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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 TWO CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Company’s announcement dated 26 April 2021 regarding, among others, two continuing connected transactions contemplated under:

1. Marubeni Master Purchase Agreement entered into between the Company and Marubeni PRC; and
2. Marubeni Master Supply Agreement entered into between the Company and Marubeni.

The terms of all Current Agreements shall expire on 31 December 2024.

On 13 August 2024, the Company entered into the following agreements:

1. Marubeni Master Purchase (Renewal) Agreement with Marubeni PRC; and
2. Marubeni Master Supply (Renewal) Agreement with Marubeni.

The Renewal Agreements will be effective for three years starting from 1 January 2025. The major terms of the Renewal Agreements are substantially the same as those of the Current Agreements.

LISTING RULES IMPLICATIONS

Marubeni is the ultimate holding company of Marubeni PRC, and Marubeni is a substantial shareholder of a subsidiary of the Company. Therefore, each of Marubeni and Marubeni PRC is a connected person of the Company under the Listing Rules and the transactions contemplated under the Renewal Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Renewal Agreements are entered into by the Company with connected persons at the subsidiary level on normal commercial terms and have been approved by the Board and the Directors (including independent non-executive Directors) are of the view that the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole, the continuing connected transactions contemplated thereunder, though subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, are exempt from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

INTRODUCTION

Reference is made to the Company's announcement dated 26 April 2021 regarding, among others, two continuing connected transactions contemplated under:

1. Marubeni Master Purchase Agreement entered into between the Company and Marubeni PRC; and
2. Marubeni Master Supply Agreement entered into between the Company and Marubeni.

The terms of all Current Agreements shall expire on 31 December 2024. On 13 August 2024, the Company entered into the following agreements:

1. Marubeni Master Purchase (Renewal) Agreement with Marubeni PRC; and
2. Marubeni Master Supply (Renewal) Agreement with Marubeni.

The Renewal Agreements will be effective for three years starting from 1 January 2025. The major terms of the Renewal Agreements are substantially the same as those of the Current Agreements. Details of the Renewal Agreements are set out below.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

1. Marubeni Master Purchase (Renewal) Agreement

As the Marubeni Master Purchase Agreement will expire on 31 December 2024 and the Company and Marubeni PRC intended to carry out transactions of similar nature to those under the Marubeni Master Purchase Agreement, they entered into the Marubeni Master Purchase (Renewal) Agreement.

Set out below are the major terms of the Marubeni Master Purchase (Renewal) Agreement:

Date: 13 August 2024

Parties: (i) the Company – the purchaser (for itself and on behalf of PRC Members of the Group); and
(ii) Marubeni PRC – the supplier (for itself and on behalf of Members of the Marubeni PRC Group).

Duration: 3 years starting from 1 January 2025 to 31 December 2027

Major terms: The Company agrees to procure PRC Members of the Group to purchase and Marubeni PRC agrees to procure Members of the Marubeni PRC Group to sell raw materials processed, manufactured, produced, sold and/or wholesaled by the Members of the Marubeni PRC Group for food on a non-exclusive basis pursuant to sales contracts to be entered into between the relevant PRC Members of the Group and the relevant Members of the Marubeni PRC Group from time to time in accordance with the terms of the Marubeni Master Purchase (Renewal) Agreement. The terms of such sales contracts shall not contradict the Marubeni Master Purchase (Renewal) Agreement (except for terms in relation to general matters such as notice clause).

Price determination: The prices of the raw materials shall be agreed between the parties to the relevant sales contract on an arm's length basis and shall be on normal commercial terms and the price shall be within the range of fair price of the same or similar raw materials provided by the Member of the Marubeni PRC Group to Independent Third Parties in the PRC when the Member of the Marubeni PRC Group signs the relevant sales contract.

Payment: The Company shall procure relevant PRC Member of the Group to pay the price in accordance with the sales contract entered into between the relevant PRC Member of the Group and the relevant Member of the Marubeni PRC Group from time to time.

2. Marubeni Master Supply (Renewal) Agreement

As the Marubeni Master Supply Agreement will expire on 31 December 2024 and the Company and Marubeni intended to carry out transactions of similar nature to those under the Marubeni Master Supply Agreement, they entered into the Marubeni Master Supply (Renewal) Agreement.

Set out below are the major terms of the Marubeni Master Supply (Renewal) Agreement:

Date: 13 August 2024

Parties: (i) the Company – the supplier (for itself and on behalf of other members of the Group); and

(ii) Marubeni – the purchaser.

Duration: 3 years starting from 1 January 2025 to 31 December 2027

Major terms: Marubeni agrees to purchase and the Company (for itself and on behalf of other members of the Group) agrees to sell meat related products of the relevant member of the Group (including any instalment of the goods or any parts for them) as set out in the written purchase order placed by Marubeni in accordance with the terms and conditions of the Marubeni Master Supply (Renewal) Agreement.

Price determination: The price of the products shall be agreed between the relevant member of the Group and Marubeni by reference to the cost of production for the products involved and using the same price determination basis as that adopted by the relevant member of the Group from time to time for sale of the same or similar products to its other customers who are Independent Third Parties.

Payment: Marubeni will, upon acceptance of the products tendered in conformity with the purchase order placed by Marubeni, pay the purchase price of the products within the period and manner as laid down in the said purchase order.

PRICING POLICIES AND INTERNAL CONTROL MEASURES REGARDING PRICE DETERMINATION FOR THE TRANSACTIONS

1. Purchase of raw materials under the Marubeni Master Purchase (Renewal) Agreement

The Group purchases raw materials for food, including coated flour, from the Members of the Marubeni PRC Group from time to time.

The Group enters into annual purchase contracts with at least 3 suppliers (including Marubeni PRC) in respect of raw materials for food. The purchase prices of various types of raw materials for food are determined in the annual purchase contracts and may be subject to adjustments (if necessary) to be agreed by both parties monthly.

As the raw materials for food purchased from the Members of the Marubeni PRC Group is of specific formulas and ingredients, there is no public price for reference for similar raw materials for food. Therefore, the Group considers (i) the prevailing selling prices of substituting raw materials of other suppliers who are Independent Third Parties and (ii) the cost of the formula and ingredients of such raw materials to be purchased when assessing whether the purchase price or proposed adjusted price is reasonable. The purchase supervisor reviews the purchase price or suggested adjusted price with reference to the factors above. If the purchase supervisor is satisfied that the purchase prices stipulated in the annual purchase contract or the suggested 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 buy raw materials for food from any supplier with which the Group has entered into an annual purchase contract. When the Group has to purchase raw materials for food, it will first consider (i) whether the clients of the Group have any preference or specific requirements on the ingredient or source of production of raw materials for food and (ii) whether the research and development team of the Group has any specific requirements on the raw materials for food 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.

2. Supply of products under Marubeni Master Supply (Renewal) Agreement

The Group supplies meat related products to Marubeni.

After receiving Marubeni's request for meat related products, the Group will give a written quotation to Marubeni and deliver the products after both parties agree on the price.

As the meat related products supplied to Marubeni are customized and no other customers would purchase such specific types of products from the Group, the Group will determine the quotation with reference to the production cost plus a margin of at least 10%. The Group will subsequently form an internal price for reference on such basis and enter the internal price for reference to the information system maintained by the Group. The Group will update such internal price for reference monthly. If the quotation price is below the internal reference price in the information system, the relevant sales department head has to review the terms proposed by the relevant sales department and ensure the terms offered to Marubeni are no more favourable than those offered to Independent Third Parties. In determining the terms of supply, the Group treats Marubeni equally as other purchasers (if any) save and except that the long-established business relationship between the Group and Marubeni is taken into account.

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

HISTORICAL FIGURES

The following table sets out the respective aggregate value of products sold and purchased under the continuing connected transactions entered into pursuant to each of the Current Agreements for the two years ended 31 December 2023 and the 7 months ended 31 July 2024, the respective annual caps under the Current Agreements for the three years ending 31 December 2024, and the corresponding utilisation rates of the existing annual caps:

Continuing connected transactions under the Current Agreements			For the year ended	For the year ended	For the 7 months
			31 December 2022	31 December 2023	ended 31 July 2024
			(audited)	(audited)	(unaudited)
			<i>RMB'000</i>	<i>RMB'000</i>	(for actual amount only)/for the year ending
					31 December 2024
					(for annual cap only)
					<i>RMB'000</i>
1.	Marubeni Master Purchase Agreement	Actual	2,085	2,114	1,244
		Annual Caps	5,200	5,500	5,800
		Utilisation Rates [^]	40%	38%	37%
2.	Marubeni Master Supply Agreement	Actual	91,956	75,298	36,913
		Annual Caps	308,000	314,000	320,000
		Utilisation Rates [^]	30%	24%	20%

[^] The utilisation rates for transactions under the Current Agreements for the 7 months ended 31 July 2024 were calculated based on seven-twelfth of the annual caps set for the year ended 31 December 2024.

PROPOSED ANNUAL CAPS

The following table sets out the respective proposed annual caps of the Transactions under each of the Renewal Agreements:

Continuing connected transactions under the Renewal Agreements		For the year ending 31 December 2025 <i>RMB'000</i>	For the year ending 31 December 2026 <i>RMB'000</i>	For the year ending 31 December 2027 <i>RMB'000</i>
1.	Marubeni Master Purchase (Renewal) Agreement	Proposed annual cap 3,562	3,776	4,002
2.	Marubeni Master Supply (Renewal) Agreement	Proposed annual cap 168,000	186,000	210,000

REASONS FOR THE PROPOSED ANNUAL CAPS

The major basis and assumptions for determining the proposed annual caps for the two continuing connected transactions are set out below.

1. Proposed annual caps for Marubeni Master Purchase (Renewal) Agreement

The proposed annual caps for the transactions contemplated under the Marubeni Master Purchase (Renewal) Agreement are determined after taking into account the following factors:

- (i) the raw materials for food purchased by the PRC Members of the Group from the Members of the Marubeni PRC Group is mainly used in the cooked food production lines of the cooked food processing factory in Dalian, the PRC. In 2023, the Group's purchase amount was RMB2,114 thousand, and based on an annual growth rate of 6% (the average GDP growth rate in the PRC), it is estimated that the purchase amount of raw materials for food in future will be approximately RMB2,240 thousand, RMB2,375 thousand, RMB2,517 thousand and RMB2,668 thousand in 2024, 2025, 2026 and 2027 respectively; and

(ii) based on the above estimated purchase amount, an approximately 50% flexibility buffer is then added to cover factors such as fluctuations in raw material prices and exchange rate for raw materials for food, taking into account in particular:

(a) as indicated by relevant data of the Chicago Board of Trade, the price fluctuation of the relevant raw material (i.e. international wheat) was approximately 50% last year; and

(b) the volatility of the exchange rate of RMB against USD was approximately 7% last year.

The estimated cap for the purchase amount of raw materials for food by the PRC Members of the Group from Members of the Marubeni PRC Group for the next three years, i.e. 2025 to 2027, is set at RMB3,562 thousand, RMB3,776 thousand and RMB4,002 thousand respectively.

2. Proposed annual caps for Marubeni Master Supply (Renewal) Agreement

The proposed annual caps for the transactions contemplated under the Marubeni Master Supply (Renewal) Agreement are determined after taking into account the following factors:

(i) As order from a particular client of Marubeni decreased, the total sales of meat related products by the Group to Marubeni declined to RMB75,298 thousand in 2023. With the recent visit from this client, it is expected to strengthen the sales, and there is a possibility of the received orders from Marubeni recovering and increasing subsequently. It is expected the sales volume will be 2,500 tons, 2,800 tons, 3,100 tons and 3,500 tons for 2024, 2025, 2026 and 2027 respectively. Calculated on an estimated price of RMB40,000 per ton, it is expected that the total sales of meat related products to Marubeni will be RMB100,000 thousand, RMB112,000 thousand, RMB124,000 thousand and RMB140,000 thousand in 2024, 2025, 2026 and 2027 respectively;

(ii) Based on the above estimated sales amount, an approximately 50% flexibility buffer is then added to cover factors such as fluctuations in raw material prices and exchange rate for meat related products, taking into account in particular:

(a) as indicated by the relevant data of the Chicago Board of Trade, the price fluctuation of relevant raw material (i.e. international wheat) was approximately 50% last year; and

(b) the volatility of the exchange rate of RMB against USD was approximately 7% last year.

Therefore, the estimated cap for the sales of meat related products by the Group to Marubeni is set at RMB168,000 thousand, RMB186,000 thousand and RMB210,000 thousand from 2025 to 2027 respectively.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (including the independent non-executive Directors) consider that the terms of each of the Renewal Agreements 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:

1. Marubeni Master Purchase (Renewal) Agreement

In respect of the Marubeni Master Purchase (Renewal) Agreement, the transactions thereunder will continue to facilitate the smooth operation of the Group's business by securing a stable and reliable source of high quality raw materials necessary for the Group's operation.

2. Marubeni Master Supply (Renewal) Agreement

Marubeni is a major client of the Group. By entering into the Marubeni Master Supply (Renewal) Agreement, a closer and long term supplier-customer relationship with Marubeni, which is beneficial to the Group, can be secured. It is also expected that relevant transactions can generate considerable revenue for the Group. Besides, by maintaining a good co-operation relationship with Marubeni, the Group may expand its domestic and overseas market with the assistance of Marubeni.

LISTING RULES IMPLICATIONS

Marubeni is the ultimate holding company of Marubeni PRC, and Marubeni is a substantial shareholder of a subsidiary of the Company. Therefore, each of Marubeni and Marubeni PRC is a connected person of the Company under the Listing Rules and the transactions contemplated under the Renewal Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Renewal Agreements are entered into by the Company with connected persons at the subsidiary level on normal commercial terms and have been approved by the Board and the Directors (including independent non-executive Directors) are of the view that the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and Shareholders as a whole, the continuing connected transactions contemplated thereunder, though subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules, are exempt from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

None of the Directors has a material interest in the Transactions which required them to abstain from voting on the Board resolutions to approve the same.

GENERAL INFORMATION OF THE PARTIES

The Group is a leading fully integrated animal protein provider whose business scope covers feeds, one-stop industrial chain of broilers and food processing, etc. For more information on the Group, please visit its official website at <http://www.dachanfoodasia.com> (the information that appears in this website does not form part of this announcement).

The principal business activities of Marubeni and Marubeni PRC are trading of commodities including but not limited to agri-marine products, metal and mineral, and energy products.

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: 3999);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“Current Agreements”	the Marubeni Master Purchase Agreement and the Marubeni Master Supply Agreement;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries from time to time;
“HK\$”	Hong Kong dollars, the lawful currency of 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 and the term “Independent Third Parties” shall be construed accordingly;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as amended from time to time;

“Marubeni”	Marubeni Corporation, a company incorporated in Japan with limited liability and whose shares are listed on the Tokyo Stock Exchange, Inc.;
“Marubeni Master Purchase Agreement”	the master purchase (renewal 2021) agreement* (主購買(二零二一年續期)協議) entered into between the Company and Marubeni PRC dated 26 April 2021;
“Marubeni Master Purchase (Renewal) Agreement”	the master purchase (renewal 2024) agreement* (主購買(二零二四年續期)協議) entered into between the Company and Marubeni PRC dated 13 August 2024;
“Marubeni Master Supply Agreement”	the master supply (renewal 2021) agreement entered into between the Company and Marubeni dated 26 April 2021;
“Marubeni Master Supply (Renewal) Agreement”	the master supply (renewal 2024) agreement entered into between the Company and Marubeni dated 13 August 2024;
“Marubeni PRC”	Marubeni (PRC) Limited* (丸紅(中國)有限公司), a company established in the PRC and a subsidiary of Marubeni;
“Member(s) of the Marubeni PRC Group”	the wholly-owned subsidiaries established by Marubeni PRC in the PRC from time to time;
“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;
“PRC Member(s) of the Group”	the subsidiaries established by the Group in the PRC from time to time;
“Renewal Agreements”	the Marubeni Master Purchase (Renewal) Agreement and the Marubeni Master Supply (Renewal) Agreement;
“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 and the term “subsidiaries” shall be construed accordingly;
“Transactions”	the transactions contemplated under the Renewal Agreements;

“USD” US dollars, the lawful currency of the United States of America; and

“%” per cent.

By order of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 13 August 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.

*The English transliteration of the Chinese name(s) in this announcement, where indicated with *, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*