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# 中国地利集团 China Dili Group

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1387)

## ANNOUNCEMENT

### CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENT

### FOR THE SUPPLY OF AGRICULTURAL PRODUCE AND FOOD PRODUCTS

#### FRAMEWORK AGREEMENT

The Board announces that on 11 September 2020, the Company (for itself and on behalf of its subsidiaries) on one hand, Dili Fresh and Liaoning Fresh (for themselves and on behalf of their subsidiaries) on the other hand entered into the Framework Agreement, pursuant to which the Group agreed to sell and supply to the Dili Fresh Group, and the Dili Fresh Group agreed to purchase from the Group, various agricultural produce and food products, including but not limited to vegetables, fresh and dried fruits, meat, tea leaves, food snacks, grain and oil and other food produce. The agricultural produce and food products supplied by the Group under the Framework Agreement are for sale by the Dili Fresh Group across the PRC to local consumers.

#### LISTING RULES IMPLICATIONS

Each of Dili Fresh and Liaoning Fresh is a wholly-owned subsidiary of Million Master, of which 19% is owned by Yield Smart (a wholly-owned subsidiary of the Company) and 81% is owned by Plenty Business, which is directly wholly-owned by Mr. Dai (a substantial shareholder of the Company and who, together with his associates are, the controlling shareholder of the Company), and hence, is a connected person of the Company. As a result, the Framework Agreement and transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 5%, the Framework Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dai and his associates are required to abstain from voting on the resolution(s) approving the Framework Agreement at the EGM.

## **GENERAL INFORMATION**

### **Independent Board Committee**

The Independent Board Committee comprising all of the independent non-executive Directors is established to advise the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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, taking into account the advice from an independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Framework Agreement and transactions contemplated thereunder.

### **Independent Financial Adviser**

With the approval of the Independent Board Committee, the Company will appoint an independent financial adviser in due course and to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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.

## **EGM AND DESPATCH OF CIRCULAR**

The EGM will be convened at which ordinary resolution(s) will be proposed to the Independent Shareholders to consider, and, if thought fit, to approve the Framework Agreement and the proposed annual caps. Mr. Dai and his associates will abstain, and any person who has a material interest in the Framework Agreement is required to abstain, from voting on the relevant resolution(s) at the EGM.

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

A circular containing, amongst other information, (i) details of the Framework Agreement; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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 an independent financial adviser; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 15 October 2020, in order to allow the Company sufficient time to prepare the circular.

## **WARNING**

**Shareholders and investors should note that the Framework Agreement is subject to the satisfaction of the conditions as stated in the section headed “Framework Agreement — Conditions Precedent” and therefore the Framework Agreement may or may not proceed. As such, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.**

## **INTRODUCTION**

The Board announces that on 11 September 2020, the Company (for itself and on behalf of its subsidiaries) on one hand, Dili Fresh and Liaoning Fresh (for themselves and on behalf of their subsidiaries) on the other hand entered into the Framework Agreement, pursuant to which the Group agreed to sell and supply to the Dili Fresh Group, and Dili Fresh Group agreed to purchase from the Group, various agricultural produce and food products, including but not limited to vegetables, fresh and dried fruits, meat, tea leaves, food snacks, grain and oil and other food produce. The agricultural produce and food products supplied by the Group under the Framework Agreement are for sale by the Dili Fresh Group across the PRC to local consumers.

## **FRAMEWORK AGREEMENT**

The principal terms of the Framework Agreement are set out as below:

### **Date**

11 September 2020

### **Parties**

- (a) the Company (for itself and on behalf of its subsidiaries);
- (b) Dili Fresh (for itself and on behalf of its subsidiaries); and
- (c) Liaoning Fresh (for itself and on behalf of its subsidiaries).

### **Term**

The Framework Agreement is for a term commencing from 1 November 2020 and ending on 31 December 2022, subject to renewal upon expiry at the discretion of the Company on terms to be agreed.

### **Supply of Agricultural Produce and Food Products**

Pursuant to the Framework Agreement, the Group will sell and supply to the Dili Fresh Group, and the Dili Fresh Group will purchase from the Group, various agricultural produce and food products, including but not limited to vegetables, fresh and dried fruits, meat, tea leaves, food snacks, grain and oil and other food produce. Under the terms of the

Framework Agreement, the Dili Fresh Group agrees to grant a right of first refusal to the Group for the supply of up to 90% of its annual procurement amount of agricultural produce and food products for satisfying the demand of its retail network over the PRC.

Dili Fresh Group will place purchase orders with the Group and the parties will enter into individual sale and purchase contracts setting out specific terms of the supply of products including but not limited to the products to be supplied, price, quantity, delivery method and payment arrangement. Such terms shall be consistent with the principles and the terms of the Framework Agreement.

The prices for the products to be supplied under the individual sale and purchase contracts shall be determined by arm's length commercial negotiations and on order-by-order basis, with reference to the prevailing market prices of similar agricultural produce and food products in the same or nearby region. Such prices shall not be less favourable to the Group than those charged by the Group to independent third parties for similar agricultural produce and food products. When referencing to market prices, published prices for agricultural produce and food products by relevant trade or industry association(s) and other public sources from time to time may be considered where appropriate and reference may also be made to the trading data obtained from the agricultural markets operated by the Group.

### **Conditions Precedent**

The transactions contemplated under the Framework Agreement are conditional upon the passing of the resolution(s) by the Independent Shareholders at the EGM approving the Framework Agreement and the proposed annual caps.

If the above conditions are not fulfilled on or before 31 December 2020 (or such later date as may be agreed between the parties), the Framework Agreement will automatically be terminated and neither the Company, Dili Fresh nor Liaoning Fresh shall have any rights to claim against each other under the Framework Agreement.

### **Proposed Annual Caps**

The Group has not supplied any agricultural produce or food products to the Dili Fresh Group prior to the Framework Agreement and therefore there is no historical amount from previous transaction. Going forward, it is expected that the proposed annual caps will be the maximum total value of the agricultural produce and food products to be sold and supplied by the Group to the Dili Fresh Group for the relevant period / financial year during the term of the Framework Agreement, and will not exceed the amounts set out below:

### **Period / Financial Year**

	<b>Maximum Transaction Amounts (RMB)</b>
From 1 November 2020 to 31 December 2020	197,000,000
From 1 January 2021 to 31 December 2021	1,988,000,000
From 1 January 2022 to 31 December 2022	3,067,000,000

Such maximum transaction amounts are determined in accordance with: (i) the historical transaction amounts for the purchase of agricultural produce and food products by the Dili Fresh Group from other third party suppliers; (ii) the expected annual procurement amount of agricultural produce and food products by Dili Fresh Group based on its projected growth in retail stores and scale of business for the term of the Framework Agreement; and (iii) the estimated amount of agricultural produce and food products to be supplied by the Group to the Dili Fresh Group annually. Such projection and estimation are considered solely for determining the proposed annual caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group or the Dili Fresh Group.

In view of the above factors, the Directors (excluding the independent non-executive Directors (whose views will be set out in the letter from the Independent Board Committee to be included in the circular to be despatched to the Shareholders)) are of the view that the above proposed annual caps are fair and reasonable.

## **INTERNAL CONTROL**

In order to ensure that the continuing connected transactions between the Group and the Dili Fresh Group are conducted in accordance with the terms of the Framework Agreement and in compliance with Chapter 14A of the Listing Rules, the Company will implement the following internal control measures:

1. Designated staff will regularly monitor and keep an update on the market supply prices for various agricultural produce and food products to be supplied to Dili Fresh Group for the purpose of ensuring that the prices charged to Dili Fresh Group would be aligned with market supply prices and in accordance with the aforesaid pricing policy;
2. Where the Group supplies similar agricultural produce and food products to independent third parties, relevant personnel of the sales teams of the Group will compare the prices charged to independent third parties with prices charged to the Dili Fresh Group to ensure they are no less favourable to the Group;
3. The relevant personnel of the business department of the Group will conduct regular checks to review and assess whether the transactions contemplated under the Framework Agreement are conducted in accordance with the terms of the Framework Agreement and the individual sale and purchase contracts;
4. The relevant personnel of the finance department of the Group will check and monitor the transaction amounts and ensure the maximum transaction amounts will not exceed the proposed annual caps of the Framework Agreement. If the total transaction amounts reach 80% of the proposed annual caps, or are expected to exceed the proposed annual caps within the next two months, the designated person of the finance department of the Group shall inform the Board immediately so as to determine the appropriate actions to be taken;
5. The finance department of the Group will monitor the risks related to the Framework Agreement by reviewing the minutes of relevant meetings as well as accounting records to ensure the relevant transactions of the Group have been conducted in accordance with the terms of the Framework Agreement;

6. The internal audit department of the Group will carry out annual assessment of the continuing connected transactions under the Framework Agreement conducted by the Group for each financial year. One of the assessment objectives is to ensure that the continuing connected transactions are carried out at arm's length and the terms are comparable to those with independent third parties; and
7. The Company's external auditors and the independent non-executive Directors will conduct an annual review on the pricing and the annual caps of the continuing connected transactions.

## **INFORMATION OF THE PARTIES**

The Company is an investment holding company, which, along with its subsidiaries, is principally engaged in business operations of 10 agriculture wholesale markets in seven cities in the PRC namely Hangzhou, Shenyang, Harbin, Guiyang, Shouguang, Qiqihar and Mudanjiang 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.

Each of Dili Fresh and Liaoning Fresh is a company incorporated in the PRC which is wholly-owned by Million Master. As at the date of this announcement, Million Master is owned as to 19% by Yield Smart (a wholly-owned subsidiary of the Company) and 81% by Plenty Business, which is directly wholly-owned by Mr. Dai.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT**

As disclosed in the announcements of the Company dated 29 August 2019 and 31 October 2019 and the circular of the Company dated 30 September 2019, the Group has acquired 19% of the total issued shares of Million Master, which wholly owns Dili Fresh. Further to an internal reorganization, the Dili Fresh Group currently comprises Dili Fresh, Liaoning Fresh and their respective subsidiaries. The Dili Fresh Group is one of the largest fresh food supermarkets chain in Northeast China, and principally engaged in 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". As stated in the said circular 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. The acquisition of interest in Dili Fresh was the first step and touchstone for expanding the Group's business downstream into the retail end and the entering into of the Framework Agreement is a further step by the Group in extending its capabilities into supply chain and logistics management. 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.

Since the last quarter of 2019, the Group has commenced a small-scaled supply chain business to supply agricultural produce and food products to independent third parties. By entering into the Framework Agreement and transactions contemplated thereunder, the Group targets to further expand the scale of operation of its supply chain and logistics management business through supplying to the Dili Fresh Group as well as independent third

party customers. With direct access to traders and wholesalers in the agricultural markets which the Group currently operates and cooperation with other independent suppliers of food products, the Group expects to secure a stable source of supply of agricultural produce and food products to cater for demand of the Dili Fresh Group and other third party supermarkets and fresh food retailers. Furthermore, through its role as a supplier to the Dili Fresh Group, the Group can connect the upstream traders and wholesalers with its downstream customer, Dili Fresh Group, to generate a reliable source of demand for agricultural produce and food products of the traders and wholesalers and by doing so, enhance loyalty of these upstreams customers of the Group.

The Directors (excluding the independent non-executive Directors (whose views will be set out in the letter from the Independent Board Committee to be included in the circular to be despatched to the Shareholders)) are of the view that the Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are conducted on arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Group, and that the terms of the Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Each of Dili Fresh and Liaoning Fresh is a wholly-owned subsidiary of Million Master, of which 19% is owned by Yield Smart (a wholly-owned subsidiary of the Company) and 81% is owned by Plenty Business, which is directly wholly-owned by Mr. Dai (a substantial shareholder of the Company and who, together with his associates are, the controlling shareholder of the Company), and hence, is a connected person of the Company. As a result, the Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 5%, the Framework Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Dai and his associates are required to abstain from voting on the resolution(s) approving the Framework Agreement at the EGM.

## **GENERAL INFORMATION**

### **Independent Board Committee**

The Independent Board Committee comprising all of the independent non-executive Directors is established to advise the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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, taking into account the advice from an independent financial adviser. None of the members of the Independent Board Committee is directly or indirectly interested or involved in the Framework Agreement and transactions contemplated thereunder.

### **Independent Financial Adviser**

With the approval of the Independent Board Committee, the Company will appoint an independent financial adviser in due course and to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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.

## **EGM AND DESPATCH OF CIRCULAR**

The EGM will be convened at which ordinary resolution(s) will be proposed to the Independent Shareholders to consider, and, if thought fit, to approve the Framework Agreement and the proposed annual caps. Mr. Dai and his associates will abstain, and any person who has a material interest in the Framework Agreement is required to abstain, from voting on the relevant resolution(s) at the EGM.

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

A circular containing, amongst other information, (i) details of the Framework Agreement; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders as to whether the terms and conditions of the Framework Agreement 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 an independent financial adviser; (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 15 October 2020, in order to allow the Company sufficient time to prepare the circular.

## WARNING

**Shareholders and investors should note that the Framework Agreement is subject to the satisfaction of the conditions as stated in the section headed “Framework Agreement — Conditions Precedent” and therefore the Framework Agreement may or may not proceed. As such, Shareholders and potential investors are urged to exercise caution when dealing in the Shares.**

## DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“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 limited liability company established in the PRC which is wholly-owned by Million Master
“Dili Fresh Group”	including Dili Fresh, Liaoning Fresh and their subsidiaries from time to time
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company at which, among others, the terms of the Framework Agreement and the proposed annual caps will be considered, and if thought fit, approved by the Independent Shareholders
“Framework Agreement”	the framework agreement dated 11 September 2020 entered into between the Company, Dili Fresh and Liaoning Fresh with respect to the sale and supply of agricultural produce and food products by the Group to the Dili Fresh Group for a term commencing from 1 November 2020 and expiring on 31 December 2022
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	independent board committee established by the Company consisting of all independent non-executive Directors
“Independent Shareholders”	Shareholders other than Mr. Dai and his associates and any person who has a material interest in the Framework Agreement, 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
“Liaoning Fresh”	遼寧地利生鮮農副產品有限公司 (Liaoning Dili Fresh Agricultural Produce and Side Products Co., Ltd.**), a limited liability company established in the PRC which is wholly-owned by Million Master
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Million Master”	Million Master Investment Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 19% by Yield Smart and 81% by Plenty Business
“Mr. Dai”	Mr. Dai Yongge, a substantial shareholder of the Company and who, together with his associates are, the controlling shareholder of the Company. As at the date of this announcement, Mr. Dai (together with his associates) are interested in approximately 67.06% in the total issued share capital of the Company
“Mr. Dai Bin”	the Chief Executive Officer of the Company and executive Director and son of Mr. Dai
“Plenty Business”	Plenty Business Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is directly wholly owned by Mr. Dai
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holders of the Shares
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning ascribed to it under the Listing Rules
“Yield Smart”	Yield Smart Limited, a company incorporated in the British Virgin Islands with limited liability which is a directly wholly-owned subsidiary of the Company
“%”	per cent.

By order of the Board  
**China Dili Group**  
**Wang Yan**  
*Chairman*

Hong Kong, 11 September 2020

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

\* *For identification purpose only*

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