中粮
COFCO

CHINA AGRI-INDUSTRIES HOLDINGS LIMITED
中國糧油控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 606)

(1) MAJOR AND CONNECTED TRANSACTIONS THE DISPOSAL

AND

(2) CONNECTED TRANSACTIONS PROPOSED AMENDMENTS TO THE NON-COMPETITION DEED

Financial adviser to the Company

BNP PARIBAS

THE DISPOSAL

The Board announces that on 23 October 2017, Full Extent, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement and the Loan Assignment Deed with COFCO Bio-chemical Investment, a wholly-owned subsidiary of COFCO. Pursuant to the Agreements, Full Extent shall dispose the Target Group at a total consideration of HK$8,579 million. Under the Agreements and subject to terms and conditions as disclosed below, Full Extent shall sell (i) its 100% Equity Interests in the Target Companies at a consideration of HK$5,219 million and (ii) assign the loans owed to it by the Target Companies at a consideration of HK$3,360 million.

Upon Completion, each of the Target Companies will cease to be a subsidiary of the Company and become a subsidiary of the Purchaser.

As COFCO is the controlling shareholder of the Company as defined under the Listing Rules and the Purchaser is a wholly-owned subsidiary of COFCO, the Purchaser is a connected person of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Disposal are more than 25% but all of such applicable percentage ratios are less than 75%, the Disposal therefore constitute major and connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

PROPOSED AMENDMENTS TO THE NON-COMPETITION DEED

COFCO, COFCO (HK) and the Company entered into the 2007 Non-competition Deed on 16 February 2007, pursuant to which each of COFCO and COFCO (HK) undertook that it would not, and would procure that its subsidiaries (other than the Group) will not, be engaged or interested in any capacity in any business which competes with the Restricted Business or any part of it in the Restricted Territory, provided that this restriction shall not operate to prohibit COFCO or COFCO (HK) from:

(a) holding such interest, whether directly or indirectly, as Retained Interests; or

(b) holding shares in the aggregate up to 5 percent of the issued share capital of any competing company the share of which are listed or dealt in on any stock exchanges.

Among the Retained Interests, an option of the Company to acquire COFCO's interests in COFCO Biochemical (Anhui) Co., Ltd. which was considered as a Restricted Business, as it produces biofuel and biochemical products. Following the Company's listing on the Stock Exchange, the INEDs conducted review of COFCO Biochemical (Anhui) Option on an annual basis. As of the date of this announcement, no final and definitive decision has been made as to whether the Company will exercise the COFCO Biochemical (Anhui) Option by the INEDs.

After the Completion, the core business of the Company will no longer include the Target Business and COFCO and its associates will directly or indirectly engage, operate or participate in the Target Business through the Target Companies as its subsidiaries. In light of such, COFCO, COFCO (HK) and the Company entered into the 2017 Non-competition Deed on 23 October 2017, pursuant to which, the Target Business to be carried out by COFCO Group (other than the Group) after the Completion shall be excluded from the scope of Restricted Business and the COFCO Biochemical (Anhui) Option shall be removed from the scope of the Retained Interests under the 2007 Non-competition Deed.

The Disposal and the Proposed Amendments are inter-conditional upon each other.

As COFCO is the controlling shareholder of the Company as defined under the Listing Rules, and COFCO (HK) is a wholly-owned subsidiary of COFCO, each of COFCO and COFCO (HK) is a connected person of the Company. The 2017 Non-competition Deed constitute connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

SPECIAL DIVIDEND

Conditional on completion of the Disposal, as part of the use of proceeds and return to the Shareholders, the Company proposes to distribute a special dividend between HK$0.20 and HK$0.30 per share, amounting to a total of approximately HK$1.0 billion to HK$1.6 billion to the Shareholders (subject to the decision of the Board). A Board meeting will be held to determine the exact amount of the special dividend and an announcement will be made on the same.

GENERAL

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement, the Loan Assignment Deed and the 2017 Non-competition Deed. The voting at the EGM will be taken by poll. COFCO and its associates will abstain from voting at the EGM regarding the Sale and Purchase Agreement, the Loan Assignment Deed and the 2017 Non-competition Deed.

The Independent Board Committee has been formed to advise and provide recommendation to the Independent Shareholders on the Transactions and Platinum Securities Company Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (1) further details of the Sale and Purchase Agreement, the Loan Assignment Deed and the 2017 Non-competition Deed, (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 EGM, is expected to be despatched to the Shareholders on or before 13 November 2017.

The Transactions contemplated under this announcement are subject to the satisfaction or waiver (where applicable) of a number of conditions and the Independent Shareholders' approval at the EGM and the distribution of special dividend is subject to approval of the Independent Shareholders in respect of the Transactions at the EGM and the Completion having taken place. Accordingly, the Transactions and the distribution of special dividend may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

THE DISPOSAL

The Board announces that on 23 October 2017, Full Extent, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement and the Loan Assignment Deed with COFCO Bio-chemical Investment, a wholly-owned subsidiary of COFCO. Pursuant to the Agreements, Full Extent shall dispose the Target Group at a total consideration of HK$8,579 million. Under the Agreements and subject to terms and conditions as disclosed below, Full Extent shall sell (i) its 100% Equity Interests in the Target Companies at a consideration of HK$5,219 million and (ii) assign the loans owed to it by the Target Companies at a consideration of HK$3,360 million.

Basis of Consideration for the Disposal

Pursuant to the Sale and Purchase Agreement and the Loan Assignment Deed, the total consideration for the Disposal is HK$8,579 million. The consideration was determined following arm's length negotiations between the Purchaser and the Vendor. In determining the consideration, the Directors have considered the following factors:

1. the historical financial performance of the Biofuel Business and Biochemical Business including analyses on its trend and variability;

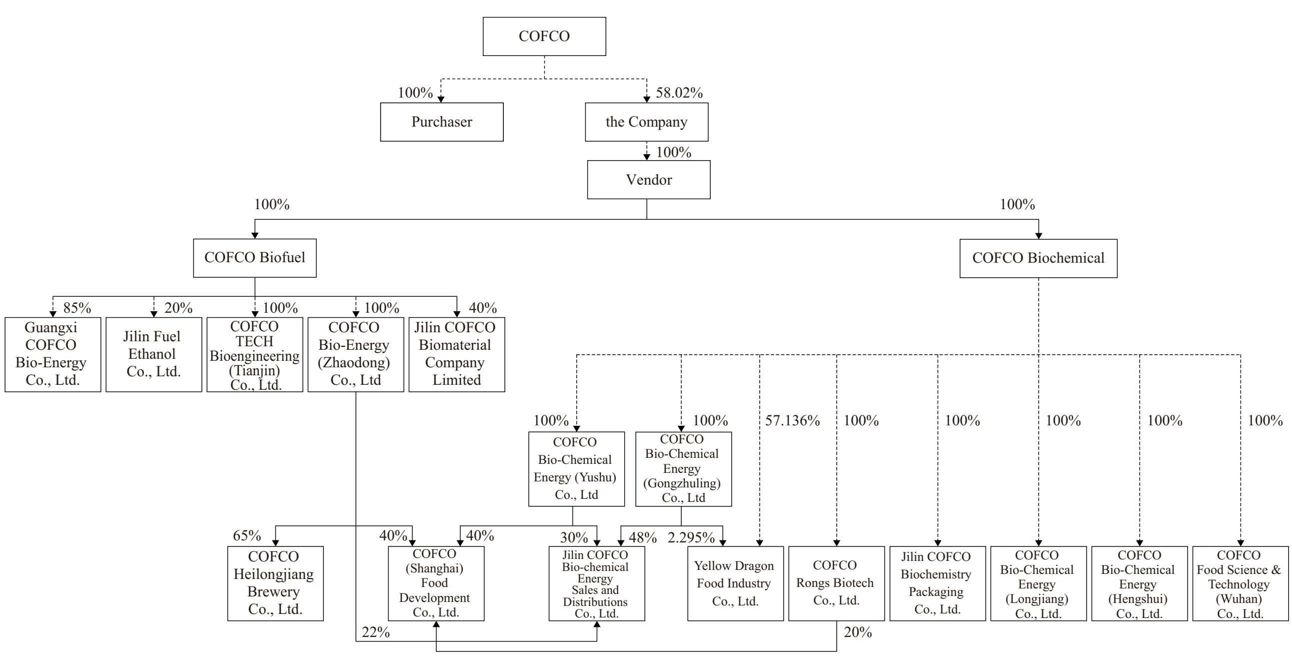
2. the contribution of government subsidies to the total profit of the Biofuel Business and Biochemical Business and the uncertainty of whether such subsidies would continue to be available at historic levels;

3. the trading multiples of companies listed on a recognised stock exchange which are focused on the sales and production of (1) fuel ethanol for the Biofuel Business; and (2) corn starch, corn sweeteners and monosodium glutamate (MSG) for the Biochemical Business.

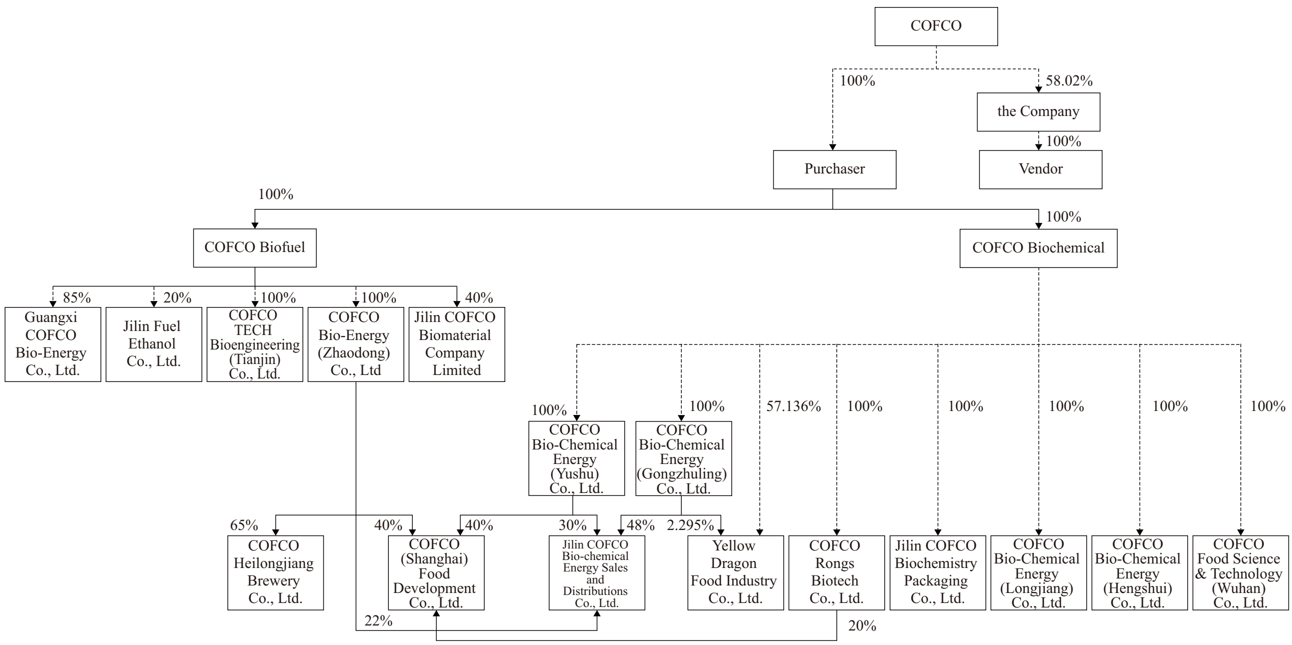
In light of the foregoing and having considered the strategic rationale for the Disposal, the Directors (other than the INEDs, whose views and opinions will be included in the circular to be despatched to the Shareholders) believe that the consideration of the Disposal is fair and reasonable and in the interests of the Company and its Shareholders as a whole. Please refer to the section headed "Reasons for the Transactions and Benefit to the Group".

The shareholding structure charts immediately before and after the Completion are set out as follows:

Before the Completion



After the Completion



Note: Indirect shareholding is shown in dotted lines.

The Sale and Purchase Agreement

The principal terms of the Sale and Purchase Agreement are summarised as follows:

Date

23 October 2017

Parties

Vendor: Full Extent Group Limited

Purchaser: COFCO Bio-chemical Investment Co., Ltd.

Subject Matter

The Vendor shall sell all of its 100% Equity Interests in the Target Companies to the Purchaser. Upon Completion, each of the Target Companies will cease to be a subsidiary of the Company and become a subsidiary of the Purchaser.

Consideration and Payment

Pursuant to the Sale and Purchase Agreement, the total consideration for the Equity Transfer is HK$5,219 million in cash.

Both parties have agreed that, within five Business Days after the fulfilment or waiver (as the case may be) of all the conditions precedent as disclosed below which is confirmed by the Purchaser and Vendor in writing, the total consideration for the Equity Transfer shall be paid by the Purchaser into the bank account designated by the Vendor.

Conditions Precedent

(i) approval of the Equity Transfer by COFCO has been obtained;

(ii) the 2017 Non-competition Deed has been executed among COFCO, COFCO (HK) and the Company;

(iii) approval of the Equity Transfer and the 2017 Non-competition Deed by the Independent Shareholders at a general meeting of the Company has been obtained;

(iv) each of the Target Companies has obtained all necessary licences, consents, approvals, authorisations, permissions, waivers, orders, exemptions or notifications of any of their respective shareholders, creditors and/or any other third parties, which are required for the execution and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder and which have not been revoked prior to the closing of the Sale and Purchase Agreement.

Termination

If any of the conditions precedent as disclosed above has not been fulfilled (or waived by the Purchaser) by 29 June 2018, the Sale and Purchase Agreement shall be terminated and no party shall have any claim against the other, except in respect of any antecedent breach of the terms hereof.

If closing does not take place because 1) the Purchaser fails to pay the consideration of the Equity Transfer; or 2) a party fails to comply with any of its obligations under the Sale and Purchase Agreement on the closing date, then the non-defaulting party shall be entitled to terminate the Sale and Purchase Agreement.

Closing

Within two Business Days after the consideration of the Equity Transfer is paid by the Purchaser in accordance with the Sale and Purchase Agreement, the Vendor and the Purchaser shall complete the change of registration procedure for purposes of transfer of the Equity Interests to the Purchaser. Closing will take place on the date ("**Closing Date**") that the change of registration of the Equity Interests is completed.

Information on the Target Companies

COFCO Biofuel is a limited liability company incorporated in the British Virgin Islands. It is a wholly-owned subsidiary of the Company and an investment holding company. Its onshore subsidiaries are mainly engaged in the production and sale of corn-based fuel ethanol as well as other corn-based products, such as consumable ethanol, anhydrous ethanol, feed ingredients (including dried distiller's grain with solubles (or DDGS)), crude corn oil and others ("**Biofuel Business**").

COFCO Biochemical is a limited liability company incorporated in the British Virgin Islands. It is a wholly-owned subsidiary of the Company and an investment holding company. Its onshore subsidiaries are primarily engaged in the production and sale of corn starch, corn sweeteners, monosodium glutamate (MSG), feed ingredients, crude corn oil and others ("**Biochemical Business**").

The unaudited combined net asset value attributable to the equity holders of the Target Companies prepared under the Accounting Standards for Business Enterprises of the People's Republic of China ("**ASBE**") as of 30 June 2017 was approximately RMB3,584 million.

Set out below is the unaudited combined financial information of the Target Group prepared under ASBE.

	For the year ended 31 December 2014 *(RMB million)*	**For the year ended 31 December 2015** *(RMB million)*	**For the year ended 31 December 2016** *(RMB million)*	**For the six months ended 30 June 2017** *(RMB million)*
Target Group				
Total revenue	13,578	11,733	10,369	5,137
Total gross profit	1,909	766	1,488	950
Total profit/(loss) before tax	571	(58)	466	709
Total net profit/(loss) attributable to shareholders	446	(40)	372	522
Total net profit/(loss) attributable to shareholders (excluding subsidies and income from government policies)[(1)]	243	(651)	(48)	77

Note (1): For illustrative purposes, excluding total subsidies and income from government policies attributable to shareholders of RMB271 million, RMB815 million, RMB560 million and RMB594 million for the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017 respectively, the Target Group would have incurred a net loss attributable to shareholders of approximately RMB651 million and RMB48 million for the years ended 31 December 2015 and 2016 respectively and a net profit attributable to shareholders of approximately RMB243 million and RMB77 million for the year ended 31 December 2014 and the six months ended 30 June 2017 respectively. This is calculated by deducting a post-tax total subsidies and income from government policies attributable to shareholders from the total net profit attributable to shareholders. Post-tax total subsidies and income from government policies attributable to shareholders is calculated by the total subsidies and income from government policies attributable to shareholders less an illustrative 25% tax rate assumed for the Target Group.

Set out below is a breakdown of the subsidies received from the government and income earned from government policies by the Target Group. "**Government grants for fuel ethanol producers**" are subsidies received from the government based on the volume of fuel ethanol sold and this will not be extended from 2018 onward. Subsidies for ethanol using corn as raw material is no longer available from 2016 onward and subsidies for ethanol using tapioca as raw material is no longer available from 2018 onward. "**Government grants for corn processors**" are subsidies received from the government based on the amount of corn acquired and processed. With reference to the Interim Financial Report, the latest batch of corn-processing subsidies have expired at the end of the first half of 2017. In the past, these corn-processing subsidies were provided in various RMB amounts per tonne of corn processed and time frame in different provinces, including Heilongjiang and Jilin. There is uncertainty as to when and whether these subsidies will be available in the future. "**Storage income from agency purchase**" is storage income received under the agency purchase agreements. This storage income is based on RMB per tonne corn stored and the volume of corn reserve stored. Such corn reserve was purchased under the "National Corn Temporary Reserve and Purchase Program" ("**Purchase Program**"). This program has not been extended since 2016 and the Company has not acquired further corn under the agency purchase agreements since then. Currently it is unclear whether the Purchase Program will be re-activated. Such storage income is expected to reduce in the future as the corn reserve stored by the Company under the existing agency purchase agreements depletes.

	For the year ended 31 December 2014 *(RMB million)*	**For the year ended 31 December 2015** *(RMB million)*	**For the year ended 31 December 2016** *(RMB million)*	**For the six months ended 30 June 2017** *(RMB million)*
Government grants for fuel ethanol producers	77	51	17	–
Government grants for corn processors	91	673	345	518
Storage income from agency purchase	123	131	237	109
Total subsidies and income from government policies	291	855	599	627
Total subsidies and income from government policies attributable to shareholders	271	815	560	594

Loan Assignment Deed

The principal terms of the Loan Assignment Deed are summarised as follows:

Date

23 October 2017

Parties

Assignor: Full Extent Group Limited

Assignee: COFCO Bio-chemical Investment Co., Ltd.

Subject Matter

As at the date of this announcement, Full Extent has advanced the loans in an aggregate amount of HK$3,360 million to the Target Companies, and has agreed to assign the entire loans to the Assignee. The loans are non-interest bearing shareholders' loan. After the completion of the Loan Assignment, the Assignee shall be entitled to demand repayment against the Target Companies in accordance with the Loan Assignment Deed.

The Loan Assignment shall be completed on the date of full payment of the consideration by COFCO Bio-chemical Investment to Full Extent.

Loan Assignment Consideration and Payment

The consideration for the Loan Assignment under the Loan Assignment Deed is HK$3,360 million, which is equal to the aggregate amount of loans owed to Full Extent by the Target Companies.

Both parties have agreed that COFCO Bio-chemical Investment shall pay the consideration for the Loan Assignment in full into the bank account designated by Full Extent on the Closing Date of the Sale and Purchase Agreement.

Conditional Loan Assignment Deed

The Loan Assignment Deed shall take effect upon the fulfilment or waiver (as the case may be) of the following conditions:

(i) approval of the Loan Assignment having been obtained from the COFCO;

(ii) the 2017 Non-competition Deed having been executed; and

(iii) approval having been obtained from the Independent Shareholders at a general meeting of the Company for approving the Loan Assignment and the 2017 Non-competition Deed.

Financial Impact on the Group and Use of the Proceeds

Upon Completion, the Group will cease to hold any direct or indirect equity interest in the Target Group and the financial results of the Target Group will no longer be consolidated into the consolidated financial statements of the Group. On such basis, assuming Completion were to take place on 30 June 2017, it is estimated that as a result of the Disposal, there would be a one-off unaudited gain of approximately HK$1,090 million recorded by the Group ("**Unaudited Gain**"), which is calculated with reference to the consideration of the Disposal of HK$8,579 million, less the total unaudited net asset value of the Target Companies of approximately HK$4,129 million (equivalent to RMB3,584 million) as of 30 June 2017 as well as the value of the loans advanced by Full Extent to the Target Companies of HK$3,360 million. The Unaudited Gain is calculated before deducting relevant transaction costs and taxes from the Disposal. This Unaudited Gain excludes exchange gain or loss on translation of foreign operations, which would be recognised in the statement of profit or loss as a result of 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.

Assuming the Disposal were to take place on 30 June 2017, the gearing ratio which is calculated by net debt divided by the equity attributable to shareholders of the Company, would have reduced from approximately 65.3% to approximately 28.1%.

The Company intends to use the proceeds from the Disposal to (i) finance future development in the grain and edible oil processing and branded consumer business; (ii) partially repay certain bank borrowings to optimise capital structure; and (iii) distribute a special dividend of HK$0.20 to HK$0.30 per Share, totalling approximately HK$1.0 billion to HK$1.6 billion, to the Shareholders (subject to the decision of the Board). Remaining proceeds from the Disposal, if any, will be retained for working capital purposes.

The distribution of the special dividend is subject to, among others, (i) approval of the Independent Shareholders in respect of the Transactions at the EGM having been obtained; and (ii) Completion having taken place. The Board will take into account the then financial and cash flow position of the Company at the respective point in time and the progress of the Transactions before any special dividend is proposed and declared. A Board meeting will be held to determine the exact amount of the special dividend. Further announcement(s) in respect of the special dividend will be made by the Company as and when appropriate.

Reasons for the Transactions and Benefit to the Group

I. Industry Trends, Strategic Positioning and Future Development Plans of the Company

(i) Industry Trends

The consumption of grain and edible oil products continues to grow in China. According to the latest data from the National Bureau of Statistics, retail sales value of grain and edible oil products during the period between January and August 2017 reached RMB1,023.4 billion, up by approximately 10% compared to the same period in 2016. The market is expected to continue to grow in line with this trend. The Company is presented with multiple opportunities for its business development, including:

- With continuous and stable economic development of China, increasing household disposable income, notable consumption upgrade of rice, flour, oil and other products, as well as reduced sensitivity to prices, there is potential for the market to enhance its value add and profitability.
- Increased consumer focus on product quality and customised demand have led to industry trends focusing on premium quality, product diversification and branding. As such, key factors for a company to succeed in the grain and edible oil industry are branding, the ability to source and control raw material as well as the capability of optimising product portfolio.
- With growing urbanisation, improved lifestyle, and rapid development of catering, baking, and other food processing industries, grain and edible oil product suppliers who are able to provide one-stop solutions have a competitive advantage.
- The edible oil and oilseeds industry has matured with key players leading and forming the market trends. On the other hand, the consolidation process for the rice and flour industry is accelerating. As the market consolidates, key players have competitive edge and are expected to encounter greater development opportunities.

In summary, with increasing national income and improvement in consumer lifestyle, China has entered the important stage of continuously expanding consumer demand and accelerated consumption upgrade. Consumption upgrade from traditional products as well as demand for new products have provided broad development prospects. This has also promoted the brand-oriented consumption upgrade process for rice, flour, edible oil, and other consumer food products.

(ii) Strategic Positioning of the Company

The Company has established leading processing capacity for rice, flour and edible oil in China and is well positioned to capture the trend towards value-added consumption. To capture future growth opportunities in the industry, the Company is actively engaging in the expansion of downstream B2C branded consumer foods business. The Company is the second largest supplier of branded consumer-pack edible oil with an extensive sales network across China. The Company has also gradually established a leading position in packaged rice and flour after years of development. After the Disposal, the Company will focus on rice, flour and edible oil products, with the aim of repositioning itself as the leading integrated player for the grain and edible oil processing and branded consumer business.

(iii) Future Development Plans of the Company

Going forward, the Company will seize opportunities arising from food consumption upgrade by dedicating resources to accelerate the development of its grain and edible oil processing and branded consumer business with a view to reinforcing its market leadership. The Company's growth plan consists of enhancing competitiveness, with a focus on the key areas including brand and product development, cost control, and greater synergies between core businesses.

1. Continuous expansion of core businesses to strengthen its industry positioning

   For the oilseed processing business, the Company has an option to acquire the oilseed assets of COFCO Agri Limited under the 2007 Non-competition Deed. The option to acquire the relevant oilseed processing assets will also be granted to the Company when the consolidation of Chinatex Corporation and COFCO Group is completed. The INEDs will review on an annual basis whether to exercise the Company's rights under the 2007 Non-competition Deed and when considering whether to exercise the options, the Board will take into account the growth prospects, capability of the collaboration with its existing businesses and earning potential of the business of the Retained Interests. The Company will disclose by way of separate announcement its decisions as to whether to exercise options under the 2007 Non-competition Deed as required. Also, the Company plans to complete the roll out of non-genetically modified edible oil products to strengthen its leading position.

   For the wheat processing business, the Company will actively participate in the process of the market consolidation and strengthen its focus on quality with the aim to significantly increase processing capacity as well as enhance its industry position.

   For the rice processing and the malt processing business, with an existing leading position by capacity, the Company will develop related areas in which it does not already operate and continue to enlarge its competitive advantage through the domestic and international market.

The Company intends to increase its oilseed processing and wheat processing capacity in the next three to five years from the existing capacity of 11.73 million tonnes to 20 million tonnes or more, and, the existing capacity of 3.57 million tonnes to almost 10 million tonnes, respectively. Overall, the Company plans to increase its total oilseed, rice, wheat and other processing capacity from its current total capacity of 20.21 million tonnes to approximately 40 million tonnes in the next three to five years. The total capital expenditure for such capacity expansion is expected to exceed RMB10 billion.

2. Rapidly develop its consumer-pack business to increase its sales volume and market share

Branded, consumer-pack products have significantly higher gross margins compared to commodities. Assuming the Company completed the acquisition of 100% equity interests of COFCO Fortune Foods Sales & Distribution Co., Ltd. ("**COFCO Fortune**") on 1 January 2016 and its 2016 consolidated financial statement includes the financial information of COFCO Fortune, on a pro-forma basis, the revenue of the Company's consumer-pack products is approximately RMB13.6 billion and the gross profit margin is approximately 11.9%. The gross margin of consumer-pack products is higher than the Company's overall gross profit margin of approximately 7% in 2016. Among the sub-segments of the consumer-pack product sales, premium brands and high-end products tend to enjoy even higher margins.

In 2016, the Company's total sales volume of vegetable oil, rice and flour products reached 8 million tonnes. Including the sales volume of COFCO Fortune, the Company's annual sales volume of branded consumer-pack products has reached approximately 2 million tonnes. The Company intends to develop the consumer-pack products business and aims to double the sales volume of the consumer-pack products in the next three to five years. The key initiatives for developing this business include:

- Continue to integrate the entire value chain of the upstream and downstream business after its acquisition of COFCO Fortune and realise cost reduction across the supply chain;

- Respond to market and consumer demand and build a comprehensive product portfolio through research and development; Achieve a higher percentage of product sales from high value-added products such as healthy, distinctive, and customised products to capture opportunities from the fast expansion of the consumer market and the consumption upgrade trend in China;

- Horizontal integration across rice, flour and edible oil businesses to share resources such as production logistics, sales network, brand promotion and other aspects to create synergies.

II. Reasons for the Disposal

The disposal of the Target Group is a continuation of the Company's restructuring to focus on the grain and edible oil processing and branded consumer business in which it has competitive advantage, brands and scale.

Specifically, in the view of the management, the Disposal is favorable to the business of the Company and the Shareholders as a whole for the following reasons:

(i) Dedicate resources and focus on the grain and edible oil processing and branded consumer business

Government policies aimed at stimulating corn demand and corn destocking have intensified the market competition in the corn-processing industry, particularly Biochemical Business. Similarly for the Biofuel Business, the proposed target by National Development and Reform Commission, National Energy Bureau and Ministry of Finance issued in September 2017 to promote fuel ethanol to all of the provinces and cities by 2020 and the potential deregulation may open the market to more competition. Hence, the Company believes that significant capital commitment may be required to maintain current market position. As such, retaining the Target Business is not in line with the Company's core strategy to accelerate its development in its grain and edible oil processing and branded consumer business.

The Disposal is in line with the Company's strategic repositioning as a leading integrated player for the grain and edible oil processing and branded consumer business in China. The Disposal enables the Company to dedicate its resources to these core businesses and product portfolio and to further develop the downstream business and branded products with the aim of improving its competitive position. As mentioned above, the Company plans to increase its total oilseed, rice, wheat and other processing capacity from its current capacity of 20.21 million tonnes to approximately 40 million tonnes in the next three to five years. The total capital expenditure for such capacity expansion is expected to exceed RMB10 billion. For further details, please refer to the above "Future Development Plans of the Company".

(ii) Discernible difference between Target Business and the Company's other businesses in terms of business model

The Biochemical Business and the Biofuel Business do not produce any consumer-pack products. The business model, business drivers, risks, customers and market focus are different between the Target Business and the Company's core businesses of rice, flour and edible oil. The Target Business has maintained a high level of operational independence. As such, there is limited overlap or potential synergies in key competencies including research and development, sales channels expansion and customer base retention. The disposal of the Target Group will have no impact on the operations and management of the remaining businesses of the Company.

The Target Group mainly engages in upstream corn processing while its downstream, specialised product processing business remains relatively small. Should the Target Group wish to grow further and improve its profitability, it is necessary to adjust product mix, improve corn-to-starch conversion rate, and increase the portion of value-added biochemical products and specialised food additives, which require significant research and development investment and third party partnership or technological support.

(iii) Target Business is highly affected by government policies and volatility in crude oil price

The financial performance of the Target Business is highly dependent on government policies and subsidies which exercise significant influence on (1) demand; (2) corn procurement costs; (3) product pricing; and (4) profitability. There is uncertainty on the scale and continuation of such supportive government policies and subsidies. For the fuel ethanol products, the end market pricing is exposed to crude oil price volatility, to which product pricing is linked. This may lead to uncertainty in business performance. This pricing model is different from that of the grain and edible oil product business which contributes to the majority of the Company's total revenue. The Company believes that the disposal of the Target Group will reduce financial performance volatility.

(iv) Reduce competition with other COFCO Group's subsidiaries

The Disposal will remove potential competition issues between the Company and other subsidiaries operating in similar industries within the COFCO Group (other than the Company). This will reduce operational and compliance costs.

(v) Deleverage and optimise the capital structure

The proceeds from the Disposal provide the Company with financial resources for strategic development and brand development in the future, and for partial repayment of certain bank borrowings to optimise capital structure. After the Disposal, the Company will have a more stable financial position and it will have more flexibility to pursue strategic initiatives and to raise additional capital to finance potential investment opportunities in the future. Assuming the Disposal were to take place on 30 June 2017, the gearing ratio which is calculated by net debt divided by the equity attributable to shareholders, would have reduced from approximately 65.3% to approximately 28.1%.

In light of the above, the Directors (other than the INEDs, whose views and opinions will be included in the circular to be despatched to the Shareholders) believes that the Disposal is in the best interest of the Company and the Shareholders as a whole to dispose the Target Group.

Listing Rules Implication

As COFCO is the controlling shareholder of the Company as defined under the Listing Rules and the Purchaser is a wholly-owned subsidiary of COFCO, the Purchaser is a connected person of the Company. As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Disposal are more than 25% but all of such applicable percentage ratios are less than 75%, the Disposal therefore constitute major and connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Directors' Views

The Directors (other than the INEDs, whose views and opinions will be included in the circular to be despatched to the Shareholders) consider that though the Disposal is not in the ordinary and usual course of business of the Company, the basis for determining the consideration of the Disposal is fair and reasonable, the terms of the Sale and Purchase Agreement and the Loan Assignment Deed are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the Sale and Purchase Agreement, the Loan Assignment Deed and the transactions contemplated thereunder. The Independent Board Committee, taking into account the recommendations of the IFA, will advise the Independent Shareholders on the matters under Rule 14A.40 of the Listing Rules.

According to the articles of association of the Company, only the INEDs participated in the voting for approving the Sale and Purchase Agreement and the Loan Assignment Deed, and none of them has a material interest in the transactions contemplated thereunder.

PROPOSED AMENDMENTS TO THE NON-COMPETITION DEED

Background of the Proposed Amendments

COFCO, COFCO (HK) and the Company entered into the 2007 Non-competition Deed on 16 February 2007, pursuant to which each of COFCO and COFCO (HK) undertook that it would not, and would procure that its subsidiaries (other than the Group) will not, at any time, either on its own behalf or as agent of any person, directly or indirectly, be employed or otherwise engaged or interested in any capacity (whether for reward or otherwise) in any business which competes with the Restricted Business or any part of it in the Restricted Territory, provided that this restriction shall not operate to prohibit COFCO or COFCO (HK) from:

(a) holding such interest, whether directly or indirectly, as Retained Interests; or

(b) holding shares in the aggregate up to 5 percent of the issued share capital of any competing company the share of which are listed or dealt in on any stock exchanges.

Pursuant to the 2007 Non-competition Deed, certain competing businesses as at the listing of the Company were allowed to be owned by COFCO, provided that an option to acquire each of such businesses was given to the Company. Among the Retained Interests, an option of the Company to acquire COFCO's interests in COFCO Biochemical (Anhui) Co., Ltd. which was considered as a Restricted Business, as it produces biofuel and biochemical products.

Any decision as to whether the Company should exercise the COFCO Biochemical (Anhui) Option should be voted on solely by INEDs and be decided by majority vote of the INEDs. Following the Company's listing on the Stock Exchange, the INEDs conducted review of this matter on an annual basis. As of the date of this announcement, no final and definitive decision has been made as to whether the Company will exercise the COFCO Biochemical (Anhui) Option by the INEDs.

Except for the Chengdu Workshop, the Company will dispose all its Target Business, which are operated by the Target Group, to the Purchaser pursuant to the Sale and Purchase Agreement and Loan Assignment Deed. The Chengdu Workshop will be retained by the Company because there are practical difficulties to carve out the Chengdu Workshop from the Chengdu Industrial Park given that there are a number of shared facilities (such as electricity, sewage, common area, etc) which is now also being used by the Company for its operations other than the Target Business. Also, the net profit of the Chengdu Workshop is approximately RMB1 million and its revenue represents only approximately 3.1% of the revenue of the Target Group for the six months ended 30 June 2017.

Upon Completion, COFCO and its associates will directly or indirectly engage, operate or participate in the Target Business through the Target Companies as its subsidiaries. In light of such, the Company, COFCO and COFCO (HK) proposed to enter into the 2017 Non-competition Deed to the effect that the Proposed Amendments shall be made to the 2007 Non-competition Deed.

In considering the Proposed Amendments, the Board (excluding the INEDs who will give their recommendation after taking into consideration the advice of the IFA) took into account of the following factors:

– the 2007 Non-competition Deed was signed before the Company's initial public offering in 2007. The scope of "Restricted Business" in the 2007 Non-competition Deed was determined based on the scope of the core business of the Company at the time of signing;

– upon Completion, the core business of the Company will no longer include the Target Business;

– it would be impractical for COFCO or COFCO (HK) to continue to comply with the original scope of the Restricted Business under the 2007 Non-competition Deed, given that the Target Business will be operated by COFCO Group (other than the Group) upon Completion;

– the Company will continue to benefit from other protections provided under 2007 Non-Competition Deed (as amended and replaced by the 2017 Non-competition Deed) pursuant to which, COFCO, COFCO (HK) and their respective associates will still be obliged to, inter alia, not to directly or indirectly, carry on or engage or be interested in the amended scope of Restricted Business (other than the Target Business);

– the Disposal and Proposed Amendments will be inter-conditional. Pursuant to the articles of association of the Company, only INEDs will be vote in relation to both matters and both matters are subject to Independent Shareholders' approval.

The 2017 Non-competition Deed

COFCO, COFCO (HK) and the Company entered into the 2017 Non-competition Deed on 23 October 2017, pursuant to which, the biofuel and biochemical business shall be excluded from the scope of Restricted Business and the COFCO Biochemical (Anhui) Option shall be removed from the scope of the Retained Interests under the 2007 Non-competition Deed.

The details of the Proposed Amendments are set out below:

(i) Clause 1(1.1) – Definition of "Restricted Business"

To delete "biofuel and biochemical business"

(ii) Schedule – "Retained Interests"

To delete: "e) 20.74% share interest in Anhui Fengyuan Bio-chemical Co., Ltd."

After the Proposed Amendments, the COFCO Biochemical (Anhui) Option will no longer be in effect and the Company will not need to continue to review COFCO Biochemical (Anhui) Option on an annual basis.

The 2017 Non-competition Deed is conditional upon, among other things, the approval of the Independent Shareholders at the EGM and the Completion of the Disposal.

Directors' Views

In light of the reasons stated in the section headed "Background of the Proposed Amendments" above, the Directors (excluding the INEDs who will give their recommendation after taking into consideration the advice of the IFA) consider that though the 2017 Non-competition Deed is not in the ordinary and usual course of business of the Company, is entered into on normal commercial terms, is fair and reasonable and is in the interest of the Company and its Shareholders as a whole. The Proposal Amendments is conditional on the Completion of the Disposal.

According to the articles of association of the Company, only INEDs participated in the voting for approving the 2017 Non-competition Deed and the Proposed Amendments, and none of them has a material interest in the transaction contemplated thereunder.

Listing Rules Implication

As COFCO is the controlling shareholder of the Company as defined under the Listing Rules, and COFCO (HK) is a wholly-owned subsidiary of COFCO, each of COFCO and COFCO (HK) is a connected person of the Company. The 2017 Non-competition Deed constitute connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION ON THE PARTIES

The Group

The Group is a leading producer and supplier of processed agricultural products in the PRC. It offers a diverse range of products to its customers in and outside the PRC and it enjoys market leading positions in the majority of its businesses including oilseeds processing, biochemical and biofuel, rice processing and trading, wheat processing and brewing materials.

COFCO

COFCO is a state-owned company in the PRC with business interest in agricultural commodities trading, agricultural products processing, food and beverages, hotel management, real estate, logistics and financial services.

COFCO (HK)

COFCO (HK) is a limited liability company incorporated in Hong Kong. It is a controlling shareholder of the Company and a directly wholly-owned subsidiary of COFCO. It is an investment holding company.

Full Extent

Full Extent Group Limited is a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company. It is an investment holding company.

COFCO Bio-chemical Investment

COFCO Bio-chemical Investment Co., Ltd. is a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of COFCO. It is an investment holding company.

GENERAL INFORMATION

The Company will convene an EGM for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement, the Loan Assignment Deed, the 2017 Non-competition Deed and the transactions contemplated thereunder. The voting at the EGM will be taken by poll. COFCO and its associates will abstain from voting at the EGM regarding the Sale and Purchase Agreement, the Loan Assignment Deed and the 2017 Non-competition Deed.

The Independent Board Committee has been formed to advise and provide recommendation to the Independent Shareholders on the Transactions and Platinum Securities Company Limited has been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in this regard. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Independent Board Committee has any material interest in the Sale and Purchase Agreement, the Loan Assignment Deed, the 2017 Non-competition Deed and the transactions contemplated thereunder.

A circular containing, among other things, (1) further details of the Sale and Purchase Agreement, the Loan Assignment Deed and the 2017 Non-competition Deed, (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 EGM, is expected to be despatched to the Shareholders on or before 13 November 2017.

The Transactions contemplated under this announcement are subject to the satisfaction or waiver (where applicable) of a number of conditions and the Independent Shareholders' approval at the EGM and the distribution of special dividend is subject to approval of the Independent Shareholders in respect of the Transactions at the EGM and the Completion having taken place. Accordingly, the Transactions and the distribution of special dividend may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the Shares or other securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meanings ascribed to them below:

"2007 Non-competition Deed"	the non-competition deed entered into by COFCO, COFCO (HK) and the Company on 16 February 2007
"2017 Non-competition Deed"	the supplemental deed entered into by COFCO, COFCO (HK) and the Company on 23 October 2017 to amend the 2007 Non-competition Deed
"Agreements"	the Sale and Purchase Agreement and the Loan Assignment Deed
"associate(s)"	has the same meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors of the Company
"Business Days"	a day (excluding Saturdays, Sundays and public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours

"Chengdu Workshop"	the biochemical business operated by COFCO (Chengdu) Oils & Grains Industries Co., Ltd. (中糧(成都)糧油工業有限公司), which is a small workshop (車間) situated within the Chengdu Industrial Park
"Chengdu Industrial Park"	the Chengdu industrial park currently holds a warehouse and factories which process the rice, flour, oil, animal feed and corn starch products
"COFCO"	COFCO Corporation (中糧集團有限公司), a 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 and the ultimate controlling shareholder of the Company
"COFCO Biochemical"	COFCO Biochemical Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor
"COFCO Biochemical (Anhui) Option"	the option granted by COFCO to the Company to acquire COFCO's interests in COFCO Biochemical (Anhui) Co., Ltd., formerly known as Anhui BBCA Biochemical Co., Ltd. (安徽豐原生物化學股份有限公司) or Anhui Fengyuan Bio-chemical Co., Ltd.
"COFCO Biofuel"	COFCO Biofuel Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Vendor
"COFCO Group"	COFCO and its subsidiaries
"COFCO (HK)"	COFCO (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, a controlling shareholder of the Company and a directly wholly-owned subsidiary of COFCO
"Company"	China Agri-Industries Holdings Limited (中國糧油控股有限公司), a company incorporated in Hong Kong with limited liability and listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 606)
"Completion"	completion of the Disposal
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal"	the Equity Transfer and the Loan Assignment

"EGM"	the extraordinary general meeting to be held by the Company to consider, and if thought fit, to approve the Sale and Purchase Agreement, the Loan Assignment Deed, the 2017 Non-competition Deed and the transactions contemplated thereunder
"Equity Interests"	the 100% equity interests in the Target Companies indirectly held by the Company through the Vendor
"Equity Transfer"	the sale of the Equity Interests in the Target Companies by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollar, the lawfully currency of Hong Kong
"IFA"	Platinum Securities Company Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders with regard to the Sale and Purchase Agreement, the Loan Assignment Deed, the 2017 Non-competition Deed and the transactions contemplated thereunder
"Independent Board Committee"	the independent committee of the Board established for the purpose of reviewing the Sale and Purchase Agreement, the Loan Assignment Deed, the 2017 Non-competition Deed and the transactions contemplated thereunder
"Independent Shareholder(s)"	shareholders of the Company other than COFCO and its associates
"INED(s)"	the independent non-executive Directors of the Company
"Interim Financial Report"	the 2017 interim report of the Company for the six months ended 30 June 2017
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Loan Assignment"	the assignment of loan from Full Extent to COFCO Bio-chemical Investment pursuant to the Loan Assignment Deed. The loans are non-interest bearing shareholders' loan

"Loan Assignment Deed"	the deed of assignment entered into between Full Extent and COFCO Bio-chemical Investment on 23 October 2017 in respect of the Loan Assignment
"percentage ratios"	have the same meanings ascribed thereto under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China
"Proposed Amendments"	the proposed amendments in relation to exclude the biofuel and biochemical business from the original scope of Restricted Business and remove the COFCO Biochemical (Anhui) Option from the scope of the Retained Interests under the 2007 Non-competition Deed
"Purchaser", "Assignee" or "COFCO Bio-chemical Investment"	COFCO Bio-chemical Investment Co., Ltd, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of COFCO
"Restricted Business"	the business carried by the Group comprising biofuel and biochemical business, oilseeds processing, rice processing and trading, brewing materials and wheat processing as defined in the 2007 Non-competition Deed
"Restricted Territory"	any country in the world in which the Group carries on business from time to time as defined in the 2007 Non-competition Deed
"Retained Interests"	certain competing businesses which were allowed to be owned by COFCO as at the listing of the Company, provided that an option to acquire each of such businesses was given to the Company pursuant to the 2007 Non-competition Deed
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement entered into between the Vendor and the Purchaser on 23 October 2017 in relation to the Equity Transfer
"Share(s)"	the ordinary share(s) of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Business"	biofuel and biochemical business

"Target Companies"	COFCO Biofuel and COFCO Biochemical
"Target Group"	the Target Companies and their subsidiaries
"Transaction(s)"	the Disposal and the Proposed Amendments
"Vendor", "Assignor" or "Full Extent"	Full Extent Group Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company

By Order of the Board
China Agri-Industries Holdings Limited
YU Xubo
Chairman

Hong Kong, 23 October 2017

As at the date of this announcement, the Board comprises: Mr. YU Xubo as chairman of the Board and non-executive director; Mr. DONG Wei, Ms. YANG Hong and Mr. SHI Bo as executive directors; Mr. JIA Peng and Mr. MENG Qingguo as non-executive directors; and Mr. LAM Wai Hon, Ambrose, Mr. Patrick Vincent VIZZONE and Mr. ONG Teck Chye as independent non-executive directors.