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CHINA FOODS LIMITED
中國食品有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 506)

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF EQUITY INTERESTS

The Board announces that on 25 May 2017, the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser, a wholly-owned subsidiary of China Agri. Pursuant to the Agreement, the Vendor will sell all of its 100.0% Equity Interests in the Target Company to the Purchaser for a consideration of RMB1,050.0 million, subject to terms and conditions as disclosed below.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction are more than 25.0% but all of such applicable percentage ratios are less than 75.0%, the Transaction constitutes a major transaction of the Company. As COFCO is the ultimate controlling shareholder of the Company as defined under the Listing Rules, thus a connected person of the Company, and the Purchaser is a wholly-owned subsidiary of China Agri, which is 58.0% indirectly owned by COFCO, the Purchaser is a connected person of the Company. The Transaction therefore constitutes a major and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

The Company will convene a SGM for the Independent Shareholders to consider and, if thought fit, approve the Agreement and the Transaction. The voting at the SGM will be taken by poll. COFCO and its associates will abstain from voting at the SGM on resolutions regarding the Agreement and the Transaction.

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders on the Agreement and the Transaction.

A circular containing, among other things, (1) further details of the Agreement and the Transaction, (2) the recommendations of the Independent Board Committee in relation to the Agreement and the Transaction, (3) a letter of advice from the IFA to the Independent Board Committee and the Independent Shareholders, and (4) a notice convening the SGM, is expected to be dispatched to the shareholders on or before 16 June 2017.

After Completion, the Target Company will cease to be a subsidiary of the Company and become a connected person to the Group, and any transactions between the Target Company and the Group will be connected transactions under the Listing Rules.

The Transaction contemplated under this announcement is subject to the satisfaction or waiver (where applicable) of a number of conditions and the Independent Shareholders' approval at the SGM and, accordingly, may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

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The Target Company is primarily engaged in the Target Business, which covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals). The Target Business markets its products mainly under the "Fortune" (福臨門) brand (under a license from COFCO Group), which is a well-known consumer-pack edible oil brand in China and is ranked number two nationwide in terms of market share of edible oil products. After Completion, it is expected that the Group will no longer engage in the Target Business.

THE AGREEMENT

The principal terms of the Agreement are summarized as follows:

Date

25 May 2017

Parties

Vendor: COFCO Food Sales & Distribution Co., Ltd.

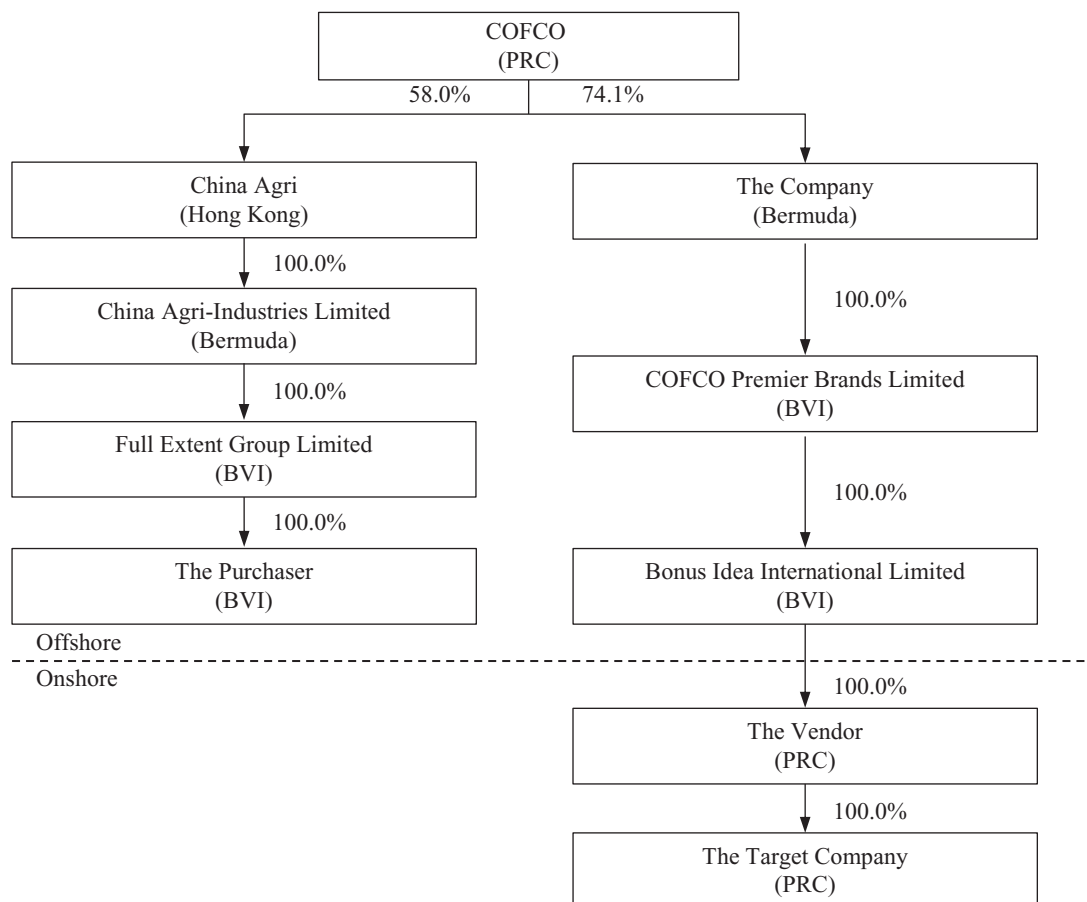
Purchaser: COFCO Fortune Holdings Limited

Subject Matter

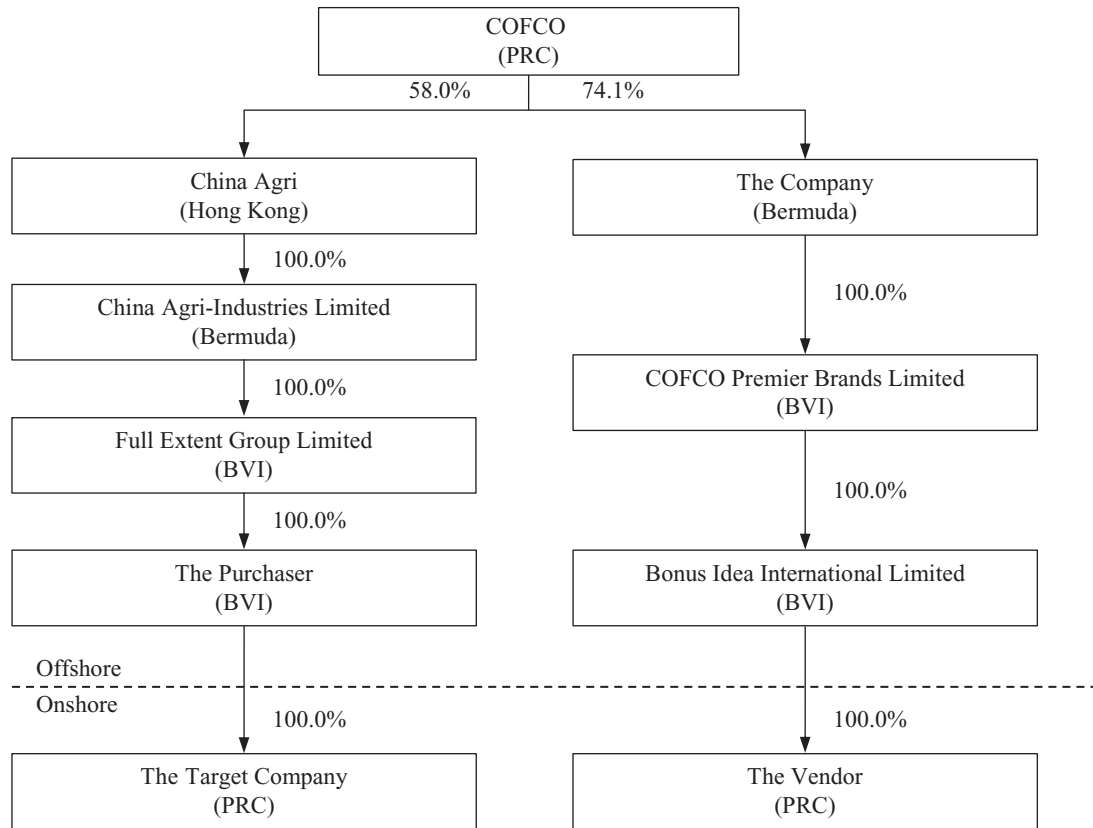
The Vendor intends to sell all of its 100.0% Equity Interests in the Target Company to the Purchaser. Upon Completion, the Target Company will cease to be a subsidiary of the Company and the Purchaser will hold 100.0% Equity Interests of the Target Company.

Set out below are shareholding structure charts of the companies involved in the Transaction:

Before the Completion



After the Completion



Consideration

Pursuant to the Agreement, the Consideration for the sale of all of the Vendor's 100.0% Equity Interests in the Target Company to the Purchaser is RMB1,050.0 million.

The Consideration was determined on an arm's length basis between the Vendor and the Purchaser taking into account, among others, (i) the historical performance and future prospect of the Target Business with reference to the competitive landscape and market conditions, and (ii) the valuation of comparable companies in the industry.

Payments

1. The Purchaser shall deposit an amount equal to 30.0% of the Consideration (equivalent to RMB315.0 million) into the Escrow Account as security deposit ("**Security Deposit**") for the Transaction within 5 business days after signing the Agreement.
2. The Security Deposit made to the Escrow Account shall be released and transferred, and the Purchaser shall pay 30.0% of the Consideration (equivalent to RMB315.0 million), to an account designated by the Vendor, within 10 business days after the fulfillment of the following conditions:
 - (i) the Purchaser has completed all financial, legal and other due diligence in relation to the Transaction to the satisfaction of the Purchaser;
 - (ii) the Agreement has been approved by the shareholder of the Target Company and the relevant shareholder's resolution has been provided to the Purchaser;
 - (iii) the Agreement has been approved by the internal decision-making bodies (including but not limited to the boards of directors) of the Vendor and the Purchaser, respectively, and the relevant disclosure obligations have been fulfilled;
 - (iv) the Transaction has been approved by the boards of directors and shareholders at general meetings of both the Company and China Agri, respectively;
 - (v) the Transaction has been approved by the internal decision-making body of COFCO; and
 - (vi) the Transaction and the articles of association of the Target Company amended pursuant to the Transaction have been approved by the relevant approval authorities. Copies of relevant approvals have been provided to the Purchaser by the Target Company.

3. The Purchaser shall pay the remaining amount of the Consideration into an account designated by the Vendor within 5 business days after the fulfillment of the following conditions:
 - (i) the Target Company has completed the state-owned assets ownership alteration registration pursuant to the Transaction;
 - (ii) the Target Company has obtained a new business license pursuant to the Transaction and has provided a copy of the new business license to the Purchaser;
 - (iii) the Target Company has altered the chops and seals records reserved for all its bank accounts as requested by the Purchaser, and has provided the Purchaser with a list of the altered reserve seals records; and
 - (iv) the Target Company has handed over all existing cheques and bank electronic payment vouchers to the Purchaser.

Completion

The Completion shall take place at the date when the business registration alteration formalities with the relevant Administration for Industry & Commerce in connection with the Transaction have been completed and the Target Company has obtained a new business license. At Completion, the Target Company will be engaged only in the Target Business and will discontinue any other business prior to Completion.

After the Completion, the Target Company will become a connected person to the Group, and any transactions between the Target Company and the Group will become connected transactions under the Listing Rules.

Default Penalty

For any delay in the payment of any part or all of the Consideration, the Purchaser shall pay a daily default penalty fee of 0.03% of the unpaid portion of the respective payments. If any payment is delayed for more than 30 days, then the Vendor will have the right to terminate the Agreement and to seek damages arising thereof.

Condition to the Validity of the Agreement

The Agreement shall be formed upon execution, and shall become valid and legally binding upon obtaining approvals from (i) the decision making bodies of the parties and COFCO, and (ii) the regulatory authorities.

In case the Transaction fails to obtain any requisite regulatory approval and that such failure is not caused by any parties to the Agreement, the Agreement shall be deemed invalid and no parties shall be liable to any damages or obligations relating to such invalidity. Under such circumstance, the Vendor shall refund the paid Consideration with accrued interest to the Purchaser.

Termination

The Agreement can be, among others, terminated upon mutual consent of both parties. In the event that the Transaction cannot be completed within six months upon the execution of the Agreement, and such failure is not caused by the fault of any of the parties, either party can terminate the Agreement upon written notice to the other party, unless both parties agree to extend such long stop date. Such termination shall not affect the rights and obligations existing before the termination.

ADDITIONAL UNDERTAKINGS BY THE COMPANY

In connection with the Transaction, on 25 May 2017, the Company issued letters to China Agri. The Company confirms that it does not have any investment in companies outside of the Target Company that compete with the Target Business of the Target Company as of the Completion. The Company further provides undertakings that:

- (1) to the best of the Company's knowledge, all documents, materials and information provided by the Vendor and the Target Company to the Purchaser and its advisors during the Purchaser's due diligence investigation and the formulation, negotiation, execution and performance of the transaction documents are true, accurate, complete, effective and not misleading;
- (2) upon Completion, the Company and its subsidiaries will no longer directly or indirectly engage in or participate in business which may compete with the Target Business of the Target Company in any form;
- (3) upon Completion, the Company and its subsidiaries will no longer directly or indirectly hold, own or hold through a third party to hold any equity interest, shares, options or other investment interests in any enterprise which may compete with the Target Business of the Target Company; and
- (4) after Completion, in the event that the Company would have any significant investment (i.e. more than 10% in the capital, both in paid up capital or convertible into capital) into a company that engages in business competing with the Target Business of Target Company, the Company shall, subject to the relevant laws and regulatory requirements, offer China Agri to acquire such investment at its appraised value as determined by an independent third party valuer recognized by both parties.

For the purpose of the undertakings, "subsidiaries" means any enterprise or entity directly or indirectly controlled by the Company or jointly controlled by the Company and other party; "control" means (i) ownership of fifty percent (50%) or more of the issued capital or equity share, or registered capital, or (ii) by virtue of the voting rights of more than 50% of the entity, or the power to appoint the majority of the members of the board of directors or similar management, or by contractual arrangements or otherwise, capable of intervening in the management or policy of the entity.

INFORMATION OF THE TARGET COMPANY AND THE TARGET BUSINESS

The Target Company is a limited liability company incorporated in the PRC. It is a wholly-owned subsidiary of the Vendor. The Target Company is primarily engaged in the Target Business which

covers the sale, distribution and marketing of consumer-pack edible oil and other kitchen food products (including consumer-pack sugar, soy sauce, vinegar, monosodium glutamate (MSG), seasoning sauce and cereals). The Target Business markets its products mainly under the “Fortune” (福臨門) brand, which is a well-known consumer-pack edible oil brand in China, among others. It distributes a portfolio of consumer-pack edible oil products including basic oil (e.g. soybean and blend oils), nutritious oil (e.g. corn, rapeseed, peanut and sunflower oils), high-end oil (e.g. sesame, rice and other premium oils) and other non-oil products (including consumer-pack sugar, soy sauce, vinegar, MSG, seasoning sauce and cereals) through supermarkets and other third party distribution channels. Prior to the Target Company’s incorporation, the Vendor was engaged in the Target Business.

The Target Business contributed 38.0% of the Group’s revenue from continuing operations and 14.3% of the Group’s profit before tax from continuing operations for the year ended 31 December 2016. The audited net asset value of the Target Business as of 31 December 2016 was approximately RMB42.7 million.

Set out below is the audited financial information of the Target Business.

	For the year ended 31 December 2015	For the year ended 31 December 2016
	(approximately RMB thousand)	(approximately RMB thousand)
Revenue	8,125,295	9,214,450
Gross Profit	1,008,538	1,042,491
Profit before tax	93,341	80,055
Profit for the year ¹	93,341	80,055

Note: ¹The Target Business did not incur any tax expenses for the years ended 31 December 2015 and 2016 mainly due to the utilization of tax losses brought forward from previous periods.

FINANCIAL IMPACT OF THE TRANSACTION ON THE GROUP

Upon Completion, the Group will cease to hold any direct or indirect equity interest in the Target Business and the financial results of the Target Business will no longer be consolidated into the consolidated financial statements of the Group. On such basis, assuming Completion were to take place on 31 December 2016, it is estimated that as a result of the Transaction, there would be a one-off unaudited gain of approximately RMB1,007.3 million recorded by the Group, which is calculated with reference to the Consideration of RMB1,050.0 million, less the audited net asset value of the Target Business of approximately RMB42.7 million as of 31 December 2016. The expected unaudited gain to be derived from the Transaction is calculated before deducting relevant transaction costs and taxes from the disposal. The actual gain or loss as a result of the disposal to be recorded by the Group may fluctuate depending on the actual date of Completion and is subject to audit and will be reassessed after Completion.

The Group intends to use part of the proceeds from the Transaction to repay certain bank borrowings and to distribute the rest of the proceeds as a special dividend to the Shareholders. The special dividend is subject to (a) approval of the Independent Shareholders in respect of the Transaction at the SGM having been obtained; and (b) Completion having taken place. The Board will take into account the then financial and cashflow position of the Group at the respective point in time and the progress of the Transaction before any special dividend is proposed and declared.

REASONS FOR THE TRANSACTION AND BENEFIT TO THE GROUP

The Group has always been dedicated to the improvement of its business operations and the maximization of returns to its Shareholders. After careful deliberations, the management is of the view that the Group should focus on businesses with high growth potentials, strong brand attributes, high gross margins and good earnings prospects to maximize returns for the Shareholders. By selling the Target Business, the Group can continue its strategic focus and business portfolio optimization, so that the Group can become more focused on its wine and beverage businesses, enhance its professionalism in business operation, and thereby increase the overall profitability of the Group.

The Target Company primarily engages in the downstream business of the consumer-pack edible oil value chain, and its long term competitiveness and growth have been driven by large sales volume, relatively high operational efficiency and low cost and expenses. By integrating with the upstream raw material processing business of the edible oil value chain, the Transaction could unlock synergies and growth potentials, thereby maximizing the value of the Target Business and the upstream operations. The Transaction could also reduce connected transactions between the Group and China Agri, thereby decreasing operational and compliance costs of both companies.

In light of the above, the management believes that it is in the best interest of the Company and the Shareholders as a whole to exit the Target Business so that the Group can allocate more resources to the beverage and wine businesses, which generate higher gross margins and have strong brand attributes, thereby enhancing the Group's overall profitability.

OPINION OF THE BOARD

The Directors (other than the independent non-executive Directors, whose views and opinions will be included in the circular to be dispatched to the Shareholders) consider that the basis for determining the Consideration of the Transaction is fair and reasonable, the terms of the Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Directors associated with COFCO and its subsidiaries and other associates, namely Mr. Ma Jianping, Mr. Jiang Guojin, Ms. Luan Xiuju, Mr. Qin Yelong and Ms. Xiao Jianping, as the connected Directors, have abstained from voting regarding the Agreement and the Transaction. Except as disclosed above, none of the Directors has any material interests in the Agreement and the Transaction and hence no other Director has abstained from voting on such Board resolutions.

INFORMATION ON THE PARTIES

The Company

The Company is an investment holding company. Through its subsidiaries and associated companies, it is principally engaged in wine, beverage, consumer-pack edible oil and other kitchen food products businesses.

The Vendor

The Vendor is a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company. It is primarily engaged in the sales, distribution and marketing of wines and, through the Target Company, the Target Business, and will cease to engage in the Target Business upon Completion.

The Purchaser

The Purchaser is a wholly-owned subsidiary of China Agri and its primary business is investment holding.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Transaction are more than 25.0% but all of such applicable percentage ratios are less than 75.0%, the Transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

COFCO is the ultimate controlling shareholder of the Company as defined under the Listing Rules and thus a connected person of the Company. The Purchaser is a wholly-owned subsidiary of China Agri, which is 58.0% indirectly owned by COFCO. The Purchaser is therefore a connected person of the Company. The Transaction constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene a SGM for the Independent Shareholders to consider and, if thought fit, approve Agreement and the Transaction. The voting at the SGM will be taken by poll. COFCO and its associates will abstain from voting at the SGM on resolutions regarding the Agreement and the Transaction.

THE INDEPENDENT BOARD COMMITTEE, THE IFA AND THE CIRCULAR

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders on the Agreement and the Transaction.

Somerley Capital Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders on the Agreement and the Transaction.

A circular containing, among other things, (1) further details of the Agreement and the Transaction, (2) the recommendations of the Independent Board Committee, (3) a letter of advice from the IFA to the Independent Board Committee and the Independent Shareholders, and (4) a notice convening the SGM, is expected to be dispatched to the Shareholders on or before 16 June 2017.

The Transaction contemplated under this announcement is subject to the satisfaction or waiver (where applicable) of a number of conditions and the Independent Shareholders' approval at the SGM and, accordingly, may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

DEFINITIONS

“Agreement”	the equity transfer agreement entered into between the Vendor and the Purchaser on 25 May 2017
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“China Agri”	China Agri-Industries Holdings Limited (中國糧油控股有限公司), a limited liability company incorporated in Hong Kong, whose shares are listed on the main board of the Stock Exchange and is indirectly owned 58.0% by COFCO
“COFCO”	COFCO Corporation (中糧集團有限公司), a wholly state-owned company established in the PRC currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會) and the ultimate controlling shareholder of the Company
“COFCO Group”	COFCO and its subsidiaries
“Company”	China Foods Limited (中國食品有限公司), a limited liability company incorporated in Bermuda, whose Shares are listed on the main board of the Stock Exchange and is indirectly owned 74.1% by COFCO
“Completion”	has the meaning ascribed to it under the paragraph entitled “Completion” in this announcement
“Consideration”	has the meaning ascribed to it under the paragraph entitled “Consideration” in this announcement
“Director(s)”	the director(s) of the Company

“Escrow Account”	a bank account established in Hong Kong under the management of both the Vendor (or its designated affiliate) and the Purchaser (or its designated affiliate) for the purpose of holding cash collateral for the Transaction
“Equity Interests”	the Vendor’s 100.0% equity interests in the Target Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA”	Somerley Capital Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders with regard to the Agreement and the Transaction
“Independent Board Committee”	the independent committee of the Board established for the purpose of reviewing the Agreement and the Transaction
“Independent Shareholder(s)”	shareholders of the Company other than COFCO and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratios”	have the same meanings ascribed thereto under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China
“Purchaser”	COFCO Fortune Holdings Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of China Agri
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting to be held by the Company to consider, and if thought fit, to approve the Agreement and the Transaction
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	the ordinary share(s) of the Company, being the share(s) of HK\$0.1 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	COFCO Fortune Food Sales & Distribution Co., Ltd. (中糧福臨門食品營銷有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Vendor
“Target Business”	has the meaning ascribed to it under the section entitled “Information of the Target Company and the Target Business” in this announcement
“Transaction”	the sale of the Equity Interests by the Vendor to the Purchaser pursuant to the Agreement
“Vendor”	COFCO Food Sales & Distribution Co., Ltd. (中糧食品營銷有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company

By Order of the Board
China Foods Limited
Jiang Guojin
Managing Director

Beijing, 25 May 2017

As at the date of this announcement, the Board comprises: Mr. Ma Jianping as the chairman of the Board and a non-executive director; Mr. Jiang Guojin, Ms. Luan Xiuju and Mr. Zhou Chenguang as executive directors; Mr. Qin Yelong and Ms. Xiao Jianping as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Yuen Tin Fan, Francis as independent non-executive directors.