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CHINA FOODS LIMITED
中國食品有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 506)

CONTINUING CONNECTED TRANSACTIONS RELATING TO THE NEW FINANCIAL SERVICES AGREEMENT

New Financial Services Agreement

Reference is made to the 2018 Announcement of the Company in relation to the continuing connected transactions contemplated under the 2018 Financial Services Agreement entered into between the Company, Supply Chain (Tianjin), an indirect non-wholly owned subsidiary of the Company and COFCO Finance. The 2018 Financial Services Agreement will be expired on 13 December 2021.

In order to continue to provide a more efficient employment of funds within the Group and to better facilitate intra-Group settlement services, the Company, Supply Chain (Tianjin) and COFCO Finance entered into the New Financial Services Agreement on 2 November 2021. Pursuant to the New Financial Services Agreement, COFCO Finance shall provide, among others, the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services to the subsidiaries of the Company.

Listing Rules Implications

As at the date of this announcement, COFCO Finance is an indirect wholly-owned subsidiary of COFCO, the ultimate controlling shareholder of the Company. Therefore, COFCO Finance is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the New Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios in respect of the Proposed Daily Deposit Cap are more than 5%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios in respect of the estimated aggregate amount of the handling fees in connection with the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services is on an annual basis less than 0.1%, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services are exempted from the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Independent Board Committee has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Deposit Services and the Proposed Daily Deposit Cap, and to advise the Independent Shareholders on how to vote at the SGM.

Chanceton Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Daily Deposit Cap.

The SGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap. China Foods (Holdings), an indirect wholly-owned subsidiary of COFCO and the substantial shareholder of the Company which holds as to approximately 74.1% of the total issued share capital of the Company (representing 2,072,688,331 shares of the Company as at the date of this announcement) will abstain from voting at the SGM on the resolutions regarding the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap.

A circular containing, among others, (a) details of the New Financial Services Agreement and the Proposed Daily Deposit Cap; (b) the recommendation of the Independent Board Committee to the Independent Shareholders; (c) the advice from Chanceton Capital to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the SGM, together with the proxy form is expected to be dispatched to the shareholders of the Company on or before 23 November 2021 in accordance with the Listing Rules.

NEW FINANCIAL SERVICES AGREEMENT

Background

Reference is made to the 2018 Announcement of the Company in relation to the continuing connected transactions contemplated under the 2018 Financial Services Agreement entered into between the Company, Supply Chain (Tianjin), an indirect non-wholly owned subsidiary of the Company and COFCO Finance. The 2018 Financial Services Agreement will be expired on 13 December 2021.

In order to continue to provide a more efficient employment of funds within the Group and to better facilitate intra-Group settlement services, the Company, Supply Chain (Tianjin) and COFCO Finance entered into the New Financial Services Agreement on 2 November 2021. Pursuant to the New Financial Services Agreement, COFCO Finance shall provide, among others, the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services to the subsidiaries of the Company.

The principal terms of the New Financial Services Agreement are as follows:

1. Date

2 November 2021

2. Effective Date and the Term

The New Financial Services Agreement shall be for a term of three years commencing from 14 December 2021 and expiring on 13 December 2024 and shall become effective subject to the approval from the Independent Shareholders of the SGM.

3. Parties

- (a) The Company;
- (b) Supply Chain (Tianjin); and
- (c) COFCO Finance

4. Major Terms

(a) Deposit Services

Pursuant to the New Financial Services Agreement, COFCO Finance shall provide the Deposit Services to subsidiaries of the Company. The subsidiaries of the Company will open and maintain RMB and foreign currency deposit accounts with COFCO Finance. COFCO Finance will pay interest on deposits made by the subsidiaries of the Company.

The interest rates for the deposits placed by the subsidiaries of the Company with COFCO Finance (the “**COFCO Deposit Interest Rate**”) will not be lower than the standard deposit rates promulgated by PBOC for the same type of deposits of the same period and will not be lower than the interest rates offered by the eight major PRC commercial banks and PBOC for the same type of deposits of the same period. Details of the measures to be implemented for determining and monitoring the COFCO Deposit Interest Rate are set out in the paragraph headed “Measures of Determining the Pricing Terms” below.

The Deposit Services that will be provided by COFCO Finance to the subsidiaries of the Company under the New Financial Services Agreement are primarily for the purpose of facilitating the Fund Transfer Services and the Entrustment Loan Services among the subsidiaries of the Company as provided under the New Financial Services Agreement. Pursuant to the New Financial Services Agreement, the title of the funds in respect of the entrustment loans under the Entrustment Loan Services will rest with the Group and will not pass to COFCO Finance.

The maximum daily balance of deposits placed by the Group with COFCO Finance shall not exceed RMB800 million or its equivalent (including the corresponding interest accrued thereon).

(b) *Fund Transfer Services*

COFCO Finance shall provide the Fund Transfer Services to the subsidiaries of the Company in accordance with the instructions given by the relevant subsidiaries of the Company free of charge.

(c) *Entrustment Loan Services*

(i) *Source of Funds of the Entrustment Loans*

Pursuant to the New Financial Services Agreement, funds source from certain subsidiaries of the Company will be advanced to Supply Chain (Tianjin) through entrustment loan arrangements, and COFCO Finance will serve as a financial agent. After such entrustment loans had been advanced to Supply Chain (Tianjin) (acting as a lender), it will enter into further entrustment loan arrangements with COFCO Finance, which holds the appropriate license and qualification under the PRC laws, will advance such fund to certain subsidiaries of the Company which are in need of funds.

As COFCO Finance is acting as a financial agent in the entrustment loan arrangements and does not enjoy title of the entrustment loan, COFCO Finance does not have legal rights to advance such entrustment loan directly to the Company's subsidiaries without obtaining the instructions in advance from the relevant subsidiary of the Company.

The abovementioned entrustment loan arrangements are in full compliance with the applicable PRC laws.

By way of centralising funds from subsidiaries of the Company through entrustment loan arrangements, Supply Chain (Tianjin) will be able to allocate such centralised fund more effectively among the Company's subsidiaries, so that such fund allocation will be most beneficial to the Group as a whole and thus in turn, benefit the Company and its shareholders as a whole.

(ii) Interest Rate and implementation

Interest will be payable by subsidiaries of the Company as borrowers to the other subsidiaries of the Company as lenders through COFCO Finance. The parties will, where appropriate, enter into separate implementation agreements setting out the interest payable for each entrustment loan in accordance with the terms of the New Financial Services Agreement. The interest rate will be determined by relevant parties making reference to the interest rates of the eight major PRC commercial banks and PBOC and the prevailing market conditions.

(d) Other Financial Services

COFCO Finance will provide Other Financial Services, including but not limited to, settlement, sale and purchase of foreign exchange and relevant advisory services to the subsidiaries of the Company in accordance with the permitted scope prescribed under the PRC financial policies and the Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) promulgated by CBIRC pursuant to the New Financial Services Agreement.

(e) Handling fees in respect of the Entrustment Loan Services and Other Financial Services

The handling fees to be charged by COFCO Finance in connection with the Entrustment Loan Services and the Other Financial Services (the “**COFCO Handling Fees**”) will not be higher than those charged by the eight major PRC commercial banks and PBOC and other PRC financial institutions to the Group for similar type of services. Details of the measures to be implemented for determining and monitoring the COFCO Handling Fees are set out in the paragraph headed “Measures of Determining the Pricing Terms” below.

(f) Settlement terms

- (i) COFCO Finance shall pay the interest under the Deposit Services on a quarterly basis where the interest will be automatically deposited into the demand deposit account of the subsidiaries of the Company opened at COFCO Finance on the 21st day of the end of each quarter; and
- (ii) The handling fees for the Entrustment Loan Services shall be settled annually by the end of each year while the handling fees for Other Financial Services shall be settled when each transaction is conducted.

(g) Right to obtain financial services from other financial institutions

The Group may obtain financial services from other financial institutions in addition to those provided by COFCO Finance pursuant to the New Financial Services Agreement.

(h) Set off

Where COFCO Finance applies the funds deposited by Supply Chain (Tianjin) and subsidiaries of the Company in breach of any provisions of the New Financial Services Agreement or in any other inappropriate ways which results in any subsidiaries of the Company failing to recover such deposited funds in full, such subsidiaries of the Company will be entitled to use such deposit funds to set off any payments payable to COFCO Finance by the subsidiaries of the Company. COFCO Finance will not be entitled to such set off rights.

(i) Notification of breach

During the Term of the New Financial Services Agreement, if COFCO Finance breaches or intends to breach any laws, regulations or any provisions of the New Financial Services Agreement, it is required to notify Supply Chain (Tianjin) and the Company of such situation within three days from its acknowledgement of the breach or intended breach.

(j) Termination

Apart from the default events provided under the Civil Code of the PRC (中華人民共和國民法典), the New Financial Services Agreement shall be terminated with immediate effect if COFCO Finance fails to satisfy any of the operational standard set out as follows:

- (i) its capital adequacy ratio shall not be less than 12%;
- (ii) its non-performing assets ratio shall not be more than 2%;
- (iii) its bad loan ratio shall not be more than 3%;
- (iv) its self-owned fixed assets to equity ratio shall not be more than 10%; or
- (v) its investment balance to net capital ratio shall not be more than 70%.

Upon termination of the New Financial Services Agreement, Supply Chain (Tianjin) or the subsidiaries of the Company may withdraw their deposits with COFCO Finance at any time without costs.

(k) Condition precedent

The New Financial Services Agreement shall be effective conditional upon:

- (i) compliance with all necessary requirements under the Listing Rules, which including but not limited to obtaining the approval of the Independent Shareholders at the SGM; and
- (ii) obtaining any other relevant approvals as may be required for the New Financial Services Agreement to take effect.

None of the above condition precedent is waivable.

Measures of Determining the Pricing Terms

In order to ensure that the pricing terms of individual transactions contemplated under the Deposit Services, the Entrustment Loan Services and the Other Financial Services will be made in accordance with the pricing principles as stated above, the Group and COFCO Finance shall carry out the measures below:

The Group has established an internal assessment mechanism on the COFCO Deposit Interest Rate and the COFCO Handling Fees based on fair market principle.

Prior to the engagement of the Deposit Services with COFCO Finance, the Group will obtain interest rates of deposit services offered by eight major PRC commercial banks and PBOC for the same type of deposits of the same period from their websites and select the highest of such quotations (the “**Quoted Deposit Interest Rate**”) to compare with the COFCO Deposit Interest Rate to ensure that the COFCO Deposit Interest Rate is not lower than the Quoted Deposit Interest Rate. In addition, the Group will conduct analysis and assessment between the COFCO Deposit Interest Rate and the rates offered by the eight major PRC commercial banks and PBOC every fortnight or regularly during the maintenance of such deposit accounts.

Prior to the engagement of the Entrustment Loan Services and the Other Financial Services, the Group will also conduct an analysis and assessment of the COFCO Handling Fees with the corresponding handling fees offered by the eight major PRC commercial banks and PBOC to the Group on similar type of services to ensure that the COFCO Handling Fees quoted by COFCO Finance is on the best term to the Group.

In the event that the relevant interest rates or handling fees quoted from the eight major PRC commercial banks and PBOC is better than those offered by COFCO Finance, the Group will inform COFCO Finance to adjust the same to ensure its interest rates or handling fees is on the same level or better than those offered by the eight major PRC commercial banks and PBOC.

Pursuant to the New Financial Services Agreement, in the event COFCO Finance violates its relevant obligations thereunder and adopts an interest rate or charged a handling fee which is not on a better term to the Group as compared to those offered by the eight major PRC commercial banks and PBOC, the Group may request COFCO Finance to compensate the differences to them.

COFCO Finance has established a risk management committee and an independent audit department where the risk management committee is responsible for, among others, approval for the decision-making on the pricing policies of deposits and various business risks of the company. The audit department of COFCO Finance is responsible for carrying out an independent audit on various businesses including the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services under New Financial Services Agreement. In addition, to ensure that the New Financial Services Agreement is smoothly executed, COFCO Finance has appointed an independent external auditor to carry out a special audit on such connected transactions at the end of each quarter to manage and reduce the risk of the relevant business.

Reasons for and benefits of entering into the New Financial Services Agreement

PRC laws do not permit companies, including subsidiaries and associate companies, other than regulated financial institutions, to extend intra-group loans directly. Any such loans must be directed through a regulated financial institution or agency. COFCO Finance is a non-banking financial institution established in the PRC since 2002 with the approval of PBOC and it is subject to the supervision of PBOC and CBIRC. According to its business licence, COFCO Finance is authorised to provide various kinds of financial services to the Group, including deposit taking and loan services. The main reasons for, and benefits of, the transactions under the New Financial Services Agreement (collectively the “**Arrangements**”) are as follows:

- (i) COFCO Finance has well established operating networks with eight major PRC commercial banks, namely the Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, China Merchants Bank, Bank of Communications, Agricultural Development Bank of China and China CITIC Bank, and such networks have become the channel for collecting the funds of the subsidiaries of the Company;
- (ii) the Company believes that COFCO Finance may provide more diversified and flexible financial services to the Group compared with a single or a small number of third-party commercial banks;
- (iii) COFCO Finance was established in 2002. During the past 19 years’ operation of COFCO Finance, its operations has been stable, financial performance has been excellent and no violation of any rules has occurred. The Company believes that the risk profile of COFCO Finance, as a financial services provider to the Group, is not greater than that of independent commercial banks in the PRC;

- (iv) the use of COFCO Finance as a vehicle through which the funds of the subsidiaries of the Company, including Supply Chain (Tianjin), will allow a more efficient deployment of funds between subsidiaries of the Company;
- (v) the Arrangements will allow the greater utilisation of available funds, utilise the collected funds to repay the external commercial loans of the subsidiaries of the Company and optimise the efficiency of the Group's funds;
- (vi) the Arrangements will help reduce financial costs, thereby increasing the profitability of the Group and benefitting the shareholders of the Company, including the minority shareholders of the Company. The handling fee offered by COFCO Finance in relation to the Entrustment Loan Services is lower than that offered by the eight major PRC commercial banks and PBOC. In addition, the Group can utilise the Bank-Enterprise direct link system (銀企直聯服務) offered by COFCO Finance free of charge;
- (vii) the Arrangements will allow a prompt and accurate monitoring and regulation of the application of funds of the Group including Supply Chain (Tianjin);
- (viii) the Arrangements will promote liquidity among the Group, including Supply Chain (Tianjin), enhance the overall ability of the Group to repay debts, and assist in monitoring and controlling financial risks;
- (ix) COFCO Finance has maintained good working relationship with the Company and its subsidiaries over the years and developed a good understanding of the Group's operation and its needs and their continuous cooperation can ensure higher work efficiency; and
- (x) as the COFCO Deposit Interest Rate offered to the Group is better than the Quoted Deposit Interest Rate, the Arrangements can increase the interest income of the Group and therefore is beneficial to the Company and its shareholders as a whole.

Risk Management

In order to safeguard the interests of the shareholders of the Company, the Group will adopt the following guidelines and principles in monitoring the Arrangements:

- (a) the title of the funds in respect of the Entrustment Loans Services pursuant to the New Financial Services Agreement will not be passed to COFCO Finance;
- (b) funds received by Supply Chain (Tianjin) pursuant to the New Financial Services Agreement are only to be applied for intra-Group use;
- (c) specifically designated personnel from Supply Chain (Tianjin) will be responsible for daily operations under the Arrangements and specifically designated personnel from the finance department of the Company will be responsible for the regular monitoring of the Arrangements, and reporting to the general manager of the finance department and the management of the Company on a regular basis;

- (d) the finance department of the Company will report to the independent non-executive Directors of the Company twice a year in relation to the Arrangements;
- (e) under the relevant rules of PBOC and CBIRC, the clients of COFCO Finance are restricted to COFCO and COFCO's subsidiaries (including the Company and the subsidiaries of the Company). COFCO Finance is hence exposed to a lower level of potential risk than, if clients included, external entities;
- (f) the Arrangements between the Group and COFCO Finance under the New Financial Services Agreement is non-exclusive, and the Group has its own discretion in selecting providers of financial services;
- (g) the audit and supervision department of the Group will review the appropriateness of the system of internal controls relating to the operation of the Arrangements and report the results of the review to the management and the audit committee/independent non-executive Directors twice a year;
- (h) where COFCO Finance applies the funds deposited with it by Supply Chain (Tianjin) and the subsidiaries of the Company in breach of any provisions of the New Financial Services Agreement or in any other inappropriate ways which results in Supply Chain (Tianjin) and/or the subsidiaries of the Company failing to recover such deposit funds, Supply Chain (Tianjin) and the subsidiaries of the Company will be entitled to use such deposit funds in full to set off any payments payable to COFCO Finance by Supply Chain (Tianjin) or the subsidiaries of the Company. COFCO Finance will not be entitled to such set off rights;
- (i) in addition to the default events provided by the Civil Code of the PRC (中華人民共和國民法典), the New Financial Services Agreement shall be terminated with immediate effect if COFCO Finance fails to satisfy any operation standard as follows:
 - (i) its capital adequacy ratio shall not be less than 12% (whereas CBIRC requires such ratio shall not be less than 10%); or
 - (ii) its non-performing assets ratio shall not be more than 2% (whereas CBIRC requires such ratio shall not be more than 4%); or
 - (iii) its bad loan ratio shall not be more than 3% (whereas CBIRC requires such ratio shall not be more than 5%); or
 - (iv) its self-owned fixed assets to equity ratio shall not be more than 10% (whereas CBIRC requires such ratio shall not be more than 20%); or
 - (v) its investment balance to net capital ratio shall not be more than 70% (whereas CBIRC requires such ratio shall not be more than 70%); and

- (j) the external auditors of the Company will review the transactions contemplated under the New Financial Services Agreement and report its findings to the audit committee of the Board and the independent non-executive Directors on an annual basis.

Guarantee letter from COFCO

On 2 November 2021, COFCO issued a guarantee letter to the subsidiaries of the Company which are established in the PRC to guarantee unconditionally and irrevocably that, during the Term of the New Financial Services Agreement, COFCO will:

- (i) maintain its effective control of COFCO Finance and guarantee the proper and orderly operation of COFCO Finance;
- (ii) use its best endeavors and take all reasonable steps to guarantee that COFCO Finance will perform its obligations in respect of the financial services contemplated under the New Financial Services Agreement; and
- (iii) bear all the losses incurred due to the failure in performing the obligations under the New Financial Services Agreement by COFCO Finance, including but not limited to, the deposit amount, interest and the relevant expenses incurred, within ten business days after such failure occurs.

COFCO confirms that it has obtained all approvals and authorisations for execution the abovementioned guarantee letter and such execution does not violate any PRC laws, regulations or any agreement to which COFCO is a party.

Historical caps and transaction value of the Deposit Services under the 2018 Financial Services Agreement

Under the 2018 Financial Services Agreement, the maximum daily deposit balance amount (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance for the period from 14 December 2018 to 13 December 2019, the period from 14 December 2019 to 13 December 2020 and the period from 14 December 2020 to 13 December 2021 are RMB250 million, RMB300 million and RMB400 million, respectively.

The historical maximum daily deposit balance amount (including the corresponding interest accrued thereon) for the period from 14 December 2018 to 13 December 2019, the period from 14 December 2019 to 13 December 2020 and the period from 14 December 2020 to 30 September 2021 are as follows:-

Transaction	Historical maximum daily deposit balance for the period from		
	14 December 2018 to 13 December 2019	14 December 2019 to 13 December 2020	14 December 2020 to 30 September 2021
	<i>(RMB million or its equivalent in any other currency)</i>		
Maximum daily deposit balance amount (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance	250	300	390

Proposed Daily Deposit Cap for the New Financial Services Agreement and the basis thereof

The Board proposed the Proposed Daily Deposit Cap in the amount of RMB800 million or its equivalent (including the corresponding interest accrued therein) on a daily basis after considering the maximum daily outstanding balance of deposits (including the corresponding interest accrued thereon) to be placed by the Group with COFCO Finance pursuant to the New Financial Services Agreement.

In arriving the Proposed Daily Deposit Cap for the Term, the Company has taken into account of the following factors:

- (a) as at 30 June 2021, the Group had maintained a high level of cash and cash equivalents which amounted to approximately RMB1.9 billion and is available to be utilised by subsidiaries of the Company;
- (b) the business development plans and the financial needs of each of the subsidiaries of the Company during the Term;
- (c) the historical cash position of the Group, the historical transaction value and the expected growth of the business operation of the Group. In particular, the utilisation of the historical caps was 100%, 100% and approximately 97.5% for the respective periods under the 2018 Financial Services Agreement. In addition, during peak seasons, the daily transaction amount of the Group as a whole would be up to approximately RMB700 million to RMB900 million, as a result, multiple transfers of funds had to be made given the maximum daily deposit balance at COFCO Finance under the 2018 Financial Services Agreement for the period from 14 December 2020 to 13 December 2021 is only RMB400 million. The increase in the Proposed Daily Deposit Cap to RMB800 million can therefore reduce

multiple transfers of funds and effectively improve the efficiency of the Entrustment Loan Services;

- (d) the control of financial risks in selecting financial services providers; and
- (e) the benefits to the Group and the shareholders of the Company as a whole as set out in the paragraph headed “Reasons for and benefits of entering into the New Financial Services Agreement”.

In order to ensure that the Proposed Daily Deposit Cap will not be exceeded, the Group will adopt the following measures to monitor the daily balance of the deposits made by the Group:

- (a) the finance department of the Company will monitor the daily balance of the deposit made by the Group with all financial institutions, including those with COFCO Finance, and will report on the Group’s overall cash flow position to the relevant senior management of the Company for review and consideration of the overall funding position of the Group;
- (b) the Group will have the discretion to request for the withdrawal of all or part of the deposit placed with COFCO Finance to ensure the liquidity and safety of the deposited fund; and
- (c) COFCO Finance will provide an online platform to allow the finance department of the Company to monitor the balance of the Group’s deposit on a daily basis, so as to ensure the deposit amount will not exceed the Proposed Daily Deposit Cap.

Listing Rules Implications

As at the date of this announcement, COFCO Finance is an indirect wholly-owned subsidiary of COFCO, the ultimate controlling shareholder of the Company. Therefore, COFCO Finance is a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the New Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios in respect of the Proposed Daily Deposit Cap are more than 5%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios in respect of the estimated amount of the handling fees in connection with the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services is on an annual basis less than 0.1%, the Fund Transfer Services, the Entrustment Loan Services and the Other Financial Services are exempted from the reporting, announcement, annual review and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

General

The Independent Board Committee has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Deposit Services and the Proposed Daily Deposit Cap, and to advise the Independent Shareholders on how to vote at the SGM.

Chanceton Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Daily Deposit Cap.

The SGM will be convened for the Independent Shareholders to consider and, if thought fit, to approve the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap. China Foods (Holdings), an indirect wholly-owned subsidiary of COFCO and the substantial shareholder of the Company which holds as to approximately 74.1% of the total issued share capital of the Company (representing 2,072,688,331 shares of the Company as at the date of this announcement) will abstain from voting at the SGM on the resolutions regarding the New Financial Services Limited, the transactions contemplated thereunder and the Proposed Daily Deposit Cap.

A circular containing, among others, (a) details of the New Financial Services Agreement and the Proposed Daily Deposit Cap; (b) the recommendation of the Independent Board Committee to the Independent Shareholders; (c) the advice from Chanceton Capital to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the SGM, together with the proxy form is expected to be dispatched to the shareholders of the Company on or before 23 November 2021 in accordance with the Listing Rules.

Directors' Views

The Directors (excluding the independent non-executive Directors) consider that the terms of the New Financial Services Agreement have been negotiated on an arm's length basis and on normal commercial terms, the transactions contemplated thereunder and the Proposed Daily Deposit Cap are fair and reasonable and in the interests of the Company and its Shareholders as a whole. In addition, the Group has effective risk management measures and internal controls in place to monitor the Arrangement and Deposit Services under the New Financial Services Agreement.

The Directors (excluding the independent non-executive Directors) also believe that the risk profile of COFCO Finance, as a financial services provider to the Group, is not greater than that of independent commercial banks in the PRC. As far as the Directors are aware, COFCO Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations.

None of the Directors has a material interest in the transactions contemplated under the New Financial Services Agreement. However, as the non-executive Director Mr. Chen Lang is the executive vice president of COFCO, while the non-executive Directors Mr. Chen Zhigang (being a director of the quality and safety management department of COFCO and directors of two subsidiaries of COFCO) and Mr. Chen Gang (being the director of the Cooperation and Development Department and the general manager of the Supply Assurance Department of COFCO) are related to COFCO, for good corporate governance, the non-executive Directors, namely Mr. Chen Lang, Mr. Chen Zhigang, and Mr. Chen Gang have abstained from voting on the respective Board resolutions approving the New Financial Services Agreement.

Information on the Parties

The Company is an investment holding company incorporated in Bermuda. Through its subsidiaries and associated companies, it is principally engaged in beverage business.

Supply Chain (Tianjin) is a limited liability company established in the PRC and a non-wholly owned subsidiary of COFCO Coca-Cola, which is in turn a 65%-owned subsidiary of the Company. The Company holds as to 63.5% beneficial interest in Supply Chain (Tianjin). Supply Chain (Tianjin) is mainly engaged in the wholesale and retail of pre-packaged foods, raw and auxiliary materials, supply chain information consultation, management services and others.

COFCO Finance is a non-banking financial institution and an indirect wholly-owned subsidiary of COFCO established in the PRC since 2002 with approval of PBOC. It is subject to the supervision of the PBOC and CBIRC. According to its business licence, it is authorised to provide to the Group all services set out in the New Financial Services Agreement. According to the business licence, COFCO Finance is authorised to provide services such as (a) the provision of financial and financing consultation services, credit appraisal and relevant consulting services and agency business service; (b) assisting implementation of payables and receivables of the transaction amounts; (c) handling of deposits, loans and bills acceptance and discounting; (d) conduct settlements and other relevant settlements; and (e) the provisions of loans and financing leases.

DEFINITIONS

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

“2018 Announcement”	the announcement of the Company issued on 14 December 2018 concerning the continuing connected transactions of the Company in relation to the 2018 Financial Services Agreement
“2018 Financial Services Agreement”	the financial services agreement in relation to the deposit services, fund transfer service, entrustment loan services and other financial services entered into between the Company, Supply Chain (Tianjin) and COFCO Finance on 14 December 2018
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險業監督管理委員會)
“China Foods (Holdings)”	China Foods (Holdings) Limited (中國食品(控股)有限公司), a company incorporated in the British Virgin Islands with limited liability, and an indirect wholly-owned subsidiary of COFCO and a substantial shareholder of the Company
“COFCO”	COFCO Corporation (中糧集團有限公司), a state-owned company established in the PRC which is currently under the purview of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會) and the ultimate controlling shareholder of the Company
“COFCO Coca-Cola”	COFCO Coca-Cola Beverages Limited, a company incorporated in Hong Kong with limited liability, in which the Company indirectly holds 65% interest
“COFCO Finance”	COFCO Finance Corporation Limited (中糧財務有限責任公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of COFCO

“Company”	China Foods Limited (中國食品有限公司), a limited liability company incorporated in Bermuda, the shares of which are listed on the main board of the Stock Exchange
“Deposit Services”	the RMB and foreign currency deposit and related services to be provided by COFCO Finance to Supply Chain (Tianjin) and subsidiaries of the Company under the New Financial Services Agreement
“Director(s)”	the director(s) of the Company
“Entrustment Loan Services”	COFCO Finance serves as a financial agent for loans advanced from certain subsidiaries of the Company to Supply Chain (Tianjin) through entrustment loan arrangements under the New Financial Services Agreement
“Fund Transfer Services”	the fund transfer services provided by COFCO Finance to subsidiaries of the Company under the New Financial Services Agreement
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, was established for the purpose of advising the Independent Shareholders on the terms of the Deposit Services and the Proposed Daily Deposit Cap
“Independent Financial Adviser” or “Chanceton Capital”	Chanceton Capital Partners Limited, a licenced corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Deposit Services and the Proposed Daily Deposit Cap
“Independent Shareholders”	Shareholders other than China Foods (Holdings) and its associates
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

“New Financial Services Agreement”	the financial services agreement in relation to the Deposit Services, the Fund Transfer Service, the Entrustment Loan Services and the Other Financial Services entered into between the Company, Supply Chain (Tianjin) and COFCO Finance on 2 November 2021
“Other Financial Services”	other financial services to be provided by COFCO Finance to Supply Chain (Tianjin) and subsidiaries of the Company pursuant to the New Financial Services Agreement apart from the Deposit Services, the Fund Transfer Services, the Entrustment Loan Services, such as settlement, sale and purchase of foreign exchange and relevant advisory services
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Proposed Daily Deposit Cap”	the proposed maximum daily outstanding balance of deposits (including the corresponding interest accrued thereon) placed by the Group with COFCO Finance in the amount RMB800 million or its equivalent (including the corresponding interest accrued therein) during the Term pursuant to the New Financial Services Agreement.
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SGM”	the special general meeting of the Company to be held to consider and approve, among other things, the New Financial Services Agreement, the transactions contemplated thereunder and the Proposed Daily Deposit Cap
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Chain (Tianjin)”	COFCO Coca-Cola Supply Chain (Tianjin) Limited (中糧可口可樂供應鏈(天津)有限公司), a limited company established in the PRC, which is a non-wholly owned subsidiary of COFCO Coca-Cola

“Term”

the term commencing from 14 December 2021 and expiring on 13 December 2024

In this announcement, the English names of certain PRC entities are translation of their Chinese names and included for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

By Order of the Board
China Foods Limited
Qing Lijun
Managing Director

Beijing, 2 November 2021

As at the date of this announcement, the Board comprises: Mr. Chen Lang as the chairman of the Board and a non-executive director; Mr. Qing Lijun and Mr. Shen Peng as executive directors; Mr. Chen Zhigang and Mr. Chen Gang as non-executive directors; and Messrs. Stephen Edward Clark, Li Hung Kwan, Alfred and Mok Wai Bun, Ben as independent non-executive directors.