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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 TRANSACTIONS
BEEF PRODUCTS PURCHASE FRAMEWORK AGREEMENT**

THE BEEF PRODUCTS PURCHASE FRAMEWORK AGREEMENT

The Board is pleased to announce that the Company has on 21 May 2020 entered into the Beef Products Purchase Framework Agreement with Mengcheng Hongjian Food for the sourcing of beef products from the Selling Entities. The proposed Annual Caps for the financial years ending 31 December 2020, 2021 and 2022 are RMB25 million, RMB40 million and RMB40 million (equivalent to approximately HK\$27.31 million, HK\$43.69 million and HK\$43.69 million), respectively.

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. Mengcheng Hongjian Food, being an entity owned and/or controlled by Mr. Zhu and his associates, is an associate of Mr. Zhu and is a connected person of the Company. The transactions contemplated under the Beef Products Purchase Framework Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed Annual Caps of the Beef Products Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Beef Products Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE BEEF PRODUCTS PURCHASE FRAMEWORK AGREEMENT

The Board is pleased to announce that the Company has on 21 May 2020 entered into the Beef Products Purchase Framework Agreement with Mengcheng Hongjian Food for the sourcing of beef products from the Selling Entities.

The principal terms of the Beef Products Purchase Framework Agreement are described below:

Date	:	21 May 2020
Parties	:	(i) the Company (for and on behalf of the members of the Group), as the buyer; and (ii) Mengcheng Hongjian Food, as the seller.
Term	:	Commencing on 21 May 2020 and ending on 31 December 2022.
Principal terms	:	The Selling Entities shall supply beef products to the Group for its sales.
Pricing	:	<p>The price for the sourcing of beef products shall be determined on an arm's length basis, and negotiated between the parties to the Beef Products Purchase Framework Agreement with reference to the market price at the time the purchase order is placed, provided that 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.</p> <p>The Group may, before it places any purchase order with the Selling Entities pursuant to the Beef Products Purchase Framework Agreement, obtain price quotations from or transaction information from other suppliers who are independent third parties for the supply of the same or similar type of products required by the Group. If the Group proceeds to place a purchase order with any of the Selling Entities for beef products, the price and other conditions at which such products are to be offered by the Selling Entities shall be no less favourable than those offered by the independent third parties to the Group.</p>
Delivery and payment arrangements	:	The buyer shall send a purchase order to the seller specifying the quantity and types of beef products required for the coming month not less than seven days prior to the end of the month. The price of the beef products shall be determined when the purchase order is submitted. The buyer shall settle the payment within one month after the beef products are delivered. The buyer shall notify the seller two days prior to the intended date of delivery in respect of the delivery arrangement.

HISTORICAL PURCHASE AMOUNT AND THE PROPOSED ANNUAL CAPS

No historical transaction amount is available since the Group has not entered into any similar purchase agreement with Mengcheng Hongjian Food and the Selling Entities previously in respect of the purchase of the beef products.

The proposed Annual Caps for the financial years ending 31 December 2020, 2021 and 2022 are RMB25 million, RMB40 million and RMB40 million (equivalent to approximately HK\$27.31 million, HK\$43.69 million and HK\$43.69 million) respectively.

The proposed Annual Caps are determined with reference to the anticipated demand for beef products of the Group based on the variety of products offered by the Group and its business growth and the anticipated inflation.

REASONS FOR ENTERING INTO THE BEEF PRODUCTS PURCHASE FRAMEWORK 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. Mengcheng Hongjian Food is a renowned beef products supplier in the PRC. The Selling Entities are stable and reliable suppliers of quality beef products. It is expected that the Beef Products Purchase Framework Agreement would allow the Group to source quality beef products from Mengcheng Hongjian Food and sell the products through the Group's established sales network within the PRC. It is further expected that the Group's market share of beef products would be expanded. The Directors believe that the Beef Products Purchase Framework Agreement provides a cost-effective and efficient arrangement to source beef products from the Selling Entities which is beneficial to the shareholders of the Group as a whole.

INTERNAL CONTROL PROCEDURES

Regarding the Beef Products Purchase Framework 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 suppliers;
- (b) the staff of the processed meat department will compare the purchase price payable to other similar type of suppliers who sell similar products, and be responsible to negotiate the purchase price on an arm's length basis. The purchase price will then be approved by the person in charge of such department to ensure that the purchase price payable to the connected persons through this channel of procurement should not be higher than the purchase price payable to independent third parties which sell same type of products to the Group based on normal commercial terms after arm's length negotiation during the relevant period;
- (c) the Group will continuously monitor the continuing connected transactions on a monthly basis to ensure that the total transaction amount will not exceed the proposed Annual Cap. If the accumulated transaction amount is close to the proposed Annual Cap, the management of the Company will renew the proposed Annual Cap or suspend the transaction, as appropriate;
- (d) the Company's external auditors will conduct an annual review of the transactions contemplated under the Beef Products Purchase Framework Agreement to ensure that the transaction amounts fall within the proposed Annual Cap and that such transactions are conducted in accordance with the terms set out in the agreement;
- (e) the independent non-executive Directors will conduct an annual review of the status of the transactions contemplated under the Beef Products Purchase Framework Agreement to ensure that the Company has complied with the internal approval procedures, the terms of the Beef Products Purchase Framework Agreement and the relevant requirements under the Listing Rules; and
- (f) 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 Beef Products Purchase Framework Agreement will be carried out in the ordinary and usual course of business of the Group, and on normal commercial terms, which (including the proposed 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, an executive Director of the Company, is the daughter of Mr. Zhu, she is therefore an associate of Mr. Zhu who has a material interest in the Beef Products Purchase Framework Agreement. Since Ms. Zhu Yuan has a material interest in the transactions contemplated under the Beef Products Purchase Framework 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 Beef Products Purchase Framework Agreement and has abstained from voting on the board meeting approving the aforesaid 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.

Mengcheng Hongjian Food

Mengcheng Hongjian Food is a company incorporated in the PRC. Mengcheng Hongjian Food, together with its subsidiaries from time to time, being the Selling Entities, are principally engaged in meat processing, manufacturing and sales of beef products. As at the date of this announcement, Mengcheng Hongjian Food is effectively held as to (i) 63.57% interest by 雨潤控股集團有限公司 (Yurun Holding Group Co. Ltd*), a company wholly-owned and controlled by Mr. Zhu; (ii) 10.84% interest by Mr. Zhu; (iii) 3.66% interest by Ms. Wu Xueqin, the spouse of Mr. Zhu; and (iv) 21.93% interest by 重慶國際信託有限公司 (Chongqing International Trust Co. Ltd*), being an independent third party. As such, Mr. Zhu is deemed to hold 78.07% interest in Mengcheng Hongjian Food.

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 Mengcheng Hongjian Food

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. Mengcheng Hongjian Food, being an entity owned and/or controlled by Mr. Zhu and his associates, is an associate of Mr. Zhu and is a connected person of the Company. The transactions contemplated under the Beef Products Purchase Framework Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed Annual Caps of the Beef Products Purchase Framework Agreement exceed 0.1% but are less than 5%, the transactions contemplated under the Beef Products Purchase Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Annual Caps”	the proposed annual caps of the transaction amounts of each of the three financial years ending 31 December 2022 under the Beef Products Purchase Framework Agreement, details of which are set out in the paragraph headed “Historical Purchase Amount and the Proposed Annual Caps” in this announcement
“associates”	has the meaning ascribed to it in the Listing Rules
“Beef Products Purchase Framework Agreement”	the agreement dated 21 May 2020 entered into between the Company and Mengcheng Hongjian Food in relation to the sourcing of beef products by the Group from the Selling Entities
“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)
“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 in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengcheng Hongjian Food”	Mengcheng Hongjian Food Co., Ltd (蒙城宏健食品有限公司), a company incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates
“Mr. Zhu”	Mr. Zhu Yicai, a substantial shareholder and a former executive director of the Company, and a connected person of the Company
“RMB”	Renminbi, the lawful currency of the PRC

“Selling Entities”

Mengcheng Hongjian Food and its subsidiaries from time to time, including but not limited to 安徽宏健食品有限公司 (Auhui Hongjian Food Co., Ltd*), being entities incorporated in the PRC owned and/or controlled by Mr. Zhu and his associates, which are principally engaged in the business of meat processing, manufacturing and sales of beef products

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“substantial shareholder”

has the meaning ascribed to it in the Listing Rules

“%”

per cent

By Order of the Board

Zhu Yuan

Chairman and Chief Executive Officer

The PRC, 21 May 2020

As at the date of this announcement, the executive Directors of the Company are Zhu Yuan (chairman and chief executive officer) 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 RMB0.91549 to HK\$1.

** For identification purposes only*