THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action you should take, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in China Dili Group, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company and neither this circular nor anything herein forms the basis for any contract or commitment whatsoever.

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)

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF TARGET SHARES IN AN AGRICULTURAL AND FOOD PRODUCE RETAIL CHAIN; (2) CONTINUING CONNECTED TRANSACTION IN RELATION TO A LOAN TO TARGET GROUP; AND (3) NOTICE OF EGM

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

中 毅 資 本 有 限 公 司
Grand Moore Capital Limited

A letter from the Board is set out on pages 7 to 34 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 35 to 36 of this circular. A letter from Grand Moore Capital Limited, the independent financial adviser, containing its advice and opinion to the Independent Board Committee and the Independent Shareholders is set out on pages 37 to 75 of this circular.

A notice convening the EGM to be held at 3:00 p.m., on Tuesday, 29 October 2019 at Chatham Room, Level 7, Conrad Hong Kong, One Pacific Place, 88 Queensway, Admiralty, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

* *For identification purpose only*

30 September 2019

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

"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
"Announcement"	the announcement of the Company dated 29 August 2019 in relation to, among other things, the Transaction
"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, any public holiday in Hong Kong or a day on which a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) 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
"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 (equivalent to approximately HK$443.1 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"	the extraordinary general meeting of the Company to be convened and held at 3:00 p.m., on Tuesday, 29 October 2019 at Chatham Room, Level 7, Conrad Hong Kong, One Pacific Place, 88 Queensway, Admiralty, Hong Kong, at which, among others, the Transaction and the transactions contemplated thereunder together with the terms of the Acquisition Agreement and the Loan Agreement (including the proposed annual caps), will be considered, and if thought fit, approved by the Independent Shareholders
"Enlarged Group"	the Group as enlarged by its acquisition of interest in the Target Group upon Completion
"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 30 franchise stores of "Dili Fresh" across the PRC selling primarily vegetables and also fruits, seafood, meat and other food produce

"GFA"	gross floor area
"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$"	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 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 Group 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 at the EGM, taking into account the advice from the Independent Financial Adviser
"Independent Financial Adviser"	Grand Moore Capital Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction
"Independent Professional Valuer"	International Valuation Limited, an independent professional valuer appointed by the Company

"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
"Independent Third Party(ies)"	(to the best of the Directors' knowledge, information and belief having made all reasonable enquiries) third parties independent of the Company and its connected persons
"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
"Latest Practicable Date"	27 September 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"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 of the Company and a former Director prior to 30 September 2018. As at the Latest Practicable Date, 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, 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 circular, 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
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Shareholders"	holders of the Shares
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"sq.m"	square metre
"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.

The shareholding in the Company of the respective Shareholder as disclosed in this circular refers to the percentage shareholding of such Shareholder to the issued share capital of the Company.

In this circular, unless the context otherwise requires, the terms "associate(s)", "connected person(s)", "connected transaction(s)", "subsidiary(ies)", "controlling shareholder(s)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this circular, unless the context otherwise requires, conversion of Hong Kong dollars into Renminbi is based on the exchange rate of HK$1.00 to RMB0.90281. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English name marked with "" is for identification purpose only. The English names of PRC entities marked with "**" are direct transliteration of their Chinese names and are included in this circular for reference only, and should not be regarded as their official English names. In the event of any inconsistency, the Chinese name prevails.*

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)

Executive Directors:
Mr. Wang Yan *(Chairman)*
Mr. Dai Bin *(Chief Executive Officer)*

Non-executive Directors:
Mr. Yin Jianhong
Ms. Yang Yuhua

Independent Non-Executive Directors:
Mr. Fan Ren-Da, Anthony
Mr. Wang Yifu
Mr. Leung Chung Ki
Mr. Tang Hon Man

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Suites 1701–1703
One IFC
1 Harbour View Street
Central
Hong Kong

30 September 2019

To the Shareholders

Dear Sir or Madam,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF TARGET SHARES IN AN AGRICULTURAL AND FOOD PRODUCE RETAIL CHAIN; (2) CONTINUING CONNECTED TRANSACTION IN RELATION TO A LOAN TO TARGET GROUP; AND (3) NOTICE OF THE EGM

A. INTRODUCTION

Reference is made to the Announcement in relation to the Transaction.

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 Mr. Dai, 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 total purchase price for the Target Shares is RMB950 million (equivalent to approximately HK$1.1 billion). As the Deposit had 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 by Yield Smart at Completion.

On the same date, Harbin Dili (a wholly-owned subsidiary of the Company) as lender and Dili Fresh (a wholly-owned subsidiary of the Target Group) as borrower entered into the Loan Agreement for the principal amount of not exceeding RMB2 billion (equivalent to approximately 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.

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. As the Vendor is ultimately wholly-owned by Mr. Dai, it is a connected person of the Company and accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

Following Completion, the Target Company will be owned as to 19% by Yield Smart and 81% by the Vendor respectively 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 Dili Fresh pursuant to the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the principal amount outstanding and the interest amount accruing under the Loan exceeds 5%, the Transaction (comprising the Acquisition and the Loan) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with: (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 Group 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 the 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 financial information of the Enlarged Group; (vi) a business valuation report of the Target Group; and (vii) a notice of the EGM.

B. THE ACQUISITION

The Acquisition Agreement

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

Date:	29 August 2019
Parties:	Yield Smart (as purchaser)
	Plenty Business (as vendor)
Subject matter to be acquired:	the Target Shares, representing 19% of the entire issued share capital of the Target Company

As at the Latest Practicable Date, Mr. Dai (the controlling shareholder of the Company) together with his associates were interested in approximately 51.49% of the total issued share capital of the Company. As the Vendor is ultimately wholly-owned by Mr. Dai, it is a connected person of the 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) had 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) reference to the business valuation of the Target Group as at 30 June 2019 by the 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 "H. Reasons for and benefits of the Transaction" below.

In relation to the business valuation of the Target Group referred to in (a) above, the Independent Professional Valuer adopted the market approach as its valuation methodology to arrive at a concluded market value of the Target Shares. The cost approach was not adopted as it tends to understate the value of an income-generating business. The income approach was also not adopted since prospective financial projection at market participants' point of view, which is subject to a number of assumptions and contingent factors, was not reliably available.

With respect to the choice of valuation multiples, the Independent Professional Valuer has considered enterprise-value-to-sales ("**EV/Sales**"), price-to-sales ("**P/S**"), enterprise-value-to-earnings-before-interest-and-tax ("**EV/EBIT**"), enterprise-value-to-earnings-before-interest-tax-depreciation-and-amortization ("**EV/EBITDA**"), price-to-earnings ("**P/E**") and price-to-book ("**P/B**") multiples. EV/EBIT, EV/EBITDA and P/E multiples were not adopted because Target Group has recorded negative EBIT, negative EBDITA and net loss in the most recent financial year before 30 June 2019 (the "**Valuation Date**"). P/B multiple was not adopted because the Target Group was not asset-intensive and this method could not consider the profitability or the earning potential of the Target Group. EV/Sales multiple was preferred over P/S multiples since it could take into account the differences in capital structure between the Target Group and the comparable companies. Therefore, the Independent Professional Valuer has employed EV/Sales multiple in the valuation for the Target Group as of the Valuation Date, and used P/S multiple for cross-checking purpose.

As for market comparable companies, the Independent Professional Valuer searched for listed companies with business scopes and operations similar to those of the Target Group with reference to selection criteria including, significant portions of the assets or businesses of the companies involve agricultural produce supermarket chain, fresh food chain and supply chain and logistics management in China, akin to the Target Business; the companies having pertinent listing and operating histories; and the financial information and relevant multiple of the companies are available to the public.

The Independent Professional Valuer adopted three comparable companies and considered the EV/Sales and P/S multiples of such comparable companies as of the Valuation Date as extracted from Bloomberg and took the mid-point of the median and average of such EV/Sales multiples to arrive at the enterprise value of the Target Group.

The enterprise value of the Target Group is further adjusted by (i) a discount for lack of marketability to account for the fact that the Target Group was privately held and (ii) cash, debts and net non-operating assets to conclude the equity value of the Target Group as a whole.

Conditions Precedent

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

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 and EBITDA as benchmarks

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 the 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.

EBITDA is also used as a benchmark because it enables the financial performance of the Target Group to be assessed.

Based on the reasons and rationale set out under the section headed "H. Reasons for and benefits of the transaction — Board's assessment", the Board reasonably believes that both benchmarks are fair and reasonable, and there would be a fair chance for either or both of the benchmark(s) to be attained in absence of unforeseen circumstances for the Call Option to be exercisable. In the event that both of the benchmarks are not attained, the Put Option will become exercisable and hence, any downside investment risk will be safeguarded.

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.

C. THE LOAN

The Loan Agreement

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

Parties	:	Harbin Dili (as lender) Dili Fresh (as borrower)
Loan	:	A revolving facility for the principal amount of not exceeding RMB2 billion
Availability period	:	The period commencing on the 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
Conditions 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 the 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

The source of funding for the Loan comprises surplus cash of the Group which may be replenished by external bank borrowings and the obligation to lend is subject to the satisfaction of the Board of the financial conditions and cash flow requirements of the Group at the prevailing time of drawdown. The interest rates of subsisting external bank borrowings of the Group are within the range of approximately 4.4% per annum to 6.8% per annum. As at the Latest Practicable Date, the Group has approximately RMB1.9 billion cash at bank and on hand and the Group will assess, to the satisfaction of the Board, its level of surplus cash at the prevailing time of receiving each drawdown request from Dili Fresh with due care before deciding whether and the extent of surplus cash that may be used for providing the Loan. To the extent necessary and on acceptable terms, the Group can also replenish its source of funding for the Loan by external bank borrowings. RMB2 billion is the maximum amount that the Group may lend to the Target Group under the Loan. It was neither structured as an obligation or a firm commitment on the part of the Group to lend all of the RMB2 billion nor is the Group obliged to lend at all as any drawdown request of Dili Fresh would be subject to the Board's assessment of the financial condition of the Group and its surplus cash level.

Given that one of the conditions precedent for drawdown of the Loan is the Board's satisfaction of surplus cash available to the Group or terms of external bank borrowing, taking into account the financial condition of the Group as a whole at the time of receipt of the drawdown request from Dili Fresh, the Group will not be obliged to provide the Loan in circumstances where the provision of the Loan will result in the Group having insufficient working capital for its own operations and/or a material adverse impact on the Group's gearing ratio as a result of higher leverage. As such, the Board reasonably believes that the Group will continue to have sufficient working capital to finance its own operations after the provision of the Loan if any for the next 12 months from the date of this circular.

The Loan represents financial support by the Group, which has leverage over lower financing costs in terms of interest expense as a listed company than the Target Group. It is not the commercial objective of the Group to earn through levying a margin on the interest rate of the Loan, as the potential growth of the Target Group's business is expected to present and release a much greater value to the Group than the interest margin for reasons set out in the section headed "H. Reason for and benefits of the Transaction" of this circular. In any event, the Group is protected from interest rate fluctuations as it is guaranteed to receive a minimum of 6% per annum of interest rate on the Loan and any additional cost from increase in interest rate can be passed on to the Target Group.

Proposed annual caps

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

	From drawdown to 31 December	**Financial year ending 31 December**			
	2019	**2020**	**2021**	**2022**	**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[1]	RMB50 million[2]	RMB200 million	RMB200 million	RMB200 million	RMB200 million

Note 1: The proposed annual caps for the interest amount are calculated by assuming the proposed annual cap for the principal amount outstanding during the relevant financial period/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) the highest historical interest rate charged by third-party banks in the PRC in respect of advances drawn by 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 notes 1 and 2 above.

D. INFORMATION OF THE GROUP

Yield Smart is an investment holding company incorporated in the BVI with limited liability, which is directly wholly-owned by the Company.

The Group is principally engaged in business operations 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.

E. INFORMATION OF THE VENDOR

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

F. INFORMATION OF THE TARGET GROUP

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 reorganisation) was approximately RMB2.5 billion (equivalent to approximately HK$2.8 billion).

The 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 approximately 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 30 franchise stores operated by the Franchisees.

Originated as a wholesale business of agricultural produce since the establishment of Dili Fresh in April 2016, 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. As the wholesale business operated by the Target Group mainly involved the supply and distribution of agricultural produce to retail operators, it is distinguishable from the operations of the Group, being an operator of various agriculture wholesale markets for the trading of agricultural produce, thus the Target Group's wholesale business did not constitute a competing business with the Group's business. The Target Business started as wholesaling and gradually expanded to the retailing of agricultural produce in 2018 using the tradename as ''Dili Fresh'' supermarket chain.

During the course of migration of the Target Group's wholesale business to retail business, it opened approximately 250 self-operated retail stores, among which 204 retail stores were established by acquisitions and 46 retail stores were self-established via organic growth, with the costs of acquisition in the amount of approximately RMB117.4 million and the costs of self-establishment via organic growth in the amount of approximately RMB47.0 million, respectively. In relation to the 204 retail stores acquired, they were originally owned by 135 individual vendors who sold their stores through Mr. Min Fuyi (�co福義), a Mr. Gao and a Mr. Zhang (Mr. Min, Mr. Gao and Mr. Zhang collectively, the "**Retail Stores Owners**"). The opportunity in acquiring these retail stores was introduced by the Retail Stores Owners to the Target Group. In the course of acquiring the retail stores from the Retail Stores Owners, other than the costs in the amount of approximately RMB117.4 million incurred for the transfer of business and assets of the individual stores, Mr. Dai has made separate compensatory payments for the loss of employment and business opportunities of the Retail Stores Owners and for their undertaking not to engage in competing business with the Target Group. Save and except in relation to the introduction of vendors, the acquisition of retail stores and the compensations, there is no other relationship, arrangement, understanding or undertaking between the Retail Stores Owners and the said 135 individual vendors and the Company and its connected person(s) in relation to the Target Business and the Retail Store Owners and the said 135 individual vendors are independent from the Company and its connected person(s).

The operation flow of the retail business of the Target Group comprises sourcing of agricultural food produce from the wholesalers for onward sale to retail customers either through its self-operated retail stores or franchise stores operated by the Franchisees. The major customers of the Target Group consists mostly the general public while the Target Group has a vast variety of over 3,000 suppliers. In addition, the Target Group operates a logistics department for the transportation of goods from suppliers to various storage facilities and retail stores. Since the business operation of the Target Group involves selling fresh agricultural food produce, it would also perform sample checking at various points during the transportation in order to ensure that the produce are fresh and safe for consumption.

The major cost components of the Target Group include the cost of sales given the nature of its retail business, personnel expenses as retail is a labour intensive industry, rental and utility costs for store space as well as the administrative expenses as the retail business continues to expand. In terms of capital expenditure, it is mostly spent on the establishment of the retail stores, additional warehouse facilities and equipment as well as the development of the information system during its expansion phase. The operation and expansion of the Target Group is funded by a combination of self-generating cash, bank borrowing and shareholder contribution.

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). Depending on the bargaining power of the individual franchisee, the Franchise Agreements generally comprise the following terms:

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 fixed and non-refundable franchise fee in the amount of RMB30,000, payable to the Target Group by the Franchisee within five days of signing of the Franchise Agreement
Deposit	:	A non-interest bearing deposit for the performance of the Franchise Agreement in the amount ranging from RMB20,000 to RMB50,000 and for the payment of goods in the amount of RMB8,000 per 100 sq.m of the franchise store, payable to the Target Group by the Franchisee within five days of signing of the Franchise Agreement, 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 which is determined based on RMB1 per sq.m of the franchise store per day
Sourcing fee	:	The Franchisee shall exclusively source the fresh produce through the Target Group or its designated suppliers where a sourcing fee is payable with reference to the value of the goods supplied, starting from 1% for the first year and progressively increasing to 2.5% for the fourth year and onwards
Management fee	:	Annual fixed fee of RMB 50,000 per store, waivable for the first year as an incentive

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 the 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 fee, deposit, service fee and sourcing fee as prescribed under the Franchise Agreement are determined by taking into account various factors, including the floor area of the franchise stores, the value of produce supplied, the prospects of the retail business, the general market environment and so might vary case by case subject to the commercial negotiations among the parties.

The fee income, including the franchise fees and the sourcing fees under the Franchise Agreements, will be booked as revenue of the Target Group for the financial year ending 31 December 2020.

Financial information of the Target Group

Based on the audited combined 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	
	2018	**2019**
	(RMB'000 approx.)	*(RMB'000 approx.)*
Net (loss)/profit before taxation	8,029	(142,063)
Net (loss)/profit after taxation	5,660	(151,473)
Revenue	2,333,217	4,354,001

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

Please refer to the sections headed "Financial Information of the Target Group" and "Accountants' Report of the Target Group" set out in Appendices II and III respectively to this circular for further financial information of the Target Group.

G. THE DEVELOPMENT PLAN AND PROSPECTS OF THE TARGET GROUP

Based on the information provided by the Target Group and the due diligence conducted by the Company, the Directors believe that there are substantial growth potentials and positive prospects of the Target Group from both the long-run and near term perspectives despite that the Target Group recorded a loss for the year ended 31 March 2019 (details of which are set out in Appendix II to this circular).

The long-term goal of the Target Group is to become a leading community fresh food retail chain in China with omni-channel retailing (or commonly known as Online-to-Offline, "O2O") features. The key business strategies adopted by the Target Group to achieve this goal are set out below.

Rapid expansion through franchise model to assert its market influence and achieve economies of scale

Like other companies with new economy business models, the Target Group believes that the key to success is to secure market control within a short period of time. As such, the short-term goal of the Target Group is to rapidly expand the sales network and platform of the Dili Fresh Stores in order to further strengthen its market position and assert its market influence. In addition, when the network of retail stores and the sales generated therefrom become scalable, economies of scale is expected to be achieved.

Leveraging on the brand recognition of "Dili Fresh" in the north-eastern region of China, the Target Group is expected to rapidly expand its sales network through its franchise model. The franchise model allows the Target Group to rapidly expand its sales network, create market influence and achieve economies of scale without incurring substantial self-owned capital. In other words, utilizing the brand equity of "Dili Fresh" in the region, the Target Group is inviting individual traders and small shop owners who are already in the fresh food retail industry to join as franchisees, therefore utilizing their resources and sales power to jointly build the network of Dili Fresh Stores. It is also a cost-efficient expansion model, as part of the costs and expenditure for expansion will be borne by external franchisees. In addition, compared with opening new stores by the Target Group itself, a franchise model is believed to be more time-efficient as the targeted GMV could be attainable within a shorter period of time.

Expansion plan of the network of Dili Fresh Stores

The Target Group is prepared to rapidly expand the network of Dili Fresh Stores through the franchise model as well as by adjusting the store-type. Below sets out the actual and projected GMV and the number of self-operated stores and franchise stores during the year ended 31 March 2019 and the two years ending 31 March 2020 and 2021:

	Year ended 31 March 2019 (Actual)	**Year ending 31 March 2020 (Forecast estimate)**	**Year ending 31 March 2021 (Forecast estimate)**
GMV (RMB million)	4,354	6,700	11,100
No. of stores (approximately)	**250**	**710**	**1,230**
Self-operated stores	*250*	*260*	*280*
Franchise stores		*450*	*950*

In addition, the Target Group will adjust and re-design the store-type of Dili Fresh Stores. According to its development plan, there will be two major types of Dili Fresh Stores in terms of size, namely (i) main stores (主力店) with a GFA of approximately 300 sq.m to over 500 sq.m; (ii) community stores (社區店) with average GFA of approximately 100 sq.m to 200 sq.m. The existing self-operated stores are substantially larger in terms of the GFA, ranging from approximately 300 sq.m to over 1,000 sq.m. The franchise model of the Target Group will mainly focus on community stores.

Community stores which are located within or in close proximity of residential complex or community will serve as a kind of "convenience store" to support the neighbourhood with handy fresh food produce and other daily necessities.

The lead time required in establishing franchise stores is generally short as it has been the practice of the Target Group to invite owners of existing fresh food shops to join and convert their shops into franchise stores with the brand and logo of "Dili Fresh" and standardized virtual identity of the Target Group. In its experience, the Target Group generally takes weeks' time from negotiating with a shop owner on a proposed franchise arrangement to furnishing the shop to the standard required by the Target Group and becoming a "Dili Fresh" franchisee.

The expected additional costs to be incurred by the Target Group for the franchise business principally include extra staff costs and administration and promotion expenses. The Target Group expects the total extra costs to amount to approximately RMB80 million per year which is expected to be covered by the fee income under the franchise model including the franchise fee, service fee, management fee and the sourcing fee in the year ending 31 March 2021, given that for the year ending 31 March 2020, the sourcing fee is payable on a progressive scale starting from 1% and the management fee is waivable as incentive. The direct contribution in terms of revenue to the Target Group is not expected to be significant for the years ending 31 March 2020 and 2021, subject to the expansion progress. That said, the GMV that the franchise stores are expected to achieve under the brand name of "Dili Fresh" with minimum cost exposure from the Target Group are the key drivers for gaining market influence, generating synergies and bringing intangible benefits to the Target Group.

Given the relatively low cost and short lead time required, the Board considers that such franchise model expansion is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Efficiency of Dili Fresh Stores

Efficiency of each store is measured by the parameter of "annual GMV per sq.m." Due to the size and function of community stores, the community stores usually have higher GMV per sq.m as they have less stock units displayed and sold, and they focus on higher margin products. In addition, community stores are usually located within or in close proximity of residential community which attracts higher customer traffic flow per sq.m compared to main stores.

With the scale of retail business increasing where economies of scale is expected to be achieved and the overall operation costs as a percentage to the revenue will be lowered as a result, the average "annual GMV per sq.m" is expected to be improved. For the year ended 31 March 2019, the average "annual GMV per sq.m" of the existing self-operated stores was approximately RMB21,000 per sq.m. The Target Group expects this to be improved to approximately RMB25,000 per sq.m. For the franchise stores, the Target Group expects it will reach approximately RMB29,000 per sq.m in the first two years ending 31 March 2021 and will gradually improve to approximately RMB35,000 per sq.m by means of (i) adjusting product portfolio with higher margin; (ii) better inventory management to avoid wastage; and (iii) enhancing brand awareness to attract consumer traffic flow.

As a result of economies of scale, a better mix of store types, and roll out of the franchise model, the overall efficiency will be improved, the overall operation costs of the Target Group are also expected to be reduced.

Further enhance operation efficiency through strengthening its supply chain and upgrade of the logistics system

The Target Group expects that with a substantially broader sales network and higher sales volume, it will have stronger bargaining power with the upstream suppliers going forward. In addition, the Target Group already has business collaboration plans with some rural co-operative agencies (農村農業合作社) to source fresh produce differently from the primary source. This enables the Target Group to secure a safe and good quality source of fresh produce at a competitive price.

Apart from the supply chain, the Target Group is using its best effort to improve and upgrade its logistics system with the aim to shorten the time and distance of transportation of its fresh produce which is a crucial factor for operating a fresh food retail business. Its plans include improvement on real-time inventory data, establishment of a network of smaller-scaled storage facilities which are closer to consumers. The Target Group believes that the more efficient its logistics system, the higher its operational efficiency, which is expected to result in higher profit margin.

Business collaboration with third party delivery platform to enable its customers to enjoy online shopping experience

The business model of the Target Group's retail business encompasses O2O features. Instead of building its own online platform, the Target Group currently co-operates with various large food delivery service operators in China, including "Meituan Waimai" (美團外賣), and "Hungry-now?" (餓了麼?). This allows the Target Group to provide online-shopping experience to its customers without the need of incurring substantive capital expenditure in building its own online platform. Going forward, the Target Group expects to continue to look for cooperation with other online/e-commerce platform operators, for example, operators for community group-purchase (社區拼團).

Based on the above business proposal, the Company considers the prospects of the Target Group to be positive and if the business proposal is duly implemented, the Company reasonably believes that the Target Group will be able to record profits in the short to medium term in the absence of unforeseen circumstances affecting the business of the Target Group.

Please also refer to the section headed "H. Reasons for and Benefits of the Transaction — Downstream expansion and synergies" for details on the synergies expected to be created between the Group's wholesale market business and the Target Group's fresh food retail businesses.

H. 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 the agricultural sector.

To establish the foundation for tapping into the downstream retail business

The value chain of China's agricultural sector comprises plantation and growing (production), wholesaling (distribution) and consumption (retail). The agriculture wholesale markets operated by the Group are part of the fresh food distribution chain, while the Target Group is in the downstream retail segment. The Target Group is one of the largest fresh food supermarkets chain in Northeast China, which currently owns and manages approximately 250 self-operated retail stores and 30 franchise 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 platform featuring the "Production — Distribution — Retail" all-in-one concept. 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 inelastic demand, 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 in terms of GMV 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 retailing of agricultural and fresh food produce businesses through the Target Group's network of Dili Fresh 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 retailing and related fresh food chain and supply chain and logistics business of the Target Group:

(i) through the rapid expansion of the retail sales network of the Target Group, a solid foundation with steady consumption demand and downstream client resources will be formed. Such resources from the demand side is extremely valuable to the Group's agricultural produce wholesale markets as it will not only form the growth driver for the Group's existing wholesale markets, it will also provide a solid foundation and competitive edge for the Group to expand its wholesale market network into new cities where Dili Fresh Stores are present;

(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 utilise 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 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 business collaboration with the Target Group, the Target Group will also continue to expand its sales 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 retail sector. In order to turn around its continued loss making track record, the Target Group is expected to implement a number of strategies for its retail business development, including but not limited, (i) to enhance overall efficiency and reduce overall operation costs as a result of economy of scale, a better mix of store types and the roll-out of the franchise model; (ii) to upgrade the supply chain and logistics system to ensure timely delivery of products and to reduce labour costs; (iii) to continuously introduce new products with higher margin to enrich its product offerings; and (iv) to further enhance membership loyalty programme to attract long term customers.

The Board's assessment

In considering the reasons for and benefits of the Transaction, especially in assessing the likelihood for the benchmark of GMV or EBITDA to be achieved, the Board has taken into careful consideration of the business development plan and projection of the Target Group and also conducted its own research on the feasibility of the Target Group's expansion plan.

(i) The Target Group's expansion plan and franchise model

The Directors share the same view of the Target Group that rapid expansion of the Dili Fresh Food network to gain market influence and achieve economy of scale is ultimately important to the future success of the Target Group. In this regards, the Directors also share the view that a franchise model is an effective and efficient way to achieve such purpose.

In assessing the feasibility of the Target Group's expansion plan, the Directors considered:

(a) Number of stores to be opened

When assessing the reasonableness of the number of stores to be opened by the Target Group, the Directors, having taken into consideration:

— population of the city where the stores are located — the ratio of population to number of stores within a defined area;

— site area of the city and density of residential population — the density of residential units in a defined area for determining the optimal number of stores to be established; and

— store location with consumer traffic flow,

are of the view that the number of stores to be opened in the next two years is reasonable.

(b) Execution of the rapid expansion plan

The Directors considered the feasibility of opening a vast number of franchise stores within a short period of time and took the view that such rapid expansion plan is feasible based on the following grounds:

— the size of the franchise stores are substantially smaller in terms GFA;

— lead time required in establishing a franchise store is generally short as it has been the practice of the Target Group to invite owners of existing stores to join and convert their stores into franchise stores of the Target Group and by entering into standard franchise agreements;

— the roll-out plan of the franchise model is already in the execution stage; and

— the self-owned capital required for rolling out the franchise model is relatively small

As at the Latest Practicable Date, the Target Group has entered into an extra 22 franchise agreements since the date of the Announcement, making it a total of 30 franchise stores. The Target Group is also in discussions with over 80 other franchisees in major cities across China pending negotiations to be finalised.

(ii) The benchmarks of GMV of RMB10 billion and EBITDA of RMB250 million to be achieved by the Target Group for the purpose of triggering the Call Option and Put Option

The revenue of the Target Group recorded for the year ended 31 March 2019 was approximately RMB4.4 billion, which also represents the GMV of the Target Group as no franchise stores was in existence during the year. The estimated projection of the GMV of the Dili Fresh Stores presented by the Target Group is approximately RMB6.7 billion, RMB11.1 billion and RMB16.8 billion for the financial year ending 31 March 2020, 2021 and 2022, respectively, representing a year-to-year increase of approximately 54%, 66% and 52%, respectively. If the "GMV per store per day" is considered by dividing the projected GMV of the Target Group by targeted number of stores of each year, the projected "GMV per store per day" is only approximately RMB25,000. The Directors are therefore of the view that the projected GMV of the Dili Fresh Stores of RMB6.7 billion and RMB11.1 billion for the two years ending 31 March 2020 and 2021 would be reasonable and relatively achievable.

Furthermore, it is expected that there will be a correlation between the GMV of the Dili Fresh Stores and revenue of the Target Group in terms of fee income from the franchisees. As the franchise business of the Target Group continues to expand, an increase in GMV of the franchise stores is expected to correspondingly lead to an increase in sourcing fee income for the Target Group as the franchisees will exclusively source their supply of produce through the Target Group or its designated suppliers, and pay sourcing fees proportional to the value of produce supplied. The franchise fee income and the management fee income of the Target Group which are chargeable per franchise agreement and per store, respectively, are also expected to increase where the increase in GMV of Dili Fresh Stores results from a growth in the number of franchisees and/or franchise stores.

In respect of the EBITDA benchmark, the Directors considered the turn-around strategies to be implemented by the Target Group in the next few years. The Directors share the view that the overall efficiency of the Target Group is expected to be improved and the overall operation costs are expected to be reduced based on the grounds set out in the section headed "G. The Development Plan and Prospects of the Target Group — Efficiency of Dili Fresh Stores". The Directors also believe that other turn-around strategies to be implemented by the Target Group, including upgrade of supply chain and logistics system to reduce labour costs, enhance product portfolio mix with higher margin products and promotion and membership loyalty programme to attract customer traffic flow, are reasonable and achievable means in enabling the Target Group to gradually become profitable.

The Directors believe that with the scale of the Target Group expanding rapidly, market influence will be created and the downstream synergies will become more prominent, which are expected to indirectly benefit the Group from a long-term strategic perspective.

Taking into account of the above considerations and the long-term strategic benefits to the Group, the Directors are of the view that benchmarks of GMV of RMB10 billion and EBITDA of RMB250 million are fair and reasonable. In any event, if none of the benchmarks are achieved, the Company can protect its interest by exercising the Put Option.

(iii) The Loan Agreement

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 guaranteed at a minimum of 6% per annum which is generally in line with market lending rates to the Company, and 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; 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.

(iv) The Target Group recorded a loss for the year ended 31 March 2019

The Target Group has a track record of over three years, despite that its retail business only commenced in the year ended 31 March 2019 and recorded a loss from operations and net liability as a result. Such loss and net liability were not signs of deteriorating financial performance as they were mainly due to the abrupt increase in costs and expenses arising as a result of having approximately 250 self-operated retail stores across China within a short period of time. The Directors believe that the Target Group has substantial growth potentials and is expected to be able to achieve economies of scale. For details of the positive prospects of the Target Group, please refer to the section ''G. The development plan and prospects of the Target Group'' of this circular.

As the Company will only be acquiring 19% of the Target Company, it will not be accounted for as an associate of the Group and instead it will be treated on the Group's consolidated accounts upon Completion as ''equity investment at fair value through other comprehensive income''. Given that the Target Company will not be accounted for as a subsidiary or as associate of the Group upon Completion, any future loss incurred by the Target Group, if any, would not be shared by the Group and thus would not result in any direct negative impact on the Group's statement of profit or loss. Furthermore, any downside investment risk of the Company is safeguarded by the availability of the Put Option, with a guaranteed interest of 6% per annum.

(v) Conclusion

In light of the above, the Directors (excluding all independent non-executive Directors whose view is contained in the section headed ''Letter from the Independent Board Committee'' of this circular and the Director(s) who abstained from voting on the relevant resolution(s) of the Board) are of the view that the terms of the Acquisition and the Loan (including the proposed annual caps) 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 (i) terms and conditions of the Acquisition Agreement and the Loan Agreement; (ii) the value to the Group's business strategies in terms of achieving a complete value chain of fresh food distribution and supply chain as more detailed in section ''H. Reasons for and benefits of the Transaction — Enhanced overall competitiveness'' of this circular; and (iii) the synergies expected to arise from the downstream expansion of the Group including sharing of supply side resources, utilization of big data and economies of scale through costs efficiency over storage and logistics as more detailed in section ''H. Reasons for and benefits of the Transaction — Downstream expansion and synergies'' of this circular.

I. IMPLICATIONS UNDER THE LISTING RULES

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. As the Vendor is ultimately wholly-owned by Mr. Dai, it is a connected person of the Company and accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

Following 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 Dili Fresh pursuant to the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the principal amount outstanding and the interest amount accruing under the Loan exceeds 5%, the Transaction (comprising the Acquisition and the Loan) is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dai and his associates will 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 of HK$10 is payable for the grant of the Options. The Company will, upon the exercise or non-exercise, termination or transfer of the Call Option or the Put Option, comply with the applicable reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

J. FINANCIAL EFFECT OF THE TRANSACTION

Immediately upon Completion, the Target Company will be owned as to 19% by Yield Smart and 81% by the Vendor respectively, and will not be accounted for as a subsidiary of the Company. Please refer to Appendix IV to this circular for more information on the basis of preparation of the unaudited pro forma consolidated financial information of the Enlarged Group.

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.

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that the Acquisition had taken place on 30 June 2019, (i) the total assets of the Group would have increased from approximately RMB12.0 billion to approximately RMB14.0 billion; (ii) the total liabilities of the Group would have increased from approximately RMB3.4 billion to approximately RMB5.4 billion; and (iii) the net assets of the Group would have maintained at approximately RMB8.6 billion, in each case on a pro forma basis.

K. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Fan Ren-Da, Anthony, Mr. Wang Yifu, Mr. Leung Chung Ki and Mr. Tang Hon Man, being all independent non-executive Directors, has been established to advise the Independent Shareholders on matters relating to the Transaction.

The Company has, with the approval of the Independent Board Committee, appointed Grand Moore Capital Limited as the independent financial adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee on matters relating to the Transaction.

L. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

M. EGM

A notice of the EGM to be held at 3:00 p.m., on Tuesday, 29 October 2019 is set out on pages EGM-1 to EGM-2 of this circular for the purpose of considering and, if thought fit, to approve by the Independent Shareholders, among others, (i) the Acquisition Agreement and the transactions contemplated thereunder including the Options and (ii) the Loan Agreement and the transactions contemplated thereunder including the proposed annual caps.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire and, in such event, the instrument appointing a proxy will be deemed to be revoked.

In order to determine the list of shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed for registration of transfer of shares from Thursday, 24 October 2019 to Tuesday, 29 October 2019 (both days inclusive) during which period no transfer of shares will be effected. Shareholders whose names appear on the register of members of the Company on Tuesday, 29 October 2019 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, should be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before 4:30 p.m., Wednesday, 23 October 2019.

N. VOTING AT THE EGM AND THE BOARD MEETING

As at the Latest Practicable Date, Mr. Dai (the controlling shareholder of the Company) and his spouse, Ms. Zhang Xingmei (being Mr. Dai's associate), were interested directly and indirectly through controlled companies in approximately 37.29% and 14.20% of the total issued share capital of the Company, respectively. Thus, Mr. Dai together with his associates were interested in approximately 51.49% of the total issued share capital of the Company. For details, please refer to the section headed "2. Substantial Shareholders' Interests" set out in Appendix VI to this circular. As such, Mr. Dai 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) for approving the Transaction at the EGM.

Voting at the EGM will be conducted by poll.

Save for Mr. Dai Bin who abstained from voting on the relevant resolution(s) of the Board 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 was in any way materially interested in the Transaction and was required to abstain from voting on the relevant resolution(s) of the Board.

O. RECOMMENDATIONS

The Independent Board Committee, having considered the terms and conditions of (i) the Acquisition Agreement and the transactions contemplated thereunder including the Options and (ii) the Loan Agreement and the transactions contemplated thereunder including the proposed annual caps, and after taking into account the advice from the Independent Financial Adviser, considers that the Transaction is on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

The Directors accordingly recommends that the Independent Shareholders vote in favour of the resolution(s) to be proposed at the EGM to approve the Transaction.

The text of the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 35 to 36 of this circular.

The text of the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders with regard to the Transaction and the principal factors and reasons which it has taken into account in arriving at its advice, is set out on pages 37 to 75 of this circular.

P. FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information of the Group, the Target Group and the Enlarged Group, and other information required to be disclosed under the Listing Rules.

Q. WARNING

The Acquisition Agreement and the Loan Agreement are subject to a number of conditions including approval by the Independent Shareholders at the EGM, which may or may not be fulfilled. In the event that any such condition is not fulfilled, the Acquisition Agreement and/or the Loan Agreement (as the case may be) will not become unconditional and the Transaction will not proceed.

SHAREHOLDERS OF THE COMPANY AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION WHEN THEY DEAL OR CONTEMPLATE DEALING IN THE SHARES OR OTHER SECURITIES (IF ANY) OF THE COMPANY.

Yours faithfully,
for and on behalf of the Board
China Dili Group
Wang Yan
Chairman

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)

30 September 2019

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF TARGET SHARES IN AN AGRICULTURAL AND FOOD PRODUCE RETAIL CHAIN; (2) CONTINUING CONNECTED TRANSACTION IN RELATION TO A LOAN TO TARGET GROUP; AND (3) NOTICE OF THE EGM

We refer to the circular dated 30 September 2019 issued by the Company of which this letter forms part (the "**Circular**"). Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Transaction and the transactions contemplated thereunder, details of which are set out in the section headed "Letter from the Board" contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 7 to 34 of the Circular and the letter of advice from Grand Moore Capital Limited, the independent financial adviser appointed, to advise the Independent Board Committee on the terms of the Transaction set out on pages 37 to 75 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Grand Moore Capital Limited as stated in its letter of advice, we consider that the terms and conditions of (i) the Acquisition Agreement and the transactions contemplated thereunder including the Options, and (ii) the Loan Agreement and the transactions contemplated thereunder including the proposed annual caps, are on normal commercial terms or better, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM in respect of the Transaction.

Yours faithfully,
for and on behalf of the
Independent Board Committee
China Dili Group
Fan Ren-Da, Anthony
Wang Yifu
Leung Chung Ki
Tang Hon Man
Independent non-executive Directors

The following is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of incorporation into this Circular.

GM 中毅資本有限公司
Grand Moore Capital Limited

Unit 1607, 16/F, Silvercord Tower 1, 30 Canton Road
Tsim Sha Tsui, Kowloon, Hong Kong

30 September 2019

To the Independent Board Committee and
the Independent Shareholders of China Dili Group

Dear Sirs,

(1) MAJOR ACQUISITION AND CONNECTED TRANSACTION INVOLVING THE ACQUISITION OF TARGET SHARES IN AN AGRICULTURAL AND FOOD PRODUCE RETAIL CHAIN; AND (2) CONTINUING CONNECTED TRANSACTION IN RELATION TO A LOAN TO TARGET GROUP

INTRODUCTION

We refer to our engagement by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Loan (collectively the ''**Transactions**''), the particulars of which have been set out in a circular to the Shareholders dated 30 September 2019 (the ''**Circular**'') and in which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

Grand Moore Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders to (i) give our recommendation as to whether the terms of the Transactions (including the Annual Caps (as defined below)) are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms; (ii) give our recommendation as to whether the Transactions are in the interest of the Company and the Shareholders as a whole; and (iii) advise the Independent Shareholders on how to vote at the EGM. Details of the reasons for entering into the Transactions are set out in the section headed ''Letter from the Board'' in the Circular (the ''**Board Letter**'').

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 Mr. Dai, 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 total purchase price for the Target Shares is RMB950 million (equivalent to approximately HK$1.1 billion) (the "**Consideration**"). As the Deposit had 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 by Yield Smart at Completion.

Furthermore, the Vendor has also granted the Call Option and the Put Option to Yield Smart pursuant to the Acquisition Agreement.

On the same date, Harbin Dili (a wholly-owned subsidiary of the Company) as lender and Dili Fresh (a wholly-owned subsidiary of the Target Group) as borrower entered into the Loan Agreement for the principal amount of not exceeding RMB2 billion (equivalent to approximately 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.

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. As the Vendor is ultimately wholly-owned by Mr. Dai, it is a connected person of the Company and accordingly, the Acquisition also constitutes a connected transaction of the Company under the Listing Rules.

Following the Completion, the Target Company will be owned as to 19% by Yield Smart and 81% by the Vendor respectively 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 Dili Fresh pursuant to the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the principal amount outstanding and the interest amount accruing under the Loan exceeds 5%, the Transactions (comprising the Acquisition and the Loan) are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 of HK$10 is payable for the grant of the Options. The Company will, upon the exercise or non-exercise, termination or transfer of the Call Option or the Put Option, comply with the applicable reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Mr. Dai and his associates will abstain from voting on the resolution(s) approving the Transactions at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to given independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions. In the last two years, we have not acted as any financial adviser role to the Company, but we have acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company in its very substantial acquisition and connected transaction, the details of which are set out in the Company's circular dated 29 June 2018 (the "**Previous Appointment**").

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with Previous Appointment and the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries, their respective controlling shareholders or other parties that could reasonably be regarded as relevant to our independence; and (ii) we have maintained our independence from the Company during the Previous Appointment, and our independence from the Company has not been compromised because of the Previous Appointment. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules.

BASIS OF ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**") and interim report for the six months ended 30 June 2019 (the "**2019 Interim Report**"); (iii) other information provided by the Directors and the management of the Company; (iv) the opinions expressed by and the representations of the Directors and the management of the Company; (v) the Business Valuation Report (as defined below); and (vi) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the management of the Company (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 13 and 14A of the Listing Rules.

The Directors collectively and individually accept full responsibility for the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company and the Business Valuation Report (as defined below), nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, the Target Group, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the Circular (other than this letter).

We have assumed that the Transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion in relation to the Transactions, we have taken into consideration the following factors:

1. Information on the Group

As stated in the Board Letter, the Group is principally engaged in the operation of 10 agricultural 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. Certain summary financial information of the Group as extracted from the 2019 Interim Report is set out below.

	Six months ended 30 June	
	2019	**2018**
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue	738,574	483,713
Profit/(loss) attributable to equity shareholders of the Company	179,325	(49,567)

	As at	
	30 June 2019	**31 December 2018**
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Total assets	11,954,759	11,589,305
Total liabilities	3,371,561	3,075,758
Net assets attributable to equity shareholders of the Company	8,468,546	8,401,717
Cash at bank and on hand	1,460,787	1,354,070

During the six months ended 30 June 2019, the Company recorded consolidated revenue of approximately RMB738,574,000, representing an increase of approximately 52.7% over the consolidated revenue of approximately RMB483,713,000 generated in the six months ended 30 June 2018. Furthermore, the Company recorded consolidated profit attributable to equity shareholders of the Company of approximately RMB179,325,000 for the six months ended 30 June 2019 compared with consolidated loss attributable to equity shareholders of the Company of approximately RMB49,567,000 for the six months ended 30 June 2018. The turnaround of the Group's loss making position during the six ended

30 June 2018 to a profit making position during the six months ended 30 June 2019 was mainly due to the combined effects of (i) the increase in revenue; (ii) the increase in other income; (iii) the inclusion of net valuation gain on investment properties during the six months ended 30 June 2019 which was absent during the corresponding period in 2018; (iv) the decrease in administrative expenses; and (v) the increase in other operating expenses.

As at 30 June 2019, the Company had consolidated total assets, total liabilities and net assets attributable to equity shareholders of the Company of approximately RMB11,954,759,000, approximately RMB3,371,561,000 and approximately RMB8,468,546,000, respectively. In addition, the Company had consolidated cash at bank and on hand of approximately RMB1,460,787,000 as at 30 June 2019.

2. Information of the Target Group

2.1 Background information of the Target Group

As per the Board Letter, 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). Please refer to note 1 to the Accountants' Report (as defined below) for further information in relation to when and how the Target Group was acquired by Mr. Dai.

In relation to the discrepancy between Mr. Dai's original investment costs paid by Mr. Dai for the Target Group as discussed immediately above and the Consideration, we understand from the Group's management that the Vendor has subsequently successfully converted the Target Group from a company principally engaged in wholesaling of agricultural produce with relatively lower profit margin to an operator of approximately 250 retail stores selling agricultural produce to consumers. The Group's management further advised that the Target Group has built up Dili Fresh as a reputable brand name and is one of the largest fresh food supermarket chains in northeastern PRC with good prospects to launch the franchise model for the rapid expansion as described in the Board Letter. Having considered the above and that the revenue of the Target Group for the year ended 31 March 2019 (which has reflected the new retail business model) has increased by approximately 86.6% compared to that of the year ended 31 March 2018 (which has reflected the previous wholesale business model), we consider that the Business Valuation (as defined below) and our comparative analysis adopting P/S (as defined below) set out in section 5.3 of this letter are more relevant benchmarks in the determination of the fairness and reasonableness of the Consideration than the aforementioned original acquisition and investment costs paid by Mr. Dai.

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 approximately 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 30 franchise stores operated by the Franchisees. As advised by the Group's management, no revenue was contributed by the franchise business during the years ended 31 March 2017, 2018 and 2019 as the franchise business commenced thereafter.

Originated as a wholesale business of agricultural produce since the establishment of Dili Fresh in April 2016, 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. As the wholesale business operated by the Target Group mainly involved the supply and distribution of agricultural produce to retail operators, it is distinguishable from the operations of the Group, being an operator of various agriculture wholesale markets for the trading of agricultural produce, thus the Target Group's wholesale business did not constitute a competing business with the Group's business. The Target Business started as wholesaling and gradually expanded to the retailing of agricultural produce in 2018 using the tradename as "Dili Fresh" supermarket chain. During the course of migration of the Target Group's wholesale business to retail business, it opened a total of approximately 250 self-operated retail stores, among which 204 retail stores were established by acquisitions and 46 retail stores were self-established via organic growth, with the costs of acquisition in the amount of approximately RMB117.4 million and costs of self-establishment via organic growth in the amount of approximately RMB47.0 million, respectively. The retail stores of the "Dili Fresh" supermarket chain exclusively source from the wholesale business within the Target Business. In relation to the 204 retail stores acquired, they were originally owned by 135 PRC individual vendors who sold their stores through the Retail Stores Owners. The opportunity in acquiring these retail stores was introduced by the Retail Stores Owners to the Target Group. In the course of acquiring the retail stores from the Retail Stores Owners, other than the costs in the amount of approximately RMB117.4 million incurred for the transfer of business and assets of the individual stores, Mr. Dai has made separate compensatory payments for the loss of employment and business opportunities of the Retail Stores Owners and for their undertaking not to engage in competing business with the Target Group. Save and except in relation to the introduction of vendors, the acquisition of retail stores and the compensations, there is no other relationship, arrangement, understanding or undertaking between the Retail Stores Owners and the said 135 individual vendors and the Company and its connected person(s) in relation to the Target Business and the Retail Store Owners and the said 135 individual vendors are independent from the Company and its connected person(s).

In view that the Target Group's wholesale business mainly involved the supply and distribution of agricultural produce to retail operations, while the Group's wholesale business is as an operator of various wholesale markets for trading of agricultural produce, we concur with the view of the Company's management that the separate businesses operated by the Group and the Target Group do not compete with each other.

The operation flow of the retail business of the Target Group comprises sourcing of agricultural food produce from the wholesalers for onward sale to retail customers either through its self-operated retail stores of franchise stores operated by the Franchisees. The major customers of the Target Group consist mostly the general public while the Target Group has a vast variety of over 3,000 suppliers. In addition, the Target Group operates a logistics department for the transportation of good from suppliers to various storage facilities and retail stores. Since the business operation of the Target Group involves selling fresh agricultural food produce, it would also perform sample checking at various points during the transportation in order to ensure that the produce are fresh and safe for consumption. As advised by the Group's management, the Target Group has warehouse capacity of around 50,000 square meter as at the Latest Practicable Date.

The major cost components of the Target Group include the cost of sales given the nature of its retail business, personnel expenses as retail is a labour intensive industry, rental and utility costs for store space as well as the administrative expenses as the retail business continues to expand. In terms of capital expenditure, it is mostly spent on the establishment of the retail stores, additional warehouse facilities and equipment as well as the development of the information system during its expansion phase. The operation and expansion of the Target Group is funded by a combination of self-generating cash, bank borrowing and shareholder contribution.

2.2 Financial information of the Target Group

Set out below are selected consolidated financial information of the Target Group as extracted from Appendix III titled "Accountants' Report of the Target Group" (the "**Accountants' Report**") in the Circular.

	Year ended 31 March		**For the period from 19 April 2016 (date of incorporation) to 31 March**
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	4,354,001	2,333,217	1,652,530
Profit/(loss) for the year	(151,473)	5,660	24,590

As at 31 March 2019, the Target Group had consolidated total assets, total liabilities and net liabilities of approximately RMB2,900,856,000, approximately RMB2,982,997,000 and approximately RMB82,141,000, respectively.

In relation to the Target Group's net loss during the year ended 31 March 2019 and net liabilities as at 31 March 2019, we understand from the Group's management that the Target Group is in the initial high-growth stage for its "Dili Fresh" supermarket chain. As mentioned in section 4 of this letter, the reasons for the Transactions together with the synergies expected to be generated between the Group and the Target Group can be summarized as (i) to establish the foundation for tapping into the downstream retail business; (ii) prospects of retail sales and e-commerce of fresh food industry; (iii) downstream expansion and synergies; and (iv) enhanced overall competitiveness. Furthermore, section 2.4 of this letter has discussed the development plan and prospects of the Target Group as extracted from the Board Letter which can be summarized as (i) rapid expansion through franchise model to assert its market influence and achieve economies of scale; (ii) further enhance operation efficiency through strengthening its supply chain and upgrade of the logistics system; and (iii) business collaboration with third party delivery platform to enable its customers to enjoy online shopping experience. We further understand from the Group's management that the Target Group needs to continue its momentum of its hi-growth strategy to achieve a level of economies of scale so as to achieve profitability in the future. In that connection, we have obtained and reviewed the Target Group's business plan in relation to its future expansion strategy. In relation to such business plan, our work done include (i) understanding the underlying basis and assumptions adopted by the management of the Target Group; (ii) discussing with the Group's management in relation to appropriateness of such basis and assumptions; and (iii) obtaining information (such as population per unit of store area, etc.) pertinent to the Target Group's locations already established so as to assess the reasonableness of the basis and assumptions adopted in the business plan. Having (i) reviewed such business plan and conducted the aforementioned works; (ii) obtained information in relation to the costs of such expansion plan; (iii) considered the Loan to be provided to the Target Group; and (iv) inquired on the past experience of the Target Group's management in operations of supermarkets and in particular, undertaking rapid expansion plans by way of organic growth and acquisition in retail related businesses, we are of the view that (i) the Target Group appears to have the expertise, capability and required financial resources to implement such business plan by replicating its execution which has already attained the currently around 250 locations of the Target Group so as to achieve the full scale of operation as envisaged by the Group's management and achieve the anticipated level of economies of scale and synergies with the Group; and (ii) the basis and assumptions adopted in the business plan are fair and reasonable. Furthermore, it is also noted that the Put Option has been included as part of the terms of the Acquisition Agreement under which the Group has the right to sell back the Target Shares to the Vendor in the event that (i) the GMV of the Dili Fresh Stores did not attain RMB10 billion in the financial year ending 31 December 2022; and (ii) the EBITDA of the Target Group did not attain RMB250 million in the financial year ending 31 December 2022. Such provisions of the Put Options would provide downside protection to the interests of the Company and the Shareholders in the event that the Target Group's business plan fails to fully execute as it is currently envisaged by the Group's management.

Upon an inspection of the Accountants' Report, we note that the Target Group's net liabilities position of approximately RMB82,141,000 as at 31 March 2019 is mainly the result of the bank and other borrowings (the "**Target's Bank Borrowings**") of approximately RMB1,960,000,000. We further understand from note 19 to the Accountants' Report that such bank borrowings are secured by the operating rights of certain shopping malls located in the PRC which were held by companies owned by Mr. Dai. As confirmed by the Group's management, such financial assistance provided by Mr. Dai to the Target Group will continue post Completion while the Group will not be required to contribute any security or guarantee in connection with such bank borrowings after Completion. In the event that the Target Group fails to or is otherwise unable to repay the Target's Bank Borrowings, the relevant lender (a third party commercial bank in the PRC) will be entitled to enforce the charge on the operating rights of the shopping malls held by companies owned by Mr. Dai with immaterial consequence or burden on the part of the Target Group, Yield Smart or the Group. Given the extent of the aforementioned financial assistance to the Target Group is only a burden to Mr. Dai and the companies controlled by him in which Yield Smart and the Group would share no part, it would appear that the security arrangement of the Target's Bank Borrowings adds a certain value or benefit to Yield Smart as any default on the Target's Bank Borrowings technically would not create any burden on the Target itself or Yield Smart. To reveal the true value of the Target Group to the Group after taking into account such value or benefit, we consider it appropriate to arrive at an adjusted net assets value (the "**Adjusted NAV**") after the removal of the Target's Bank Borrowings. For the reference of the Independent Shareholders, such Adjusted NAV is approximately RMB1,877,859,000.

Please refer to the section headed "Financial information of the Target Group — Management's discussion and analysis of financial condition and results of operations of the Target Group" in Appendix II to the Circular for further discussion on the financial information of the Target Group.

2.3 The business valuation on the Target Group

Reference is made to the business valuation report (the "**Business Valuation Report**") on the Target Shares as compiled by the Independent Professional Valuer, namely International Valuation Limited, as set out in Appendix V to the Circular. As per the Business Valuation Report, the Independent Professional Valuer has adopted the Market Approach as it was considered to "*reflect the current market's investment preferences or investment habitat, but also provide up-to-date public market information allowing the Management to make a more informative decision.*" In addition, the Independent Professional Valuer further explained that "*The Cost Approach was not adopted as it tends to understate the value of an income-generating business. The Income Approach is also not adopted since prospective* *financial projection at market participants' point of view, which is subject to a number of assumptions and contingent factors, was not reliably available.*" The Business Valuation Report further explains that the enterprise-value-to-sales multiple ("**EV/Sales**") multiple has been adopted for the guideline public company method under the Market Approach "*since it could take into account of the differences in capital structure between the Target Group and the comparable companies.*" which, as per our discussion with the Independent Professional Valuer, is appropriate for the purpose of the Business Valuation Report in accordance with the applicable valuation standards and practices.

With regards to the Business Valuation Report, we have complied with the requirements under note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct and conducted, amongst others, the following works: (i) discuss with the staff of the Independent Professional Valuer regarding the methodology used and principal bases and assumptions adopted in the Business Valuation Report; (ii) assess the experience and expertise of the signatories of the Business Valuation Report; (iii) inquire on any current or prior relationship between the Independent Professional Valuer and the Company, the Vendor and their core connected persons; (iv) review the Independent Professional Valuer's engagement letter in respect of the Business Valuation Report; and (v) obtain information on the Independent Professional Valuer's past track record on other business valuations. Based on the aforementioned works, we are of the view that (i) the valuation methodologies and the principal bases and assumptions adopted by the Independent Professional Valuer are fair and reasonable; (ii) the scope of work of the Independent Professional Valuer is appropriate; and (iii) the Independent Professional Valuer and the signatories of the Business Valuation Report together have sufficient qualification, experience and expertise, and are competent to provide the Business Valuation Report.

As per the Business Valuation Report, the market value of the Target Shares as at 30 June 2019 was RMB984,000,000 (the "**Business Valuation**"). Accordingly, the Consideration of RMB950,000,000 represents a discount of approximately 3.5% to the Business Valuation.

2.4 The development plan and prospects of the Target Group

It is stated in the Board Letter that based on the information provided by the Target Group and the due diligence conducted by the Company, the Directors believe that there are substantial growth potentials and positive prospects of the Target Group from both the long-run and near term perspectives despite that the Target Group recorded a loss for the year ended 31 March 2019 (details of which are set out in Appendix II to the Circular).

The long-term goal of the Target Group is to become a leading community fresh food retail chain in China with omni-channel retailing (or commonly known as O2O) features. The key business strategies adopted by the Target Group to achieve this goal are set out below.

Rapid expansion through franchise model to assert its market influence and achieve economies of scale

Like other companies with new economy business models, the Target Group believes that the key to success is to secure market control within a short period of time. As such, the short-term goal of the Target Group is to rapidly expand the sales network and platform of the Dili Fresh Stores in order to further strengthen its market position and assert its market influence. In addition, when the network of retail stores and the sales generated therefrom become scalable, economies of scale is expected to be achieved.

Leveraging on the brand recognition of "Dili Fresh" in the north-eastern region of China, the Target Group is expected to rapidly expand its sales network through its franchise model. The franchise model allows the Target Group to rapidly expand its sales network, create market influence and achieve economies of scale without incurring substantial self-owned capital. In other words, utilizing the brand equity of "Dili Fresh" in the region, the Target Group is inviting individual traders and small shop owners who are already in the fresh food retail industry to join as franchisees, therefore utilizing their resources and sales power to jointly build the network of Dili Fresh Stores. It is also a cost-efficient expansion model, as part of the costs and expenditure for expansion will be borne by external franchisees. In addition, compared with opening new stores by the Target Group itself, a franchise model is believed to be more time-efficient as the targeted GMV could be attainable within a shorter period of time.

Expansion plan of the network of Dili Fresh Stores

The Target Group is prepared to rapidly expand the network of Dili Fresh Stores through the franchise model as well as by adjusting the store-type. Below sets out the actual and projected GMV and the number of self-operated stores and franchise stores during the year ended 31 March 2019 and the two years ending 31 March 2020 and 2021:

	Financial year ended 31 March 2019 (Actual)	**Financial year ending 31 March 2020 (Forecast estimate)**	**Financial year ending 31 March 2021 (Forecast estimate)**
GMV (RMB million)	4,354	6,700	11,100
No. of stores (approximately)	**250**	**710**	**1,230**
Self-operated stores	*250*	*260*	*280*
Franchise stores	—	*450*	*950*

In addition, the Target Group will adjust and re-design the store-type of Dili Fresh Stores. According to its development plan, there will be two major types of Dili Fresh Stores in terms of size, namely (i) main stores (主力店) with GFA of approximately 300 sq.m to over 500 sq.m; (ii) community stores (社區店) with average GFA of approximately 100 sq.m to 200 sq.m. The existing self-operated stores are substantially larger in terms of the GFA, ranging from approximately 300 sq.m to over 1,000 sq.m. The franchise model of the Target Group will mainly focus on community stores.

Community stores which are located within or in close proximity of residential complex or community will serve as a kind of ''convenience store'' to support the neighborhood with handy fresh food produce and other daily necessities.

The lead time required in establishing franchise stores is generally short as it has been the practice of the Target Group to invite owners of existing fresh food shops to join and convert their shops into franchise stores with the brand and logo of ''Dili Fresh'' and standardized virtual identity of the Target Group. In its experience, the Target Group generally takes weeks' time from negotiating with a shop owner on a proposed franchise arrangement to furnishing the shop to the standard required by the Target Group and becoming a ''Dili Fresh'' franchisee.

The expected additional costs to be incurred by the Target Group for the frahchise business principally include extra staff costs and administration and promotion expenses. The Target Group expects the total extra costs and administration and promotion expenses. The Target Group expects the total extra costs amount to approximately RMB80 million per year which is expected to be covered by the fee income under the franchise model including the franchise fee, service fee, management fee and the sourcing fee in the year ending 31 March 2021, given that for the year ending 31 March 2020, the sourcing fee is payable on a progressive scale starting from 1% and the management fee is waivable as incentive. The direct contribution in terms of revenue to the Target group is not expected to be significant for the years ending 31 March 2020 and 2021, subject to the expansion progress. That said, the GMV that the franchise stores are expected to achieve under the brand name of ''Dili Fresh'' with minimum cost exposure from the Target Group are the key drivers for gaining market influence, and thus generating synergies and bringing intangible benefits to the Target Group.

Given the relatively low cost and short lead time required, the Board considers that such franchise model expansion is fair and reasonable and in the interests of the Company and its shareholders as a whole.

With regards to the view of the Group's management that the franchise model could enable the Target Group to achieve rapid expansion of its sales network as well as revenue as discussed above, we have considered that (i) the franchise model is a well-established business model with many global brands such as McDonald's, 7-Eleven, etc. having successfully adopted the franchise model over the decades; and (ii) in adopting the franchise model, the Target Group can expand via its network of franchise stores and shift some of the risks and operational resources to the Franchisees, therefore lessening the burden, in particular resources devoted in the management of a rapid expansion plan as currently envisaged and the management/supervision of the stores thereafter, to the Target Group when compared with undertaking such expansion plan with self-operated stores which would require massive resources and management personnel; and (iii) as per a report titled "2017 University Student Entrepreneurial Report*" (2017年中國大學生創業報告) released by Renmin University of China (中國人民大學), approximately 87.9% of university students have expressed interest in becoming an entrepreneur with approximately 26% of university students having strong desire in becoming entrepreneurs with freedom in work life being the main driving force behind their desire in becoming entrepreneurs therefore making the opportunity to become a Franchisee an interesting prospect to university students in the PRC. Having considered the above, we concur with the view of the Group's management that the franchise model could enable the Target Group to achieve rapid expansion of its sales network as well as revenue.

Efficiency of Dili Fresh Stores

Efficiency of each store is measured by the parameter of "annual GMV per sq.m." Due to the size and function of community stores, the community stores usually have higher GMV per sq.m as they have less stock units displayed and sold, and they focus on higher margin products. In addition, community stores are usually located within or in close proximity of residential community which attracts higher customer traffic flow per sq.m compared to main stores.

With the scale of retail business increasing where economies of scale is expected to be achieved and the overall operation costs as a percentage to the revenue will be lowered as a result, the average "annual GMV per sq.m" is expected to be improved. For the year ended 31 March 2019, the average "annual GMV per sq.m" of the existing self-operated stores was approximately RMB21,000 per sq.m. The Target Group expects this to be improved to approximately RMB25,000 per sq.m. For the franchise stores, the Target Group expects it will reach approximately RMB29,000 per sq.m in the first two years ending 31 March 2021 and will gradually improve to approximately RMB35,000 per sq.m by means of (i) adjusting product portfolio with higher margin; (ii) better inventory management to avoid wastage; and (iii) enhancing brand awareness to attract consumer traffic flow.

* *For identification purpose only*

As a result of economies of scale, a better mix of store types, and roll out of the franchise model, the overall efficiency will be improved, the overall operation costs of the Target Group are also expected to be reduced.

Further enhance operation efficiency through strengthening its supply chain and upgrade of the logistics system

The Target Group expects that with a substantially broader sales network and higher sales volume, it will have stronger bargaining power with the upstream suppliers going forward. In addition, the Target Group already has business collaboration plans with some rural co-operative agencies (農村農業合作社) to source fresh produce differently from the primary source. This enables the Target Group to secure a safe and good quality source of fresh produce at a competitive price.

Apart from the supply chain, the Target Group is using its best effort to improve and upgrade its logistics system with the aim to shorten the time and distance of transportation of its fresh produce which is a crucial factor for operating a fresh food retail business. Its plans include improvement on real-time inventory data, establishment of a network of smaller-scaled storage facilities which are closer to consumers. The Target Group believes that the more efficient its logistics system, the higher its operational efficiency, which is expected to result in higher profit margin.

Business collaboration with third party delivery platform to enable its customers to enjoy online shopping experience

The business model of the Target Group's retail business encompasses O2O features. Instead of building its own online platform, the Target Group currently co-operates with various large food delivery service operators in China, including "Meituan Waimai" (美團外賣), and "Hungry-now?" (餓了麼?). This allows the Target Group to provide online-shopping experience to its customers without the need of incurring substantive capital expenditure in building its own online platform. Going forward, the Target Group expects to continue to look for cooperation with other online/e-commerce platform operators, for example, operators for community group-purchase (社區拼團).

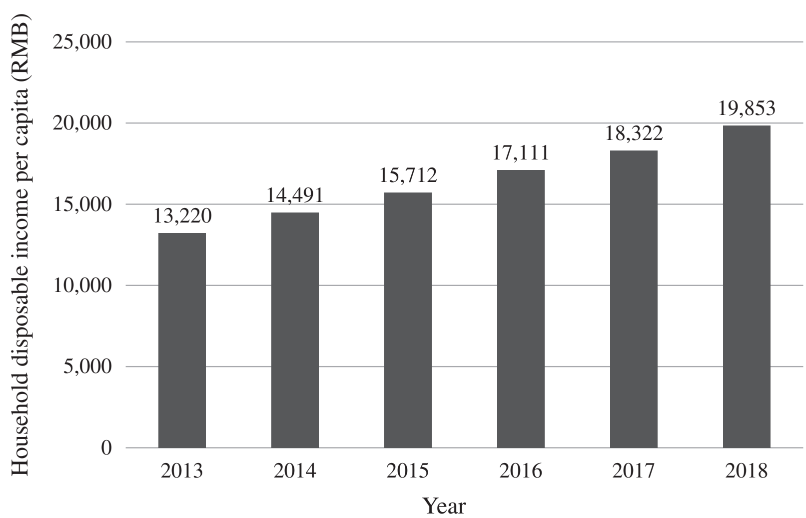
Based on the above business proposal, the Company considers the prospects of the Target Group to be positive and if the business proposal is duly implemented, the Company reasonably believes that the Target Group will be able to record profits in the short to medium term in the absence of unforeseen circumstances affecting the business of the Target Group.

3. Industry overview

As per a research report titled "2018 China's Fresh Food Industry Research Report" published by Qianzhan Industry Research Institute (the "**2018 China's Fresh Food Report**"), the fresh food industry in the PRC has experienced a continuous growth in the past few years, driven by the increasing household disposable income per capita in the PRC, the improved technology to preserve and control the quality of fresh food and the rise of e-commerce opportunities. As per the 2018 China's Fresh Food Report, as at October of 2018, there were 2,072 fresh food market related companies in the PRC, among which 93.5% of the companies involved in fresh food delivery service.

Set out below is a chart depicting the household disposable income per capita in the PRC:

Household disposable income per capita in the PRC

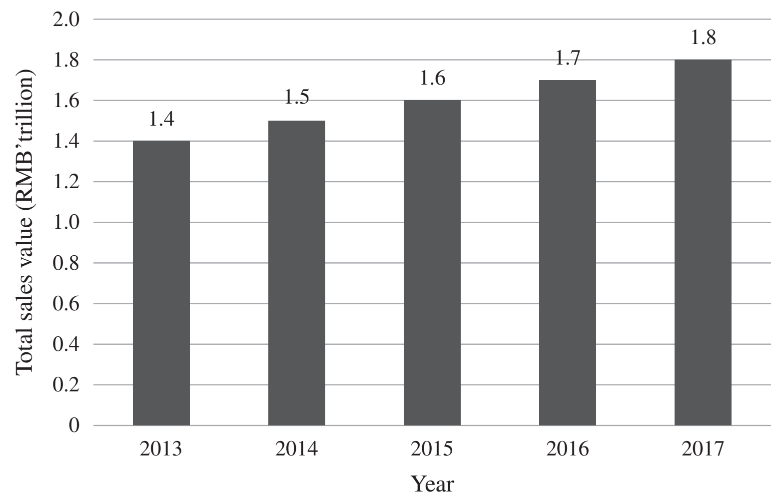


Source: National Bureau of Statistics of China

As illustrated in the chart above, the household disposable income per capita in the PRC increased from approximately RMB13,220 in 2013 to approximately RMB19,853 in 2018, representing CAGR of approximately 8.47%.

Set out below is a chart depicting the total sales value of fresh food in the PRC:

Total sales value of fresh food in the PRC

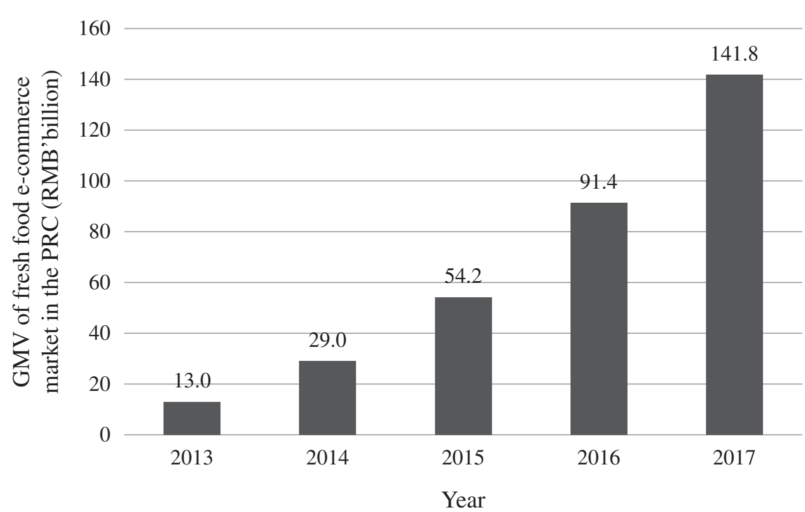


Source: 2018 China's Fresh Food Report

As per the 2018 China's Fresh Food Report, the total sales value of fresh food in the PRC increased from approximately RMB1.4 trillion in 2013 to approximately RMB1.8 trillion in 2017, representing a CAGR of approximately 5.2%. As per the 2018 China's Fresh Food Report, it is expected that the sales value of fresh food will reach approximately RMB2.4 trillion in 2022.

Set out below is a chart depicting the GMV of fresh food e-commerce market in the PRC:

GMV of fresh food e-commerce market in the PRC



Source: 2018 China's Fresh Food Report

According to the 2018 China's Fresh Food Report, the major distribution channels for fresh food are supermarkets, agricultural markets and fresh food e-commerce platforms, which accounted for approximately 33.3%, approximately 24.9% and approximately 18.4% of the total sales value of fresh food in the PRC in 2018. It is further mentioned that the GMV of fresh food e-commerce market in the PRC increased significantly from approximately RMB13.0 billion in 2013 to approximately RMB141.8 billion in 2017, and is expected to reach approximately RMB469.2 billion in 2020. Such large addressable market has also attracted e-commerce giants such as Alibaba Group, JD.com, Inc. and Tencent Holding Limited to compete for market shares and those industry giants have a supply chain to share its upstream and downstream resources, storage logistics, delivery facilities and centralised ordering process. The 2018 China's Fresh Food Report further mentioned that products standardisation and cold chain logistics are the major challenges in the industry and companies with full industrial chain and omnichannel resources will gain key competitive capabilities.

4. Reasons for and benefits of the Acquisition

As stated in the Board Letter, 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 the agricultural sector.

To establish the foundation for tapping into the downstream retail business

The value chain of China's agricultural sector comprises plantation and growing (production), wholesaling (distribution) and consumption (retail). The agriculture wholesale markets operated by the Group are part of the fresh food distribution chain, while the Target Group is in the downstream retail segment. The Target Group is one of the largest fresh food supermarkets chain in Northeast China, which currently owns and manages approximately 250 self-operated retail stores and 30 franchise stores.

As mentioned in the 2018 Annual Report, the Group's long-term goal is to establish a brand new fresh food distribution platform featuring the "Production — Distribution — Retail" all-in-one concept. The 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 agricultural 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 inelastic demand, 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 in terms of GMV 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 retailing of agricultural and fresh food produce businesses through the Target Group's network of Dili Fresh 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 retailing and related fresh food chain and supply chain and logistics business of the Target Group:

(i) through the rapid expansion of the retail sales network of the Target Group, a solid foundation with steady consumption demand and downstream client resources will be formed. Such resources from the demand side is extremely valuable to the Group's agricultural produce wholesale markets as it will not only form the growth driver for the Group's existing wholesale markets, it will also provide a solid foundation and competitive edge for the Group to expand its wholesale market network into new cities where Dili Fresh Stores are present;

(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.

In relation to point (ii) above, we understand from the Group's management that the estimated total sales of the customers of the Group's agricultural produce wholesale markets amount to approximately RMB36.8 billion during the year ended 31 December 2018, while the revenue of the Target Group is approximately RMB4.4 billion during the year ended 31 March 2019 as stated in the Accountants' Report.

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 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 sales 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 retail sector. In order to turn around its continued loss making track record, the Target Group is expected to implement a number of strategies for its retail business development, including but not limited, (i) to enhance overall efficiency and reduce overall operation costs as a result of economy of scale, a better mix of store types and the roll-out of the franchise model; (ii) to upgrade the supply chain and logistics system to ensure timely delivery of products and to reduce labour costs; (iii) to continuously introduce new products with higher margin to enrich its product offerings; and (iv) to further enhance membership loyalty programme to attract long term customers.

Based on our discussions with the Group's management, we are given to understand that the planned upgrade of the supply chain and logistics system as mentioned immediately above is expected to cost approximately RMB400 million which will be incurred over the next 3 to 4 years. Such upgrade plan is expected by the Group's management to be funded by a combination of internal resources, bank borrowings and shareholders' contribution available to the Target Group.

The Board's assessment

In considering the reasons for and benefits of the Transactions, especially in assessing the likelihood for the benchmark of GMV or EBITDA to be achieved, the Board has taken into careful consideration of the business development plan and projection of the Target Group and also conducted its own research on the feasibility of the Target Group's expansion plan.

(i) The Target Group's expansion plan and franchise model

The Directors share the same view of the Target Group that rapid expansion of the Dili Fresh Food network to gain market influence and achieve economy of scale is ultimately important to the future success of the Target Group. In this regard, the Directors also share the view that a franchise model is an effective and efficient way to achieve such purpose.

In assessing the feasibility of the Target Group's expansion plan, the Directors considered:

(a) Number of stores to be opened

When assessing the reasonableness of the number of stores to be opened by the Target Group, the Directors, having taken into consideration:

— population of the city where the stores are located — the ratio of population to number of stores within a defined area;

— site area of the city and density of residential population — the density of residential units in a defined area for determining the optimal number of stores to be established; and

— store location with consumer traffic flow,

are of the view that the number of stores to be opened in the next two years is reasonable.

(b) Execution of the rapid expansion plan

The Directors considered the feasibility of opening a vast number of franchise stores within short period of time and took the view that such rapid expansion plan is feasible based on the following grounds:

— the size of the franchise stores are substantially smaller in terms of GFA;

— lead time required in establishing a franchise store is generally short as it has been the practice of the Target Group to invite owners of existing stores to join and convert their stores into franchise stores of the Target Group and by entering into standard franchise agreements;

— the roll-out plan of the franchise model is already in the execution stage; and

— the self-owned capital required for rolling out the franchise model is relatively small.

As at the Latest Practicable Date, the Target Group has entered into an extra 22 franchise agreements after the Announcement, making it a total of 30 franchise stores. The Target Group is also in discussions with over 80 other franchisees in major cities across China pending negotiations to be finalized.

As per our discussion with the Group's management, the aforementioned 22 franchise agreements were negotiated and signed during the month of September 2019. On top of the above, the Target Group had also successfully negotiated with an additional 83 potential franchisees during the month of September 2019 with relevant Franchise Agreements ready for signing in the immediate future. Given the Target Group had successfully negotiated with a total of 105 potential franchisees in the month of September 2019, we find it reasonable to assume that an additional 630 potential franchisees can be signed in the roughly 6-month period from the Latest Practicable Date up to 31 March 2020. Given that the Target Group's expansion plan is 450 franchise stores for the year ending 31 March 2020 together with our work done in relation to franchise model in general as discussed in section 2.4 of this letter, we consider that such expansion target is achievable.

(ii) The benchmarks of GMV of RMB10 billion and EBITDA of RMB250 million to be achieved by the Target Group for the purpose of triggering the Call Option and Put Option

The revenue of the Target Group recorded for the year ended 31 March 2019 was approximately RMB4.4 billion, which also represents the GMV of the Target Group as no franchise stores was in existence during the year. The estimated projection of the GMV of the Dili Fresh Stores presented by the Target Group is approximately RMB6.7 billion, RMB11.1 billion and RMB16.8 billion for the financial years ending 31 March 2020, 2021 and 2022, respectively, representing a year-to-year increase of approximately 54%, 66% and 52%, respectively. If the "GMV per store per day" is considered by dividing the projected GMV of the Target Group by targeted number of stores of each year, the projected "GMV per store per day" is only approximately RMB25,000. The Directors are therefore of the view that the projected GMV of the Dili Fresh Stores of RMB6.7 billion and RMB11.1 billion for the two years ending 31 March 2020 and 2021 would be reasonable and relatively achievable.

Furthermore, it is expected that there will be a correlation between the GMV of the Dili Fresh Stores and revenue of the Target Group in terms of fee income from the franchisees. As the franchise business of the Target Group continues to expand, an increase in GMV of the franchise stores is expected to correspondingly lead to an increase in sourcing fee income for the Target Group as the franchisees will exclusively source their supply of produce through the Target Group or its designated suppliers, and pay sourcing fees proportional to the value of produce supplied. The franchise fee income and the management fee income of the Target Group which are chargeable per franchise agreement and per store, respectively, are also expected to increase where the increase in GMV of Dili Fresh Stores results from a growth in the number of franchisees and/or franchise stores.

In respect of the EBITDA benchmark, the Directors considered the turn-around strategies to be implemented by the Target Group in the next few years. The Directors share the view that the overall efficiency of the Target Group is expected to be improved and the overall operation costs are expected to be reduced based on the grounds set out in the section headed "G. The Development plan and prospects of the Target Group — Efficiency of Dili Fresh Stores" in the Board Letter. The Directors also believe that other turn-around strategies to be implemented by the Target Group, including upgrade of supply chain and logistics system to reduce labour costs, enhance product portfolio mix with higher margin products and promotion and membership loyalty programme to attract customer traffic flow, are reasonable and achievable means in enabling the Target Group to gradually become profitable.

The Directors believe that with the scale of the Target Group expanding rapidly, market influence will be created and downstream synergies will become more prominent, which are expected to indirectly benefit the Group from a long-term strategic perspective.

Taking into account of the above considerations and the long-term strategic benefits to the Group, the Directors are of the view that benchmarks of GMV of RMB10 billion and EBITDA of RMB250 million are fair and reasonable. In any event, if none of the benchmarks are achieved, the Company can protect its interest by exercising the Put Option.

Having considered (i) in the event that the benchmarks of GMV of RMB10 billion and EBITDA of RMB250 million cannot be met, Yield Smart can exercise the Put Option to protect its downside investment risk; (ii) in the event that the benchmarks can be met, Yield Smart can exercise the Call Option at an exercise price to be determined by, among others, the valuation of the Target Group at the prevailing time (likely to be higher than the Business Valuation) to increase its stake in the Target Group which has by that time proven to be a business that can generate substantial financial performance; (iii) our work done in relation to the Target Group's business plan as discussed in section 2.2 of this letter; (iv) our work done in relation to the franchise model as discussed in section 2.4 of this letter; and (v) the basis and factors considered by the Board in the determination of the benchmarks as discussed above, we consider that the benchmarks are fair and reasonable.

(iii) The Loan Agreement

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 guaranteed at a minimum of 6% per annum which is generally in line with market lending rates to the Company, and 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; 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.

(iv) The Target Group recorded a loss for the year ended 31 March 2019

The Board Letter carries on to state that the Target Group has a track record of over three years, despite that its retail business only commenced in the year ended 31 March 2019 and recorded a loss from operations and net liability as a result. Such loss and net liability were not signs of deteriorating financial performance as they were mainly due to the abrupt increase in costs and expenses arising as a result of having approximately 250 self-operated retail stores across China within a short period of time. The Directors believe that the Target Group has substantial growth potentials and is expected to be able to achieve economies of scale. For details of the positive prospects of the Target Group, please refer to the section ''G. The development plan and prospects of the Target Group'' of the Board Letter.

As the Company will only be acquiring 19% of the Target Company, it will not be accounted for as an associate of the Group and instead it will be treated on the Group's consolidated accounts upon Completion as ''equity investment at fair value through other comprehensive income''. Given the Target Company will not be accounted for as a subsidiary or an associate of the Group upon Completion, any future loss incurred by the Target Group, if any, would not be shared by the Group and thus would not result in any direct negative impact on the Group's statements of profit or loss. Furthermore, any downside investment risk of the Company is safeguarded by the availability of the Put Option, with a guaranteed interest of 6% per annum.

5. The Acquisition

5.1 The Acquisition Agreement

The principal terms of the Acquisition Agreement as extracted from the Board Letter are summarized as follows:

Date:	29 August 2019
Parties:	Yield Smart (as purchaser)
	Plenty Business (as vendor)
Subject matter to be acquired:	the Target Shares, representing 19% of the entire issued share capital of the Target Company

As at the Latest Practicable Date, Mr. Dai (the controlling shareholder of the Company) together with his associates were interested in approximately 51.49% of the total issued share capital of the Company. As the Vendor is ultimately wholly-owned by Mr. Dai, it is a connected person of the 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) had 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) reference to the business valuation of the Target Group as at 30 June 2019 by the 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 "H. Reasons for and benefits of the Transaction" in the Board Letter.

Please refer to the section headed "B. The Acquisition — Consideration" in the Board Letter for the Board's further assessment with regards to the Business Valuation Report compiled by the Independent Professional Valuer.

5.2 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

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 and EBITDA as benchmarks

It is stated in the Board Letter that 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 economies 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.

The Board Letter further states that EBITDA is also used as a benchmark because it enables the financial performance of the Target Group to be assessed.

Based on the above, the Board reasonably believes that both benchmarks are fair and reasonable, and there would be a fair chance for either or both of the benchmark(s) to be attained in the absence of unforeseen circumstances for the Call Option to be exercisable. In the event that both of the benchmarks are not attained, the Put Option will become exercisable and hence, any downside investment risk will be safeguarded.

In relation to the Put Option, we are of the view that its inclusion as part of the transaction terms is to the benefit of the Company and the Shareholders as a whole. As mentioned in section 5.1 of this letter, the Board has considered that the Company's downside investment risk is being safeguarded by the availability of the Put Option with a guaranteed interest rate. In the event that the Target Group fails to reach the performance benchmark as stipulated under the Put Option which the Directors and the Vendor reasonably believe is a scale where the Target Group is expected to record material profits, the Company is in a position to unwind the Acquisition by way of exercising the Put Option and protect the interests of the Company and the Shareholders. With regards to the inclusion of the sales of the Franchisees in determining the GMV of the Dili Fresh Stores, we consider such arrangement is fair and reasonable given that as discussed with the Group's management (i) the channels of supplying fresh agricultural produce to the Franchisees are directly from the Target Group or through its designated suppliers where the Target Group can earn sourcing fee on such sales which would then have positive contribution on the Target Group's revenue and profitability in the longer run despite the direct contribution is not expected to be significant for the years ending 31 March 2020 and 2021 as discussed in section 2.4 of this letter; and (ii) the GMV from the franchise stores are the key drivers for gaining market influence, and thus generating synergies and bringing intangible benefits to the Target Group as discussed in the section headed "G. The development and prospects of the Target Group — Rapid expansion through franchise model to assert its market influence and achieve economies of scale" in the Board Letter. In addition, if and when the Put Option is exercised, the exercise price thereof will generate an interest rate of 6% per annum (which, based on the Company's representation, commences on the date of Completion) allowing a reasonable rate of return. In this connection, we have studied note 29(c)(i) to the financial statements set out in the 2018 Annual Report and note that the interest-bearing borrowings as at 31 December 2018 carry interest rates ranging from approximately 4.36% to approximately 6.84% per annum. In view the interest rate under the Put Option is comparable to the interest rates of the Group's own interest-bearing borrowings, we are of the view that such interest rate stipulated under the Put Option is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

With regards to the Call Option, we note that it 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. We are of the view that the mechanism for determining the exercise price appears to be fair and reasonable. However, since the methodology and basis of such valuation together with the relevant exercise price have not been determined and/or finalized as at the Latest Practicable Date, we are not in a position to provide an opinion as to its fairness and reasonableness. In any event, we note that the exercise of the Call Option will be subject to the compliance of relevant requirements under Chapters 14 and 14A of the Listing Rules where the normal protection to the Shareholders such as requirement of approval by Independent Shareholders and letter of advice from an independent financial adviser will be afforded to the Shareholders.

5.3 Comparative analysis for the Acquisition

In order to assess the fairness and reasonableness of the Acquisition, we have identified 5 comparable companies (the "**Industry Comparable(s)**") which are principally engaged in the business of supermarkets or markets of food, agricultural and related produce in the PRC and with market capitalization of RMB3 billion or more based on our research on Bloomberg. The aforementioned selection criteria has allowed us to select the Industry Comparables which are closely related to the Target Group in terms of principal activities of such companies which are in general affected by similar macro-economic factors such as economy, outlook, demand for products, consumer spending, etc. while excluding those companies that are similar in principal activities but are of much smaller sizes therefore affecting their comparability with the Target Group. Having considered the above, we are of the view that the selection basis for the Industry Comparables is fair, reasonable and representative. Given that the Target Group and the Industry Comparables are all based in the PRC, we do not consider country risk adjustment to be necessary although certain of the Industry Comparables are listed on the PRC stock exchanges. For the purpose of our analysis, we have excluded 3 companies which have met the aforementioned selection criteria as outliers and they are (i) Better Life Commercial Chain Share Co., Ltd. (002251.CH) with a P/S (as defined below) of approximately 0.34 times which is substantially lower than the average figure of the Industry Comparables; (ii) Shenzhen Agricultural Products Group Co., Ltd. (000061.CH) with a P/S (as defined below) of approximately 3.67 times which is substantially higher than the average figure of the Industry Comparables; and (iii) Zhongbai Holdings Group Co., Ltd. (000759.CH) with a P/S (as defined below) of approximately 0.33 times which is substantially lower than the average figure of the Industry Comparables. The Industry Comparables represent an exhaustive list of all suitable comparable companies (after exclusion of the outliers) meeting the aforementioned criteria as identified by us based on our best information, knowledge and belief. We have analyzed the price-to-sales multiple (''**P/S**''), which compares market capitalization based on stock price of the Industry Comparables as at 29 August 2019, i.e. the date of the Acquisition Agreement, with its revenue. We have adopted P/S as our benchmark due to (i) P/S measures the valuation of the company against its revenue generating capability and seeing the Target Group is principally engaged in retail sales of agricultural produce via supermarkets, revenue is a suitable benchmark for this particular business; (ii) we have made references to other cases in the market adopting P/S as the valuation benchmark across a variety of industries and note that in particular, an announcement of Suning.com Co., Ltd. (''**Suning**'', ticker: 002024.SZ), one of the largest retailers in the PRC with market capitalization in the neighborhood of RMB100 billion, dated 24 June 2019 in relation to its acquisition of an interest in Carrefour China Holdings N.V. (a company principally engaged in operations of supermarkets in China which is similar to the Target Group as it also had net loss and net liabilities as per the aforementioned announcement) that Suning has also used P/S as a valuation benchmark therefore further supporting our observation under point (i) above; (iii) we note that the Independent Professional Valuer has already adopted the EV/Sales multiple in its Business Valuation Report and adopting P/S in our analysis would allow us to provide an alternative angle with additional and meaningful analysis for the Independent Shareholders to assess without repeating similar work already done by the Independent Professional Valuer; and (iv) the Target Group recorded net loss and net liabilities in the most recent financial year so other more commonly used price-to-earnings and price-to-book multiples are inapplicable. We also note from the section headed ''Consideration — Basis of the consideration'' set out in the Board Letter that ''*EV/Sales multiple was preferred over P/S multiples since it could take into account the differences in capital structure between the Target Group and the comparable companies.*'' While we have already discussed in section 2.3 of this letter that EV/Sales is considered to be an appropriate multiple for the purpose of the Business Valuation Report, we as the Independent Financial Adviser have adopted the P/S multiple for our analysis because (i) it is comparatively more objective than EV/Sales without any adjustments on the ''market value'', and it would serve as an alternative angle to the Business Valuation Report as mentioned in point (iii) above; and (ii) we are no experts in valuation and are not in a position to assess or make the relevant adjustments to ''enterprise value'' pursuant to the applicable valuation standards.

Set out below is our analysis on the Industry Comparables:

Name of company (stock code/ticker)	**Principal business**	**Market capitalization/ valuation**[1]	**P/S**[2]
		RMB'million	*times*
Sanjiang Shopping Club Co Ltd (601116.CH)	Sanjiang Shopping Club Company Limited operates community budget supermarket franchises. The company provides customers with retail services.	7,591	1.75
New Huadu Supercenter Co Ltd (002264.CH)	New Huadu Supercenter Co., Ltd. engages in chain operations in marketplaces, supermarkets, department stores.	3,446	0.53
Chengdu Hongqi Chain Co Ltd (002697.CH)	Chengdu Hongqi Chain Company Limited operates convenience stores chain. The company's main products are food, alcoholic drinks and tobacco, and other daily necessities.	9,343	1.26
Yonghui Superstores Co Ltd (601933.CH)	Yonghui Superstores Company Limited operates supermarket franchises. The company mainly operates hypermarkets, marketplace and supermarkets.	96,470	1.23
Jiajiayue Group Co Ltd (603708.CH)	Jiajiayue Group Co., Ltd. operates a chain of supermarkets. The company offers food, apparel, appliances, household products, communication equipment, and other products. Jiajiayue Group also provides distribution, logistics and food processing services.	15,362	1.12
		Minimum:	*0.53*
		Maximum:	*1.75*
		Average:	*1.18*
Target Group	**Operation of agricultural produce supermarket chain, food chain and supply chain and logistics management**	**5,000**	**1.15**

Source: Bloomberg

Notes:

1. For the Industry Comparables, the market capitalization is extracted from Bloomberg as of the date of the Acquisition Agreement. For the Target Group, the implied valuation is based on the Consideration as adjusted for a 100% interest in the Target Company.

2. For the Industry Comparables, the P/S is extracted from Bloomberg as of the date of the Acquisition Agreement. For the Target Group, the implied P/S is calculated with reference to its implied valuation divided by its revenue for the year ended 31 March 2019.

As illustrated in the analysis above, the P/S of the Industry Comparables range from a low of approximately 0.53 times to a high of approximately 1.75 times, with the average thereof being approximately 1.18 times. It is noted that the implied P/S of the Target Group derived from the Consideration of approximately 1.15 times is within the range as represented by the Industry Comparables and slightly below the average figure thereof. Therefore, the implied valuation of the Target Group derived from the Consideration appears to compare favorably with that of the Industry Comparables.

5.4 Conclusion with regards to the Acquisition

Having considered the above principal factors, and in particular:

(i) the reasons for and benefits of the Acquisition as discussed in section 4 of this letter;

(ii) the promising industry outlook of the fresh food market in the PRC as supported by the increasing household disposable income per capita and increasing sales value of fresh food in the PRC as discussed in section 3 of this letter;

(iii) the commercial rationale for the Acquisition and the development plan and future prospects of the Target Group as discussed in sections 2.2 and 2.4 of this letter;

(iv) the Adjusted NAV arising out of the additional value/benefit to the Group as a result of the security arrangement of the Target's Bank Borrowings as provided by Mr. Dai as discussed in section 2.2 of this letter;

(v) the Consideration is set at an approximately 3.5% discount to the Business Valuation;

(vi) the implied P/S of the Target Group derived from the Consideration of approximately 1.15 times is within the range as represented by the Industry Comparables and slightly below the average figure thereof; and

(vii) the Put Option with a guaranteed interest of 6% per annum is in place to protect the downside investment risk and interests of the Company and the Shareholders in the event that the Target Group fails to deliver the target GMV and expected EBITDA, we are of the view that the terms of the Acquisition (including the Consideration) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, since the terms of the Acquisition are fair and reasonable based on our works as mentioned in this letter, we consider that the Acquisition is on normal commercial terms so far as the Company and the Shareholders are concerned.

6. The Loan Agreement

6.1 Principal terms of the Loan Agreement

As extracted from the Board Letter, certain selected principal terms of the Loan Agreement are summarized below:

Parties:	Harbin Dili (as lender) Dili Fresh (as borrower)
Loan:	A revolving facility for the principal amount of not exceeding RMB2 billion
Availability period:	The period commencing on the 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
Conditions 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.

In relation to one of the stated purposes of the Loan for investing in online e-commerce platform as discussed immediately above, we understand from the Group's management that the Target Group has not identified any specific target as at the Latest Practicable Date.

The Board Letter carries on to state that the source of funding for the Loan comprises surplus cash of the Group which may be replenished by external bank borrowings and the obligation to lend is subject to the satisfaction of the Board of the financial conditions and cash flow requirements of the Group at the prevailing time of drawdown. The interest rates of subsisting external bank borrowings of the Group are within the range of approximately 4.4% per annum to 6.8% per annum. As at the Latest Practicable Date, the Group has approximately RMB1.9 billion cash at bank and on hand and the Group will assess, to the satisfaction of the Board, its level of surplus cash at the prevailing time of receiving each drawdown request from Dili Fresh with due care before deciding whether and the extent of surplus cash that may be used for providing the Loan. To the extent necessary and on acceptable terms, the Group can also replenish its source of funding for the Loan by external bank borrowings. RMB2 billion is the maximum amount that the Group may lend to the Target Group under the Loan. It was neither structured as an obligation or a firm commitment on the part of the Group to lend all of the RMB2 billion nor is the Group obliged to lend at all as any drawdown request of Dili Fresh would be subject to the Board's assessment of the financial condition of the Group and its surplus cash level. Based on the above, we consider that there are sufficient measures to ensure that the Group would indeed have "surplus cash" prior to each drawdown of the Loan.

Given that one of the conditions precedent for drawdown of the Loan is the Board's satisfaction of surplus cash available to the Group or terms of external bank borrowing, taking into account the financial condition of the Group as a whole at the time of receipt of the drawdown request from Dili Fresh, the Group will not be obliged to provide the Loan in circumstances where the provision of the Loan will result in the Group having insufficient working capital for its own operations and/or a material adverse impact on the Group's gearing ratio as a result of higher leverage. As such, the Board reasonably believes that the Group will continue to have sufficient working capital to finance its own operations after the provision of the Loan for the next 12 months from the date of the Circular. Having considered the above and the statement of sufficiency of working capital set out under the section headed "Financial information of the Group — C. Working capital" set out in Appendix I to the Circular, we are of the view that the Group is expected to have sufficient working capital after the provision of the Loan.

It is noted from the section headed "Financial information of the Target Group — Management's discussion and analysis of financial condition and results of operations of the Target Group — Results of Operations — Other receivables and amount due from former shareholder" in Appendix II to the Circular that as at 31 March 2019, the Target Group has (i) other receivables (the "**Other Receivables**") in the amount of approximately RMB2,162.6 million due from Dongning Baorong, and independent third party; and (ii) amount due from former shareholder (the "**Amount Due from Former Shareholder**") in the amount of approximately RMB286 million due from Dili Investment. It is stated therein that the aforementioned back-to-back financing arrangements were business transactions among Mr. Dai and his business partners when the Target Group was effectively owned by Mr. Dai. It is also noted that Mr. Dai is obligated to settle as guarantor the Other Receivables and Amount Due from Former Shareholder in the event and to the extent that such amounts are outstanding as of 1 January 2023. In the event of a breach of the guarantee by Mr. Dai or the Vendor or any of the internal control mechanism (as stated in the relevant section of Appendix II to the Circular), Yield Smart will be entitled to put back the Target Shares to the Vendor or Mr. Dai for the total purchase price of RMB950 million with interest accrued at 6% per annum. Having considered the above together with the Board's basis in relation to the Other Receivables, Amount Due from Former Shareholder and the provision of the Loan as set out in the relevant section of Appendix II to the Circular, we consider the provision of the Loan, which is not in proportion to its shareholding in the Target Company upon Completion, is fair and reasonable to the Company.

The Loan represents financial support by the Group, which has leverage over lower financing costs in terms of interest expenses as a listed company than the Target Group. It is not the commercial objective of the Group to earn through levying a margin on the interest rate of the Loan, as the potential growth of the Target Group's business is expected to present and release a much greater value to the Group than the interest margin for reasons set out in the section headed "H. Reasons for and benefits of the Transaction" in the Board Letter. In any event, the Group is protected from interest rate fluctuations as it is guaranteed to receive a minimum of 6% per annum of interest rate on the Loan and any additional cost from increase in interest rate can be passed on to the Target Group.

As discussed in section 5.2 of this letter, the Company's interest-bearing borrowings as at 31 December 2018 carry interest rates ranging from approximately 4.36% to 6.84% per annum. Based on the above, the minimum interest rate of 6% per annum under the terms of the Loan is comparable to the interest rates of the Group's interest-bearing borrowings. Furthermore, if the Group can obtain bank borrowings at an interest rate that is lower than 6% or utilize its internal resources to finance the Loan, the Group is expected to be able to generate net interest income through the Loan arrangement which would then have a positive contribution to the Group's financial performance. Having considered (i) our work done as discussed above; (ii) the rationale given by the Group's management in the paragraphs immediately above in relation to (a) no additional margin charged on the interest rate of the Loan; and (b) the Group as a 19% minority shareholder of the Target Company upon Completion will provide the Loan which is not in proportion to its shareholding in the Target Company; and (iii) the use of proceeds of the Loan, we consider that the Loan arrangement and the interest rate thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In relation to the Group's ability to provide the Loan, we note from the section headed "C. The Loan — The Loan Agreement" in the Board Letter that the Company has cash at bank and on hand of approximately RMB1.9 billion as at the Latest Practicable Date while the maximum principal of the Loan is up to RMB2 billion. As mentioned above, the Loan Agreement is conditional to 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. Based on the above, we are of the view that there are sufficient measures in place to ensure that the Group has sufficient financial resources, either internally or externally, to cover for the maximum amount of the Loan.

In relation to the security of the Loan, we note that it will be secured by (i) share charge on the Remaining Shares and the guarantee to be provided by the Vendor; and (ii) the share charge in relation to shares in the Vendor and the guarantee to be provided by Mr. Dai. In view that the Target Group had consolidated net liabilities of approximately RMB82,141,000 as at 31 March 2019 as discussed in section 2.2 of this letter, the share charge on the Remaining Shares does not appear to be of any demonstrable value as protection to the interests of the Group. Furthermore, we have not been provided with further information on the Vendor to assess the level of protection offered by the guarantee from the Vendor and share charge on its shares. We have accordingly retrieved from public records that Mr. Dai is directly and indirectly interested in 2,131,028,532 Shares, representing approximately 37.3% of the Company's issued share capital of 5,715,593,056 Shares as at the Latest Practicable Date. Based on the closing price of HK$2.450 per Share on the Latest Practicable Date, the market capitalization of the Company is approximately HK$14.0 billion of which Mr. Dai's entitlement by way of his direct and indirect interests is approximately HK$5.2 billion. In view that such amount is well in excess of the maximum amount of the Loan of RMB2 billion (equivalent to approximately HK$2.2 billion) together with a list of other assets held by Mr. Dai which we have obtained and reviewed, we are of the view that there is sufficient security in place to protect the interests of the Group in the event that Dili Fresh defaults on its payment obligations under the Loan as Mr. Dai has sufficient resources to honor such guarantee if and when necessary.

6.2 The proposed annual caps

The proposed annual caps for the principal amount outstanding (the "**Principal Annual Caps**") and the interest amount accruing under the Loan (the "**Interest Annual Caps**" and collectively with the Principal Annual Caps, the "**Annual Caps**") are as follows:

	From drawdown to 31 December	Financial year ending 31 December			
	2019	2020	2021	2022	2023
Principal Annual Caps	RMB2 billion	RMB2 billion	RMB2 billion	RMB2 billion	RMB2 billion
Interest Annual Caps[1]	RMB50 million[2]	RMB200 million	RMB200 million	RMB200 million	RMB200 million

Notes:

1. The Interest Annual Caps are calculated by assuming the Principal Annual Cap during the relevant financial period/year will be fully utilized 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.

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

As stated in the Board Letter, the Annual Caps 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) the highest historical interest rate charged by third-party banks in the PRC in respect of advances drawn by 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 notes 1 and 2 above.

We are of the opinion that the Annual Caps are fair and reasonable for the following reasons: (i) the terms of the Loan (i.e. the interest rate) are fair and reasonable as discussed in section 6.1 of this letter; (ii) the Principal Annual Caps were determined with reference to the maximum allowable amount under the Loan pursuant to the terms and conditions of the Loan Agreement; (iii) the Interest Annual Caps were determined with reference to a 10% per annum interest rate in respect of the Loans which shall be the higher of (a) 6% per annum; and (b) the interest rate(s) at which the Group borrows from third-party banks so as to allow for a reasonable buffer in the event that the Group's bank borrowings result in a relatively higher level of interest rate as compared to the historical rates; (iv) the transactions under the Interest Annual Caps are of an income nature to the Group so the inclusion of a buffer would allow for higher income for the Group which is to the benefit of the Group; and (v) should the Interest Annual Caps be set without the relevant buffer, the Company may have to seek for additional Shareholders' approval for revision of such annual caps in the future, with additional costs such as professional fees, printing charges, share registrar charges and expenses in connection with hosting the general meeting to be incurred.

7. Financial effects

7.1 Net assets

As per the ''Unaudited pro forma financial information of the Enlarged Group'' (the ''**Pro Forma Financial Information**'') set out in Appendix IV to the Circular, the Group had unaudited net assets of approximately RMB8,583,198,000 as at 30 June 2019. After pro forma adjustments, the Enlarged Group is expected to have unaudited pro forma net assets of approximately RMB8,572,898,000, representing a decrease of approximately 0.1%. As per the Pro Forma Financial Information, such decrease is mainly attributable to the estimated transaction costs for the Transactions.

7.2 Profitability

As discussed in section 1 of this letter, the Group had consolidated profit attributable to equity shareholders of the Company of approximately RMB179,325,000 for the six months ended 30 June 2019. On the other hand, the Target Group had net loss of approximately RMB151,473,000 for the year ended 31 March 2019. Having considered the Target Shares only account for 19% of the Target Company's issued share capital, it is understood that (i) the Target Group's financial statements will not be consolidated into that of the Group upon Completion; and (ii) its results will not be shown as a ''share of profit/loss of an associate'' in the Group's consolidated income statement after Completion. Accordingly, the Acquisition is not expected to bring any immediate impact on the Group's profitability.

On the other hand, if the Group is able to obtain bank financing with an interest rate that is lower than 6% or utilize its internal resources to finance the Loan, the Group may be able to generate net interest income via the Loan arrangement, which is expected to bring positive contribution to the Group's earnings.

7.3 Liquidity

As per the Pro Forma Financial Information, the Group had unaudited current assets and current liabilities of approximately RMB2,818,857,000 and RMB1,053,314,000 respectively as at 30 June 2019, translating into a current ratio (current assets/current liabilities) of approximately 2.7 times. After pro forma adjustments, the Enlarged Group would have unaudited pro forma current assets and current liabilities of approximately RMB3,868,857,000 and RMB1,063,614,000 respectively, translating in a current ratio of approximately 3.6 times which represents an increase of approximately 33.3%. Such increase is mainly due to the Loan in the amount of RMB2 billion is booked as an ''other receivables'' under current assets while the corresponding financing to be obtained by the Group to support the Loan is booked under ''bank loans'' under non-current liabilities.

7.4 Gearing

As per the Pro Forma Financial Information, the Group had unaudited debts of approximately RMB551,180,000 (comprised of (i) bank loans (current portion) of approximately RMB225,500,000; and (ii) bank loans (non-current portion) of approximately RMB325,680,000) as at 30 June 2019. In addition, it had unaudited total equity of approximately RMB8,583,198,000 as at 30 June 2019, translating into a gearing ratio (total debts/total equity x 100%) of approximately 6.4%. After pro forma adjustments, the Enlarged Group would have unaudited pro forma total debts of approximately RMB2,551,180,000 (comprised of (i) bank loans (current portion) of approximately RMB225,500,000; and (ii) bank loans (non-current portion) of approximately RMB2,325,680,000) and unaudited pro forma total equity of approximately RMB8,572,898,000, translating into a gearing ratio of approximately 29.8%, representing an increase of approximately 365.6%. Although the Enlarged Group's gearing position is expected to significantly increase after Completion, we consider that it is still in a healthy situation as the Enlarged Group would still have unaudited pro forma net current assets of approximately RMB2,805,243,000 indicating that the Enlarged Group is expected to be able to fulfill its obligations arising out of its short-term liabilities post Completion.

It should be noted that the above-mentioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon the Completion.

CONCLUSION

Having considered the above principal factors, we are of the opinion that the terms of the Transactions (including the Consideration, the Put Option, the interest rate of the Loan and the Annual Caps) are fair and reasonable and in the interest of the Company and the Shareholders as a whole. In addition, we consider that the Transactions are on normal commercial terms. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the Transactions and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited
Kevin So
Director — Investment Banking Department

Note: Mr. Kevin So is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Mr. So has over 16 years of experience in the corporate finance industry in Hong Kong.

A. SUMMARY OF FINANCIAL RESULTS

Financial information of the Group for each of the years ended 31 December 2016, 2017 and 2018 and for the six months ended 30 June 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.diligrp.com):

- annual report of the Company for the year ended 31 December 2016 published on 27 April 2017

  (pages 43–124)

  (http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0427/LTN20170427440.pdf);

- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018

  (pages 50–124)

  (http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804271232.pdf); and

- annual report of the Company for the year ended 31 December 2018 published on 29 April 2019

  (pages 47–132)

  (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429169.pdf)

- interim report of the Company for the six months ended 30 June 2019 published on 16 September 2019

  (pages 17–50)

  (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0916/2019091600287.pdf)

B. INDEBTEDNESS STATEMENT

As at the close of business on 31 August 2019, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining the information contained in this indebtedness statement, the Group had a total bank loans of RMB551.2 million, comprising RMB130.0 million of bank loans which is secured by property and equipment and RMB327.0 million of bank loans which is secured by investment properties and guaranteed by third parties and RMB94.2 million bank loans which is secured by investment properties. In addition, the Group had a lease liabilities amounted to RMB342.4 million.

As at 31 August 2019, the Group's secured bank loan were secured by property and equipment and investment properties with total carrying value of RMB1,300.6 million.

As at 31 August 2019, the unutilized banking facilities of the Group amounted to RMB175.8 million.

Save as aforesaid, and apart from intra-group liabilities and normal accounts payable in the ordinary course of the business, as at the close of business on 31 August 2019, the Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital, bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

C. WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that, in the absence of unforeseen circumstances and after taking into account the expected completion of the Transaction, the cash flow generated from the operating activities, the financial resources available to the Group including internally generated funds and the available credit facilities, the Group has sufficient working capital for at least the next twelve months from the date of this circular.

5. FINANCIAL, BUSINESS AND TRADING PROSPECTS OF THE GROUP

As at the Latest Practicable Date, the Group operates 10 agriculture wholesale markets in 7 cities in China. Details of the operation area are set out in the annual report of the Company for the year ended 31 December 2018. "Agriculture Industry" (三農產業) (meaning agriculture (農業), rural communities (農村) and farmers (農民)) is of the utmost importance among the central policy stipulated by the PRC government. Despite that China's economy has been experiencing rapid development and modernization since the economy reform proposed by President Deng Xiaoping in the late 1970s, the Group believes that agriculture wholesale market is still an important and non-replaceable segment along China's agriculture value chain. With President Xi Jingping's emphasis on rural revitalization made earlier this year, the Agriculture Industry will undergo a rapid development in short and medium term. The Group will continue to focus on the agriculture wholesale market business. Apart from expanding and upgrading its existing markets to better serve its customers, the Group will ride on government support from the overall rural revitalization strategy introduced by President Xi and look for investments or partnership opportunities in areas along the upstream and downstream of the agriculture value chain in China. The Acquisition will therefore enable the downstream expansion of the Group in the value chain of China's agriculture sector by tapping into the wholesaling and retailing of agricultural and fresh food produce businesses. The Group targets to become a leading agriculture group in China focusing on sales of agriculture products, with the goal to contribute to the society by shortening the value chain between the farmers and the consumers.

Upon completion of the Acquisition, Yield Smart (a wholly-owned subsidiary of the Company) will own as to 19.0% of the entire issued share capital of the Target Company and thus the Target Company will not be accounted for as a subsidiary of the Company. The following discussions and analysis relate to the results of operations and financial condition of the Target Group as at and for the period from date of incorporation of Dili Fresh (a subsidiary of the Target Group) on 19 April 2016 to 31 March 2019. You should read the following discussions and analysis in conjunction with the accompanying notes contained in the Accountants' Report of the Target Group set out in Appendix III to this circular.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE TARGET GROUP

Business Review 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 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 approximately 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 30 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.

Results of Operations

Revenue

Revenue of the Target Group comprises (i) sales of commodities through its retail business, (ii) trading of commodities through its wholesale business, (iii) management service income, and (iv) rental income from leasing of shop premises. The following table sets out the breakdown of revenue for the period indicated:

	For the period from 19 April 2016 to 31 March 2017 *RMB'000*	For the year ended 1 April 2017 to 31 March 2018 *RMB'000*	For the year ended 1 April 2018 to 31 March 2019 *RMB'000*
Sales of commodities	—	—	4,296,215
Trading of commodities	1,652,530	2,333,217	—
Management service income	—	—	46,849
Rental income from leasing of shop premises	—	—	10,937
	1,652,530	2,333,217	4,354,001

The RMB4,354 million represented the GMV achieved by the self-operated stores of the Target Group for the year ended 31 March 2019. Revenue of the Target Group increased by approximately 41.2% from RMB1,652.5 million for the period ended 31 March 2017 to RMB2,333.2 million for the year ended 31 March 2018, and increased by approximately 86.6% from RMB2,333.2 million for the year ended 31 March 2018 to RMB4,354.0 million for the year ended 31 March 2019. The increase in revenue from 2017 to 2018 was primarily due to the shorter period of operation in 2017, as the trading of commodities through wholesale business of the Target Group only started around July 2017 and therefore had only approximately nine months of operation in 2017 as compared to the full year of wholesale business operation in 2018. The increase in revenue from 2018 to 2019 was due to the Target Group's migration of wholesale business to retail business with the opening of approximately 250 self-operated retail stores through acquisitions and organic growth. The retail business of the Target Group captured the sales value of the fresh produce to the end customers which were comparatively higher than that of the wholesale business.

Cost of sales

Cost of sales of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was RMB1,589.8 million, RMB2,291.0 million and RMB3,620.5 million, respectively. For the year ended 31 March 2018, the cost of sales increased by approximately 44.1% as compared with the period ended 31 March 2017, while the cost of sales for the year ended 31 March 2019 increased by approximately 58.0% as compared with the year ended 31 March 2018. The increase during said period and the years was partly due to the increase of the revenue of the Target Group as well as the opening of more retail stores for the year ended 31 March 2019.

Gross Profit

Gross profit of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was RMB62.7 million, RMB42.3 million and RMB733.5 million, respectively. For the year ended 31 March 2018, the gross profit decreased by approximately 32.6% as compared with the period ended 31 March 2017, while the gross profit for the year ended 31 March 2019 increased by approximately 1,635.8% as compared with the year ended 31 March 2018. The decrease in gross profit in 2018 was due to the increase in the cost of sales and a change of product mix comprising more produce of lower profit margin. The increase in gross profit in 2019 was mainly contributed by the higher profit margin of the retail business of the Target Group, which commenced only in the course of the year ended 31 March 2019, when compared to that of the wholesale business.

Other income

Other income of the Target Group mainly comprises of bank interest income and sundry income. For the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, other income amounted to RMB0.1 million, RMB0.3 million and RMB4.4 million, respectively.

Selling and distribution costs

Selling and distribution costs of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was RMB28.6 million, RMB28.8 million and RMB679.8 million, respectively. The amount of the selling and distribution costs for the year ended 31 March 2018 was stable when compared to the period ended 31 March 2017, while the amount for the year ended 31 March 2019 increased by approximately 2,260.4% as compared to the year ended 31 March 2018. The increase in 2019 of the selling and distribution costs was resulted from the migration of wholesale business to retail business with a surge in cost of sales staff for the retail stores, rental costs for store space, promotional expenses, depreciation, costs of utilities as well as transportation costs in relation to the rapid expansion of the retail stores during the year ended 31 March 2019.

Administrative expenses

Administrative expenses of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was RMB1.5 million, RMB5.7 million and RMB195.5 million, respectively. For the year ended 31 March 2018, the administrative expenses increased by approximately 275.9% as compared to the period ended 31 March 2017, while the amount for the year ended 31 March 2019 increased by approximately 3,311.8% as compared to the year ended 31 March 2018. The increase in administrative expenses in 2018 was a result from an increase in personnel expenses in preparing for the change to retail business operations. The increase in administrative expenses in 2019 was mainly due to the increase in personnel expenses of the information system department, procurement and logistics department of the Target Group and other related management and administrative costs as a result of the commencement and rapid expansion of the retail stores.

Profit from operation

The Target Group derived its profit from operations by deducting all cost of sales, other operating expenses, selling and distribution costs, and administrative expenses from the revenue and other income.

Profit from operations of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was a profit of RMB32.7 million, a profit of RMB8.0 million and a loss of RMB142.1 million, respectively. The decrease in profit by approximately 75.5% for the year ended 31 March 2018 as compared to the period ended 31 March 2017 was due to the increase in cost of sales and administrative expenses. The turning into loss for the year ended 31 March 2019 was mainly due to the increase of the selling and distribution costs and administrative expenses as a result of commencement of retail business by the opening of retail stores across China.

Finance Income and Expense

Finance expense of the Target Group mainly consists of interest expenses on bank and other borrowings. For the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, finance cost of the Target Group was RMB32.4 million, RMB288.6 million and RMB218.6 million, respectively. The changes were in line with the changes in the amount of bank and other borrowings.

Finance income of the Target Group consists of interest income on other receivables. For the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, finance income of the Target Group was RMB32.5 million, RMB288.7 million and RMB218.6 million, respectively. The finance income was determined on the basis of recovering the finance expense in full.

As a result, the net finance income of the Target Group for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 was RMB97,000, RMB36,000 and RMB7,000, respectively.

Income Tax Expense

The operating subsidiaries of the Target Group were established in the PRC and subject to PRC corporate income tax at a rate of 25% during each of the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019. For the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, the income tax expense of the Target group was RMB8.2 million, RMB2.4 million and RMB9.4 million, respectively. The income tax expense decreased by approximately 71.0% in 2018 and was in line with the decrease in the profit before tax. The income tax expense increased by approximately 297.2% in 2019 despite that there was a loss before tax for the year, this was mainly due to the fact that subsidiary(ies) which were profitable could not utilize the tax loss incurred by fellow subsidiary(ies) for offsetting purpose.

Profit for the Period/Year

As a result of the foregoing, the Target Group recorded a profit or loss for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019 in the amount of a profit of RMB24.6 million, a profit of RMB5.7 million and a loss of RMB151.5 million, respectively.

Other receivables and amount due from former shareholder

The Target Group has other receivables in the amount of approximately RMB2,162.6 million as at 31 March 2019, which were mainly due from an independent third party, Dongning Baorong Sino-Russian Agricultural Produce and Side Products Wholesale Markets Co., Ltd** (東寧寶榮中俄農副產品批發市場有限公司) ("**Dongning Baorong**"), which ultimate beneficial sole shareholder is Mr. Ding Yuming (丁宇明), an individual who is independent of the Company and its connected person(s) including Mr. Dai and who is a business partner of Mr. Dai. Such receivables were interest-bearing at rates ranging from approximately 5.56% per annum to 6.50% per annum and repayable on demand. Save as disclosed in this circular, there is no other relationship, arrangement, understanding or undertaking between Mr. Dai and Dongning Baorong and its ultimate beneficial sole shareholder.

For the year ended 31 March 2019, an amount of RMB286 million was due from a former shareholder of Dili Fresh, being Dili Agricultural Produce Investment Holding Co., Ltd** (地利農產品投資控股有限公司) ("**Dili Investment**"), an independent third party of the Company in which Mr. Dai has an effective interest of 17.9%. The other ultimate beneficial controlling shareholders are Mr. Ding Yuming (丁宇明), Mr. Yue Taoming (岳陶明) and Mr. Zhu Weibin (朱偉濱), who are individuals independent of the Company and its connected person(s) including Mr. Dai and who are business partners of Mr. Dai. Such amount due from the former shareholder was interest-free and repayable on demand.

During the periods reported on, the Target Group has been effectively owned by Mr. Dai and the back-to-back financing arrangements (being advances to the independent third parties described above using certain funds raised from bank and other borrowings) were business transactions among Mr. Dai and his business partners. The advances to Dongning Baorong and Dili Investment were made initially for soliciting appropriate retail stores from various owners to add to the retail business of the Target Group and were originally planned to be repaid in the event that such purpose was not fulfilled and therefore, such advances had no fixed repayment terms. The negotiations with various owners however did not complete nor lead to conclusion of terms for acquisition of retail stores and with the consent from Mr. Dai, such advances were later used by Dongning Baorong and Dili Investment for other purposes.

Given that the Company will only be acquiring 19% of the Target Company and will not have control over it, it was part of the deal that, the other receivables and amount due from the former shareholder will not be settled before Completion. Nonetheless, each of the Vendor and

Mr. Dai has given a guarantee to Yield Smart for the repayment of all such other receivables and amount due from the former shareholder. Despite there being no fixed repayment terms, Mr. Dai is obliged to settle as guarantor all other receivables from Dongning Baorong and amount due from former shareholder in the event and to the extent that such other receivables and amount due from former shareholder are outstanding as of 1 January 2023. In addition to enforcing the guarantee of Mr. Dai, the interest of the Group is further safeguarded by the following mechanisms of the Target Group for enhanced internal control and for protection of the Group as a minority shareholder of the Target Company, including, (i) a restriction on the entering into of any non-arm's length transaction(s) by the Target Group after Completion; (ii) a veto right for Yield Smart as shareholder of the Target Company over the incurring of any liability, financial indebtedness or borrowing commitment by the Target Group for a principal amount of over RMB200 million, save and except in connection with the Loan, in accordance with its business plan or in its ordinary course of business; (iii) a restriction on the entering into any financing or lending commitment, or the making of any further advance to Mr. Dai and his associate(s) and any third parties unless in accordance with its ordinary course of business or business plan after Completion without prior written consent of the Company. In the event of a breach of the guarantee by Mr. Dai or the Vendor or any of the above-mentioned internal control mechanism by the Target Group, Yield Smart will be entitled to put back the Target Shares to the Vendor or Mr. Dai for the total purchase price of RMB950 million with interest accrued at 6% per annum. Other key protection measures for the Group as a minority shareholder of the Target Company include but not limited to, (i) transfer restriction on the Remaining Shares held by the Vendor during the period when the Call Option remains exercisable unless otherwise agreed by Yield Smart and (ii) a tag-along right for Yield Smart to participate in any third-party sale of the Remaining Shares by the Vendor on terms that are no less favourable than those offered by the third-party purchaser.

In relation to the ability of each of Dongning Baorong and Dili Investment as debtors of the Target Group and Mr. Dai as guarantor to fulfil the repayment obligations under the other receivables and amount due from of the Target Group, the Directors have conducted relevant due diligence work, including but not limited to, (i) reviewing the financial statements of Dongning Baorong; (ii) performing independent background search on Mr. Ding, the single largest beneficial shareholder of Dili Investment and were given to understand that Mr. Ding is a high net worth individual whose investment portfolio covers various business sectors including property investment and he is one of the owners of a commercial building in the central business district of Beijing in the PRC; (iii) assessing the financial worthiness of Mr. Dai and were given to understand that Mr. Dai is a prominent businessman with investment portfolio covering a wide range of assets and industries worldwide including shares of listed companies and real estate properties.

On the basis that (i) the other receivables from Dongning Baorong and amount due from a former shareholder were all historical advances made when the Target Group was effectively owned by Mr. Dai; (ii) the repayment of such advances is guaranteed by Mr. Dai and the Vendor as guarantors; (iii) any breach of the guarantee by Mr. Dai or the Vendor or other undertaking as referred to above would allow the Group to put back the Target Shares to the Vendor or Mr. Dai; (iv) checks and balances of the Target Group are in place to restrict or control any further advance to Mr. Dai, his associate(s) and any third parties and the incurring of material indebtedness after Completion; (v) the Group is a creditor of the Target Group and the interest-bearing feature of the Loan provides interest income guaranteed at a minimum of 6% per annum; and (vi) the Loan will enable the growth and expansion of the Target Group which the Group will share any synergy benefits thereof, the Board considers it fair and reasonable for the Company to provide the Loan to the Target Group.

Liquidity and Financial Resources

The Target Group financed working capital and capital expenditures principally through cash generated from operating activities and borrowings. As at 31 March 2019, cash at bank and on hand of the Target Group amounted to RMB79.7 million.

Cash inflows from operations of the Target Group were primarily generated from sales of commodities. Cash outflows from operations were mainly for expenditures on administrative expenses, selling and distribution costs and other operating expenses, as well as income tax payments. Net cash used in operating activities for the period ended 31 March 2017 was RMB2,972.8 million, comprised of cash outflow from operating activities of RMB2,969.8 million, and the income tax payment of RMB3.0 million. Net cash used in operating activities for the year ended 31 March 2018 was RMB1,428.1 million, comprised of the cash outflow from operating activities of RMB1,421.5 million, and an income tax payment of RMB6.6 million. Net cash generated from operating activities for the year ended 31 March 2019 was RMB2,907.9 million, contributed by the cash inflow from operating activities of RMB2,918.3 million, partially offset by income tax payment of RMB10.3 million.

Net cash generated from investing activities for the period ended 31 March 2017 was RMB31.8 million, primarily from the interest received and was slightly offset by the purchases of plant and equipment. Net cash generated from investing activities for the year ended 31 March 2018 was RMB284.9 million, primarily due to the interest received, the inflow was partially offset by the purchase of plant and equipment and purchase of intangible assets. Net cash used in investing activities in 2019 was RMB243.5 million, primarily due to the advance to a former shareholder, purchase of plant and equipment, purchase of intangible assets after offsetting interest received and proceeds from disposal of plant and equipment.

Net cash generated from financing activities for the period ended 31 March 2017 was RMB3,037.6 million, primarily generated from the proceeds from bank and other borrowings and proceeds from issue of shares, which were partially offset by the interest paid. Net cash generated from financing activities for the year ended 31 March 2018 was RMB1,071.4 million, primarily due to the proceeds from bank and other borrowing, which was partially offset by the interest paid. Net cash used in financing activities in 2019 was RMB2,609.5 million, primarily due to the net repayment of the bank and other borrowings, repayment to former shareholder, interest paid and dividend paid.

As at 31 March 2017, 2018 and 2019, the Target Group had net current assets of RMB3,048.9 million, RMB4,411.1 million and RMB1,746.9 million, respectively. The increase in net current assets from 2017 to 2018 was primarily due to the increase in other receivable. The decrease in net current assets from 2018 to 2019 was primarily due to the decrease in other receivable.

As at 31 March 2017, 2018 and 2019, the total bank and other borrowings of the Target Group amounted to RMB3.0 billion, RMB4.36 billion and RMB2.0 billion, respectively. These bank and other borrowings were secured by operating rights of certain shopping malls in China which were held by companies owned by Mr. Dai, and guaranteed by Mr. Dai and company owned by Mr. Dai, who is the ultimate controlling party of the Target Group, with fixed annual interest rates ranging from 5.56% per annum to 6.50% per annum for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019.

Gearing Ratio

The gearing ratio of the Target Group, which is equal to bank and other borrowings over total assets as at 31 March 2017, 2018, and 2019, were approximately 88.7%, 94.2% and 68.9%, respectively.

Significant Investments

The Target Group did not have any material equity investments as at 31 March 2017, 2018 and 2019.

Contingent Liabilities

Save as disclosed above, the Target Group did not have any other contingent liabilities as at 31 March 2019.

Commitments

As at 31 March 2019, the future capital expenditure for which the Target Group had contracted but not provided for in the combined statement of financial statements amounted to RMB208,000.

The Target Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. As of 31 March 2019, the future aggregated minimum lease payment under non-cancellable operating leases is amounted to RMB990.7 million.

Financial Risk Management

For the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, the Target Group was mainly exposed to capital, interest rate, credit and liquidity risks arising in the normal course of business. For details of the exposure to such risks and the relevant risk management policies and practices adopted by the Target Group, please refer to Notes 24 and 25 of the Accountant's Report of the Target Group as set out in Appendix III to this circular.

As the operations of the Target Group were principally based in the PRC for the period ended 31 March 2017 and for the years ended 31 March 2018 and 2019, the principal assets and liabilities of the Target Group were denominated in Renminbi and therefore the Target Group considered that it did not have any material exposure to fluctuations in exchange rate and no hedging measures were taken.

The following is the text of a report set out on pages III-1 to III-39, received from the Reporting Accountants, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF TARGET GROUP TO THE DIRECTORS OF CHINA DILI GROUP

Introduction

We report on the historical financial information of Million Master Investment Limited (the "Target Company") and its subsidiaries (collectively referred to as "Target Group") set out on pages III-4 to III-39, which comprises the combined statement of financial position as at 31 March 2017, 2018 and 2019, the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and combined statement of cash flows, for the period from 19 April 2016 (date of incorporation) to 31 March 2017, and each of the years ended 31 March 2018 and 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-39 forms an integral part of this report, which has been prepared for inclusion in the circular dated 30 September 2019 (the "Circular") issued by China Dili Group (the "Company") in connection with the proposed acquisition of 19% of the entire issued share capital of the Target Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of combined financial position of the Target Group as at 31 March 2017, 2018 and 2019 and of the combined financial performance and cash flows of the Target Group for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which states that approximately RMB25,918,000 dividends have been paid by the Target Company in respect of the Relevant Periods.

Elite Partners CPA Limited
Certified Public Accountants

Siu Jimmy
Practising Certificate Number: P05898

Hong Kong
30 September 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The underlying financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Elite Partners in accordance with Hong Kong Standards on Auditing issued by the HKICPA (''Underlying Financial Statements'').

The Historical Financial Information is presented in Renminbi (''RMB''), and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*5*	1,652,530	2,333,217	4,354,001
Cost of sales		(1,589,829)	(2,290,958)	(3,620,465)
Gross profit		62,701	42,259	733,536
Other income	*6*	83	261	4,423
Other operating expenses		—	—	(4,812)
Selling and distribution costs		(28,603)	(28,798)	(679,754)
Administrative expenses		(1,524)	(5,729)	(195,463)
Operating profit/(loss) from operations		32,657	7,993	(142,070)
Finance income		32,500	288,684	218,569
Finance cost		(32,403)	(288,648)	(218,562)
Net finance income	*7*	97	36	7
Profit/(loss) before taxation	*8*	32,754	8,029	(142,063)
Income tax expense	*10*	(8,164)	(2,369)	(9,410)
Profit/(loss) and other comprehensive income/(loss) for the period/year		24,590	5,660	(151,473)

The accompanying notes form part of the Historical Financial Information.

COMBINED STATEMENT OF FINANCIAL POSITION

		As at 31 March		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Plant and equipment	*13*	649	4,101	128,592
Intangible assets	*14*	—	42	2,393
		649	4,143	130,985
Current assets				
Inventories	*15*	27,254	64,408	89,543
Trade receivables	*16*	65,340	465	26,598
Other receivables	*16*	3,014,175	4,469,510	2,166,520
Amount due from a former shareholder	*18*	—	—	286,000
Contract assets		178,506	65,552	121,466
Cash and bank balances		96,656	24,800	79,744
		3,381,931	4,624,735	2,769,871
Current liabilities				
Trade payables	*17*	182,308	165,053	450,115
Other payables	*17*	3,559	1,263	444,775
Amount due to a former shareholder	*18*	5,000	5,000	—
Amount due to the ultimate shareholder	*18*	—	9	38
Contract liabilities		96,937	1,378	88,069
Bank and other borrowings	*19*	40,000	40,000	40,000
Tax payable		5,186	925	—
		332,990	213,628	1,022,997
Net current assets		3,048,941	4,411,107	1,746,874
Total assets less current liabilities		3,049,590	4,415,250	1,877,859

COMBINED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 31 March		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Bank and other borrowings	*19*	2,960,000	4,320,000	1,960,000
		2,960,000	4,320,000	1,960,000
Net assets/(liabilities)		89,590	95,250	(82,141)
Equity				
Share capital	*21*	—	—	—
Reserves		89,590	95,250	(82,141)
Total equity/(deficit)		89,590	95,250	(82,141)

The accompanying notes form part of the Historical Financial Information.

COMBINED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owner of the Target Company				
	Share capital	Other reserve	Statutory reserve	Retained profits/ (Accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
At 19 April 2016 (Date of incorporation)	—	—	—	—	—
Issue of shares of subsidiary of the Target Company	—	65,000	—	—	65,000
Profit and total comprehensive income for the period	—	—	—	24,590	24,590
Transfer to statutory reserve	—	—	2,452	(2,452)	—
At 31 March 2017 and 1 April 2017	—	65,000	2,452	22,138	89,590
Profit and total comprehensive income for the period	—	—	—	5,660	5,660
Transfer to statutory reserve	—	—	703	(703)	—
At 31 March 2018 and 1 April 2018	—	65,000	3,155	27,095	95,250
Loss and total comprehensive loss for the period	—	—	—	(151,473)	(151,473)
Dividend paid	—	—	—	(25,918)	(25,918)
At 31 March 2019	—	65,000	3,155	(150,296)	(82,141)

Note: As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), before distribution of profit each year, the subsidiaries established in the PRC shall set aside 10% of their profit derived in accordance with the generally accepted accounting principles in the PRC to the statutory reserve. The statutory reserve can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

The accompanying notes form part of the Historical Financial Information.

COMBINED STATEMENT OF CASH FLOWS

	For the period from 19 April 2016 (date of incorporation) to 31 March	For the year ended 31 March	
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit/(loss) for the period/year	24,590	5,660	(151,473)
Amortisation of intangible assets	—	2	597
Depreciation of plant and equipment	26	287	33,751
Finance income	(32,500)	(288,684)	(218,569)
Finance cost	32,403	288,648	218,562
Income tax expense	8,164	2,369	9,410
Written off of plant and equipment	—	—	9,946
Written off of intangible assets	—	—	5
Loss on disposal of plant and equipment	—	—	4,971
Operating profit/(loss) before working capital changes	32,683	8,282	(92,800)
Changes in inventories	(27,254)	(37,154)	(25,135)
Changes in trade receivables	(65,340)	64,875	(26,133)
Changes in other receivables	(3,014,175)	(1,455,335)	2,302,990
Changes in contract assets	(178,506)	112,954	(55,914)
Changes in trade payables	182,308	(17,255)	285,062
Changes in other payables	3,559	(2,296)	443,512
Changes in contract liabilities	96,937	(95,559)	86,691
Cash (used in)/generated from operating activities	(2,969,788)	(1,421,488)	2,918,273
Income tax paid	(2,978)	(6,630)	(10,335)
Net cash (used in)/generated from operating activities	(2,972,766)	(1,428,118)	2,907,938
Investing activities			
Purchases of intangible assets	—	(44)	(2,953)
Purchases of plant and equipment	(675)	(3,739)	(174,333)
Proceeds from disposal of plant and equipment	—	—	1,174
Advance to a former shareholder	—	—	(286,000)
Interest received	32,500	288,684	218,569
Net cash generated from/(used in) investing activities	31,825	284,901	(243,543)

COMBINED STATEMENT OF CASH FLOWS (CONTINUED)

	For the period from 19 April 2016 (date of incorporation) to 31 March	For the year ended 31 March	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financing activities			
Proceeds from bank and other borrowings	3,000,000	1,400,000	1,400,000
Repayment of bank and other borrowings	—	(40,000)	(3,760,000)
Interest paid	(32,403)	(288,648)	(218,562)
Dividend paid	—	—	(25,918)
Proceeds from issue of shares of subsidiary of the Target Company	65,000	—	—
Advance from/(Repayment to) a former shareholder	5,000	—	(5,000)
Advance from an ultimate shareholder	—	9	29
Net cash generated from/(used in) from financing activities	3,037,597	1,071,361	(2,609,451)
Net increase/(decrease) in cash and cash equivalents	96,656	(71,856)	54,944
Cash and cash equivalents at the beginning of the period/year	—	96,656	24,800
Cash and cash equivalents at the end of the period/year	96,656	24,800	79,744

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the announcement dated 29 August 2019 (the "Announcement"), Yield Smart Limited ("Yield Smart" or the "Purchaser"), a wholly owned subsidiary of the Company, proposed to acquire and Plenty Business Holdings Limited ("Plenty Business" or the "Vendor") proposed to sell 19% of the entire issued share capital of Million Master Investment Limited (the "Target Company"), which operates through its 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".

On 19 April 2016, Harbin Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.** (哈爾濱地利生鮮農產品企業管理有限公司) ("Dili Fresh") was established in the PRC, at the time of which its equity interest was owned as to 65% by Dili Agricultural Produce Investment Holding Co., Ltd.** (地利農產品投資控股有限公司) ("Dili Investment") which was held on trust on behalf of Mr. Dai and the investment costs of approximately RMB880 million were funded by Mr. Dai (which was part of the total acquisition and investment costs of the Target Group of approximately RMB2.5 billion funded by Mr. Dai as further discussed below), and as to 35% equity interest, it was owned by Mr. Min Fuyi (閵福義), an individual who is independent of the Company and its connected person(s) including Mr. Dai. Such interest was subsequently transferred by Mr. Min to Dili Investment on 11 February 2018 at a consideration of RMB496.39 million which was funded by Mr. Dai and also held on trust on behalf of Mr. Dai.

Dili Investment is a company in which Mr. Dai has an effective interest of 17.9%. The other ultimate beneficial controlling shareholders are Mr. Ding Yuming (丁宇明) as to approximately 47.9%, Mr. Yue Taoming (岳陶明) as to approximately 6.8% and Mr. Zhu Weibin (朱偉濱) as to approximately 27.4%, (the "Other Investors") who are individuals independent of the Company and its connected person(s) including Mr. Dai and who are business partners of Mr. Dai. Save for the trust arrangement, there is no other relationship, arrangement, understanding or undertaking between Mr. Dai and the Other Investors with regards to the Target Group.

Mr. Dai is a prominent businessman whose investment portfolio covers agricultural food produce, beverages, sports and recreation and real estate industries. He was the former Chairman and a former executive director of the Company and is reputable in the PRC for being a high net worth individual, who started his investments in underground shopping malls in underground civil defence properties in the PRC and later expanded to overseas across different industry sectors. Given the market knowledge of Mr. Dai's wealth and investments and him being a semi-public figure in the PRC, for confidentiality and practicality reasons, as Mr. Dai has to attend to his other on-going investments and regular business commitments, his investment in the Target Group were made through Dili Investment as trustee on behalf of him and the costs of which were funded by him. The said trust arrangement with Dili Investment also facilitated the negotiation processes with a large number of individual vendors of retail stores. Upon completion of the Reorganisation (as defined below and details of which are set out below), the trust arrangement came to an end as Mr. Dai took up both the legal and beneficial ownership of the Target Group through being the sole owner of the Vendor which holds the entire issued share capital of the Target Company.

The Target Company was incorporated in the British Virgin Islands ("BVI") on 15 September 2017 which is an investment holding company and has not carried on any business since the date of its incorporation save for the reorganisation described below. The Target Company and its subsidiaries (as some are set out in note 27) (the "Target Group") are principally engaged in retailing across the PRC 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 approximately 250 self-operated retail stores across Harbin, Shenyang, Changchun, Guiyang, Beijing, Daqing, Yushu, Fushun, Tieling, Jilin City and Songyuan in the PRC, selling primarily vegetables and also fruits, seafood, meat and other food produce and has several franchise stores operated by the franchisees (the "Target Business").

The Target Group underwent a corporate reorganisation (the "Reorganisation") which principally involved the followings:

(i) The Target Company was incorporated in the BVI at 15 September 2017;

(ii) On 20 December 2017, the Target Company acquired one share, being the entire issued share capital of Speed Up Development Limited ("Speed Up") from its initial subscriber Victon Services Limited (which is an independent service provider of company secretarial services) for a consideration of HK$1 and has been the sole shareholder of Speed Up since then.

(iii) On 30 March 2018, Dili Investment transferred its entire equity interests in Dili Fresh to Speed Up for a consideration of RMB65 million. The amount represents the prevailing book value of the Target Group and was meant as to satisfy the valuation requirements and the transfer registration procedures in the PRC.

Upon completion of the Reorganisation, the Target Company became the holding company of the companies now comprising the Target Group. The Target Company and Speed Up are investment vehicles only and the substance of the Reorganisation lies with step (iii) which took place on 30 March 2018 to establish an offshore group structure of the Target Group for any future restructuring or fund raising.

The total acquisition and investment costs for the Target Group funded by Mr. Dai was approximately RMB2.5 billion, comprising the costs in the amount of approximately RMB496.39 million in or around February 2018 for acquiring 35% equity interest in Dili Fresh from Mr. Min Fuyi (�co福義); the compensation costs in the amount of approximately RMB647.02 million from November 2016 to March 2018 for individual vendors represented by a Mr. Gao who sold their retail stores to the Target Group; the compensation costs in the amount of approximately RMB1,187.42 million from April 2016 to March 2018 for individual vendors represented by a Mr. Zhang who sold their retail stores to the Target Group; the transfer consideration for the Target Group in respect of step (iii) of the Reorganization referred to above in the amount of approximately RMB65 million in or around March 2018 and the finance costs in the amount of approximately RMB191.59 million arising from bank borrowing.

Prior to and after the Reorganisation, the companies now comprising the Target Group were under the common control of Mr. Dai Yongge ("Mr. Dai") and there has been a continuation of risks and benefits on the Target Business to Mr. Dai that exists prior to the Reorganisation. Accordingly, the Historical Financial Information has been prepared using the merger basis of accounting by including the Historical Financial Information of the companies engaged in the Target Business, under the common control of Mr. Dai immediately before and after the Reorganisation and now comprising the Target Group, as if the current group structure had been in existence throughout the periods presented.

The net assets of the combining companies were combined using the existing book values from Mr. Dai's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of Mr. Dai's interests.

The combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Target Group for the Relevant Periods as set out in this report include the financial performance and cash flows of the companies now comprising the Target Group (or where the companies were incorporated or under common control of Mr. Dai, for the period from the date of incorporation or the date under common control to 31 March 2019) as if the current group structure had been in existence throughout the Relevant Periods. The combined statement of financial position of the Target Group as at 31 March 2017, 2018 and 2019 as set out in this report have been prepared to present the financial position of the companies now comprising the Target Group as at those dates as if the current group structure had been in existence as at the respective dates.

Intra-group balances and transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, the Target Company had direct or indirect interests in the subsidiaries set out in note 27, all of which are private companies.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 3.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting year ended 31 March 2020. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 April 2019 are set out in Note 2.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at 31 March 2019, Target Group had net liabilities and incurred loss for the year of approximately RMB82,141,000 and RMB151,473,000 respectively. The Historical Financial Information has been prepared on a going concern basis notwithstanding the above mentioned conditions, because the Target Group's ultimate shareholder, Mr. Dai, has confirmed that he will provide continuous financial support to Target Group within the next twelve months after the end of the reporting date or before the completion of the acquisition, in order to enable it to meet its liabilities as and when they fall due. Meanwhile, based on a detailed review of the working capital forecast of the Target Group for the year ending 31 March 2020, the Target Group will have necessary liquid funds to finance its working capital and capital expenditure requirements. Accordingly, the directors of the Company (the "Directors") consider it is appropriate to prepare the financial statements on a going concern basis.

The Historical Financial Information has been prepared on the historical cost basis at the end of each Relevant Periods, as explained in the accounting policies set out below.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied all IFRSs which are effective for the financial year beginning on 1 April 2018 throughout the Relevant Periods.

New and amendments to IFRSs in issue but not yet effective

At the date of this report, the following new standards, amendments to standards and interpretation that have been issued but are not yet effective:

IFRS 16	Leases[1]
IFRIC-Int 23	Uncertainty over income tax treatments[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 19	Plan amendment, curtailment or settlement[1]
Amendments to IAS 28	Long-term interests in associates and joint ventures[1]
Amendments to IFRSs	Annual improvements to IFRSs 2015–2017 cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.

The Directors anticipates that the application of these new and amendments to IFRSs and interpretation, other than those set out below, will have no material impact on the Historical Financial Information.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst other. For the classification of cash flows, the Target Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Under IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will present as financing cash flows.

Under IAS 17, the Target Group has already recognised prepaid lease payments for leasehold lands where the Target Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Target Group presents right-of-use assets separately or within the same line item at which the corresponding assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As disclosed in Note 21, total operating lease commitments for the Target Group as at 31 March 2019 were amounted to approximately RMB990,749,000, the Directors do not expect the applicable of IFRS 16 would result in significant impact on the Target Group's results but it is expected that certain of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Target Company complete a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with IFRSs. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information have been prepared on the historical cost basis at the end of each Relevant Periods, as explained in the accounting policies set out below.

a. Use of estimates and judgements

The preparation of Historical Financial Information in conformity with IFRSs requires management of the Target Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management of the Target Company in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 4.

b. Functional and presentation currency

The Historical Financial Information are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying on the principal activities of the Target Group.

c. Subsidiaries

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is combined into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

d. Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the component will flow to the Target Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

Furniture, fixtures and equipment	5–10 years
Plant and machinery	5–10 years
Motor vehicles	8 years
Leasehold improvement	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e. Intangible assets (other than goodwill)

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	10 years

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

f. Impairment of assets

(i) Impairment of other receivables

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within prepayments and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Plant and equipments and
- Intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

g. Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any written-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

h. Prepayments and other receivables

Prepayments and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment for doubtful debts, except where the receivables are interest-free loans made to related parties or third parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

i. Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

j. Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs.

k. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

l. Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and shortterm, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

n. Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

o. Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either; or

- the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p. Provisions and contingent liabilities

Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure excepted to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

q. Revenue recognition

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- The Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or
- The Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange for dissimilar products, the Target Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Target Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);

(b) a refund liability/contract liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Target Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Target Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Target Group is an agent).

The Target Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Target Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Target Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Target Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for specified goods or services to be provided by the other party.

r. Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent. Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

s. Credit losses and impairment loss

The Target Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments. These investments are subsequently accounted for as follows, depending on their classification.

Investments other than equity investments

Non-equity investments held by the Target Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Target Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

The Target Group recognises a loss allowance for ECLs on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Target Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Target Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, other receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Target Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Target Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 3(q) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

4. ACCOUNTING JUDGEMENT AND ESTIMATES

Impairment losses of non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered ''impaired'', and an impairment loss may be recognised in accordance with the accounting policy. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price and amount of operating costs. Target Group use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Target Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during the Relevant Periods. The useful lives are based on these companies' experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

5. REVENUE

An analysis of the Target Group's revenue for the Relevant Periods are as follows:

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Sales of commodities	—	—	4,296,215
Trading of commodities	1,652,530	2,333,217	—
Management service income	—	—	46,849
Rental income from leasing of shop premises	—	—	10,937
	1,652,530	2,333,217	4,354,001

6. OTHER INCOME

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	83	231	393
Sundry income	—	30	4,030
	83	261	4,423

7. NET FINANCE INCOME

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Finance income:			
Interest income on other receivables	32,500	288,684	218,569
Finance cost:			
Interest on bank and other borrowings	(32,403)	(288,648)	(218,562)
	97	36	7

8. PROFIT/(LOSS) BEFORE TAXATION

The Target Group's profits/(loss) before taxation has been arrived at after charging the following items:

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Auditor's remuneration	—	—	—
Depreciation of plant and equipment	26	287	33,751
Amortisation of intangible assets	—	2	597
Loss on disposal of plant and equipment *(note a)*	—	—	4,971
Loss on written off of plant and equipment *(note b)*	—	—	9,946
Loss on written off of intangible assets	—	—	5
Staff cost (including director' emoluments)			
— Salaries and other benefits	2,630	3,404	28,043
— Retirement benefit contributions	355	887	9,180
Total staff cost	2,985	4,291	37,223
Cost of inventories recognised as expenses	1,588,965	2,290,583	3,593,111
Operating lease payment	922	2,486	148,379

Notes:

(a) During the year ended 31 March 2019, certain (i) furniture, fixtures and equipment, (ii) plant and machinery and (iii) motor vehicles with net book value of approximately RMB2,776,000, RMB2,883,000 and RMB486,000, respectively, have been disposed. The gross proceeds from disposal in aggregate was RMB1,174,000. The loss on disposal of plant and equipment of RMB4,971,000 was recognised in the combined statement of profit or loss and other comprehensive income.

(b) During the year ended 31 March 2019, certain (i) leasehold improvement, (ii) furniture, fixtures and equipment, (iii) plant and machinery and (iv) motor vehicles with net book value of approximately RMB7,881,000, RMB1,179,000, RMB881,000 and RMB5,000, respectively, have been written off.

The disposal and written off of the above property and equipment were due to the closure of some self-operated retail stores as the performance of these retail stores were affected by, *inter alia*, the number of end customers, the amount of average spending per end customer and the relatively higher rental cost charged by the landlords, resulting in comparatively lower profitability of these retail stores, rendering the closure of these retail stores as a result. However, it is noted that the factors affecting the performance and profitability of these particular retail stores are case specific and it is not uncommon for certain retail stores to be closed down in the course of a normal business cycle for reasons like a wrong pick of store location or inefficiencies of certain retail stores.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The aggregate of the emoluments in respect of the five highest paid individuals who are not a director of the Target Company during the Relevant Periods are as follows:

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	364	589	624
Retirement benefit contribution	29	122	80
	393	711	704

The number of the five highest paid individuals who are not the directors of the Target Company whose emoluments fell are within the following band is as follows:

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Nil to RMB1,000,000	5	5	5

During the Relevant Periods, there was no arrangement under which the Directors waived or agreed to waive any emoluments.

10. INCOME TAX EXPENSE

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Current tax:			
Provision for PRC enterprise income tax	8,164	2,369	9,410

The applicable PRC enterprise income tax rate is 25% throughout the Relevant Periods.

Income tax charges for the Relevant Periods can be reconciled to the profit/(loss) before taxation per the combined statements of profit or loss and other comprehensive income as follows:

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before taxation	32,754	8,029	(142,063)
Tax at the statutory tax rate (25%)	8,189	2,007	(35,516)
Effect of tax losses not recognised	—	349	37,088
Effect of temporary differences not recognised	(25)	13	7,838
Income tax expense	8,164	2,369	9,410

11. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

12. DIVIDENDS

	For the period from 19 April 2016 (date of incorporation) to 31 March 2017	For the year ended 31 March 2018	For the year ended 31 March 2019
	RMB'000	*RMB'000*	*RMB'000*
Interim dividend declared and paid during the year	—	—	25,918

For the year ended 31 March 2019. the dividend of approximately RMB25,918,000 was settled by cash, the rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Historical Financial Information.

13. PLANT AND EQUIPMENT

	Leasehold improvement *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost:					
At 19 April 2016 (Date of incorporation)	—	—	—	—	—
Additions	—	—	210	465	675
At 31 March 2017	—	—	210	465	675
Additions	1,489	932	904	414	3,739
At 31 March 2018	1,489	932	1,114	879	4,414
Additions	66,986	60,571	44,063	2,713	174,333
Written off	(8,174)	(1,320)	(929)	(6)	(10,429)
Disposal	—	(3,275)	(3,191)	(619)	(7,085)
At 31 March 2019	60,301	56,908	41,057	2,967	161,233
Accumulated depreciation:					
At 19 April 2016 (Date of incorporation)	—	—	—	—	—
Charges for the period	—	—	—	26	26
At 31 March 2017	—	—	—	26	26
Charges for the year	37	21	114	115	287
At 31 March 2018	37	21	114	141	313
Charges for the year	22,318	7,811	3,220	402	33,751
Written off	(293)	(141)	(48)	(1)	(483)
Disposal	—	(499)	(308)	(133)	(940)
At 31 March 2019	22,062	7,192	2,978	409	32,641
Net book value:					
At 31 March 2017	—	—	210	439	649
At 31 March 2018	1,452	911	1,000	738	4,101
At 31 March 2019	38,239	49,716	38,079	2,558	128,592

14. INTANGIBLE ASSETS

	Software	Trademark	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 19 April 2016 (date of incorporation), 31 March 2017 and 1 April 2017	—	—	—
Additions	44	—	44
At 31 March 2018	44	—	44
Additions	2,861	92	2,953
Written-off	(5)	—	(5)
At 31 March 2019	2,900	92	2,992
Accumulated amortisation:			
At 19 April 2016 (date of incorporation), 31 March 2017 and 1 April 2017	—	—	—
Charges for the year	2	—	2
At 31 March 2018	2	—	2
Charges for the year	591	6	597
At 31 March 2019	593	6	599
Net book value			
At 31 March 2017	—	—	—
At 31 March 2018	42	—	42
At 31 March 2019	2,307	86	2,393

15. INVENTORIES

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Finished goods	27,254	64,408	89,543

16. TRADE AND OTHER RECEIVABLES

	At 31 March		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	65,340	465	26,598
Other receivables	3,014,175	4,467,139	2,162,619
Prepayment	—	2,371	3,901
	3,079,515	4,469,975	2,193,118

Sales of commodities are usually made in cash or by debit or credit cards, the credit terms normally ranging from 0 to 30 days.

Other receivables were mainly due from an independent third party, Dongning Baorong Sino-Russian Agricultural Produce and Side Products Wholesale Markets Co., Ltd** (東寧寶榮中俄農副產品批發市場有限公司), which ultimate beneficial owner is Mr. Ding Yuming (丁宇明), an individual who is independent of the Company and its connected person(s). Such receivables were secured by personal guarantee from Mr. Dai, interest-bearing at rates ranging from approximately 5.56% to 6.50% per annum and repayable on demand.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on recognition date of trade receivables:

	At 31 March		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
0–30 days	65,340	465	26,598

As at 31 March 2017, 2018 and 2019, all trade receivables disclosed above are not past due nor impaired.

17. TRADE AND OTHER PAYABLES

	At 31 March		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	182,308	165,053	450,115
Other payables	3,270	795	440,467
Accrual	289	468	4,308
	185,867	166,316	894,890

The Target Group normally received credit term of 90 days from its suppliers. An aged analysis of the Target Group's trade and bill payables, as at the end of each of the reporting period, based on the invoice date, is as follows:

	At 31 March		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	182,308	165,053	450,115

18. AMOUNT DUE FROM/(TO) A FORMER SHAREHOLDER AND AMOUNT DUE TO THE ULTIMATE SHAREHOLDER

The amounts are unsecured, interest-free and repayable on demand.

19. BANK AND OTHER BORROWINGS

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Secured other borrowings *(Note a)*	3,000,000	4,360,000	—
Secured bank borrowing *(Note b)*	—	—	2,000,000
	3,000,000	4,360,000	2,000,000

Note:

(a) As at 31 March 2017 and 2018, secured other borrowings are two borrowings borrowed from (i) a third party non-bank financial institution approved by the People's Bank of China and supervised by the China Banking Regulatory Commission and (ii) a third party securities broker company approved by the China Securities Regulatory Commission in the form of loans for terms of three years, with a maturity date on 9 January 2020 and 1 April 2020, respectively. They are secured by (i) personal guarantee from Mr Dai, (ii) corporate guarantee from a company owned by Mr. Dai and, (iii) operating rights of certain shopping malls in the PRC which were held by the companies owned by Mr Dai.

(b) As at 31 March 2019, secured bank borrowings are two borrowings borrowed from a third party commercial bank in the PRC in the form of bank loans for terms of two to three years, with a maturity date on 1 April 2020 and 3 December 2021, respectively. They are secured by operating rights of certain shopping malls located in the PRC which were held by the companies owned by Mr Dai.

As at 31 March 2017, 2018 and 2019, the bank and other borrowings were repayable as follows:

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year or on demand	40,000	40,000	40,000
After 1 year but within 2 years	40,000	40,000	1,400,000
After 2 years but within 5 years	2,920,000	4,280,000	560,000
	3,000,000	4,360,000	2,000,000

At 31 March 2017 and 2018, the other borrowings are fixed-rate loans which carry interest at 5.56% to 6.50% per annum.

At 31 March 2019, the bank borrowings are fixed-rate loans which carry interest at 5.56% to 6.50% per annum.

All the bank and other borrowings are denominated in RMB.

In regards to the bank borrowings of the Target Group payable in April 2020, the Target Group expects to repay the bank borrowings by its internal and external resources, such as (i) cash generated from the operations and cash on hand, (ii) repayment from the other receivables and amount due from the former shareholder which shall be payable on demand, (iii) refinancing of the bank borrowings or loans from other sources if required, and (iv) Mr. Dai has also given a personal undertaking in favour of the Target Company to finance the Target Group in the next 12 months.

20. DEFERRED TAXATION

At 31 March 2019, certain subsidiaries of the Target Group have not recognised deferred tax assets in respect of cumulative tax losses carried forward of RMB37,437,000, The cumulative tax losses have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities.

21. SHARE CAPITAL

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Paid-up capital	—	—	—

22. COMMITMENTS

Capital commitment

At 31 March 2017, 2018 and 2019, the Target Group has the following commitments not provided for in the combined statement of financial statements:

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for	—	—	208

Operating lease commitments

As lessee

The Target Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,884	139,531	124,328
In the second to fifth year, inclusive	4,027	554,657	457,296
After five years	—	551,084	409,125
	5,911	1,245,272	990,749

23. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target Group has the following significant transactions with the related parties during the Relevant Periods:

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to the ultimate shareholder	—	9	38
Amount due (to)/from a former shareholder	(5,000)	(5,000)	286,000

24. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged in the Relevant Periods.

The capital structure of the Target Group consists of debt, which is the other borrowings disclosed in Note 18, and equity attributable to owners of the Target Company, comprising issued paid-in capital, capital reserve and retained profits.

The directors of the Target Group review the capital structure on an annual basis. As part of this review, the directors of the Target Group consider the cost of capital and the risks associated with each class of capital. Based on the results of the review of the Directors, the Target Group will balance its overall capital structure through the payment of dividends, raising new share capital as well as the issue of new debt or the redemption of existing debt.

25. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 March		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loan and receivables as at 31 March 2017 and 2018 and amortised costs at 31 March 2019 (including cash and bank balance)	3,354,677	4,557,956	2,676,427
Financial liabilities			
At amortised cost	3,287,804	4,532,703	2,982,997

Financial risk management objectives and policies

The Target Group's major financial instruments include trade receivables, other receivables, amount due from controlling shareholder, cash and bank balance, trade payables, other payables, amount due to controlling shareholder and other borrowings. Details of these financial instruments are set out in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Target Group's financial instruments are market risk (interest rate risk), credit risk and liquidity risk. The Target Group's overall financial risk management objectives and policies remain unchanged in the Relevant Periods. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Target Group's exposure to fair value interest rate risk relates to its fixed-rate bank and other borrowings. Target Group's exposure to cash flow interest rate risk relates to its variable-rate bank balances. No sensitivity analysis has been presented because Target Group's exposure to cash flow interest rate risk is not significant.

Credit risk

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

The Target Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the Target Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual debt at the ends of each Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Target Group's credit risk is significantly reduced.

Trade receivables are due from regular institutional customers with an appropriate financial strength. The Group did not experience any significant defaults by the debtors.

Liquidity risk

To manage the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the operations of the Target Group and mitigate the effects of fluctuations in cash flows. The Target Group expects to fund its future cash flow needs through internally generated cash flows from operations, bank borrowings, as well as financing through owners.

The following tables detail the remaining contractual maturity of the Target Group for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at each of the year ends of the Relevant Period. The amounts included below for non-derivative variable rate financial liabilities are subject to change if change in interest rates differ to those estimates of interest rates determined at the end of each Relevant Periods.

	Weighted average effective interest rate	**On demand and within 3 months**	**3 months to 6 months**	**6 months to 1 year**	**Over 1 year**	**Total undiscounted cash flow**	**Carrying amount**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 March 2017							
Trade payables	—	182,308	—	—	—	182,308	182,308
Other payables	—	3,559	—	—	—	3,559	3,559
Amount due a former shareholder	—	5,000	—	—	—	5,000	5,000
Contract liabilities	—	96,937	—	—	—	96,937	96,937
Bank and other borrowings	5.56%	21,112	21,112	21,112	3,103,464	3,166,800	3,000,000
		308,916	21,112	21,112	3,103,464	3,454,604	3,287,804

	Weighted average effective interest rate	On demand and within 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 March 2018							
Trade payables	—	165,053	—	—	—	165,053	165,053
Other payables	—	1,263	—	—	—	1,263	1,263
Contract liabilities	—	1,378	—	—	—	1,378	1,378
Amount due to a former shareholder	—	5,000	—	—	—	5,000	5,000
Amount due to the ultimate shareholder	—	9	—	—	—	9	9
Bank and other borrowings	5.56%–6.50%	21,112	21,112	21,112	4,552,240	4,615,576	4,360,000
		193,815	21,112	21,112	4,552,240	4,788,279	4,532,703

	Weighted average effective interest rate	On demand and within 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Total undiscounted cash flow	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 March 2019							
Trade payables	—	450,115	—	—	—	450,115	450,115
Other payables	—	444,775	—	—	—	444,775	444,775
Contract liabilities	—	88,069	—	—	—	88,069	88,069
Amount due to the ultimate shareholder	—	38	—	—	—	38	38
Bank and other borrowings	5.56%–6.50%	51,090	31,090	82,180	2,015,935	2,180,295	2,000,000
		1,034,087	31,090	82,180	2,015,935	3,163,292	2,982,997

Fair values measurement of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

26. SEGMENT INFORMATION

The Target Group operates in a single business, agricultural produce wholesale and retail operations in the PRC. Accordingly, no segmental analysis is presented.

None of the customer of the Target Group has individually accounted for over 10% of the Target Group's total revenue.

27. PARTICULARS OF PRINCIPLE SUBSIDIARIES

During the Relevant Periods, the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Target Group as at 31 March 2017	2018	2019	Principal activities
Indirectly held:						
Harbin Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.** 哈爾濱地利生鮮農產品企業管理有限公司	PRC	RMB65,000,000	100%	100%	100%	Agricultural produce wholesale and retail operations
Shenyang Dili Fresh Food Chain Enterprise Operation Management Co., Ltd.** 瀋陽地利生鮮餐飲連鎖企業經營管理有限公司	PRC	RMB500,000	—	100%	100%	Agricultural produce wholesale and retail operations
Liaoning Dili Fresh Agricultural Produce Supply Chain Management Co., Ltd.** 遼寧地利生鮮農產品供應鏈管理有限公司 *(note (i))*	PRC	—	—	100%	100%	Agricultural produce wholesale and retail operations
Jinlin Province Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.** 吉林省地利生鮮農產品企業管理有限公司 *(note (ii))*	PRC	—	—	—	100%	Agricultural produce wholesale and retail operations
Liaoning Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.** 遼寧地利生鮮農產品企業管理有限公司	PRC	RMB500,000	—	—	100%	Agricultural produce wholesale and retail operations
Guizhou Dili Fresh Agricultural Produce Enterprise Management Co., Ltd.** 貴州地利生鮮農產品企業管理有限公司 *(note (ii))*	PRC	—	—	—	100%	Agricultural produce wholesale and retail operations

Note:

(i) This subsidiary was established in 2017, the capital have not been paid up as at 31 March 2018.

(ii) These subsidiaries were established in 2018, the capital have not been paid up as at 31 March 2019.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the financial result of the Relevant Periods or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

28. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 March 2019.

The information set out in this Appendix does not form part of the Accountants' Report of the historical combined financial information of the Target Group from the Reporting Accountants, Elite Partners CPA Limited, as set out in ''Appendix III — Accountants' Report of the Target Group'' and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the Accountants' Reports set out in ''Appendix III — Accountants' Report of the Target Group''.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF GROUP AFTER COMPLETION

The accompanying unaudited pro forma statement of assets and liabilities of the Group after Completion (the ''**Unaudited Pro Forma Financial Information**'') has been prepared to illustrate the effect of the Acquisition assuming the Transaction had been completed as at 30 June 2019.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited 2019 interim results of the Group after making certain pro forma adjustments as set out below.

The Unaudited Pro Forma Financial Information is prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the actual financial position of the Group after Completion had the Acquisition been completed on 30 June 2019 or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I of this circular, and other financial information included elsewhere in this circular.

Unaudited Pro Forma Financial Information of the Group after Completion

	Consolidated statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Group after Completion
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)					
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Property and equipment	2,310,270					2,310,270
Investment properties	479,600					479,600
Intangible assets	5,223,507					5,223,507
Goodwill	1,094,526					1,094,526
Other receivables	27,360					27,360
Equity investment at fair value through other comprehensive income	—	950,000	(229,447)			720,553
Put option asset	—		229,447			229,447
Deferred tax assets	639					639
Total non-current assets	9,135,902					10,085,902
Current assets						
Inventories	40,142					40,142
Other receivables	1,317,928	(400,000)		2,000,000		2,917,928
Cash at bank and on hand	1,460,787	(550,000)				910,787
Total current assets	2,818,857					3,868,857
Current liabilities						
Bank loans	225,500					225,500
Other payables	660,500				10,300	670,800
Lease liabilities	37,843					37,843
Taxation	129,471					129,471
Total current liabilities	1,053,314					1,063,614

	Consolidated statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Pro forma adjustments	Unaudited pro forma consolidated statement of assets and liabilities of the Group after Completion
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)					
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Net current assets	1,765,543					2,805,243
Total assets less current liabilities	10,901,445					12,891,145
Non-current liabilities						
Bank loans	325,680			2,000,000		2,325,680
Lease liabilities	310,759					310,759
Deferred tax liabilities	1,673,570					1,673,570
Deferred income	8,238					8,238
Total non-current liabilities	2,318,247					4,318,247
Net assets	8,583,198					8,572,898

Notes:

1. The unaudited consolidated statement of assets and liabilities of the Group has been extracted from the consolidated statement of financial position of the Group set out in the unaudited interim report of the Company for the six months ended 30 June 2019.

2. Pursuant to Acquisition Agreement date 29 August 2019, the Group has conditionally agreed to acquire 19% of the entire issued share capital of the Target Company at a consideration of RMB950 million, of which RMB400 million had previously been paid as deposit and recorded in "other receivables" by the Group as at 30 June 2019, the net amount of RMB550 million will be payable in cash at Completion. The Completion is dependent on the fulfilment of certain conditions, amongst others, the approval from the Shareholders of the Company.

3. **Call Option**

   Pursuant to the Acquisition Agreement, the Vendor, Plenty Business, has granted the Purchaser, 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.

The directors of the Company consider that the Call option has no value to the Group and needs not be valued given 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. Hence, the value will equal to the exercise price at the time of option exercise, and the Call Option value is nil.

Put Option

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 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.

Based on the valuation report issued by the independent valuer, International Valuation Limited, the value of Put Option is RMB229.447 million.

4. 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 not exceeding RMB2 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.

5. The adjustment represents the estimated transaction costs payable by the Company of approximately RMB10.3 million (equivalent to approximately HK$11.4 million), including the accountancy, legal, valuation and other professional services rendered for the Acquisition. These expenses are charged to profit or loss directly.

6. Save as disclosed above, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2019.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China Dili Group

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Dili Group (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-1 to IV-4 of Appendix IV to the circular issued by the Company dated 30 September 2019 (the "**Circular**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on page IV-1.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Group's acquisition of 19% of the entire issued share capital of Million Master Investment Limited on the Group's financial position as at 30 June 2019 as if the transaction had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's interim report for the six months ended 30 June 2019, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Review of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Elite Partners CPA Limited
Certified Public Accountants

Siu Jimmy
Practising Certificate Number: P05898

Hong Kong
30 September 2019

International Valuation Limited
國際評估有限公司

September 30, 2019

The Board of Directors
China Dili Group
Suites 1701–1703, One IFC,
1 Harbour View Street,
Central, Hong Kong

Dear Sir and Madam,

International Valuation Limited ("**IVL**") has concluded its analysis on the 19% equity interest in Million Master Investment Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**"). The purpose of this engagement is to estimate the market value of the 19% equity interest in the Target Group as of June 30, 2019 (the "**Valuation Date**").

Our work is designed solely to assist the management (the "**Management**") of China Dili Group (the "**Company**") and its subsidiaries (together as the "**Group**") to determine the market value of the 19% equity interest in the Target Group as of the Valuation Date for transaction reference purpose.

This report states our scope of work and purpose of appraisal, identifies the business appraised, economic and industry overview, describes the basis and methodology of our appraisal, investigation and analysis, major assumptions and limiting conditions, and presents our opinion of value.

PURPOSE OF APPRAISAL

IVL acknowledges that this report is prepared solely to assist the Management to determine the market value of the 19% equity interest in the Target Group as of the Valuation Date. We understand that this report would be made available for transaction reference purpose only. No other use of our valuation report is intended or should be inferred.

We assume no responsibility whatsoever to any person other than the Group in respect of, or arising out of, the contents of this report. If others chose to rely in any way on the contents of this report they do so entirely on their own risk.

DEFINITION OF VALUE

The report was prepared in accordance with International Valuation Standards 2017. In estimating the market value of the equity appraised under this engagement, our efforts will be based on the following description of Market Value: "*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*" Unless otherwise noted, the market value of the 19% equity interest in the Target Group is determined on minority shares and going concern bases.

SCOPE OF THE ENGAGEMENT

Our services included performing a valuation on the equity interest of the Target Group as of the Valuation Date.

In the process of the valuation under this engagement, we relied on business and financial information of the Target Group provided by the Management or obtained from public sources, if any. The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Discussions with the Management concerning the history and future operations of the Target Group;
- Discussions with the Management to obtain an explanation and clarification of data provided;
- Development of valuation model to value the Target Group, including gathering market and industry information in support of various assumptions;
- Discussions with the Management to:
  - — Understand in more detail of the Target Group;
  - — Gain a more thorough understanding of the nature and operations of the Target Group including the estimated market trends;
- Analysis of conditions in, and the economic outlook for, the industry in the territory in which the Target Group operates; and
- Analysis of other facts and data considered pertinent to this valuation to arrive at a conclusion of the equity value of the Target Group.

In the course of our valuation, we used financial and other information provided by the Management. We also used financial and other information obtained from private and public sources we considered reliable, and our conclusions are dependent on such information as being complete and accurate in all material respects.

This valuation report comprises:

A. This letter, which describes the nature and extent of the valuation investigation, and presents the conclusion of value; and

B. A narrative report, which sets forth the history and nature of the operations, a description of valuation theory, and a presentation and correlation of the valuation techniques employed, and the conclusion of value.

SOURCES OF INFORMATION

As part of our due diligence, we relied upon information and documents furnished to us by the Management, including the following:

- General descriptions and background of the Target Group;
- Business licenses and certificates of the Target Group;
- Group structure chart related to the Target Group;
- Sample procurement contracts of the Target Group relating to supplies of merchandises;
- Sample franchise contracts of the Target Group relating to operation of franchise stores;
- Sale and purchase agreement related to the Target Group; and
- Audited financial statements of the Target Group for the period ended March 31, 2017, and years ended March 31, 2018 to March 31, 2019.

Other information regarding the industry and economic outlook, as well as additional financial data was obtained from sources deemed to be reliable. In addition, we conversed with the Management concerning the financial and general outlook of the Target Group.

In the course of our valuation, we relied on the financial and other information provided by the Management, and have considered such information and data as attainable and reasonable. We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters, which an audit or more extensive examination might disclose.

We do not provide assurance on the long-term sustainability of the historical financial results recorded by the Target Group because events and circumstances frequently do not occur as expected; differences between historical and future results may be material; and achievement of the future results is dependent on actions, plans, and assumptions of management.

We also used financial and other information obtained from private and public sources we considered reliable, and our conclusions are dependent on such information as being complete and accurate in all material respects.

CONCLUSION

Based on the information provided and the analysis conducted, and subject to the Major Assumptions and Statement of Limiting Conditions, our opinion of the market value of the 19% equity interest in the Target Group as of June 30, 2019 is reasonably represented in the amount of approximately, **RENMINBI NINE HUNDRED EIGHTY FOUR MILLION ONLY (RMB984,000,000)**.

We appreciate the opportunity to provide our valuation services. Please do not hesitate to contact us if you have any questions or if we can be of further assistance concerning this engagement. A copy of this report is retained in our files together with the data from which it was prepared.

Respectfully submitted,
International Valuation Limited

1. INTRODUCTION

Description of the Assignment

International Valuation Limited ("**IVL**") has concluded its analysis on the 19% equity interest in Million Master Investment Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**"). The purpose of this engagement is to estimate the market value of 19% equity interest in the Target Group as of June 30, 2019 (the "**Valuation Date**").

Our work is designed solely to assist the management (the "**Management**") of China Dili Group (the "**Company**") to determine the market value of the 19% equity interest in the Target Group as of the Valuation Date for transaction reference purpose.

The report was prepared in accordance with International Valuation Standards 2017. In estimating the market value of the equity appraised under this engagement, our efforts will be based on the following description of Market Value: "*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*" Unless otherwise noted, the market value of the 19% equity interest in the Target Group is determined on minority shares and going concern bases.

The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Discussions with the Management concerning the history, development and prospect of the Target Group;
- Discussions with the Management to obtain an explanation and clarification of data provided;
- Analysis of conditions in, and the economic outlook for the territory which the Target Group operates and conducts its businesses;
- Analysis of general market data, including economic, governmental, and environmental forces, that may affect the value of the Target Group;
- Development of valuation models used to value the Target Group, including gathering market and industry information in support of various assumptions; and
- Analysis of other facts and data considered pertinent to this valuation to arrive at a conclusion of the market value of the 19% equity interest in the Target Group.

In the course of our valuation, we used financial and other information provided by the Management. We also used financial and other information obtained from private and public sources we considered reliable, and our conclusions are dependent on such information as being complete and accurate in all material respects.

Sources of Information

As part of our due diligence, we relied upon information and documents furnished to us by the Management, including the following:

- General descriptions and background of the Target Group;
- Business licenses and certificates of the Target Group;
- Group structure chart related to the Target Group;
- Sample procurement contracts of the Target Group relating to supplies of merchandises;
- Sample franchise contracts of the Target Group relating to operation of franchise stores;
- Sale and purchase agreement related to the Target Group; and
- Audited financial statements of the Target Group for the period ended March 31, 2017, and years ended March 31, 2018 to March 31, 2019.

Other information regarding the industry and economic outlook, as well as additional financial data was obtained from sources deemed to be reliable. In addition, we conversed with the Management concerning the financial and general outlook of the Target Group.

In the course of our valuation, we relied on the financial and other information provided by the Management, and have considered such information and data as attainable and reasonable. We have no reason to believe that any material facts have been withheld from us, however, we do not warrant that our investigations have revealed all of the matters, which an audit or more extensive examination might disclose.

We do not provide assurance on the long-term sustainability of the historical financial results recorded by the Target Group because events and circumstances frequently do not occur as expected; differences between historical and future results may be material; and achievement of the future results is dependent on actions, plans, and assumptions of management.

We also used financial and other information obtained from private and public sources we considered reliable, and our conclusions are dependent on such information as being complete and accurate in all material respects.

2. PURPOSE OF APPRAISAL

IVL acknowledges that this report is being prepared solely to assist the Management to determine the market value of the 19% equity interest in the Target Group as of the Valuation Date. We understand that this report would be made available for transaction reference purpose only. No other use of our valuation report is intended or should be inferred.

We assume no responsibility whatsoever to any person other than the Group in respect of, or arising out of, the contents of this report. If others chose to rely in any way on the contents of this report they do so entirely on their own risk.

3. OVERVIEW OF THE TARGET GROUP

Business Descriptions

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. The Target Group will comprise, as at completion of the acquisition, the Target Company, Speed Up Development Limited (''**HK HoldCo**'') and the 9 subsidiaries of the Target Company established in the People's Republic of China (''**PRC**'') (''**PRC Subsidiaries**'') which operate the agricultural produce supermarket chain, fresh food chain and supply chain and logistics management (''**Target Business**'').

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 operates approximately 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 as of the Valuation Date.

Originated as a wholesale business of agricultural produce, the Target Business involves the sourcing of agricultural produce from agriculture wholesale markets 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.

Site Inspection

Site inspection was conducted in early September 2019 in Shenyang city, Liaoning Province, the PRC. We have visited one of the warehouses for storing merchandises and fixed assets of the Target Group, certain retail supermarket stores of different sizes of the Target Group and a retail supermarket store of a competitor. Moreover, we have conducted meetings and discussions with the Management of the Target Group about the general conditions of the fresh food industry and local demand, location and pricing strategies, and supply chain and logistics of their agricultural produces, fresh food and merchandises. In general, our observations are consistent with the principal business activities of the Target Group.

4. ECONOMIC OVERVIEW

Overview of the Chinese Economy

POLITICAL STABILITY: The 19th national congress of the Chinese Communist Party (CCP), which took place in October 2017, confirmed the political dominance of the CCP general secretary and state president, Xi Jinping. The unusually early incorporation into the CCP constitution of Mr. Xi's eponymous political ideology on a "new era" for Chinese socialism elevated him to the same status as two former paramount leaders, Mao Zedong and Deng Xiaoping. In his speech to the party congress, Mr. Xi set out an ambitious vision of establishing China as a "leading global power", making clear that he envisages himself as a transformative leader set to remain on the political scene for years to come.

ELECTION WATCH: Mr. Xi was reappointed as CCP general secretary and first-ranked member of the seven-member politburo standing committee (PSC, the CCP's top decision-making body) at the 19th national congress of the CCP in October 2017. He was confirmed as state president for a second five-year term at the annual plenary session of the National People's Congress (NPC, the legislature) in March 2018. As The Economist Intelligence Unit had expected, Li Keqiang was also reappointed as the second-ranked PSC member, suggesting that he will receive another term as premier.

POLICY TRENDS: The annual Central Economic Work Conference (CEWC) in December 2018 brought up that China should speed up the optimization and upgrading of its economic structure, enhance the capability of technological innovation, deepen reform and opening-up, accelerate green development, and participate in the reform of the global economic governance system. Reforms in various fields including state-owned enterprises, taxation and financing, land, market access as well as social management will be pushed forward, while the institutional environment will be improved to encourage fair competition and facilitate the accelerated development of small and medium enterprises. The prudent monetary policy will be kept "neither too tight nor too loose" while maintaining market liquidity at a reasonably ample level, according to the statement, and the monetary policy transmission mechanisms will be further smoothed out while the proportion of direct financing will be increased to make financing more accessible and affordable for the private sector and small businesses.

ECONOMIC GROWTH: The pace of economic growth is forecast to moderate from 6.6% in 2018 to 6.2% in 2019, with tighter credit conditions in 2017 having a lagged impact on investment, and consumption growth set to soften as regulators tighten controls over household loans. A US-China trade war, although not our core forecast, represents a sizeable downside risk to China's growth forecast for 2019.

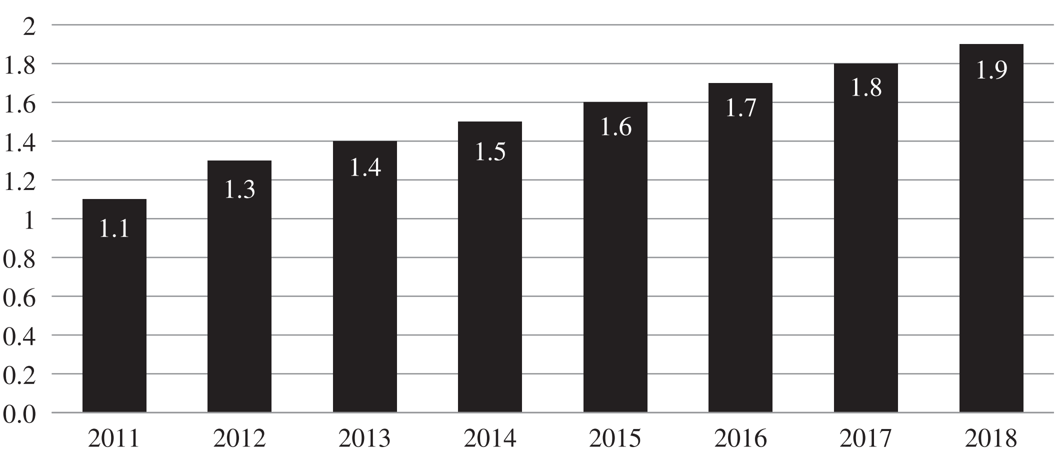
INFLATION: We expect consumer prices to rise by 2.2% a year on average in 2019–21. In 2018 the actual inflation reached 2.1%, with food price inflation accelerating from the low levels seen in 2017. A relatively fast pace of economic growth and still fairly loose monetary policy will push the inflation rate up to 2.8% in 2019. However, an easing in inflationary pressure is expected thereafter, amid a slowdown in domestic economic growth and weaker global oil price pressures.

5. OVERVIEW OF FRESH SUPERMARKET INDUSTRY

Huge Market Size of Fresh Food Market

Fresh food market in China has been expanding recently and fresh food is the must-order product with the most complicated supply chain among the retail market. Almost 50% of food consumption is fresh food in daily life. In term of the market size of fresh market in China, according to 2018 China fresh market industry report, trading volume of fresh food maintained a stable uprising trend from 2011 at RMB1,100 billion to 2018 at RMB1,900 billion with compound annual growth rate of 8.1%.

Trading Volume of Fresh Market (in RMB trillion)



Source: 2018 China fresh market industry report

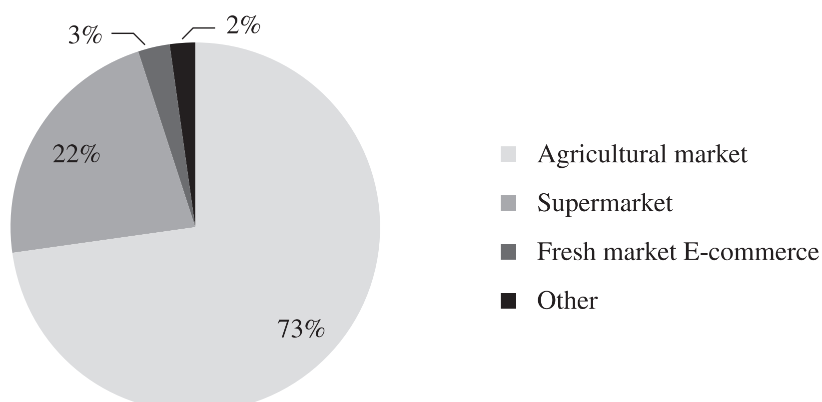
Supermarket Channel Development

Nowadays, most fresh food is sold in agriculture market rather than the supermarket. According to 2016 China fresh e-commerce market industry report, 73% of fresh food businesses in China are completed in agriculture market, while only 22% are processed through supermarkets, which is much lower than many other developed countries. Supermarket has become the most popular channel of agricultural and fresh food retail market worldwide, with 90% market penetration in the United States ("**US**") and 87% in Germany.

Compared with traditional agriculture market, fresh food in supermarket has small permeability due to lower profit margin and higher damage during transportation. In general, fresh food merely helps the supermarkets gain the popularity with only 15% gross profit margin while daily necessities are the major profit source with about 30% gross profit margin.

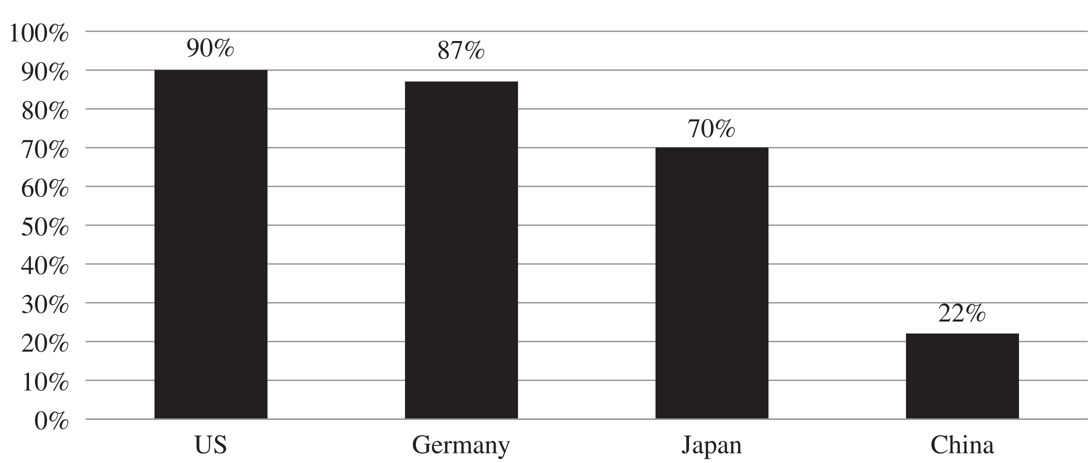
Even though agriculture market provides convenience for the customers nearby the neighborhood, it is difficult to guarantee the quality of the product in logistics and quality control. However, supermarket has the advantage and experience for these business. Clean shopping environment, safe and standard quality and high-efficiency logistics are the durable advantages of supermarkets. As residential income increases, more and more Chinese consumers change their consumption behavior. The government encourages to reform agriculture markets to supermarkets. More and more fresh supermarkets upgrade their supply chain and raise the gross profit margin.

Distribution Channels of Fresh Food of China in 2016



Source: Zhiyan Consulting

Fresh Market Penetration Rate of Certain Developed Countries in 2016



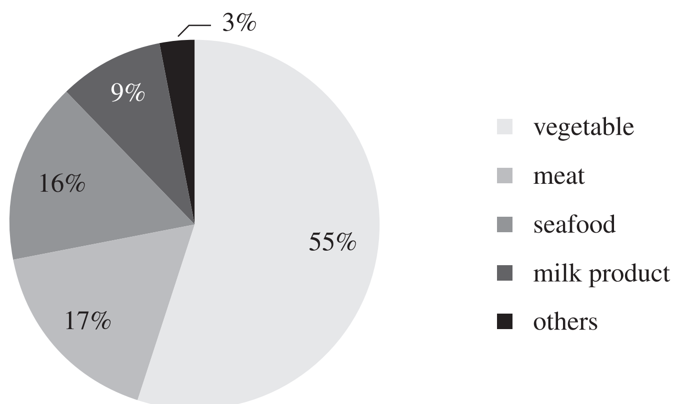
Source: Zhiyan Consulting

Fresh Food Market Status Quo

According to 2018 China fresh market industry report, vegetable and fruit are the major consumer goods in the fresh market with 55% of total sales in 2017, while meat and seafood are second most popular with 17% and 16% relatively.

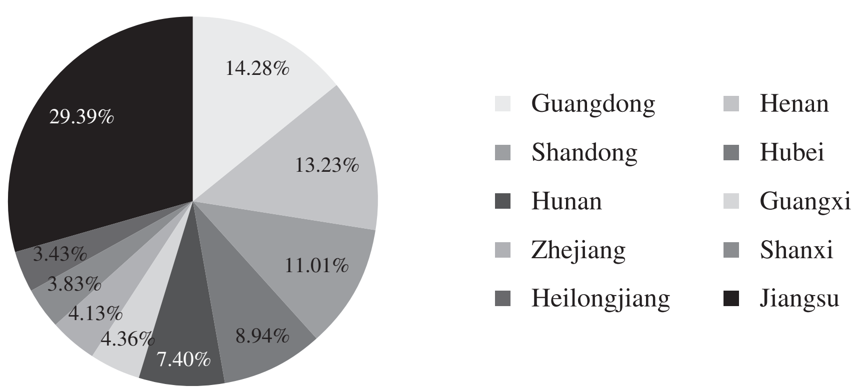
As of October 2018, there are 2,072 fresh market-related companies in China, most of which are fresh delivery business companies. In term of region, Jiangsu province and Guangdong province, which are more developed regions, have more fresh market companies with 29.39% and 14.28% market share relatively.

2017 Fresh Food Sales Percentage of China in 2017



Source: 2018 China fresh market industry report

Geographical Distribution of Fresh Market-Related Companies of China in 2017



Source: 2018 China fresh market industry report

6. DEFINITION OF VALUE

The report was prepared in accordance with International Valuation Standards 2017. In estimating the market value of the equity interest appraised under this engagement, our efforts will be based on the following description of Market Value: "*Market Value is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*" Unless otherwise noted, the market value of 19% equity interest in the Target Group is determined on minority shares and going concern bases.

7. GENERAL VALUATION OVERVIEW

The methods commonly used to develop approximate indications of value for a business or assets are the Income, Market, and the Cost Approaches.

Income Approach

The Income Approach focuses on the income-producing capability of a business or asset. The Income Approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.

Market Approach

The Market Approach measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. Adjustments are made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis.

It is employed in the valuation of the asset for which there is a known used market. Under the premise of continued use assuming adequate earnings, consideration is given to the cost to acquire similar items in the second-hand market; an allowance then is made to reflect the costs for freight and installation.

Cost Approach

The Cost Approach measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The Cost Approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

Selected Approach

In developing our opinions, we considered all three approaches to value for the asset types and chose the most appropriate approach or approaches for each. Our conclusions rely on the approaches judged to be most appropriate for the purpose and scope of our analysis, as well as the nature and reliability of the data available to us.

In estimating the market value of the equity interest in the Target Group, we relied primarily on the Market Approach. The Cost Approach was not adopted as it tends to understate the value of an income-generating business. The Income Approach is also not adopted since prospective financial projection at market participants' point of view, which is subject to a number of assumptions and contingent factors, was not reliably available.

Under the Market Approach, we relied on the trading multiples of publicly traded guideline companies of the Target Group. Market Approach benchmarked the Target Group's equity value to the publicly trading entities by looking into their financial performances. Not only could Market Approach reflect the current market's investment preferences or investment habitat, but also provide up-to-date public market information allowing the Management to make a more informative decision.

8. ESTIMATION OF THE MARKET VALUE OF 19% EQUITY INTEREST IN THE TARGET GROUP

Introduction

In this section of our report, we describe our valuation analysis utilized to arrive at a concluded market value of the 19% equity interest in the Target Group.

Valuation Approach

The Market Approach uses direct comparisons to other enterprises and their equity securities to estimate the market value of the common shares of privately issued securities. The Market Approach bases the market value measurement on what other similar enterprises or comparable transactions indicate the value to be. Under this approach, investment by unrelated parties in comparable equity securities of the subject enterprise or transactions in comparable equity securities of comparable enterprises is examined. One commonly used "market comparables" method is the Guideline Public Company.

To adopt the guideline public company method under the Market Approach, we have to determine the appropriate valuation multiples of comparable companies, in which we have considered enterprise-value-to-sales ("**EV/Sales**"), price-to-sales ("**P/S**"), enterprise-value-to-earnings-before-interest-and-tax ("**EV/EBIT**"), enterprise-value-to-earnings-before-interest-tax-depreciation-and-amortization ("**EV/EBITDA**"), price-to-earnings ("**P/E**") and price-to-book ("**P/B**") multiples.

EV/EBIT, EV/EBITDA and P/E multiples were not adopted because Target Group has recorded negative EBIT, negative EBDITA and net loss in the most recent financial year before the Valuation Date. P/B multiple was not adopted because the Target Group was not asset-intensive and this method could not consider the profitability or the earning potential of the Target Group. Sales is a representative indicator of the business strength of retail supermarket chain which reflects market size and scale. As advised by the Management, 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. Hence, we considered sales multiple is appropriate for this valuation. EV/Sales multiple was preferred over P/S multiples since it could take into account of the differences in capital structure between the Target Group and the comparable companies. Therefore, we have employed EV/Sales multiple in the valuation for the Target Group as of the Valuation Date; and used P/Sales multiple for cross-checking purpose.

The selection of guideline companies is by understanding the principal business of the valuation target and search for public companies with businesses as similar with the valuation target as possible. Generally speaking, company in same geographical location is preferred, followed by expansion to other geographical locations if same geographic location yield no meaningful results.

We searched for listed companies with business scopes and operations similar to those of the Target Group as comparable companies on best-effort basis with reference to the following selection criteria:

- Significant portion of the assets or businesses of the company involves agricultural produce supermarket chain, fresh food chain and supply chain and logistics management in China, which is close to the Target Business;
- The companies have pertinent listing and operating histories; and
- The financial information and relevant multiple of the companies are available to the public.

The following table presents the comparable companies adopted in the valuation of 19% equity interest in the Target Group:

Comparable Companies	**Business description**	**% Revenue from Fresh Food and Food Products in Year 2018**
Sanjiang Shopping Club Co Ltd (601116 CH)	Sanjiang Shopping Club Company Limited operates community budget supermarket franchises. The company provides customers with retail services.	93%
Yonghui Superstores Co Ltd (601933 CH)	Yonghui Superstores Company Limited operates supermarket franchises. The company mainly operates hypermarkets, marketplace and supermarkets.	80%
Jiajiayue Group Co Ltd (603708 CH)	Jiajiayue Group Co., Ltd. operates a chain of supermarkets. The company offers food, apparel, appliances, household products, communication equipment, and other products. Jiajiayue Group also provides distribution, logistics and food processing services.	84%

Source: Bloomberg and 2018 annual reports of the comparable companies

Sanjiang Shopping Club Company Limited is one of the largest supermarket chain in Jiejiang, aiming to provide "fresh, affordable, everyday" shopping experiences to customers. It has logistics distribution centers and cold chain logistics with refrigerated trucks, which could realize cold chain distribution of fresh food in hundreds of retail stores. Similar to the Target Group, it operates supermarket chain which focuses on retail fresh food to the communities in China with its own supply chain and logistics management. Hence, we considered Sanjiang Shopping Club Company Limited is comparable to the Target Group.

Yonghui Superstores Company Limited is one of the first enterprises to introduce fresh agricultural products into modern supermarkets in China. With its supply chain and logistics as backbone, it has developed nearly 900 retail supermarket stores in 24 provinces in China and aims to serve agriculture and food products with low price and high freshness. We consider these attributes are closely comparable with the Target Group and therefore Yonghui Superstores Company Limited is adopted as one of the comparable companies.

Jiajiayue Group Co., Ltd. mainly specializes in supermarket chain business featured with fresh products, which is supported by regional distribution centers and assured by modern agricultural bases and food processing centers. As the first company connecting farms to supermarkets that was approved by Ministry of Agriculture and Ministry of Commerce of the PRC, Jiajiayue Group Co., Ltd. adheres to the philosophy of "Focus on the Specialty of Fresh" and has established direct cooperation with over 200 farm cooperatives to achieve more than 80% of fresh products are sourced from the places of origin. Likewise, the Target Group also serves certain portion of fresh products in its supermarket chains that are sourced from the places of origin while maintaining its own supply chain and distribution centers. Hence, we considered Jiajiayue Group Co., Ltd. is comparable to the Target Group.

All three adopted comparable companies had not less than 75% revenue generated from the sale of fresh food and food products in year 2018, which is consistent with the business focus of the Target Group in selling fresh vegetables, fruits, seafood, meat and other food products.

Below are the EV/Sales and P/S multiples of the comparable companies as of the Valuation Date as extracted from Bloomberg to arrive at the market value of the Target Group.

Comparable Companies	**EV/Sales Multiple as of Valuation Date**	**P/S Multiple as of Valuation Date**
Sanjiang Shopping Club Co Ltd (601116 CH)	1.3x	2.0x
Yonghui Superstores Co Ltd (601933 CH)	1.3x	1.3x
Jiajiayue Group Co Ltd (603708 CH)	0.9x	1.0x
Median	1.3x	1.3x
Average	1.2x	1.5x
Mid-Point of Median and Average	1.25x	1.4x

Source: Bloomberg

Based on the latest published revenues and derived EV/Sales multiples of the comparable companies, no significant difference in EV/Sales multiples among comparable companies with different revenue sizes are observed. Hence adjustment of market multiple on size is not adopted.

Determination of Market Value of Equity of the Target Group with EV/Sales Multiple

We multiplied the mid-point EV/Sales multiple of the comparable companies as of the Valuation Date to the latest 12-month revenue of the Target Group to arrive at the enterprise value of the Target Group. The latest 12-month revenue was based on the audited financial statements of the Target Group for the year ended March 31, 2019. We then adjusted the derived enterprise value of the Target Group with discount for lack of marketability ("**DLOM**") to account for the fact that the Target Group is a private company as of the Valuation Date. Furthermore, we adjusted the derived enterprise value of the Target Group with cash/(debt) and non-operating assets/(liabilities) to arrive at the market value of equity of the Target Group.

Discount for Lack of Marketability

The value of privately held shares is not directly comparable to the value of publicly traded securities. This is due to the fact that shareholders of privately held companies do not have the same access to trading markets that shareholders of publicly traded companies enjoy. Therefore, the market value of the ordinary shares must be adjusted to reflect its lack of liquidity and ready market.

According to information from Management, the Company, through its subsidiary Yield Smart Limited, has the right (but no obligation) to sell back the 19% acquired equity interest in the Target Group to Plenty Business Holdings Limited (the "**Vendor**") from January 1, 2023 and ending on December 31, 2023 (both days inclusive) and the Vendor has the obligation to purchase the target shares within the period ("**Put Option**"). The Put Option is exercisable at an exercise price of the total purchase price of RMB950 million plus an interest rate of 6% per annum.

Since the Put Option can effectively provide an additional exit channel for the buyer's shareholder, we adopted the Finnerty average-strike put option model to reflect the lack of marketability discount under such clauses. Based on this model, a lack of marketability discount of approximately 14.6% has been estimated.

Cash/(Debt) and Net Non-Operating Assets

Based on the audited financial statements of the Target Group for the year ended March 31, 2019, apart from the operating assets and liabilities, the Target Group held cash and cash equivalents of approximately RMB79,744,000, net non-operating assets, including amount due from a prior shareholder and other receivables, net of amount due to controlling shareholder, of approximately RMB2,452,482,000, and bear debt of approximately RMB2,000,000,000.

According to the Management, the Vendor will provide full guarantee for the above non-operating assets. Considering that such assets can be cashed in full, their carrying amounts adopted in the equity valuation.

Cross-Checking with P/S multiple

As a cross-check against the market value of equity derived from the EV/Sales multiple, we conducted an estimation with the mid-point P/S multiple of the comparable companies and the latest 12-month revenue of the Target Group based on the audited financial statements of the Target Group for the year ended March 31, 2019. We adjusted the derived equity value of the Target Group with DLOM to arrive at the market value of equity of the Target Group.

Summary of Calculation

Details of the calculation of the market value of the Target Group using EV/Sales multiple and cross-checking using were P/S multiple was illustrated as follows:

As of June 30, 2019	**EV/Sales Multiple** *RMB'000*	**P/S Multiple (For Cross-Checking)** *RMB'000*
Latest 12-month Sales as of March 31, 2019	4,354,001	4,354,001
Multiply: Mid-Point Market Multiple as of Valuation Date	1.25x	1.4x
Equity Value (marketable and minority basis)		6,095,601
Enterprise Value (marketable and minority basis)	5,442,501	
Less: Discount for Lack of Marketability	(794,605)	(889,958)
Enterprise Value (non-marketable and minority basis)	4,647,896	
Add: Cash	79,744	
Less: Debt	(2,000,000)	
Add: Net Non-operating Assets	2,452,482	
100% Equity Value (non-marketable and minority basis)	5,180,122	5,205,644
Concluding Market Value of 100% Equity Interest in the Target Group		5,180,122
Concluding Market Value of 19% Equity Interest in the Target Group		984,223

Note: The total may not sum up due to rounding.

9. MAJOR ASSUMPTIONS

In this appraisal, a number of assumptions have to be made in order to sufficiently support our concluded value of the Target Group. Any deviation from the above major assumptions may significantly vary the valuation result. The major assumptions adopted in this appraisal are:

- Audited financial statements of the Target Group for the year ended March 31, 2019 as provided by the Management can reasonably represent its financial position and performance of the Target Group as of Valuation Date since audited financial accounts as of Valuation Date was not available;

- In event of exercise of Put Option by the Company, the Vendor will buy back the 19% equity interest purchased from the Company at original purchase amount plus interest in accordance with the option terms;

- Amount due from prior shareholder and other receivables as stated on the latest financial statement will be repaid by the borrowers without material credit default risk;

- There will be no major changes in the current taxation laws in the territories (the "**Territories**") in which the Target Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or financial conditions in the Territories in which the Target Group operates or intends to operate, which would adversely affect the revenues attributable to and the profitability of the Target Group;

- The Target Group will retain and have competent management, key personnel, and technical staff to support its ongoing operation;

- All relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Group operates or intends to operate has or would be officially obtained and renewable upon expiry;

- Industry trends and the market conditions for related industries will not deviate significantly from economic forecasts; and

- All information and representations provided by the Management, for which they are solely and wholly responsible for are true, accurate and complete in all material respect.

CONCLUSION OF VALUE

Based on the information provided and the analysis conducted, and subject to the Major Assumptions and Statement of Limiting Conditions, our opinion of the market value of the 19% equity interest in the Target Group as of June 30, 2019 is reasonably represented in the amount of approximately, **RENMINBI NINE HUNDRED EIGHTY FOUR MILLION ONLY (RMB984,000,000)**.

This report and the observations and analyses are intended solely for use by the Group for the purpose of assisting the management of the Group to assess the market value of the 19% equity interest in the Target Group as of the Valuation Date and are not to be reproduced, disseminated or disclosed, in whole or in part, to any other party except in accordance with the terms of our engagement letter. The information contained in this report may include proprietary, sensitive and confidential information that has not been publicly disclosed. Release of this information to any other party could be damaging to the Group.

Yours faithfully,
For and on behalf of
International Valuation Limited

Prepared and analyzed by:
Jack K.W. Leung, *CFA, CVA, FRM, MPhil*
Winnie W.Y. Lam, *CFA*

Mr. Jack Leung has more than 15 years of experience in investment and financial analyses, including more than 8 years of experience in business and financial instruments valuations. Jack is a charter holder of Chartered Financial Analyst (CFA), Chartered Valuer and Appraiser, Singapore (CVA) and Financial Risk Manager (FRM). He graduated from the University of Hong Kong with a Master of Philosophy majored finance.

Ms. Winnie Lam has more than 8 years of experience in valuation and financial analyses, including business valuation, valuation of intangible assets, financial instruments, natural resources projects and purchase price allocation. Winnie is a charter holder of Chartered Financial Analyst (CFA) and she graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration double-majored in finance and management of organizations.

10. STATEMENT OF LIMITING CONDITIONS

This analysis is subject to the following limiting conditions:

1. This appraisal report cannot be included or referred to in any prospectus, offering memo, loan agreement, registration statement, regulatory authority filings, legal and court proceedings or other public documents without prior written consent from IVL.

2. This report has been made only for the purpose stated and shall not be used for any other purpose. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. Neither International Valuation Limited ("**IVL**") nor the appraiser is responsible for unauthorized use of this report. Neither this report nor any portions thereof (including, without limitations, any conclusions, the identity of IVL or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties other than the Group, its financial accounting firm and attorneys, regulatory authorities, by any means without the prior written consent and approval of IVL. We assume no responsibilities or liabilities for any losses incurred as a result of unauthorized circulation, publication or reproduction of this report in any form and/or if used contrary to the purpose stated therein.

3. Information furnished by others or taken from Company reports and records, standard reference manuals, publications and other sources, upon which all or portions of this report are based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information. We do not accept any responsibilities for any errors or omissions in the information or any consequence liabilities arising from commercial decision or actions resulting from them.

4. IVL assumes no responsibility for legal matters including interpretations of either the law or contracts. No investigation has been made of, and no responsibility is assumed for, the legal description, or for legal matters regarding the valuation subject.

5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the valuation date hereof.

6. The date of value to which the estimate, conclusions and opinion expressed in this report applies is set forth in the beginning of this report. This appraisal is valid only for the valuation date indicated. Our value opinion is based on the purchasing power of the reporting currency as of this date. The opinion of value is estimated based on the financial conditions prevailing as of the date of this appraisal.

7. For events that occur subsequent to the appraisal date hereof, no responsibility is taken and no obligation is assumed to revise this report to reflect the impact, if any, of these events or changing conditions as they may have upon the subject although

we reserve the right to do so. Neither IVL nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony or appear in court or other legal proceedings unless specific arrangements therefore have been made.

8. It is assumed that all required licenses, certificates, or other legislative or administrative authority from any local, or national government or private entity or organization have been, or can readily be obtained, or renewed for any use on which the value estimates provided in this report are based.

9. We have made no investigation of and assumed no responsibility for the ownership or any liabilities against the valuation subject. Responsible ownership and competent management are assumed.

10. Any allocation in this report of the total valuation among components of the valuation subject and the weighting of the reported values among the various appraisal approaches applies only to the program of utilization stated in this report. The separate values for any components or approaches may not be applicable for any other purpose and must not be used in conjunction with any other appraisal.

11. This appraisal report might not include full discussions of the data, reasoning, and analyses that were used in the valuation process to develop the appraiser's estimate of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

12. Our valuation is only any an indicative quantum at which interests in the valuation subject might be reasonably be expected to be sold or disposed at the Valuation Date and may be different from the actual transacted price.

13. To the best of our knowledge and belief, the statements of fact contained in this report are true and correct; the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are impartial, and unbiased professional analyses, opinions, and conclusions.

14. Neither IVL nor any individual signing or associated with this report has any present or prospective interest in the valuation subject of this report and with respect to the parties involved. IVL or any individual signing or associated with this report has no bias with respect to the valuation subject of this report or to the parties involved with this assignment. The engagement in this assignment was not contingent upon developing or reporting predetermined results. The compensation of IVL or any individual signing or associated with this report for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

B. DISCLOSURE OF INTERESTS

1. DIRECTORS' INTERESTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company or any of their associates had or were deemed to have any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) entered in the register required to be kept pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**"):

(a) Directors' and chief executives' interests and short positions in Shares and underlying Shares of the Company

Name of director	Capacity	Nature of interest *(note 1)*	Number of issued Shares/ underlying Shares	Approximate percentage of interest in the Company
Mr. Yin Jianhong	Beneficial owner	L	4,835,000	0.08%

2. SUBSTANTIAL SHAREHOLDERS' INTERESTS

Save as disclosed below, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of shareholder	**Capacity**	**Nature of interest** ***(note 1)***	**Number of issued Shares**	**Approximate percentage of interest in the Company**
Mr. Dai Yongge	Beneficial owner	L	20,007,000	0.35%
	Interest in controlled corporations	L *(note 2)*	2,111,021,532	36.93%
	Interest of spouse	L *(note 3)*	4,803,133,217	84.04%
	Interest in a controlled corporation	S	6,655,629	0.12%
Super Brilliant Investments Limited	Beneficial owner	L *(note 2)*	2,011,810,466	35.20%
	Beneficial owner	S	6,655,629	0.12%
Shining Hill Investments Limited	Interest in a controlled corporation	L *(note 2)*	2,011,810,466	35.20%
	Interest in a controlled corporation	S	6,655,629	0.12%
Ms. Zhang Xingmei	Interest in a controlled corporation	L *(note 4)*	4,803,133,217	84.04%
	Interest of spouse	L *(note 5)*	2,131,028,532	37.28%
	Interest of spouse	S *(note 5)*	6,655,629	0.12%
New Amuse Limited	Beneficial owner	L	4,803,133,217	84.04%
Shouguang Dili Agri-Products Group Company Limited	Interest in a controlled corporation	L	4,803,133,217	84.04%
Dili Group Holdings Company Limited	Interest in a controlled corporation	L	4,803,133,217	84.04%
Win Spread Limited	Interest in a controlled corporation	L *(note 3)*	4,803,133,217	84.04%

Notes:

(1) The letter "L" denotes the person's long position in the Shares, and the letter "S" denotes the person's short position in the Shares.

(2) Among 2,111,021,532 Shares of the Company deemed to be interested by Mr. Dai Yongge, 15,912,000 Shares are held by Gloss Season Limited ("**Gloss Season**"), which is held as to 100% by Mr. Dai Yongge, he is deemed to be interested in the Shares held by Gloss Season; 2,011,810,466 Shares are held by Super Brilliant Investments Limited ("**Super Brilliant**") and Super Brilliant is wholly owned by Shining Hill Investments Limited ("**Shining Hill**"). Mr. Dai Yongge is interested in the entire issued share capital of Shining Hill which is in turn interested in the entire issued share capital of Super Brilliant and therefore, Mr. Dai Yongge and Shining Hill are deemed to be interested in the Shares held by Super Brilliant; 83,299,066 Shares are held by Wealthy Aim Holdings Limited ("**Wealthy Aim**"). As the entire issued share capital of Wealthy Aim is held by Broad Long Limited ("**Broad Long**"), which is held as to 100% by Mr. Dai Yongge, he is deemed to be interested in the Shares held by Wealthy Aim.

(3) Mr. Dai Yongge is deemed to be interested in the Shares held by his spouse, Ms. Zhang Xingmei.

(4) Ms. Zhang Xingmei holds the entire issued share capital of Win Spread Limited ("**Win Spread**"). Win Spread holds the entire issued share capital of Dili Group Holdings Company Limited ("**Dili Group**"). Dili Group holds the entire issued share capital of Shouguang Dili Agri-Products Group Company Limited ("**Shouguang Dili**"). Shouguang Dili holds the entire issued share capital of New Amuse Limited ("**New Amuse**"). New Amuse beneficially holds 4,803,133,217 Shares in the Company, of which 3,991,425,900 Shares are interests in conversion shares relating to the convertible bonds yet to be issued pursuant to the sale and purchase agreement dated 5 June 2018 between among others, the Company and New Amuse. Accordingly, each of Ms. Zhang Xingmei, Win Spread, Dili Group and Shougang Dili is deemed to be interested in the 4,803,133,217 Shares held by New Amuse.

(5) Ms. Zhang Xingmei is deemed to have interests and short positions in the Shares held by her spouse, Mr. Dai Yongge.

As at the Latest Practicable Date, none of the Directors is also a director or employee of any substantial shareholder of the Company.

C. DIRECTORS' SERVICE CONTRACTS

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

D. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors were materially interested, directly or indirectly, in any subsisting contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group.

E. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the members of the Group.

F. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

G. MATERIAL CONTRACTS

During the two years immediately preceding the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries, have been entered into by the Group and are or may be material:

(a) the sale and purchase agreement dated 5 June 2018 entered into between Yield Smart, the Company and New Amuse Limited in respect of the entire issued share capital of United Progress Group Limited at a consideration of RMB5.4 billion;

(b) the sale and purchase agreement dated 5 June 2018 entered into between Yield Smart, the Company and Vast Equity Investment Limited in respect of the entire issued share capital of Wise Path Holdings Limited at a consideration of RMB1.47 billion;

(c) the underwriting agreement dated 5 June 2018 and entered into between the Company and Super Brilliant Investments Limited in relation to the proposed issuance of rights shares at a subscription price of HK$0.163 each on the basis of three rights shares for every ten shares issued at the prevailing time;

(d) the Acquisition Agreement; and

(e) the Loan Agreement.

H. EXPENSES

The expenses in connection with the Acquisition and the Loan, including financial, legal and other professional advisory fees, printing and translation expenses are estimated to be approximately HK$11.4 million and will be payable by the Company.

I. EXPERT'S CONSENT AND QUALIFICATIONS

Each of Grand Moore Capital Limited, Elite Partners CPA Limited and International Valuation Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s) and/or report(s) and/or valuation certificate(s) and/or opinion(s) and the references to their names included herein in the form and context in which it is respectively included.

The following are the qualifications of the experts who have given opinions or advices which are contained in this circular:

Name	Qualifications
Grand Moore Capital Limited	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Elite Partners CPA Limited	Certified Public Accountants
International Valuation Limited	Independent Professional Valuer

Each of the experts named above confirmed that as at the Latest Practicable Date, it did not have any beneficial shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

J. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Group were made up.

K. CORPORATE INFORMATION

Company Secretary:	Hung Fan Kwan (FCPA, FCCA)
Registered Office:	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
Principal Place of Business in Hong Kong:	Suites 1701–1703, One IFC, 1 Harbour View Street, Central, Hong Kong

L. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours, Monday to Friday (other than public holidays) at the principal place of business of the Company at Suites 1701–1703, One IFC, 1 Harbour View Street, Central, Hong Kong from the date of this circular up to and including 18 October 2019:

(a) the material contracts as set out under section headed "G. Material Contracts" of this appendix above;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 35 to 36 of this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 37 to 75 of this circular;

(d) the annual reports of the Company for each of the three years ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019;

(e) the Accountant's Report on the Target Group prepared by Elite Partners CPA Limited, the text of which is set out in Appendix III to this circular;

(f) the report on the Unaudited Pro Forma Financial Information of the Enlarged Group issued by Elite Partners CPA Limited, the text of which is set out in Appendix IV to this circular;

(g) the Business Valuation Report from International Valuation Limited, the texts of which are set out in Appendix V to this circular;

(h) the consent letters referred to in the paragraph headed "I. Expert's Consent and Qualifications" in this Appendix;

(i) this circular; and

(j) the memorandum and articles of association of the Company.

M. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text, in the event of inconsistency.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of China Dili Group (the "**Company**") will be held at 3:00 p.m., on Tuesday, 29 October 2019 at Chatham Room, Level 7, Conrad Hong Kong, One Pacific Place, 88 Queensway, Admiralty, Hong Kong for the purposes of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company, with or without amendments:

Capitalized terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 30 September 2019 to the Shareholders (the "**Circular**") unless otherwise specified.

ORDINARY RESOLUTION

"**THAT:**

the Acquisition Agreement dated 29 August 2019 entered into between Yield Smart and Plenty Business in respect of the Acquisition (as defined in the Circular) and the transactions contemplated thereunder including the Options, and the Loan Agreement dated 29 August 2019 entered into between Dili Fresh and Harbin Dili in respect of the Loan (as defined in the Circular) and the transactions contemplated thereunder including the proposed annual caps, be and are hereby approved, confirmed and ratified; and any one or more of the Directors be and is/are hereby authorised to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the matters contemplated in this resolution."

By order of the Board
China Dili Group
Wang Yan
Chairman

Hong Kong, 30 September 2019

* *For identification purpose only*

Notes:

(1) As disclosed in the Circular, Mr. Dai and his associates will (and any person who is involved or interested in the Transaction are required to) abstain from voting on the resolution above at the EGM.

(2) The register of members of the Company will be closed for registration of transfer of shares from Thursday, 24 October 2019 to Tuesday, 29 October 2019, both days inclusive. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, should be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong on or before 4:30 p.m., Wednesday, 23 October 2019.

(3) Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(4) Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such share, shall alone be entitled to vote in respect thereof.

(5) To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at Computershare Hong Kong Investor Services Limited, the Company's branch share registrar and transfer office in Hong Kong at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(6) The resolution at the EGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

As at the date of this notice, the board of directors of the Company comprises Mr. Wang Yan (Chairman) and Mr. Dai Bin (Chief Executive Officer) as executive directors; Mr. Yin Jianhong and Ms. Yang Yuhua as non-executive directors; Mr. Fan Ren-Da, Anthony, Mr. Wang Yifu, Mr. Leung Chung Ki and Mr. Tang Hon Man as independent non-executive directors.