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中糧肉食控股有限公司
COFCO Meat Holdings Limited

(incorporated in Cayman Islands with limited liability)

(Stock code: 01610)

REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTION AND NEW CONTINUING CONNECTED TRANSACTION

The Board hereby announces that, given that the annual cap for the three years ending 31 December 2021 in respect of the Transactions under the 2018 Mutual Supply Agreement may not be sufficient for the Group's future requirements, and the Group planned to conduct cooperation with COFCO Group on the agent services for purchase of meat products, on 9 September 2019 (after trading hours), the Company and COFCO entered into the Supplemental Mutual Supply Agreement to (i) revise the existing annual caps for the three years ending 31 December 2021 to the Revised Annual Caps; and (ii) stipulate that the Group provides the agent services for purchase of meat products to COFCO Group.

As at the date of this announcement, COFCO is a substantial Shareholder of the Company interested in approximately 29.10% of the total issued share capital of the Company, therefore COFCO together with its subsidiaries are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions between the Group and/or such parties constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio) in respect of the Annual Cap of the Transactions under the Supplemental Mutual Supply Agreement are more than 5%, according to Chapter 14A of the Listing Rules, the Supplemental Mutual Supply Agreement and the Transactions contemplated thereunder will be subject to, among others, the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among others, (i) further details of the Supplemental Mutual Supply Agreement; (ii) a letter from Oriental Patron containing its advice to the Independent Board Committee and the Independent Shareholders on the Supplemental Mutual Supply Agreement; (iii) recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, will be dispatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 30 September 2019.

Reference is made to the announcement of the Company dated 23 November 2018 in relation to the transactions contemplated under the 2018 Mutual Supply Agreement.

BACKGROUND

On 23 November 2018 (after trading hours), the Company entered into the 2018 Mutual Supply Agreement with COFCO, in relation to mutual provision of products and services between the Group and COFCO Group for a term from 1 January 2019 to 31 December 2021, which constitutes continuing connected transactions of the Company under the Listing Rules.

REVISED ANNUAL CAPS AND THE NEW CONTINUING CONNECTED TRANSACTION FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE SUPPLEMENTAL MUTUAL SUPPLY AGREEMENT

Given that the annual caps for the three years ending 31 December 2021 in respect of the Transactions under the 2018 Mutual Supply Agreement may not be sufficient for the Group's future requirements, and the Group planned to conduct cooperation with COFCO Group on the agent services for purchase of meat products, on 9 September 2019 (after trading hours), the Company and COFCO entered into the Supplemental Mutual Supply Agreement to (i) revise the existing annual caps for the three years ending 31 December 2021 to the Revised Annual Caps; and (ii) stipulate that the Group provides the agent services for purchase of meat products to COFCO Group.

Major terms of the Supplemental Mutual Supply Agreement

Set out below are the major terms of the Supplemental Mutual Supply Agreement:

Date: 9 September 2019

Parties: (i) the Company; and
(ii) COFCO

Term: From 1 January 2019 to 31 December 2021

Subject matter

Pursuant to the Supplemental Mutual Supply Agreement, (i) the annual caps for the three years ending 31 December 2021 in respect of the Transactions between the Group and COFCO Group would be revised; and (ii) the Group provides the agent services for purchase of meat products to COFCO Group.

The aggregate transaction amounts payable under the Mutual Supply Agreement (together with the Supplemental Mutual Supply Agreement) would be accordingly revised due to the adjustment of the annual caps for the three years ending 31 December 2021 in respect of the Transactions and the agent services for purchase of meat products to be provided by the Group to COFCO Group. Pursuant to Rule 14A.81 of the Listing Rules, the aggregate transaction amounts payable under the Mutual Supply Agreement (together with the Supplemental Mutual Supply Agreement) for the years ending 31 December 2019, 2020 and 2021 are expected to be approximately RMB2,445,420,000, RMB5,066,310,000 and RMB6,019,520,000 respectively, representing the aggregate transaction amounts payable by the Group to COFCO Group and the amounts receivable by the Group from COFCO Group on a gross basis (without netting off between payables and receivables). As a result, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be more than 5% on an annual basis. The Supplemental Mutual Supply Agreement will therefore be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save as the Revised Annual Caps and the New Continuing Connected Transaction as stipulated in the Supplemental Mutual Supply Agreement, the rest of terms of the 2018 Mutual Supply Agreement shall remain unchanged.

Commencement of the Supplemental Mutual Supply Agreement is conditional upon the approval from the Independent Shareholders in relation to the Revised Annual Caps and the New Continuing Connected Transaction in accordance with the Listing Rules.

the Revised Annual Caps

(a). the major details of the Transaction for Purchase of central reserved meat under the Supplemental Mutual Supply Agreement

Set out below are (i) the proposed annual cap amount for the transactions contemplated under the Supplemental Mutual Supply Agreement for the following periods, and (ii) the historical transaction amounts for the period from 1 January 2019 to 31 August 2019.

	Proposed annual caps for the following periods		
	Year ending 31 December 2019 (RMB'000)	Year ending 31 December 2020 (RMB'000)	Year ending 31 December 2021 (RMB'000)
Expenditure for procurement for purchase of central reserved meat	607,000	1,480,000	1,480,000
Historical amount	5,760 (the period from 1 January 2019 to 31 August 2019)		

The Revised Annual Caps are determined with reference to the following factors: (i) the historical amount of the Transactions of purchase of central reserved meat for the period from 1 January 2019 to 31 August 2019; (ii) a tight supply of pork in the market, and the Group is expected to increase its procurement amount of central reserved meat to satisfy the business requirements; (iii) after the new factory has commenced operation, it is expected that the procurement amount of central reserved meat is expected to further increase; and (iv) a significant increase in pork prices.

(b). the major details of the Transaction for Supply of central reserved meat under the Supplemental Mutual Supply Agreement

Pricing

Pursuant to the Supplemental Mutual Supply Agreement, the Group will sell central reserved meat to COFCO Group and/or its associates at the prices which are determined upon price bidding and through arm's length negotiation respectively.

(i) determined upon price bidding

The supply price of central reserved meat to be provided by the Group through price bidding to COFCO Group was determined upon price bidding by the participating enterprises through the electronic system of Beijing China Merchandise Reserve Exchange at fair value and is generally not less than the price of similar products supply to Independent Third Parties by the Group in the open market during the same period.

During the bidding process of central reserved meat, Huashang will issue an offer in relation to the main attributes of the central reserved meat and the participants will enter the bidding price and quantity information etc. into the bidding system. They will bid through the bidding system and the transaction price will be determined based on the principle of priority being first given to the price and then to the time under the same conditions.

(ii) determined through arm's length negotiation

The supply price of central reserved meat to be provided by the Group through direct sale to COFCO Group was determined by reference to the price to Independent Third Parties at fair value and is generally not less than the price of similar products supply to Independent Third Parties by the Group in the open market during the same period.

Revised Annual Cap

Set out below are (i) the proposed annual cap amount for the transactions contemplated under the Supplemental Mutual Supply Agreement for the following periods; and (ii) the historical transaction amounts for the period from 1 January 2019 to 31 August 2019.

	Proposed annual caps for the following periods		
	Year ending 31 December 2019 (RMB'000)	Year ending 31 December 2020 (RMB'000)	Year ending 31 December 2021 (RMB'000)
Sales revenue from the supply of central reserved meat	279,500	1,554,500	2,044,500
Historical amount	0 (the period from 1 January 2019 to 31 August 2019)		

The Revised Annual Caps are determined with reference to (i) a tight supply of pork in the market, and it is expected that the reserves for central reserved meat will increase by a certain scale; and (ii) a significant increase in pork prices.

New Continuing Connected Transaction

Pursuant to the Supplemental Mutual Supply Agreement, the Group would provide the agent services for purchase of meat products to COFCO Group and/or its associates.

Pricing

The agent fee payable by COFCO to the Group is determined based on certain percentage ratio of the agent procurement amount. Such agent fee rate is determined after arm's length negotiations between COFCO and the Group with reference to available information (in particular, the gross profit margin) of trading business of the companies engaging in the agricultural products.

The agent services for purchase of meat products to be provided by the Group to COFCO Group is a new transaction under the Supplemental Mutual Supply Agreement. As such, there are no annual caps set or historical transaction amounts occurred under the 2018 Mutual Supply Agreement.

Annual cap amount

Set out below is the proposed annual cap amount for the transaction contemplated under the Supplemental Mutual Supply Agreement for the following periods:

	Proposed annual caps for the following periods		
	Year ending	Year ending	Year ending
	31 December	31 December	31 December
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
The agent fee	54,000	202,500	315,000

In determining the above proposed annual cap amount in respect of the agent fee, the Directors have considered the following:

- (i) for expansion of business scale, reasonable risk control and increase in profitability of the Group, the Group plans to expand the business of provision of agent services for purchase of meat products to COFCO Group and/or its associates;
- (i) the agent fee is determined with reference to the available information (in particular, the gross profit margin) of trading business of the companies engaging in the agricultural products; and
- (iii) the amount for the purchase of meat products for which COFCO Group and/or its associates planned to appoint the Group to provide the agent services.

Internal control system

The Company will, as an internal control measure for the procurement agent service, firstly make reference to the pricing model and agent fee rate of peer companies in the market who conduct the same business; if there is no such peer companies, it will then instruct the business department of the Group (and subsequently the internal control department to review) on at least a quarterly basis to review on the available information (in particular, the gross profit margin) of trading business of the companies engaging in the agricultural products business to ensure the rate is within the market range. In addition, the Company has set up procedures and policies for identifying connected persons and monitoring the annual caps of the continuing connected transactions.

Information on the Company

The Company is principally engaged in feeds production, hog breeding, slaughtering, the production, distribution and sale of fresh pork and meat products and the import and sale of frozen meat products in the PRC.

Information on COFCO

COFCO, a wholly state-owned company established in the PRC in September 1952 which is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and a substantial Shareholder of the Company. COFCO is principally engaged in grain purchase, wholesale of prepackaged food and edible agricultural products, overseas futures business, import and export business, provision of external consulting services, product, exhibition and technical exchange business, hotel investment management, real estate development and management, property management and agency and leasing of self-owned houses.

REASONS FOR THE ENTERING INTO OF THE SUPPLEMENTAL MUTUAL SUPPLY AGREEMENT

The 2018 Mutual Supply Agreement was entered into between the Company and COFCO, in relation to mutual provision of products and services between the Group and COFCO Group for a term from 1 January 2019 to 31 December 2021, and a series of transactions, among others, the Transactions, contemplated under the 2018 Mutual Supply Agreement form an integral part of the ordinary and usual course of business of the Group and has been conducted on normal commercial terms and on an arm's length basis.

The Directors noted that the demand of purchase of central reserved meat from the Group might be higher than prior estimation given the transaction amount of the Transaction for purchase of central reserved meat under the 2018 Mutual Supply Agreement up to 31 August 2019 reached approximately RMB5,760,000, which represents approximately 46.83% of the existing annual cap. Due to a tight supply of pork in the market, it is expected that the reserves for central reserved meat will increase by a certain scale, and the demand of purchase of central reserved meat from the COFCO Group might be higher than prior estimation. Accordingly, the Company initiated negotiation with COFCO to a possible revision of the annual cap of the Transactions by entering into the supplemental agreement.

Due to a tight supply of pork in the market, thus the Group negotiated with COFCO to possibly enter into the supplemental agreement, which stipulates that the Group provides the agent services for purchase of meat products to COFCO Group.

Given that the annual cap for the three years ending 31 December 2021 in respect of the Transactions under the 2018 Mutual Supply Agreement may not be sufficient for the Group's future requirements, and the Group planned to conduct cooperation with COFCO Group on the agent services for purchase of meat products, on 9 September 2019, the Company and COFCO entered into the Supplemental Mutual Supply Agreement to (i) revise the existing annual cap for the three years ending 31 December 2021 to the Revised Annual Caps; and (ii) stipulate that the Group provides the agent services for purchase of meat products to COFCO Group.

The terms and conditions of the Supplemental Mutual Supply Agreement were determined after arm's length negotiations between the parties thereto, and the Transactions and New Continuing Connected Transaction have been and will be carried out on terms no less favourable to the Company than terms available to Independent Third Parties.

Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the independent financial adviser) consider that the terms of the Supplemental Mutual Supply Agreement (including the Revised Annual Caps and the New Continuing Connected Transaction) are fair and reasonable and that the entering into of the Supplemental Mutual Supply Agreement is in the interests of the Company and the Shareholders as a whole.

As Mr. Jiang Guojin, the chairman of the Board and an executive Director of the Company, is the senior industry executive of COFCO, and Ms. Yang Hong, the non-executive Director of the Company, is the equity director of COFCO, they are deemed to be materially interested in the Supplemental Mutual Supply Agreement and the transactions contemplated thereunder. They have abstained from voting on the resolutions in relation to considering and approving the Supplemental Mutual Supply Agreement and the transactions contemplated thereunder at the Board meeting.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, COFCO is a substantial Shareholder of the Company interested in approximately 29.10% of the total issued share capital of the Company, therefore COFCO together with its subsidiaries are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions between the Group and/or such parties constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio) in respect of the annual cap of the transactions under the Supplemental Mutual Supply Agreement are more than 5%, according to Chapter 14A of the Listing Rules, the Supplemental Mutual Supply Agreement and the transactions contemplated thereunder will be subject to, among others, the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the date of this announcement, COFCO holds 1,135,392,782 ordinary Shares of the Company, representing approximately 29.10% of the issued share capital of the Company. COFCO Group and its respective associates will abstain from voting at the EGM in respect of the resolutions to consider the Supplemental Mutual Supply Agreement (including the Revised Annual Caps) and the New Continuing Connected Transactions as a result of having material interest therein. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, save as disclosed in this announcement, no other Shareholder is required to abstain from voting at the EGM.

The Company will establish the Independent Board Committee to advise the Independent Shareholders on the fairness and reasonableness of the Supplemental Mutual Supply Agreement, the Revised Annual Caps and the New Continuing Connected Transaction. The Independent Board Committee will advise the Independent Shareholders on voting at the EGM on the resolutions in respect of the Supplemental Mutual Supply Agreement, the Revised Annual Caps and the New Continuing Connected Transaction, after taking into account the recommendations of the Independent Financial Adviser. In this connection, the Company has appointed Oriental Patron as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Mutual Supply Agreement, the Revised Annual Caps and the New Continuing Connected Transaction.

The Company will disclose the information in relation to the Transactions and the New Continuing Connected Transaction in its subsequent published annual report and accounts in accordance with Rule 14A.49 of the Listing Rules.

A circular containing, among others, (i) further details of the Supplemental Mutual Supply Agreement; (ii) a letter from Oriental Patron containing its advice to the Independent Board Committee and the Independent Shareholders on the Supplemental Mutual Supply Agreement; (iii) recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, will be dispatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 30 September 2019.

DEFINITIONS

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

“2018 Mutual Supply Agreement”	the mutual supply agreement entered into between the Company and COFCO on 23 November 2018
“associates”	has the meaning as ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	the British Virgin Islands
“COFCO”	COFCO Corporation (中糧集團有限公司), a wholly State-owned company established in the PRC in September 1952 which is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and a substantial Shareholder of the Company holding approximately 29.10% of the issued share capital of the Company as at the date of this announcement
“COFCO Group”	COFCO and its subsidiaries other than the Group
“Company”	COFCO Meat Holdings Limited (中糧肉食控股有限公司), a company incorporated in the BVI with limited liability on 11 March 2014 and re-domiciled to the Cayman Islands as an exempted company with limited liability on 4 May 2016, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Transaction for purchase of central reserved meat”	the purchase of central reserved meat from COFCO Group by the Group as stipulated under the 2018 Mutual Supply Agreement (as supplemented by the Supplemental Mutual Supply Agreement)
“Transaction for supply of central reserved meat”	the supply of central reserved meat to COFCO Group by the Group as stipulated under the 2018 Mutual Supply Agreement (as supplemented by the Supplemental Mutual Supply Agreement)
“Directors”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among others, the Supplemental Mutual Supply Agreement, the Revised Annual Caps and the New Continuing Connected Transaction
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huashang”	Huashang Reserve Commodity Management Center Co., Ltd.* (華商儲備商品管理中心有限公司), a company incorporated under the laws of the PRC on 21 January 1998, and an indirectly wholly-owned subsidiary of COFCO
“Independent Financial Adviser” or “Oriental Patron”	Oriental Patron Asia Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) licensed to carry on Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Mutual Supply Agreement, the Revised Annual Caps and New Continuing Connected Transaction
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, which has been established for the purpose of advising the Independent Shareholders in respect of the Supplemental Mutual Supply Agreement, the Revised Annual Caps and New Continuing Connected Transaction
“Independent Shareholders”	the Shareholders other than COFCO and their associates
“Independent Third Party(ies)”	To the best of Directors’ knowledge, information and belief, having made all reasonable enquiries, individual(s) or company(ies) and its/their respective ultimate beneficial owner(s) which is/are third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Continuing Connected Transaction”	the agent services for purchase of meat products to be provided by the Group to COFCO Group as stipulated under the Supplemental Mutual Supply Agreement
“PRC”	the People’s Republic of China
“Revised Annual Caps”	the revised annual caps for the Transactions for the three years ending 31 December 2021
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Mutual Supply Agreement”	the supplemental agreement dated 9 September 2019 in respect of the Revised Annual Caps and New Continuing Connected Transaction, entered into between the Company and COFCO
“subsidiary(ies)”	has the meaning as ascribed thereto under the Listing Rules
“substantial Shareholder(s)”	has the meaning as ascribed thereto under the Listing Rules
“Transaction(s)”	Transaction for purchase of central reserved meat and Transaction for supply of central reserved meat
“%”	per cent.

By order of the Board
COFCO Meat Holdings Limited
Jiang Guojin
Chairman and executive Director

Hong Kong, 9 September 2019

As at the date of this announcement, the Board of the Company comprises Mr. Jiang Guojin as the chairman of the Board and the executive Director, Mr. Xu Jianong as the executive Director, Ms. Yang Hong, Mr. WOLHARDT Julian Juul, Dr. Cui Guiyong, Mr. Zhou Qi, Mr. Zhang Lei and Dr. Huang Juhui as non-executive Directors, and Mr. Fu Tingmei, Mr. Li Michael Hankin, Mr. Lee Ted Tak Tai and Dr. Ju Jiandong as independent non-executive Directors.