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Yi Hua Holdings Limited

益華控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2213)

**MEMORANDUM OF UNDERSTANDING IN RESPECT OF
THE POSSIBLE ACQUISITION OF 51% OF
THE ENTIRE EQUITY INTERESTS IN
SHANDONG HONGFENG FLOUR CO., LTD.#**

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Board announces that on 3 August 2020 (after trading hours of the Stock Exchange), the Purchaser (a wholly-owned subsidiary of the Company) entered into the non-legally binding MOU with the Vendor in relation to the Possible Acquisition of 51% of the entire equity interests in the Target Company.

The Board wishes to emphasise that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As such, the Possible Acquisition may or may not proceed. If the Possible Acquisition is materialised, it may constitute a notifiable transaction on the part of the Company. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company. Further announcement(s) in respect of the Possible Acquisition will be made by the Company as and when appropriate in accordance with the Listing Rules.

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The principal terms of the MOU are set forth below:

MEMORANDUM OF UNDERSTANDING IN RESPECT OF THE POSSIBLE ACQUISITION

Date : 3 August 2020

Parties : 蕪湖舜禹信澤股權投資合夥企業（有限合夥）（Wuhu Shunyu Xinze Equity Investment Partnership (Limited Partnership)[#]), as vendor; and

中山市朗華模具塑料有限公司(Zhongshan Langhua Moulding Plastic Co., Ltd.[#]), a wholly-owned subsidiary of the Company, as purchaser.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owner is an Independent Third Party.

Major terms of the MOU

Subject matter

Under the MOU, it is proposed that the Purchaser (or its designated subsidiary) will acquire 51% of the entire equity interests in the Target Company from the Vendor.

Consideration

The consideration for the Possible Acquisition will be subject to further negotiation between the Vendor and Purchaser and to be finalised in the Formal Agreement. No deposit is required to be paid by the Purchaser under the MOU.

Termination

In the event that the Formal Agreement is not entered into between the Vendor and the Purchaser (or its designated subsidiary) on or before 31 August 2020 (or such later date as may be agreed between the Vendor and Purchaser), the MOU shall be terminated.

Exclusivity period

In consideration of the expenses to be incurred by the Purchaser in negotiation of the MOU and conducting the due diligence review, it is agreed that the Vendor will not, and will procure its directors, officers, employees, representatives and agents not to, directly or indirectly, during the period from the date of the MOU up to 31 August 2020 (or such later date as may be agreed between the Vendor and the Purchaser), to (i) solicit, initiate or encourage inquiries or offers from; or (ii) initiate or continue negotiations or discussions with or furnish any information to; (iii) enter into any agreement or statement of intent or understanding with, any person or entity (other than the Purchaser) in relation to (a) the Possible Acquisition; (b) the sale of any business or assets of the Target Company; and/or (c) approving the transfer of any equity interests of the Target Company or the entering into of any agreements or projects that involve subscription of any equity interests of the Target Company, injection of capital into the Target Company or transactions having similar effect.

Due diligence review

After the signing of the MOU, the Purchaser (and its advisers and agents) shall be entitled to access and review all the assets (including but not limited to all relevant licences and documents relating to land use rights) and affairs (including but not limited to legal and financial affairs etc.) of the Target Company (the “**Due Diligence Review**”). The Vendor shall, and shall procure its agents to, provide reasonable assistance to the Purchaser (and its advisers and agents) in this respect.

Formal Agreement

The Vendor and the Purchaser shall negotiate in good faith towards one another in ensuring that the Formal Agreement be entered into as soon as possible and in any event, on or before 31 August 2020 (or such later date as may be agreed by the Vendor and the Purchaser).

Conditions precedent

Completion of the Possible Acquisition is conditional upon the fulfillment of the following conditions precedent:

- (a) if necessary, the passing by the Shareholders at an extraordinary general meeting of the Company to be convened and held of ordinary resolution(s) to approve the Formal Agreement and the transactions contemplated thereunder;
- (b) the warranties to be given by the Vendor under the Formal Agreement remain true and accurate in all material respects, and not misleading;

- (c) the obtaining of a valuation report (in the form and substance satisfactory to the Purchaser (or its designated subsidiary)) issued by a firm of independent professional valuer appointed by the Purchaser (or its designated subsidiary) on the value of the properties owned by the Target Company;
- (d) the obtaining of a PRC legal opinion (in the form and substance satisfactory to the Purchaser (or its designated subsidiary)) issued by a PRC legal advisor appointed by the Purchaser (or its designated subsidiary) on the Target Company, the properties owned by the Target Company and the transactions contemplated under the Formal Agreement;
- (e) the Purchaser (or its designated subsidiary) being satisfied that there is no material adverse change on the Target Company since the date of the Formal Agreement; and
- (f) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Formal Agreement and the transactions contemplated thereunder having been obtained.

Binding effect

Save for the provisions relating to Due Diligence Review, termination of the MOU undertakings by the Vendor, fees, confidentiality, exclusivity and binding effects, the MOU does not have any legally binding effect.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE MOU

The Group is primarily engaged in the operation of department stores, which also includes operation of supermarkets, convenience stores and electrical appliances stores, in the PRC. Following various acquisitions from 2016 to 2018, the Group has also expanded its operations into property investment, property development and property management business.

As informed by the Vendor, the Target Company is a company engaged in the manufacture and sale of wheat flour and noodle products under its own well-recognized brands which are sold to supermarket chains and other retailers across 22 provinces in the PRC.

The Group has been seeking business development and investment opportunities from time to time to diversify its business operations and broaden the Group's source of income. As flour is one of the main ingredients used for producing staple food in Chinese culinary culture, the Directors consider that the demand and consumption for flour is relatively stable despite the impact of the uncertain global economy and the COVID-19 outbreak. The Group is considering the opportunity to collaborate with the Target Company to develop a new business of wholesale of flour products as well as the sale of the flour products of

the Target Company in the supermarkets of the Group. The Directors are optimistic with the development of the wholesale and retail of flour products. Leveraging on the expertise, customer base and business network of the Target Company, the Directors consider the Possible Acquisition, if materialised, will bring synergistic benefits to the Group and the Possible Acquisition represents an excellent opportunity for the Group to diversify its business, broaden its revenue base and enhance Shareholders' value. As such, the Directors consider the terms of the MOU are in the interests of the Company and the Shareholders as whole.

The Board wishes to emphasise that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As such, the Possible Acquisition may or may not proceed. If the Possible Acquisition is materialised, it may constitute a notifiable transaction on the part of the Company. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company. Further announcement(s) in respect of the Possible Acquisition will be made by the Company as and when appropriate in accordance with the Listing Rules.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Yi Hua Holdings Limited (益華控股有限公司), a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Formal Agreement”	the formal agreement which may or may not be entered into in relation to the Possible Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the non-legally binding memorandum of understanding dated 3 August 2020 and entered into between the Vendor and the Purchaser setting out the preliminary understanding in relation to the Possible Acquisition
“Possible Acquisition”	the possible acquisition of 51% of the entire equity interests in the Target Company by the Purchaser (or its designated subsidiary) as contemplated under the MOU
“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	中山市朗華模具塑料有限公司 (Zhongshan Langhua Moulding Plastic Co., Ltd.#), a company established in the PRC with limited liability, which is a wholly-owned subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	蕪湖舜禹信澤股權投資合夥企業 (有限合夥) (Wuhu Shunyu Xinze Equity Investment Partnership (Limited Partnership)#), a limited liability partnership established in the PRC and the ultimate beneficial owners of which are Independent Third Parties
“Target Company”	山東洪豐麵粉有限公司 (Shandong Hongfeng Flour Co., Ltd.#), a company established in the PRC with limited liability, which is owned as to 99.99% by the Vendor

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

The English translation of the Chinese names in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English names of such Chinese names.

By Order of the Board
Yi Hua Holdings Limited
Chen Jianren
Chairman and Executive Director

Hong Kong, 3 August 2020

As at the date of this announcement, the executive Directors are Mr. Chen Jianren, Mr. Fan Xinpei, Mr. Leung Wai Kwan and Mr. Wu Kai; the non-executive Directors are Mr. Chen Daren and Mr. Chen Wenhan; and the independent non-executive Directors are Mr. Tong I Tony, Mr. Chong Ning and Ms. Chan Man Sze.