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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)

DISCLOSEABLE TRANSACTION

DISPOSAL OF LAND AND PROPERTIES IN RELATION TO LAND RESUMPTION

THE LAND RESUMPTION

On 30 September 2020, Gaoping Xinsheng, an indirect wholly-owned subsidiary of the Company entered into the Land Resumption Agreement with Gaoping Housing Bureau, pursuant to which, Gaoping Housing Bureau will resume, and Gaoping Xinsheng will surrender, the Resumed Land together with the Properties in consideration of a total compensation of RMB135,486,000 (equivalent to approximately HK\$154,028,000) payable by Gaoping Housing Bureau to Gaoping Xinsheng. The Land Resumption was conducted by the Gaoping Municipal Government following the land planning of the Taijiao Railway and the proposed construction of the Gaoping East Station in Gaoping, Shanxi Province, the PRC.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Land Resumption exceed 5%, but all of the applicable percentage ratios are less than 25%, the transaction contemplated under the Land Resumption Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Shareholders and potential investors should note that the Land Resumption is subject to conditions precedent as stated in this announcement and therefore the Land Resumption may or may not complete. As such, shareholders of the Company and potential investors are urged to exercise caution when dealing in the shares of the Company.

BACKGROUND

On 30 September 2020, Gaoping Xinsheng, an indirect wholly-owned subsidiary of the Company entered into the Land Resumption Agreement with Gaoping Housing Bureau, pursuant to which, Gaoping Housing Bureau will resume, and Gaoping Xinsheng will surrender, the Resumed Land together with the Properties in consideration of a total compensation of RMB135,486,000 (equivalent to approximately HK\$154,028,000) payable by Gaoping Housing Bureau to Gaoping Xinsheng. The Land Resumption was conducted by the Gaoping Municipal Government following the land planning

of the Taijiao Railway and the proposed construction of the Gaoping East Station in Gaoping, Shanxi Province, the PRC.

THE LAND RESUMPTION AGREEMENT

The principal terms of the Land Resumption Agreement are set out as follows:

Date: 30 September 2020

Parties: (1) Gaoping Xinsheng, an indirect wholly-owned subsidiary of the Company; and
(2) Gaoping Housing Bureau.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Gaoping Housing Bureau and its ultimate beneficial owners are Independent Third Parties.

SUBJECT MATTER

Pursuant to the Land Resumption Agreement, Gaoping Housing Bureau will resume, and Gaoping Xinsheng will surrender, the Resumed Land together with the Properties in consideration of a total compensation of RMB135,486,000 (equivalent to approximately HK\$154,028,000) payable by Gaoping Housing Bureau to Gaoping Xinsheng.

The amount of compensation for the resumption of the Resumed Land together with the Properties was agreed following a series of negotiations held between Gaoping Housing Bureau and the Group, taking into account, among others, a valuation made by an independent professional valuer engaged by the Gaoping Housing Bureau under the replacement cost approach for the acquisition of the Resumed Land together with the Properties, and also the expected loss to be incurred due to the disruption in its business operations by Gaoping Xinsheng.

THE RESUMED LAND

The Resumed Land, located in Gaoping, Shanxi Province, the PRC, and has been included in the land planning project for the land planning of the Taijiao Railway and the proposed construction of the Gaoping East Station in Gaoping, Shanxi Province, the PRC. Pursuant to the Land Resumption Agreement, Gaoping Housing Bureau will resume, and Gaoping Xinsheng will surrender the Resumed Land and the Properties situated on the Resumed Land.

Particulars of the Resumed Land are set out below:

Address:	Guanzhuang Village, Hexi Town, Gaoping City, Shanxi Province, the PRC
Site code:	Gaoguoyong (2009) No. 019 (高国用(2009)第019号)
Total land area (approximate sq. m):	133,333.36
Properties situated on the Resumed Land:	Hog slaughtering factory, staff quarters and canteen
Land use:	Industrial

The Resumed Land and the Properties situated on the Resumed Land are currently used by the Group for hog slaughtering.

COMPENSATION AND PAYMENT TERMS

Pursuant to the Land Resumption Agreement, the total compensation payable by Gaoping Housing Bureau to Gaoping Xinsheng for the Land Resumption will be RMB135,486,000 (equivalent to approximately HK\$154,028,000). Pursuant to the Land Resumption Agreement, after deducting the initial compensation fee of approximately RMB10.00 million (equivalent to approximately HK\$11.37 million) paid by the Gaoping Housing Bureau on 13 July 2020 and the refund of land payment of approximately RMB8.95 million (equivalent to approximately HK\$10.17 million) during the acquisition of the Resumed Land by the Group, the remaining balance of the compensation in the sum of approximately RMB117.00 million (equivalent to approximately HK\$132.00 million), shall be payable in cash by Gaoping Housing Bureau in the following manner and timeline:

- (1) a sum of approximately RMB107.00 million (equivalent to approximately HK\$121.00 million) shall be paid within seven days upon Gaoping Xinsheng, among others, vacates from the Resumed Land and delivers the relevant documentary proof to Gaoping Housing Bureau within the prescribed time as stipulated in the Land Resumption Agreement; and
- (2) a sum of approximately RMB10.00 million (equivalent to approximately HK\$11.37 million), being the remaining compensation fee, shall be paid upon the expiry of 12 months from the date of the Land Resumption Agreement, provided that there has not been any reported case of, among others, labour disputes or complaints against Gaoping Xinsheng.

Performance of the Land Resumption Agreement on the part of Gaoping Housing Bureau is conditional upon the satisfaction of the condition that the mortgage currently charged over the Resumed Land and Properties shall be duly released prior to the handover of the Resumed Land and Properties.

REASONS AND BENEFITS OF ENTERING INTO OF THE LAND RESUMPTION AGREEMENT

The Group was advised by the Gaoping Municipal Government that the Resumed Land is situated within parcels of land that are subject to resumption, following the land planning of the Taijiao Railway and the proposed construction of the Gaoping East Station in Gaoping, Shanxi Province, the PRC. Gaoping Housing Bureau agreed to, among others, compensate Gaoping Xinsheng an aggregate of RMB135,486,000 (equivalent to approximately HK\$154,028,000) for the loss incurred in surrendering the Resumed Land together with the Properties, and the disruption in its business operations.

As the Group has another hog slaughtering plant in Shanxi Province, the PRC, the production capacity of Gaoping Xinsheng is expected to be taken up by that hog slaughtering plant located in the same province following the completion of the Land Resumption. In addition, the annual revenue of Gaoping Xinsheng for each of the year ended 31 December 2018 and 2019 contributed to less than 3% of the total revenue of the Group, it is therefore expected that the Land Resumption will not cause material disruption to the business operations and financial conditions of the Group.

INFORMATION OF THE RESUMED LAND

Set out below is the financial information attributable to the Resumed Land together with the Properties as extracted from the audited accounts of the Group for the two years ended 31 December 2018 and 2019.

	For the year ended 31 December 2018	For the year ended 31 December 2019
	<i>RMB 'million (approximately)</i>	<i>RMB 'million (approximately)</i>
Revenue	178.00	291.60
Net profit before taxation	7.70	9.80
Net profit after taxation	7.70	9.80

According to the unaudited management accounts, the book value of the Resumed Land together with the Properties was approximately RMB33.00 million (equivalent to approximately HK\$36.00 million) (*Note 1*) as at 30 June 2020.

Note 1: the conversion of RMB into HK\$ is based on the exchange rate used in the interim report of the Company for the six months ended 30 June 2020.

FINANCIAL EFFECTS OF THE LAND RESUMPTION AND THE USE OF PROCEEDS

Based on the book value of the Resumed Land together with the Properties as at 30 June 2020 according to the unaudited management accounts, it is expected that after deducting the estimated transaction costs and related taxes, the Group will recognise a gain from the disposal of the Resumed Land (together with the Properties) of approximately RMB90.00 million (equivalent to approximately HK\$102.00 million).

The net proceeds (after deducting other expenses in relation thereto) arising from the Land Resumption will be approximately RMB123.00 million (equivalent to approximately HK\$139.00 million).

The Company intends to apply the net proceeds to repay partial of the pledged loans of the Group, renew and upgrade the machineries for the Group's operations and for general working capital purposes.

DIRECTORS' CONFIRMATION

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Land Resumption Agreement and the Land Resumption, which have been reached after arm's length negotiation between the parties, are fair and reasonable, on normal commercial terms and in the interests of the Company and the shareholders of the Company as a whole.

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.

Gaoping Xinsheng

Gaoping Xinsheng, a company incorporated in the PRC, is an indirect wholly-owned subsidiary of the Company. It is principally engaged in hog slaughtering business in the PRC.

Gaoping Housing Bureau

Gaoping Housing Bureau is a local governmental authority in the PRC designated by the Gaoping Municipal Government for the formulation and implementation of urban-rural construction development plans and the management of urban-rural construction industry.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Land Resumption exceed 5%, but all of the applicable percentage ratios are less than 25%, the transaction contemplated under the Land Resumption Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“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
“Director(s)”	the director(s) of the Company
“Gaoping Housing Bureau”	高平市住房和城鄉建設局 (Gaoping Municipal Housing and Urban-rural Development Bureau*), local governmental authority in the PRC designated by the Gaoping Municipal Government
“Gaoping Municipal Government”	高平市人民政府 (Gaoping Municipal Government*)
“Gaoping Xinsheng”	高平新勝肉類食品有限公司 (Gaoping Xinsheng Meat Products Co. Ltd*), a company incorporated in the PRC, an indirect wholly-owned subsidiary 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)”	third party(ies) independent of and not connected with the Company and its connected persons
“Land Resumption”	The resumption of the Resumed Land and the Properties by Gaoping Housing Bureau pursuant to the terms and conditions of the Land Resumption Agreement
“Land Resumption Agreement”	The land resumption agreement entered into between Gaoping Xinsheng and Gaoping Housing Bureau on 30 September 2020 in relation to the Land Resumption
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Properties”	the properties situated on the Resumed Land as of the date of this announcement, including but not limited to hog slaughtering factory, staff quarters, canteen and equipment
“Resumed Land”	the lands which is intended to be resumed by the Gaoping Municipal Government pursuant to the Land Resumption Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board
Zhu Yuan
Chairman

The PRC, 30 September 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 RMB0.87962 to HK\$1.

** For identification purposes only*