsidiaries
“Listing Rules”		The Rules Governing the Listing of Securities on the Stock Exchange
“Management Agreement”	Service	the management service agreement to be entered into between Gold View and Brightway in accordance with the terms of the JV Agreement
“PRC”		the People’s Republic of China
“Shareholders”		holders of the Shares
“Share(s)”		ordinary shares of HK\$0.01 each in the capital of the Company

“Sky Elegant”	Sky Elegant Development Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-Zero (HK)”	Sub-Zero (HK) Limited, a company incorporated in Hong Kong with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

By order of the Board  
**Daido Group Limited**  
**Au Tat Wai**  
*Executive Director*

Hong Kong, 6 September 2018

As at the date of this announcement, the Board comprises executive directors, namely, Mr. Au Tat Wai, Mr. Choy Kai Sing and Mr. Ho Hon Chung, Ivan; non-executive director, namely, Mr. Fung Wa Ko; and independent non-executive directors, namely, Mr. Fung Siu Kit, Ronny, Mr. Leung Chi Hung and Mr. Tse Yuen Ming.

*\* For identification purpose only*