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## **DACHAN FOOD (ASIA) LIMITED**

**大成食品（亞洲）有限公司**

**(the “Company”)**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3999)**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

Reference is made to the Company’s announcement dated 9 August 2021 and the Company’s circular dated 24 September 2021 in relation to the continuing connected transactions contemplated under the Existing Agreement entered into between the Company and GWE.

The terms of the Existing Agreement shall expire on 31 December 2024. On 15 March 2024, the Company entered into the Renewal Agreement with GWE.

The Renewal Agreement will be effective for two years starting from 1 January 2025. The major terms of the Renewal Agreement are substantially the same as those of the Existing Agreement.

#### **LISTING RULES IMPLICATIONS**

GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 56.81% of the issued share capital of the Company as at the date of this announcement. Therefore, GWE is a connected person of the Company under the Listing Rules and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios of the proposed annual caps for the Transactions are more than 0.1% but less than 5%, the Transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempted from the circular (including independent financial advice) and shareholders’ approval requirements under Rule 14A.76(2)(a).

## **INTRODUCTION**

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## **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

As the Existing Agreement will expire on 31 December 2024 and the Company from time to time needs to purchase raw materials from the GWE Group for its business, the Company entered into the Renewal Agreement with GWE, details of which are summarised as follows.

## **RENEWAL AGREEMENT**

Set out below are the major terms of the Renewal Agreement:

- Date: 15 March 2024
- Parties:
- (i) the Company – the purchaser (for itself and on behalf of other members of the Group); and
  - (ii) GWE – the supplier (for itself and on behalf of other members of the GWE Group).
- Duration: 2 years starting from 1 January 2025 to 31 December 2026.
- Major terms:
- GWE shall sell and shall procure any and all members of the GWE Group to sell and the Company shall purchase and shall procure any and all members of the Group to purchase (i) coated flour and (ii) fermented soybean products which include:
- (i) the products of the relevant members of the GWE Group (including any instalment of the products or any parts for them); and
  - (ii) the products manufactured by the relevant members of the GWE Group in conformance with the specifications and requirements specified by the relevant members of the Group,

on a non-exclusive basis in accordance with Contracts for Sale and Purchase of Products between the relevant members of the Group and the relevant members of the GWE Group from time to time.

The terms and conditions of Contracts for Sale and Purchase of Products in accordance with the Renewal Agreement shall only comprise (i) the written quotation of the relevant member of the GWE Group accepted by the relevant member of the Group or (ii) the written order of the relevant member of the Group accepted by the relevant member of the GWE Group, subject in either case to the terms and conditions of the Renewal Agreement.

**Price determination:** The prices of the products shall be agreed between the parties to the relevant Contracts for Sale and Purchase of Products on an arm's length basis and shall be on normal commercial terms and shall be within the range of fair price prevailing on the market of the same or similar products in the PRC for the time being.

**Payment:** The relevant member of the Group shall make payment after the delivery of products in accordance with the Contracts for Sale and Purchase of Products.

## **PRICING POLICIES AND INTERNAL CONTROL MEASURES ON PRICE DETERMINATION FOR THE TRANSACTIONS**

The Group purchases (i) coated flour and (ii) fermented soybeans from the GWE Group from time to time.

Given that coated flour belongs to secondary ingredients, its cost is relatively stable when compared to core ingredients (e.g. fermented soybeans), the Group would enter into annual purchase contracts with suppliers setting out delivery terms and conditions, purchase prices and specifications in respect of coated flour to enhance business efficiency. The Group enters into annual purchase contracts with at least 3 suppliers (including GWE Group) in respect of coated flour. The purchase prices of various types of coated flour are determined in the annual purchase contracts and may be subject to adjustments to be agreed by both parties monthly. As there is no published price for reference in the market for the specific type of coated flour with specific formulas and ingredients purchased by the Group, the Group considers (i) the prevailing selling prices of substituting products of other suppliers (including the Independent Third Parties); (ii) current price trends for flour for producing coated flour in the PRC as shown on the professional China Bulk Trading website "China JCI" (中國滙易<sup>1</sup>), independent online sources and related news; and (iii) the cost of the formula and ingredients of the product to be purchased when determining whether the purchase price or the proposed adjusted price is reasonable. The purchase supervisor has over 10 years of experience in relevant industries, he/she will review the purchase price or the proposed adjusted price with reference to the factors above. If the purchase supervisor is satisfied

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<sup>1</sup> Please refer to : <http://www.chinajci.com>

that the purchase prices stipulated in the annual purchase contract or the proposed adjusted price (as the case may be) are reasonable, he/she will approve the contract or the price adjustment (as the case may be).

The actual volume of purchase from a particular supplier is not specified in the annual purchase contract. The Group may purchase coated flour from any supplier with which it has entered into an annual purchase contract. When the Group has to purchase coated flour, it will first consider (i) whether the clients of the Group have any preference or specific requirements on the ingredients or source of production of coated flour and (ii) whether the research and development team of the Group has any specific requirements on the coated flour to be used. If so, the relevant purchase department will only select the supplier meeting all the required specifications. Where more than one supplier meets the required specifications, the relevant purchase department will make purchases from the one which offers the best terms. If there is only one supplier which has entered into an annual purchase contract meeting the required specifications, the relevant purchase department will make comparison with reference to quotations from two other suppliers which are Independent Third Parties and have not entered into an annual purchase contract, and makes purchase from such supplier which offers the best price. If there is no required specification, the relevant purchase department will make purchases from the supplier which offers the best price for the Group.

In terms of the purchase of fermented soybeans, the Group did not enter into any annual purchase contract with any entities. Whenever the Group needs to purchase fermented soybeans, it will inform its potential suppliers, including the GWE Group, of the intended purchase volume and seek quotations from them. Unlike coated flour, the soybeans required for the feed production of the Group is commonly available in the market. Therefore, the relevant purchase department obtains quotations from at least 2 Independent Third Parties and directly compares their quotations. In order to determine the suppliers from which the Group purchases soybeans, the relevant purchase department considers (i) the quotations from each potential supplier and (ii) the quality of soybeans from each potential supplier. The quotations are the primary consideration for the purchase of fermented soybeans by the relevant purchase department. The relevant members of the Group only enter into Contracts for Sale and Purchase of Products with the GWE Group when they offer the same quality and at the same price or at a preferential price compared with other potential suppliers.

Having considered the Group's pricing policies and internal control measures regarding price determination for the Transactions, the Directors (including the independent non-executive Directors) are of the view that the Transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

## HISTORICAL FIGURES

The following table sets out the aggregate value of products purchased under the continuing connected transactions entered into pursuant to the Existing Agreement for the two years ended 31 December 2023 and the 2 months ended 29 February 2024, the annual caps under the Existing Agreement for the three years ending 31 December 2024, and the existing utilisation rates of the annual caps:

	<b>For the year ended 31 December 2022 (Audited) RMB'000</b>	<b>For the year ended 31 December 2023 (Audited) RMB'000</b>	<b>For the 2 months ended 29 February 2024 (Unaudited) (for actual amount only)/ For the year ending 31 December 2024 (for annual cap only) RMB'000</b>
Aggregate Value	24,091	20,431	2,490
Annual Caps	45,190	47,902	50,776
Utilisation Rates <sup>^</sup>	53%	43%	29%

<sup>^</sup> The utilization rates for transactions under the Existing Agreement for the 2 months ended 29 February 2024 were calculated based on two-twelfths of the annual caps set for the year ending 31 December 2024.

## PROPOSED ANNUAL CAPS

The following table sets out the proposed annual caps of the Transactions:

	<b>For the year ending 31 December 2025 RMB'000</b>	<b>For the year ending 31 December 2026 RMB'000</b>
Proposed annual cap	24,721	27,193

## **REASONS FOR THE PROPOSED ANNUAL CAPS**

The main considerations and assumptions made in determining the proposed annual caps for the Transactions are set out below:

- (i) The Group expects that the newly established plant in Bengbu, the PRC will generate growth in the production and sales of processed food and feeds and expects the sales volume of processed food and feeds to grow at an annual rate of approximately 10% over the next three years. As coated flour and fermented soybeans are raw materials required for the production of processed food and feeds, the Group expects that there will be a corresponding increase in the purchase volume of coated flour and fermented soybeans.
- (ii) The purchase amount of coated flour and fermented soybeans by the Group from the GWE Group was approximately RMB20,431 thousand in 2023, and based on the growth rate of 10% per annum, the Group estimates that the relevant purchase amount will be approximately RMB22,474 thousand by the end of 2024, and the estimated purchase amount of coated flour and fermented soybeans for the next two years from 2025 to 2026 will be approximately RMB24,721 thousand and RMB27,193 thousand, respectively.

## **REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

The Directors (including the independent non-executive Directors) consider that the terms of the Renewal Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group and it is in the interests of the Company and the Shareholders as a whole to enter into the Transactions for the following reasons:

The GWE Group has been a very reliable supplier of high quality raw materials to the Group. By entering into the Renewal Agreement, the Group will secure a long term supply of high quality raw materials and products which will be beneficial to the growth of the Group's business development.

## **LISTING RULES IMPLICATIONS**

GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 56.81% of the issued share capital of the Company as at the date of this announcement. Therefore, GWE is a connected person of the Company under the Listing Rules and the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Mr. Han Chia-Yin, Mr. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Chao Tien-Shin and Mr. Ting Yu-Shan are common directors of the Company and GWE and were required under the articles of association of the Company to abstain, and did abstain, from voting on the Board resolutions to approve the Renewal Agreement and the proposed annual caps. Save as disclosed above, none of the Directors has a material interest in the Transactions which required them to abstain from voting on the Board resolution to approve the same.

As all of the applicable percentage ratios of the proposed annual caps for the Transactions are more than 0.1% but less than 5%, the Transactions are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules but are exempted from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.76(2)(a).

## **GENERAL INFORMATION OF THE PARTIES**

The Group is a leading fully integrated animal protein product provider whose business scope covers feeds, poultry, advanced nutritional formulae for aquatic animals and processed foods. For more information on the Group, please visit its official website at <http://www.dfa3999.com> (the information contained in this website does not form part of this announcement).

The principal business activities of GWE are production and processing of soybean products, feeds and chicken meat.

## **DEFINITIONS**

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

“Board”	the board of Directors;
“Company”	DaChan Food (Asia) Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Stock Exchange (stock code: 03999);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“Contracts for Sale and Purchase of Products”	the contracts for sale and purchase of coated flour and/or fermented soybeans entered into between the relevant member(s) of the Group and the relevant member(s) of the GWE Group from time to time pursuant to the Renewal Agreement;
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries from time to time;
“GWE”	Great Wall Enterprise Co. Ltd., a joint stock company established under the laws of the Republic of China, whose shares are listed on the Taiwan Stock Exchange Corporation, and the ultimate controlling shareholder of the Company;
“GWE Group”	GWE and its subsidiaries from time to time but excludes the members of the Group for the purpose of the Transactions;
“Existing Agreement”	the master purchase (renewal) agreement entered into between the Company and GWE dated 9 August 2021;

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Third Party/ Parties”	any third party that is not a connected person of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as amended from time to time;
“Renewal Agreement”	the master purchase (renewal) agreement entered into between the Company and GWE dated 15 March 2024;
“PRC”	the People’s Republic of China excluding Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan for the purpose of this announcement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	holder(s) of share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed to it under the Listing Rules;
“Transactions”	the transactions contemplated under the Renewal Agreement; and
“%”	per cent.

By order of the Board  
**James Chun-Hsien Wei**  
*Chairman*

Hong Kong, 15 March 2024

*As at the date of this announcement, Mr. James Chun-Hsien Wei (Chairman) and Mr. Han Chia-Yin are the executive directors of the Company, Mr. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Han Jia-Hwan, Mr. Chao Tien-Shin and Mr. Wei Anning are the non-executive directors of the Company, and Mr. Ting Yu-Shan, Mr. Hsia, Li-Yan, Ms. Lee Tsai, Yu-Ling and Mr. Kao, Koong-Lian are the independent non-executive directors of the Company.*