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中国地利集团
China Dili Group

(formerly known as Renhe Commercial Holdings Company Limited 人和商業控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1387)

ANNOUNCEMENT

MAJOR ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF TARGET SHARES IN AN AGRICULTURAL AND FOOD PRODUCE RETAIL CHAIN

CONTINUING CONNECTED TRANSACTION IN RELATION TO A LOAN TO TARGET GROUP

THE ACQUISITION

The Board is pleased to announce that on 29 August 2019, after trading hours, Yield Smart (a wholly-owned subsidiary of the Company), as purchaser and Plenty Business (a company wholly-owned by the controlling shareholder of the Company), as vendor entered into the Acquisition Agreement for the sale and purchase of 19% of the entire issued share capital of the Target Company, which operates through its PRC Subsidiaries, the businesses of agricultural produce supermarket chain, fresh food chain and supply chain and logistics management in the PRC under the brand name of “Dili Fresh”.

The Acquisition represents an expansion of the Group’s business into the downstream segment of the value chain of the agricultural sector. The Target Business is the retailing of agricultural produce through the supermarket chain “Dili Fresh”, the wholesaling of agricultural produce, as well as fresh food chain business and supply chain and logistics management. The Target Group currently operates over 250 self-operated retail stores across Harbin, Shenyang, Changchun, Guiyang, Beijing, Daqing, Yushu, Fushun, Tieling, Jilin City and Songyuan in China, retailing primarily vegetables and also fruits, seafood, meat and other fresh food and also has 8 franchise stores.

The total purchase price for the Target Shares is RMB950 million (equivalent to approximately HK\$1.1 billion), which is determined based on the equity value of the Target Group, with reference to a professional business valuation of the Target Group. As the Deposit has previously been paid, a net purchase price of RMB550 million (equivalent to approximately HK\$609.2 million) will be payable in cash in Hong Kong dollars at Completion.

Pursuant to the Acquisition Agreement, the Vendor has granted the Call Option to Yield Smart, which is exercisable from 1 January 2021 to 31 December 2023, to acquire the remaining 81% of the entire issued share capital of the Target Company if in any one of the financial years ending 31 December 2020, 2021 or 2022, either (i) the aggregate GMV of the Dili Fresh Stores attains RMB10 billion or (ii) the EBITDA of the Target Group attains RMB250 million.

The Vendor has also granted the Put Option to Yield Smart, which is exercisable from 1 January 2023 to 31 December 2023, to sell back the Target Shares acquired in the Acquisition at a price being the sum of RMB950 million (equivalent to approximately HK\$1.1 billion) and an amount representing an interest rate of 6% per annum, provided that (i) the aggregate GMV of the Dili Fresh Stores for the financial year ending 31 December 2022 fails to attain RMB10 billion and (ii) the EBITDA of the Target Group fails to attain RMB250 million. Mr. Dai has given a personal guarantee in favour of Yield Smart for the due performance by the Vendor of its obligations under the Put Option.

THE LOAN

On the date of the Acquisition Agreement, Harbin Dili, a subsidiary of the Company, as lender and Dili Fresh, a subsidiary of the Target Group, as borrower also entered into the Loan Agreement for the principal amount of RMB2 billion (equivalent to HK\$2.2 billion). The Loan will be secured by way of a share charge and guarantee from each of the Vendor and Mr. Dai in favour of Yield Smart.

The Directors, excluding all independent non-executive Directors whose view will be contained in the circular to the Shareholders, are of the view that the terms of the Transaction, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major acquisition of the Company under the Listing Rules and as the Vendor is ultimately wholly owned by Mr. Dai, the Vendor is a connected person of the Company under the Listing Rules and accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

In addition, following the Completion, the Target Company will be owned as to 19% by Yield Smart and as to 81% by the Vendor and hence, the Target Company will be a connected person of the Company and a commonly held entity (as defined under the Listing Rules) upon Completion. The Loan to be advanced under the Loan Agreement is not in proportion to the equity interest of Yield Smart in the Target Company and will therefore constitute a continuing connected transaction of the Company and non-exempt financial assistance to the Vendor and the Target Company pursuant to the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the principal outstanding amount of the Loan and the interest amount accruing under the Loan exceeds 5%, the Transaction (comprising the Acquisition and the Loan) is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dai and his associates are required to abstain from voting on the resolution(s) approving the Transaction at the EGM.

Pursuant to the Acquisition Agreement, each of the Call Option and the Put Option is exercisable at the sole discretion of Yield Smart and a nominal premium is payable for the grant of the Options. Accordingly, the Company will, upon the exercise of the Call Option or the Put Option, comply with the applicable reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors is established to advise the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to make a recommendation to the Independent Shareholders on how to vote, taking into account the advice from an independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Transaction and the transactions contemplated thereunder.

INDEPENDENT FINANCIAL ADVISER

With the approval of the Independent Board Committee, the Company will appoint an independent financial adviser in due course to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

EGM AND DESPATCH OF CIRCULAR

The EGM will be convened at which ordinary resolution(s) will be proposed to the Independent Shareholders to consider, and, if thought fit, to approve, among others, the Acquisition Agreement, the Loan Agreement and the transactions contemplated thereunder. Mr. Dai (the controlling shareholder of the Company) and his associates will abstain, and any person who has a material interest in the Transaction is required to abstain, from voting on the relevant resolution(s) at the EGM.

Save for Mr. Dai Bin who has abstained from voting on the relevant Board resolution(s) by virtue of being an associate of Mr. Dai, to the best knowledge of the Company and having made all reasonable enquiries, no other Director is in any way materially interested in the Transaction and is required to abstain from voting on the relevant Board resolution(s) at the Board meeting.

A circular containing, amongst other information, (i) further information of the Transaction; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations from an independent financial adviser; (iii) a letter of advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iv) audited combined accounts of the Target Group; (v) unaudited pro-forma accounts of the Group as enlarged by its acquisition of the Target Group; (vi) a business valuation report of the Target Group; and (vii) a notice of the EGM, is expected to be despatched to the Shareholders on or before 30 September 2019, in order to allow the Company sufficient time to prepare the circular.

WARNING

Shareholders and investors should note that the Acquisition Agreement and the Loan Agreement are subject to various conditions as stated in the section headed “The Acquisition Agreement — Conditions Precedent” and “The Loan Agreement” therefore the Transaction may or may not complete. As such, Shareholders and investors are urged to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 29 August 2019, after trading hours, Yield Smart entered into the Acquisition Agreement with the Vendor for the sale and purchase of the Target Shares in the Target Company on the terms summarised below. The Target Company owns “Dili Fresh”, an agricultural and food produce retail chain in the PRC.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are summarized as follows:

Date:	29 August 2019
Parties:	Yield Smart Limited, a wholly-owned subsidiary of the Company, as purchaser Plenty Business Holdings Limited, as vendor, a company wholly-owned by Mr. Dai, the controlling shareholder of the Company and hence, the Vendor is a connected person of the Company
Subject matter to be acquired:	Target Shares, representing 19% of the entire issued share capital of the Target Company

Consideration

The total purchase price for the Target Shares is RMB950 million (equivalent to approximately HK\$1.1 billion), of which RMB400 million (equivalent to approximately HK\$443.1 million) has previously been paid as the Deposit. The net amount of RMB550 million (equivalent to approximately HK\$609.2 million), will be payable in cash in Hong Kong dollars by Yield Smart at Completion.

Basis of the Consideration

The total purchase price for the Target Shares was determined after arm's length negotiations between the parties to the Acquisition Agreement following due consideration of, without limitation, the following factors:

- (a) the 100% equity value of the Target Group of RMB5 billion (equivalent to approximately HK\$5.5 billion), with reference to the preliminary business valuation of the Target Group as at 30 June 2019 by an independent professional valuer, which has taken into account the audited sales of the Target Group for the financial year ended 31 March 2019, the enterprise value to sales multiples of listed comparable companies and the adjustments in relation to cash, debts and other receivables of the Target Group;
- (b) downside investment risk, if any, being safeguarded by the availability of the Put Option with a guaranteed interest rate; and an exclusive right to purchase the remaining stake in the Target Group in the future being reserved by way of the Call Option; and
- (c) the synergies expected to be generated between the Group and the Target Group upon Completion as stated in the section headed "Reasons for and benefits of the Transaction" below.

Conditions Precedent

The Completion is conditional on the satisfaction (or waiver, if applicable) of the following conditions precedent on or before 30 June 2020 unless the parties otherwise agree:

- (a) approval from the Independent Shareholders having been obtained at the EGM for, among others, the Acquisition Agreement, the Loan Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;
- (b) all necessary approvals, licenses, authorisations, consents, waivers, exemptions, clearances, orders, notifications or filings from or with the relevant governmental or regulatory authorities for effecting the Transaction having been obtained or made, effective and not having been revoked or withdrawn;
- (c) the completion of due diligence in relation to the Target Group to the satisfaction of the Company in its absolute discretion;
- (d) all relevant approvals, licences, authorisations, consents, permissions, waivers, notifications or confirmations from the relevant third parties necessary for effecting the Transaction having been obtained, effective and not having been revoked;
- (e) there being no material adverse change in respect of the business, operations, financial conditions or prospects of the Target Group;
- (f) Yield Smart as purchaser having received a business valuation report of the Target Group (in substance and form satisfactory to Yield Smart);
- (g) the Reporting Accountants having completed the audit of and issued an unqualified opinion on the accountants' reports of the Target Group the contents of which being satisfactory to the Company;
- (h) the representations and warranties provided by Yield Smart contained in the Acquisition Agreement remaining true and accurate as at the Completion Date and as if repeated at all times between the date of the Acquisition Agreement and the Completion Date;
- (i) the representations and warranties provided by the Vendor contained in the Acquisition Agreement remaining true and accurate as at the Completion Date and as if repeated at all times between the date of the Acquisition Agreement and the Completion Date; and
- (j) the Vendor having performed and complied with all agreements, obligations, and conditions contained in the Acquisition Agreement that are required to be performed or complied with by it on or before completion of the transactions contemplated thereunder.

Save and except conditions (a) and (b), Yield Smart may waive in writing any of the conditions precedent specified above at any time. If any of the conditions of the Acquisition Agreement is not fulfilled or waived by Yield Smart on or before 30 June 2020 (or such later date to be agreed between the parties to the Acquisition Agreement in writing), the

Acquisition Agreement shall lapse and all obligations and liabilities of the parties thereunder (with the exception of certain provisions intended to survive any termination) shall cease and no party shall have any claim against the other save and except for antecedent breaches.

The Options

Call Option

Pursuant to the Acquisition Agreement, the Vendor has granted Yield Smart with the Call Option, under which Yield Smart has the right (but no obligation) to acquire from the Vendor the Remaining Shares, being 81% of the entire issued share capital of the Target Company, within the period commencing from 1 January 2021 and ending on 31 December 2023 (both days inclusive).

The Call Option is exercisable at the sole discretion of Yield Smart if in any one of the financial years ending 31 December 2020, 2021 and 2022, either (i) the aggregate GMV of the Dili Fresh Stores attains RMB10 billion or (ii) the EBITDA of the Target Group attains RMB250 million, as reviewed by an independent professional audit firm to be engaged by the Company. The Call Option may be exercised at an exercise price to be agreed at the time of exercise, which will take into account, among others, the valuation of the Target Group at the prevailing time. If the Call Option is exercised, the Target Company will become a wholly-owned subsidiary of the Company and its accounts will be consolidated into the Group.

Put Option

In addition, the Vendor has also granted Yield Smart with the Put Option pursuant to the Acquisition Agreement, under which Yield Smart has the right (but no obligation) to sell back the Target Shares to the Vendor and the Vendor has the obligation to purchase the Target Shares within the period commencing from 1 January 2023 and ending on 31 December 2023 (both days inclusive).

The Put Option is exercisable at the sole discretion of Yield Smart if: (a) the GMV of the Dili Fresh Stores did not attain RMB10 billion in the financial year ending 31 December 2022, and (b) the EBITDA of the Target Group did not attain RMB250 million in the financial year ending 31 December 2022 as reviewed by an independent professional audit firm to be engaged by the Company. The Put Option is exercisable at an exercise price (payable by the Vendor), which shall be the sum of (i) the total purchase price of the Target Shares of RMB950 million and (ii) an amount representing an interest rate of 6% per annum on the total purchase price. Mr. Dai has given a personal guarantee in favour of Yield Smart for the due performance by the Vendor of its obligations under the Put Option.

Pursuant to the Acquisition Agreement, Yield Smart may exercise either the Call Option or the Put Option but not both.

GMV as a benchmark

GMV is a common benchmark for evaluating the scale of retail businesses with a “market place” feature. It represents the gross value of all goods or merchandise sold through the retail sales network. When a fast-growing retail business has reached a certain level of sales, profitability can be achieved as a result of economics of scale and market influence.

The GMV of Dili Fresh Stores captures the sales of both the self-operated retail stores and the franchise stores. The GMV of RMB10 billion is used as a benchmark for the exercise of the Call Option and the Put Option because the Directors and the Vendor reasonably believe that when the scale of business of the Dili Fresh Stores reaches that benchmark level, there will be a solid basis for the Target Group to record material profits.

Completion

Completion is expected to take place on a date no later than the second Business Day from the date on which all conditions in the Acquisition Agreement have been fulfilled or waived, unless otherwise agreed by the parties.

Immediately upon Completion, the Target Company will be owned as to 19% by Yield Smart and 81% by the Vendor. The Target Company will not be accounted for as a subsidiary of the Company.

The Vendor has agreed to procure the change of financial year end date of the Target Group from 31 March to 31 December after the Completion.

THE LOAN AGREEMENT

The principal terms of the Loan Agreement are summarised as follows:

- Parties : Harbin Dili, a subsidiary of the Company, as lender
Dili Fresh, a subsidiary of the Target Group as borrower
- Loan : A revolving facility for the principal amount of not exceeding RMB2 billion
- Availability period : The period commencing on 11th Business Day after the board of directors of Harbin Dili has accepted the drawdown request from Dili Fresh and ending on the third anniversary of Completion
- Condition precedent : The Loan Agreement is conditional upon, among others, (i) the approval by the Independent Shareholders at the EGM of among others, the Loan and transactions contemplated thereunder; (ii) the completion of the Acquisition; and (iii) the satisfaction of the Board on the availability of the surplus cash of the Group or external borrowings on terms which are acceptable to Harbin Dili and the Company, taking into account the financial condition of the Group as a whole at the time of receipt of drawdown request(s) from Dili Fresh
- Maturity date : The earlier of:
(i) 31 December 2023;
(ii) the exercise of the Put Option; and
(iii) third anniversary from drawdown, provided that Dili Fresh may pre-pay any outstanding principal amount and/or interest(s) at any time prior to the maturity date
- Interest rate : The rate of interest applicable to the Loan or any outstanding balance thereof shall be the higher of:
(i) 6% per annum, which is determined with reference to the prevailing interest rate(s) in the market; and
(ii) the interest rate(s) at which Harbin Dili or the Group borrows from third-party banks
- Interest period : 12 months

- Security : The Loan will be secured by:
- (i) the share charge in relation to the Remaining Shares and the guarantee to be provided by the Vendor; and
 - (ii) the share charge in relation to all the shares in the Vendor and the guarantee to be provided by Mr. Dai,
- Both in favour of Yield Smart and will be released in the event of the exercise of the Call Option in full.
- Purpose : The Loan may be used for:
- (i) expanding the network of the Dili Fresh Stores and the franchise business;
 - (ii) investing in online e-commerce platform; and
 - (iii) as general working capital of the Target Group.

Proposed annual caps

Proposed annual caps for the principal amount outstanding under the Loan Agreement and the interest amount accruing under the Loan are as follows:

	From drawdown to 31 December 2019	Financial year ending 31 December 2020	Financial year ending 31 December 2021	Financial year ending 31 December 2022	Financial year ending 31 December 2023
Proposed annual caps for the principal amount outstanding	RMB2 billion	RMB2 billion	RMB2 billion	RMB2 billion	RMB2 billion
Proposed annual caps for the interest amount (<i>Note 1</i>)	RMB50 million (<i>Note 2</i>)	RMB200 million	RMB200 million	RMB200 million	RMB200 million

Note 1: The proposed annual caps for interest amount is calculated by assuming the proposed annual cap for the principal amount outstanding for the relevant financial year will be fully utilised and by using an interest rate of 10% p.a., with reasonable buffer built in to account for any unforeseeable circumstances which may give rise to an increase in the interest rate.

Note 2: On a pro-rata basis, assuming the first drawdown occurs on or after 1 October 2019.

The proposed annual caps for the principal amount outstanding and the interest amount accruing under the Loan are determined by taking into account: (i) the maximum amount available for drawdown under the Loan; (ii) the interest rate applicable to the Loan under the Loan Agreement; (iii) historical highest interest rate charged by third-party banks in the PRC in advances drawn by any members of the Group in the PRC; (iv) a reasonable buffer to account for any unforeseeable circumstances which may give rise to an increase in the interest rates; and (v) the note above.

INFORMATION OF THE GROUP

The Group is principally engaged in business operations of ten agriculture wholesale markets in seven cities in the PRC namely Shouguang, Guiyang, Harbin, Qiqihar, Mudanjiang, Shenyang and Hangzhou, which provide trading platforms for traders, wholesalers and distributors to buy and sell primarily vegetables and also fruits, seafood, meat, grain and oil and other food produce.

INFORMATION OF THE VENDOR

The Vendor is an investment holding company incorporated in the BVI with limited liability, currently directly wholly owned by Mr. Dai, the controlling shareholder of the Company, and hence, it is a connected person of the Company.

INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated in the BVI with limited liability. The Target Group will comprise, as at Completion, the Target Company, HK HoldCo and the PRC Subsidiaries which operate the Target Business. The original acquisition and investment costs paid by Mr. Dai for the Target Group (including establishment and reorganization) was approximately RMB2.5 billion (equivalent to approximately HK\$2.8 billion).

Target Business

The Target Business is the retailing across China of agricultural produce through the supermarket chain “Dili Fresh”, the wholesaling of agricultural produce, as well as fresh food chain business and supply chain and logistics management. The Target Group currently operates over 250 self-operated retail stores across Harbin, Shenyang, Changchun, Guiyang, Beijing, Daqing, Yushu, Fushun, Tieling, Jilin City and Songyuan in China, selling primarily vegetables and also fruits, seafood, meat and other food produce and has 8 franchise stores operated by the Franchisees.

Originated as a wholesale business of agricultural produce, the Target Business involves the sourcing of agricultural produce from agriculture wholesale markets such as those operated by the Group for onward sale to retailers. The Target Business started as wholesaling and gradually expanded to the retailing of agricultural produce using the tradename as “Dili Fresh” supermarket chain. The retail stores of the “Dili Fresh” supermarket chain exclusively source from the wholesale business within the Target Business.

Franchise Agreements

The Target Group has entered into the Franchise Agreements pursuant to which the Target Group licenses to the Franchisees the right to operate the franchise stores and use the “Dili Fresh” trademark(s). The key terms of the Franchise Agreements are summarised as follows:

Franchise	: The license of the operating right of franchise store, which shall exclusively sell the produce supplied or designated by the Target Group
Parties	: Relevant member of the Target Group, as franchisor Franchisee, as franchisee
Duration	: Three years, renewable on the same terms at the option of the Franchisee by giving three months’ written notice prior to the expiry of the Franchise Agreement
Franchise fee	: A non-refundable franchise fee, payable to the Target Group within 5 days of signing of the Franchise Agreement by the Franchisee
Deposit	: A non-interest bearing deposit, payable to the Target Group within 5 days of signing of the Franchise Agreement by the Franchisee, refundable in full to the Franchisee at the expiry of the Franchise Agreement
Trademark license	: The franchisor shall license the right to use the trademark(s) of “Dili Fresh” on a non-exclusive basis
Services	: Store management and employee training services shall be provided by the franchisor to the Franchisee, in return for a monthly service fee payable by the Franchisee
Franchisee’s undertakings	: During the term of the Franchise Agreement, it will not sell in the franchise store any produce supplied by third parties or otherwise engage in any business which competes with that of the Target Group Within a period of three years after the termination of the Franchise Agreement, it will not sell any produce of the same kind or similar with those of the Target Group in the franchise store or otherwise engage in any business which competes with that of the Target Group
Profits and loss	: All profits generated from the operation of the franchise store shall belong to the Franchisee and any loss recorded shall be borne solely by the Franchisee
Performance bond	: A non-interest bearing performance bond, payable to the Target Group to secure due performance of the Franchisee, refundable in full to the Franchisee at the expiry of the Franchise Agreement

- Termination : Termination events include but not limited to the following:
- (i) unauthorised use of the Dili Fresh trademarks or change of the design of the franchise store by the Franchisee;
 - (ii) sale of third-party produce in the franchise store by the Franchisee;
 - (iii) franchisee fails to commence business in the franchise store; and
 - (iv) franchisor ceases to own or have the right to license the trademark(s)

The franchise fees under the Franchise Agreements will be booked as revenue of the Target Group for the financial year ending 31 December 2020.

Based on the unaudited accounts of the Target Group, the historical combined financial information of the Target Group for the two financial years ended 31 March 2019 is set out below.

	For the financial year ended	
	31 March 2019	31 March 2018
	<i>(RMB'000 approx.)</i>	<i>(RMB'000 approx.)</i>
Net (loss)/profit before taxation	(142,062)	8,028
Net (loss)/profit after taxation	(151,472)	5,659
Revenue	4,354,001	2,333,217

The unaudited net liability of the Target Group as at 31 March 2019 was RMB82,141,000 (equivalent to approximately HK\$90,984,000).

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group is principally engaged in the operation of 10 agriculture wholesale markets in 7 cities in the PRC namely Shouguang, Guiyang, Harbin, Qiqihar, Mudanjiang, Shenyang and Hangzhou, which provide trading platforms for traders, wholesalers and distributors to buy and sell primarily vegetables and also fruits, seafood, meat, grain and oil and other food produce. The Board is of the view that the Acquisition is a natural expansion of the Group's operations which is a beneficial development strategy for the Company. The Board has taken the following factors into consideration when considering the expansion of business of the Group into the downstream segment of the value chain in agricultural sector.

To establish the foundation for tapping into the downstream retail business

The value chain of China's agriculture sector comprises plantation and growing (production), wholesaling (distribution) and consumption (retail). The agriculture wholesale markets operated by the Group is part of the fresh food distribution chain, while the Target Group is in the downstream retail segment. It is one of the largest fresh food supermarkets chain in Northeast China, which currently owns and manages over 250 stores.

As mentioned in the 2018 annual report of the Company, the Group's long-term goal is to establish a brand new fresh food distribution strategy featuring the "Production — Distribution — Retail" all-in-one distribution platform. This Acquisition is the first step and touchstone for expanding the Group's business into the "Retail" end. It is also part of the Group's transformation strategies from a "conventional property developer for fresh agriculture product" to "an advanced fresh food distribution service provider and supplier", striving to increase the overall efficiency and benefit of fresh distribution and supply in China.

Prospects of retail sales and e-commerce of fresh food industry

Consumer demand for fresh food products has the characteristics of an inelastic demand, a high-frequency consumption and is subject to relatively low impact by economic fluctuations. The high-frequency consumption creates strong traffic flow, which matches with the principles for investment in "new-economy" business. As a result, investors and capital from different segments are diving into China's fresh food industry, which will as generally believed, change and shape the landscape of China's future fresh food industry. Various e-commerce giants and traditional retailers are entering into the sector.

China's fresh food sales turnover have experienced continuous growth in the past few years, from approximately RMB3.61 trillion in 2013 to approximately RMB4.72 trillion in 2017. It is estimated that it will reach RMB5.31 trillion in 2019. In respect of the fresh food e-commerce business, the market size of fresh food e-commerce in China is experiencing robust growth in the recent years, having grown from approximately RMB140 billion in 2017 to approximately RMB210 billion in 2018, representing an approximately 50% increase. It is estimated that the growth will continue where the GMV is expected to breakthrough RMB300 billion.

Downstream expansion and synergies

The Acquisition will therefore enable downstream expansion of the Group in the value chain by tapping into the wholesaling and retailing of agricultural and fresh food produce businesses through the Target Group and its over 250 retail stores and its 8 franchise stores. By combining the upstream and downstream businesses in the agricultural sector, synergies listed below are expected to be created between the agricultural produce wholesale markets of the Group, and the wholesaling, retailing and related fresh food chain and supply chain and logistics business of the Target Group:

- (i) through the rapid expansion of the retails sales network of the Target Group, a solid foundation with steady consumption demand and downstream client resources will be formed which will in turn become the growth driver for the Group's agricultural produce wholesale markets;
- (ii) to share resources of the supply side owned by the Target Group and turn such suppliers into potential customers of the Group's agricultural produce wholesale markets; at the same time the Target Group can also source its supplies as a customer of the Group's agricultural produce wholesale markets;

- (iii) to share and utilize the big-data in respect of the upstream and downstream along the agriculture value chain collected and accumulated by the Group and the Target Group, which enable both parties to better analyse the demand and supply needs as well as pricing which is expected to further enhance operation efficiency; and
- (iv) potential sharing opportunities in relation to storage, logistics and delivery facilities among the Group and the Target Group, so as to create economies of scale to lower the overall operating costs.

Enhanced overall competitiveness

The Acquisition is not only sensible and natural but also an advantageous step for the Company. By extending the business downstream, the Acquisition will enable the Shareholders to invest in a full value chain of agricultural produce markets from sourcing to wholesaling and retailing. Upon Completion, the Group will be able to provide integrated one-stop-shop value chain solution from sourcing to end customers by operating agricultural produce markets in the upstream to wholesaling and retailing in the downstream, with added value in food chain business, supply chain and logistics. The Group therefore expects to enhance its strategic competitiveness in the agricultural sector through the Acquisition.

Through the Group's investment and the business collaboration with the Target Group, the Target Group will also continue to expand its supermarket chain networks in the PRC either by way of opening new stores or through franchise arrangements to become one of the dominant players in the fresh food supermarket sector. In order to turn around the continued loss making track record of the Target Group, the Target Group is expected to implement a number of strategies for its retail business development, including but not limited, (i) to upgrade the supply chain and logistics system to ensure timely delivery of products and to reduce labour costs; (ii) to continuously introduce new products with higher margin to enrich our product offerings; and (iii) to further enhance membership loyalty programme to attract long term customers.

Taking into account, among others, (i) the availability of the Call Option, which if exercised, will enable the Target Group to be wholly-owned by the Company, (ii) the interest-bearing feature of the Loan provides interest income at market lending rates to the Company, which is generally higher than interest rates for bank deposits (unfixed or untimed) and any finance costs to the Company will be fully compensated by interest income from the Target Group and (iii) the Loan will facilitate the above-mentioned strategies in among others, establishing physical presence in major cities by opening additional stores; developing e-commerce online platforms and upgrading of supply chain and logistics system, and accordingly, the Company considers it beneficial to enter into the Loan Agreement for advancing the Loan to the Target Group upon Completion.

In light of the above, the Directors (excluding all independent non-executive Directors whose view will be contained in the circular), and with interested Director(s) abstaining, are of the view that the terms of the Acquisition and the Loan which have been reached after arm's length negotiations among the parties, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, taking into account, among other things, the terms and conditions of the Acquisition Agreement and the Loan Agreement. The opinion of the Independent Board Committee, after taking into account the advice from an independent financial adviser, will be contained in the circular.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Acquisition exceed 25% but are less than 100%, the Acquisition constitutes a major acquisition of the Company under the Listing Rules and as the Vendor is ultimately wholly owned by Mr. Dai, the Vendor is a connected person of the Company under the Listing Rules and accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

In addition, following the Completion, the Target Company will be owned as to 19% by Yield Smart and as to 81% by the Vendor and hence, the Target Company will be a connected person of the Company and a commonly held entity (as defined under the Listing Rules) upon Completion. The Loan to be advanced under the Loan Agreement, which is not in proportion to the equity interest of Yield Smart in the Target Company, will therefore constitute a continuing connected transaction of the Company and non-exempt financial assistance to the Vendor and the Target Company pursuant to the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the principal outstanding amount of the Loan and the interest amount accruing under the Loan exceeds 5%, the Transaction (comprising the Acquisition and the Loan) is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dai and his associates are required to abstain from voting on the resolution(s) approving the Transaction at the EGM.

Pursuant to the Acquisition Agreement, each of the Call Option and the Put Option is exercisable at the sole discretion of Yield Smart and a nominal premium is payable for the grant of the Options. Accordingly, the Company will, upon the exercise of the Call Option or the Put Option, comply with the applicable reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

Independent Board Committee

The Independent Board Committee comprising all of the independent non-executive Directors of the Company is established to advise the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to make a recommendation to the Independent Shareholders on how to vote, taking into account the advice from an independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Transaction and transactions contemplated thereunder.

Independent Financial Adviser

With the approval of the Independent Board Committee, the Company will appoint independent financial adviser in due course and to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

EGM AND DESPATCH OF CIRCULAR

The EGM will be convened at which ordinary resolution(s) will be proposed to the Independent Shareholders to consider, and, if thought fit, to approve, among others, the Acquisition Agreement, the Loan Agreement and transactions contemplated thereunder. Mr. Dai (the controlling shareholder of the Company) and his associates will abstain, and any person who has a material interest in the Transaction is required to abstain, from voting on the relevant resolution(s) at the EGM.

Save for Mr. Dai Bin who has abstained from voting on the relevant Board resolution(s) by virtue of being an associate of Mr. Dai, to the best knowledge of the Company and having made all reasonable enquiries, no other Director is in any way materially interested in the Transaction and is required to abstain from voting on the relevant Board resolution(s) at the Board meeting.

A circular containing, amongst other information, (i) further information of the Transaction; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders as to whether the terms and conditions of the Transaction are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations from an independent financial adviser; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; (iv) audited combined accounts of the Target Group; (v) unaudited pro-forma accounts of the Group as enlarged by its acquisition of the Target Group; (vi) a business

valuation report of the Target Group; and (vii) a notice of the EGM, is expected to be despatched to the Shareholders on or before 30 September 2019 in order to allow the Company sufficient time to prepare the circular.

WARNING

Shareholders and investors should note that the Acquisition Agreement and the Loan Agreement are subject to various conditions as stated in the section headed “The Acquisition Agreement — Conditions Precedent” and “The Loan Agreement” therefore the Transaction may or may not complete. As such, Shareholders and investors are urged to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Acquisition”	the acquisition of 19% of the entire issued share capital of the Target Company
“Acquisition Agreement”	the conditional sale and purchase agreement dated 29 August 2019 entered into between Yield Smart and the Vendor in respect of the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Dili”	北京地利農副產品經營有限公司 (Beijing Dili Agricultural Produce and Side Products Operation Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Beijing Dili F&B”	北京地利舌尖餐飲有限公司 (Beijing Dili Shejian Food and Beverage Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Beijing Dili Supply Chain”	北京地利鮮供應鏈管理有限公司 (Beijing Dili Fresh Agricultural Produce Supply Chain Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks generally are open for business in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

“Call Option”	the right granted by the Vendor to Yield Smart to purchase the Remaining Shares from the Vendor pursuant to the Acquisition Agreement
“Company”	China Dili Group (Stock Code: 1387), a company incorporated in the Cayman Islands whose members’ liability is limited, the shares of which are listed on the Stock Exchange
“Completion”	the completion of the Acquisition
“Completion Date”	the date of Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Dalian Dili Fresh”	大連地利生鮮農產品企業管理有限公司 (Dalian Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Deposit”	the deposit in the aggregate sum of RMB400 million paid pursuant to the memorandum of understanding dated 11 September 2018 entered among Mr. Dai, Harbin Dili and Dili Fresh and extended by a supplemental agreement dated 7 March 2019
“Dili Fresh”	哈爾濱地利生鮮農產品企業管理有限公司 (Harbin Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Dili Fresh Stores”	all of the retail stores operated by the Target Group and the franchise stores operated by the Franchisees
“Director(s)”	the director(s) of the Company
“EBITDA”	earnings before interest, taxation, depreciation and amortisation
“EGM”	an extraordinary general meeting of the Company at which, among others, the terms of the Acquisition Agreement and the Loan Agreement and the transactions contemplated thereunder will be considered, and if thought fit, approved by the Independent Shareholders
“Franchise Agreements”	the franchise agreements between members of the Target Group as franchisors and the Franchisees which govern the rights and obligations under the franchise arrangements

“Franchisees”	independent third-party operators of 8 franchise stores of “Dili Fresh” across the PRC selling primarily vegetables and also fruits, seafood, meat and other food produce
“GMV”	gross merchandise value
“Group”	the Company and its subsidiaries from time to time
“Guizhou Dili Fresh”	貴州地利生鮮農產品企業管理有限公司 (Guizhou Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Harbin Dili”	哈爾濱地利農副產品有限公司 (Harbin Dili Agricultural Produce and Side Products Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Company
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK HoldCo”	Speed Up Development Limited, a company incorporated in Hong Kong which is directly wholly-owned by the Target Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent board committee established by the Company consisting of all independent non-executive Directors
“Independent Shareholder(s)”	Shareholders other than Mr. Dai and his associates and any person who is involved in, or interested in, the Transaction, who are entitled to attend and vote at the relevant general meeting of the Company under the applicable laws and regulations and the articles of association of the Company
“Jilin Dili Fresh”	吉林省地利生鮮農產品企業管理有限公司 (Jilin Province Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Liaoning Dili Fresh”	遼寧地利生鮮農產品企業管理有限公司 (Liaoning Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company
“Liaoning Dili Fresh Supply Chain”	遼寧地利生鮮農產品供應鏈管理有限公司 (Liaoning Dili Fresh Agricultural Produce Supply Chain Management Co., Ltd.**), a company incorporated in the PRC which is wholly-owned by the Target Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	a revolving loan up to the principal amount of RMB2 billion (equivalent to approximately HK\$2.2 billion)
“Loan Agreement”	the conditional loan agreement dated 29 August 2019 entered into between Harbin Dili (as lender) and Dili Fresh (as borrower) in relation to the Loan
“Mr. Dai”	Mr. Dai Yongge, the controlling shareholder (as defined in the Listing Rules) of the Company and the former Director of the Company prior to 30 September 2018. As at the date of this announcement, Mr. Dai (together with his associates) are interested in approximately 51.49% in the total issued share capital of the Company
“Mr. Dai Bin”	the Chief Executive Officer of the Company and executive Director and son of Mr. Dai
“Option(s)”	the Call Option and/or the Put Option, as the case may be
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Subsidiary(ies)”	any or all of the 9 subsidiaries of the Target Company established under PRC laws, being Dili Fresh, Liaoning Dili Fresh, Jilin Dili Fresh, Guizhou Dili Fresh, Dalian Dili Fresh, Beijing Dili, Beijing Dili F&B, Liaoning Dili Fresh Supply Chain and Beijing Dili Fresh Supply Chain
“Put Option”	the right granted by the Vendor to Yield Smart to sell back the Target Shares to the Vendor pursuant to the Acquisition Agreement
“Remaining Shares”	all issued shares of the Target Company to be held by the Vendor upon Completion, representing 81% of the entire issued share capital of the Target Company
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reporting Accountants”	an independent accounting firm engaged by the Company for the purpose of the Acquisition

“Share Charges”	a charge over shares in respect of the Remaining Shares and a guarantee by the Vendor in favour of Yield Smart and a charge over shares in respect of all issued shares of the Vendor and a guarantee by Mr. Dai in favour of Yield Smart, both of which shall be released in the event of the Call Option being exercised
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Business”	the businesses currently operated by the Target Group, which are agricultural produce supermarket chain, fresh food chain and supply chain and logistics management
“Target Company”	Million Master Investment Limited, a company incorporated in the BVI with limited liability which is a directly wholly-owned subsidiary of the Vendor
“Target Group”	the Target Company and its subsidiaries (being HK HoldCo and the PRC Subsidiaries)
“Target Shares”	1,900 ordinary shares of the Target Company, representing 19% of the entire issued share capital of the Target Company
“Transaction”	the Acquisition and the Loan
“Vendor” or “Plenty Business”	Plenty Business Holdings Limited, a company incorporated in the BVI with limited liability, which is directly wholly-owned by Mr. Dai
“Yield Smart”	Yield Smart Limited, a company incorporated in the BVI with limited liability which is a directly wholly-owned subsidiary of the Company
“%”	per cent.

By Order of the Board
China Dili Group
Wang Yan
Chairman

Hong Kong, 29 August 2019

As at the date of this announcement, the Board comprises Mr. Wang Yan and Mr. Dai Bin as executive Directors, Mr. Yin Jianhong and Ms. Yang Yuhua as non-executive Directors and Mr. Fan Ren-Da, Anthony, Mr. Wang Yifu, Mr. Leung Chung Ki and Mr. Tang Hon Man as independent non-executive Directors.

For the purpose of this announcement only, the conversion of Hong Kong dollars to Renminbi is based on the exchange rate of HK\$1.00 to RMB0.90281, as quoted by the People's Bank of China on 28 August 2019.

* *For identification purpose only*

** *English names are direct transliteration of the Chinese names and for reference only*