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CHINA YURUN FOOD GROUP LIMITED

中國雨潤食品集團有限公司*

(Incorporated in the Bermuda with limited liability)

(Stock Code: 1068)

**CONTINUING CONNECTED TRANSACTION UNDER THE
PRODUCTS CONSIGNMENT AGREEMENT
AND**

**ADDITIONAL INFORMATION IN RELATION TO THE CONTINUING CONNECTED
TRANSACTIONS UNDER THE POULTRY PURCHASE FRAMEWORK AGREEMENT AND
THE PIG BLOOD PRODUCTS SUPPLY FRAMEWORK AGREEMENT**

THE PRODUCTS CONSIGNMENT AGREEMENT

The Board is pleased to announce that Nanjing Yurun Chain, an indirect wholly-owned subsidiary of the Company, has on 10 January 2020 entered into the Products Consignment Agreement with Nanjing Emporium Group pursuant to which Nanjing Emporium Group will sell Nanjing Yurun Chain's products (mainly gift sets for group purchase) on its behalf and Nanjing Yurun Chain will pay Nanjing Emporium Group the Consignment Fee for a term commencing on 10 January 2020 and ending on 31 December 2020.

Ms. Zhu Yuan, the executive Director of the Company, is a director of Nanjing Emporium Group. Also, as Ms. Zhu Yuan is the daughter of Mr. Zhu, she is therefore an associate of Mr. Zhu who has a material interest in the Products Consignment Agreement. Since Ms. Zhu Yuan has a material interest in the transactions contemplated under the Products Consignment Agreement, she has abstained from voting on the Board meeting approving such transactions.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. Nanjing Emporium Group, a company being owned and/or controlled by Mr. Zhu, is an associate of Mr. Zhu and is a connected person of the Company. The transactions contemplated under the Products Consignment Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules in respect of the transaction amount under the Products Consignment Agreement exceed 0.1%, but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Products Consignment Agreement are subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. PRODUCTS CONSIGNMENT AGREEMENT

The Board is pleased to announce that Nanjing Yurun Chain, an indirect wholly-owned subsidiary of the Company, has on 10 January 2020 entered into the Products Consignment Agreement with Nanjing Emporium Group pursuant to which Nanjing Emporium Group will sell Nanjing Yurun Chain's products (mainly gift sets for group purchase) on its behalf and Nanjing Yurun Chain will pay Nanjing Emporium Group the Consignment Fee for a term commencing on 10 January 2020 and ending on 31 December 2020.

The principal terms of the Products Consignment Agreement are described below:

Date : 10 January 2020

Parties : (i) Nanjing Emporium Group; and
(ii) Nanjing Yurun Chain.

Term : Commencing on 10 January 2020 and ending on 31 December 2020.

Principal Terms : Nanjing Emporium Group will sell Nanjing Yurun Chain's products on its behalf and Nanjing Yurun Chain will pay Nanjing Emporium Group the Consignment Fee.

Pricing basis : The Consignment Fee payable to Nanjing Emporium Group by Nanjing Yurun Chain shall be an amount representing approximately 20% of the sales amount of products sold by Nanjing Emporium Group. After deducting the Consignment Fee, the profit generated from the sale of products by the Group through this channel shall be no less than the profit generated from the sale of similar products by the Group to other independent third parties on normal commercial terms after arm's length negotiation during the relevant period.

It is expected that the highest amount of the Consignment Fee payable to Nanjing Emporium Group will not exceed RMB6,000,000 (equivalent to approximately HK\$6,700,000).

The Consignment Fee is considered by Nanjing Yurun Chain to be within a reasonable range of fees in the market for a similar scope of services.

Delivery and payment arrangements : Nanjing Yurun Chain shall deliver its products to Nanjing Emporium Group for selling. Nanjing Emporium Group shall settle the payment for the products according to the actual sales amount of such food products and after deduction of the Consignment Fee receivable by Nanjing Emporium Group. Nanjing Emporium Group shall nonetheless not be obligated to pay for any unsold or returned products.

Each settlement period shall be 30 days. Nanjing Emporium Group shall pay the settlement amount as set out in the invoices issued by Nanjing Yurun Chain by way of wire transfers.

Historical figure

There was no prior arrangement between Nanjing Emporium Group and Nanjing Yurun Chain with respect to products consignment, as such, no historical figure is available in this regard.

Proposed annual cap

The annual cap for the Consignment Fee that would be incurred by the Group in the continuing connected transactions under the Products Consignment Agreement during its subsistence is RMB6,000,000 (equivalent to approximately HK\$6,700,000).

The annual cap under the Products Consignment Agreement is determined with reference to the anticipated sales volume of the products to be sold by Nanjing Emporium Group and the corresponding Consignment Fees to be paid to Nanjing Emporium Group during the term of the Products Consignment Agreement.

REASONS FOR ENTERING INTO PRODUCTS CONSIGNMENT AGREEMENT

The Group is one of the leading meat product suppliers in the PRC which offers a wide range of raw pork (chilled and frozen) and processed meat with a particular focus on pork products. Nanjing Emporium Group is renowned for its department store retail business. It is expected that the Products Consignment Agreement would allow the Group to place its products in the wholesale and retail platforms of Nanjing Emporium Group for additional exposure to the buying market which is beneficial to the Group.

INTERNAL CONTROL PROCEDURES

Regarding the Products Consignment Agreement, the Directors are of the view that the Company has implemented adequate internal control procedures and steps when carrying out the continuing connected transactions contemplated under the agreement.

To protect the interests of the Company and the shareholders as a whole, the Company has adopted and will continue to carry out the following internal control measures:

- (a) the processed meat department will consider the Group's brand image, product positioning, brand image of agency channels and target customers so as to select the suitable agents;
- (b) the staff of the processed meat department will compare the consignment fees received by other similar type of agents who sell similar products (by making inquiries to at least two independent third parties), and be responsible to negotiate the Consignment Fee on an arm's length basis. The Consignment Fee will then be approved by the person in charge of such department to ensure that after deducting the Consignment Fee, the profit generated from the sale of products by the Group through this channel shall be no less than the profit generated from the sale of similar products by the Group to other independent third parties on normal commercial terms after arm's length negotiation during the relevant period. In addition, the Consignment Fee received by the connected persons should not be higher than the consignment fees received by independent third parties if the Group enjoys similar profitability level from the transaction;
- (c) after considering the sales efficiency and performance of the agents, the processed meat department will regularly (on monthly or quarterly basis subject to the actual circumstances) review and adjust the Consignment Fee if and when appropriate;

- (d) the Group will continuously monitor the continuing connected transactions on a monthly basis to ensure that the total transaction amount will not exceed the annual cap. If the accumulated transaction amount is close to the annual cap, the management of the Company will renew the annual cap or terminate the transaction;
- (e) the Company's external auditors will conduct an annual review of the transactions contemplated under the Products Consignment Agreement to ensure that the transaction amounts fall within the annual cap and that such transactions are conducted in accordance with the terms set out in the agreement;
- (f) the independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Products Consignment Agreement to ensure that the Company has complied with the internal approval procedures, the terms of the Products Consignment Agreement and the relevant requirements under the Listing Rules; and
- (g) The internal audit function of Group will, from time to time, review and conduct sample checks on the relevant transaction documents, and ensure that the pricing basis and internal control procedures are complied with.

DIRECTORS' CONFIRMATION

The Directors (including the independent non-executive Directors) are of the opinion that the continuing connected transactions under the Products Consignment Agreement will continue to be carried out in the ordinary and usual course of business of the Group, and on normal commercial terms which (including the annual caps) are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

Ms. Zhu Yuan, the executive Director of the Company, is a director of Nanjing Emporium Group. Also, as Ms. Zhu Yuan is the daughter of Mr. Zhu, she is therefore an associate of Mr. Zhu who has a material interest in the Products Consignment Agreement. Since Ms. Zhu Yuan has a material interest in the transactions contemplated under the Products Consignment Agreement, she has abstained from voting on the Board meeting approving such transactions.

Save as disclosed above, none of the Directors has a material interest in the Products Consignment Agreement and has abstained from voting on the Board meeting approving such transactions.

INFORMATION ON THE PARTIES

The Company

The principal activity of the Company is investment holding, and the Group is one of the leading meat product suppliers in the PRC primarily engaging in the slaughtering, production, and sale of chilled and frozen pork and processed meat products with a particular focus on pork products in the PRC.

Nanjing Yurun Chain

Nanjing Yurun Chain, a company incorporated in the PRC, is an indirect wholly-owned subsidiary of the Company. It is principally engaged in wholesale and retail business.

Nanjing Emporium Group

Nanjing Emporium Group is a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange. It is principally engaged in the department store retail business and real estate development business. As at the date of this announcement, Nanjing Emporium Group is held as to 41.51% interest by Mr. Zhu, 14.50% interest by Jiangsu Dihua, a company controlled by Mr. Zhu, and the remaining 43.99% interest by other shareholders of Nanjing Emporium Group.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Zhu is the beneficial owner who holds the single largest percentage interest in Nanjing Emporium Group, and other shareholders of Nanjing Emporium Group are independent third parties.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, Mr. Zhu is a substantial shareholder of the Company who is indirectly interested in approximately 25.82% of the issued shares of the Company, and is therefore a connected person of the Company under the Listing Rules. Nanjing Emporium Group, a company being owned and/or controlled by Mr. Zhu, is an associate of Mr. Zhu and is a connected person of the Company. The transactions contemplated under the Products Consignment Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios as set out in Rule 14.07 of the Listing Rules in respect of the transaction amount under the Products Consignment Agreement exceed 0.1%, but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Products Consignment Agreement are subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. ADDITIONAL INFORMATION IN RELATION TO THE CONTINUING CONNECTED TRANSACTIONS UNDER THE POULTRY PURCHASE FRAMEWORK AGREEMENT AND PIG BLOOD PRODUCTS SUPPLY FRAMEWORK AGREEMENT

Reference is made to the Company's announcement dated 13 December 2019 in relation to the Poultry Purchase Framework Agreement and Pig Blood Products Supply Framework Agreement. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement. The Company would like to provide further information in relation to the continuing connected transactions contemplated under the Poultry Purchase Framework Agreement and Pig Blood Products Supply Framework Agreement.

Information about the Poultry Selling Entities and the Pig Blood Products Purchasing Entities

As mentioned in the Announcement, the Poultry Selling Entities and the Pig Blood Products Purchasing Entities are entities owned and/or controlled by Mr. Zhu and his associates.

As at the date of this announcement, the Poultry Selling Entities comprise Jiangsu Yurun Meat Group and Nanjing Yurun Poultry. Jiangsu Yurun Meat Group is held as to 73.07% interest by Mr. Zhu, 3.85% interest by Ms. Wu and the remaining 23.08% interest by an independent third party. Nanjing Yurun Poultry is held as to 75.70% interest by Mr. Zhu, 3.47% interest by Ms. Wu and the remaining 20.83% interest by an independent third party. As such, Mr. Zhu is deemed to hold 76.92% interest in Jiangsu Yurun Meat Group and 79.17% interest in Nanjing Yurun Poultry, and Mr. Zhu is the beneficial owner who holds the single largest percentage interest in Poultry Selling Entities.

As at the date of this announcement, the Pig Blood Products Purchasing Entities comprise Yurun Biotechnology Tonghai, Tongcheng Yurun Biotechnology and Heishan Yurun. Yurun Biotechnology Tonghai is held as to 74.42% interest by Mr. Zhu, 3.66% interest by Ms. Wu and the remaining 21.92% interest by an independent third party. Each of Tongcheng Yurun Biotechnology and Heishan Yurun is held as to 74.15% interest by Mr. Zhu, 3.70% interest by Ms. Wu and the remaining 22.15% interest by an independent third party. As such, Mr. Zhu is deemed to hold 78.08% interest in Yurun Biotechnology Tonghai and 77.85% interest in each of Tongcheng Yurun Biotechnology and Heishan Yurun, and Mr. Zhu is the beneficial owner who holds the single largest percentage interest in Pig Blood Products Purchasing Entities.

Internal control

Internal control procedure for procurement

As mentioned in the Announcement, the price for the sourcing of raw poultry meat and poultry products shall be determined on an arm's length basis with reference to such survey on information regarding local markets of the Group as conducted by the procurement and management departments of the Group, such price shall not be higher than the average price paid by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The final purchase price of the raw poultry meat and poultry products are also subject to specific approval by the relevant head of departments.

To ensure that the transactions contemplated under the Poultry Purchase Framework Agreement are fair and reasonable and on normal commercial terms, the Company has adopted the following internal control procedures for all procurement of raw materials of the Group:

- (a) The production department of each production site shall assess and determine the procurement volume of each raw materials based on the monthly consumption level after taking into account the existing inventory level of each raw materials. Upon approval by the relevant department head of the production site, the procurement plan will be submitted to the procurement department.
- (b) Upon checking and reviewing the submitted figures and basis of the procurement plan by the procurement department, the procurement department will confirm and devise the final monthly procurement plan.
- (c) Based on the procurement plan, the procurement department will obtain price quotations from at least three suppliers (at least two suppliers would be independent third parties) for the supply of the same or similar type of products required by the Group and it will then consolidate the information including historical procurement amount, delivery efficiency, service standard and make comparison for internal assessment. As such, in the case of a connected transaction, the Group would be able to ensure that its purchase price with the connected person is no less favourable than that with independent third parties.
- (d) Procurement assessment will be conducted by designated personnel within the procurement department and a recommendation will be presented to the procurement manager and the general manager of the supplies department for further determination. The determination will be submitted to the general manager of the business department for confirmation and the general manager office will conduct the final assessment based on market comparables. Upon completion of the above procedures, the procurement department will then be allowed to place a purchase order.

- (e) Each purchase order will only become effective with the signature of the relevant production site's manager. The relevant purchase order will also be sent to the procurement department, business department and the general manager office for record.
- (f) The internal audit function of Group will, from time to time, review and conduct sample checks on the purchase amounts under the purchase orders, and ensure that the pricing basis and internal control procedures are complied with.

Internal control procedure for sales

As mentioned in the Announcement, the price for the supplying of pig blood products shall be determined on an arm's length basis with reference to such survey on information regarding local markets of the Group as conducted by the sales and management departments of the Group, such price shall not be higher than the average price supplied by the Group to other independent third parties on an arm's length basis and normal commercial terms for the same type of products during the relevant period. The final sales price of the pig blood products are also subject to specific approval by the relevant head of departments.

To ensure that the transactions contemplated under the Pig Blood Products Supply Framework Agreement are fair and reasonable and on normal commercial terms, the Company has adopted the following internal control procedures for the sales of pig blood products:

- (a) As pig blood products is a by-product of the slaughtering business of the Group, the Group will first determine the production volume based on the demand of buyers and the slaughtering volume in their neighbouring slaughtering sites.
- (b) The fresh products business department will regularly review the sales price of pig blood products with reference to external information about the local market where the slaughtering house of the Group is situated and make corresponding adjustments when there is any change in market price in a timely manner; and the sales price to be offered to the connected persons (i.e. buyers) is required to be approved and determined by the person in charge of such department to ensure that the relevant price is no less than that to be offered to independent third parties.
- (c) The internal audit function of Group will, from time to time, review and conduct sample checks on the sales amounts under the sales orders, and ensure that the pricing basis and internal control procedures are complied with.

DEFINITIONS

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

“Announcement”	the Company's announcement dated 13 December 2019 in relation to the Poultry Purchase Framework Agreement and Pig Blood Products Supply Framework Agreement
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China” or the “PRC”	the People's Republic of China (except Taiwan, the Hong Kong Special Administrative Region and the Macau Special Administrative Region) for the purpose of this announcement

“Company”	China Yurun Food Group Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consignment Fee”	the consignment fee payable to Nanjing Emporium Group by Nanjing Yurun Chain, representing approximately 20% of the sales amount of products sold by Nanjing Emporium Group pursuant to the Products Consignment Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Heishan Yurun”	黑山雨潤生物蛋白製品有限公司 (Heishan Yurun Biological Protein Products Company Limited*), a company incorporated in the PRC and controlled by Mr. Zhu
HK\$	Hong Kong Dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“independent third party(ies)”	party(ies) that is/are not connected persons of the Company
“Jiangsu Dihua”	江蘇地華實業集團有限公司 (Jiangsu Dihua Industrial Group Co. Ltd*), a company incorporated in the PRC and controlled by Mr. Zhu
“Jiangsu Yurun Meat Group”	江蘇雨潤肉類產業集團有限公司 (Jiangsu Yurun Meat Group Limited*), a company incorporated in the PRC and controlled by Mr. Zhu
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhu”	Zhu Yicai, a substantial shareholder, a former executive director of the Company, and a connected person of the Company
“Ms. Wu”	Wu Xueqin, the spouse of Mr. Zhu
“Nanjing Emporium Group”	南京中央商場(集團)股份有限公司 (Nanjing Emporium (Group) Co. Ltd*), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange. It is principally engaged in the department store retail business and real estate development business
“Nanjing Yurun Chain”	南京雨潤連鎖經營管理有限公司 (Nanjing Yurun Chain Management Co. Ltd*), a company incorporated in the PRC, an indirect wholly-owned subsidiary of the Company which is principally engaged in wholesale and retail business
“Nanjing Yurun Poultry”	南京雨潤禽類產業集團有限公司 (Nanjing Yurun Poultry Group Limited*) a company incorporated in the PRC and controlled by Mr. Zhu

“Products Consignment Agreement”	the agreement dated 10 January 2020 entered into between Nanjing Emporium Group and Nanjing Yurun Chain in relation to the selling of Nanjing Yurun Chain’s Products by Nanjing Emporium Group on behalf of Nanjing Yurun Chain
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Tongcheng Yurun Biotechnology”	桐城市雨潤生物科技有限公司 (Tongcheng Yurun Biotechnology Company Limited*), a company incorporated in the PRC and controlled by Mr. Zhu
“Yurun Biotechnology Tonghai”	雨潤生物科技（東海）有限公司 (Yurun Biotechnology (Tonghai) Company Limited*), a company incorporated in the PRC and controlled by Mr. Zhu
“%”	per cent

By Order of the Board
Zhu Yuan
Chairman

The PRC, 10 January 2020

As at the date of this announcement, the executive directors of the Company are Zhu Yuan and Yang Linwei; the independent non-executive directors are Gao Hui, Chen Jianguo and Miao Yelian.

For the purpose of this announcement, unless otherwise specified, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB0.893593 to HK\$1.

** For identification purposes only*