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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 18 April 2018 and the Company’s circular dated 13 June 2018 in relation to the continuing connected transactions contemplated under the GWE Master Purchase Agreement entered into between the Company and GWE.

The terms of GWE Master Purchase Agreement shall expire on 31 December 2021. On 9 August 2021, the Company entered into the Master Purchase (Renewal) Agreement with GWE.

The Master Purchase (Renewal) Agreement will be effective for three years starting from 1 January 2022. The major terms of the Master Purchase (Renewal) Agreement are substantially the same as those of the GWE Master Purchase Agreement.

LISTING RULES IMPLICATIONS

GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 52.04% 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 contemplated under the Master Purchase (Renewal) Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at least one of the applicable percentage ratios (other than the profits ratio) calculated based on the proposed annual caps of the transactions contemplated under the Master Purchase (Renewal) Agreement exceed 5%, they are subject to the reporting, announcement, Independent Shareholders' approval, circular and annual review requirements under the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions under the Master Purchase (Renewal) Agreement. The Company has also appointed independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Master Purchase (Renewal) Agreement. The Company is expected to despatch to the Shareholders on or before 17 September 2021 a circular containing further details of the Master Purchase (Renewal) Agreement, letters from the Independent Board Committee and the independent financial advisers, and a notice convening the EGM.

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RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

As the GWE Master Purchase Agreement will expire on 31 December 2021 and the Company from time to time needs to purchase raw materials from the GWE Group for its business, the Company entered into Master Purchase (Renewal) Agreement with GWE, details of which are summarised as follows.

Master Purchase (Renewal) Agreement

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

Date: 9 August 2021

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:** Subject to the approval of the Independent Shareholders at the EGM, 3 years starting from 1 January 2022 to 31 December 2024.
- 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 meal 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 to be entered into 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 Master Purchase (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 Master Purchase (Renewal) Agreement.
- Price determination:** The prices of the products shall be agreed between the parties to the relevant contract 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 pay the price of the products within 60 days of the date of the invoice sent from the relevant member of the GWE Group after the delivery of products.

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

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

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 a 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 China as shown on the professional China Bulk Trading website “China JCI” (中國滙易), 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 experiences in relevant industries and has been leading the purchase department of the Company for 5 years, he/she will review the purchase price or the proposed 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 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 buy 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 ingredient 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 soybean, the Group did not enter into any annual purchase contract with any entities. Whenever the Group needs to purchase fermented soybean, it will inform potential suppliers, including the GWE Group, of the intended purchase amount and seek quotations from them. Unlike coated flour, the soybean purchased by 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 soybean, the relevant purchase department considers (i) the quotations from each potential supplier and (ii) the quality of soybean from each potential supplier. The quotations are the primary consideration for the purchase of fermented soybean 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 as other potential suppliers.

Having considered the Group's pricing policies and internal control measures regarding price determination for the transactions under the Master Purchase (Renewal) Agreement of the Group, the Directors (excluding the independent non-executive Directors, whose views will be set out in the circular to be sent by the Company) are of the view that the transactions under the Master Purchase (Renewal) Agreement 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 GWE Master Purchase Agreement for the two years ended 31 December 2020 and the 7 months ended 31 July 2021, the annual caps under the GWE Master Purchase Agreement for the three years ending 31 December 2021, and the existing utilisation rates of the annual caps:

	For the year ended 31 December 2019 (Audited) RMB'000	For the year ended 31 December 2020 (Audited) RMB'000	For the 7 months ended 31 July 2021 (Unaudited) (for actual amount only)/ For the year ending 31 December 2021 (for annual cap only) RMB'000
Aggregate Value	19,694	12,324	8,957
Annual Caps	30,000	35,000	40,000
Utilisation Rates [^]	66%	35%	38%

[^] The utilization rates for transactions under the GWE Master Purchase Agreement for the 7 months ended 31 July 2021 were calculated based on seven-twelfths of the annual caps set for the year ended 31 December 2021.

PROPOSED ANNUAL CAPS

The following table sets out the proposed annual caps of the transactions under the Master Purchase (Renewal) Agreement:

	For the year ended 31 December 2022 <i>RMB'000</i>	For the year ended 31 December 2023 <i>RMB'000</i>	For the year ended 31 December 2024 <i>RMB'000</i>
Proposed annual cap	45,190	47,902	50,776

REASONS FOR THE PROPOSED ANNUAL CAPS

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

- (i) The estimated purchase amount by the Group from the GWE Group will be approximately RMB9,425 thousand by the end of 2021, and based on the expected growth rate of 6% per annum, the estimated purchase amount for the next three years from 2022 to 2024 will be RMB9,990 thousand, RMB10,590 thousand and RMB11,225 thousand, respectively;
- (ii) In view of the cost advantage of fermented soybean, the Group intends to expand its use in feed formulations. Based on the amount of fermented soybean purchased by the Group from the Independent Third Parties for the 5 months ended 31 May 2021, the Group estimates that the purchase amount of fermented soybean will be approximately RMB33,208 thousand by the end of 2021, and based on the expected growth rate of 6% per annum, the estimated purchase amount of fermented soybean for the next three years from 2022 to 2024 will be RMB35,200 thousand, RMB37,312 thousand and RMB39,551 thousand, respectively;
- (iii) Based on the above (i) and (ii) estimations, the cap for the purchase amount by the Group from the GWE Group from 2022 to 2024 will be RMB45,190 thousand, RMB47,902 thousand and RMB50,776 thousand, respectively.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (excluding the independent non-executive Directors, whose views will be set out in the circular to be sent by the Company) consider that the terms of the Master Purchase (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 under the Master Purchase (Renewal) Agreement 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 Master Purchase (Renewal) Agreement, the Group will secure a longer term of supply of high quality raw materials and products which will be beneficial to the growth of the Group's business development.

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GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 52.04% 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 contemplated under the Master Purchase (Renewal) Agreement 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 Master Purchase (Renewal) Agreement and the proposed annual caps. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Master Purchase (Renewal) Agreement which required them to abstain from voting on the Board resolution to approve the same.

As at least one of the applicable percentage ratios (other than the profits ratio) calculated based on the proposed annual caps of the transactions contemplated under the Master Purchase (Renewal) Agreement exceed 5%, they are subject to the reporting, announcement, Independent Shareholders' approval, circular and annual review requirements under the Listing Rules.

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions contemplated under the Master Purchase (Renewal) Agreement. The Company has also appointed independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Master Purchase (Renewal) Agreement. The Company is expected to despatch to the Shareholders on or before 17 September 2021 a circular containing further details of the Master Purchase (Renewal) Agreement, letters from the Independent Board Committee and the independent financial advisers, and a notice convening the EGM.

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 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;
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve the transactions contemplated under the Master Purchase (Renewal) Agreement;
“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 under the Master Purchase (Renewal) Agreement;
“GWE Master Purchase Agreement”	the master (renewal) purchase agreement entered into between the Company and GWE dated 18 April 2018;
“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 Board Committee”	a committee of the Board established for reviewing the terms of the transactions under the Master Purchase (Renewal) Agreement, consisting only of all independent non-executive Directors who do not have any material interest in the transactions;

“Independent Shareholders”	Shareholders who do not have any material interest in the transactions under the Master Purchase (Renewal) Agreement;
“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;
“Master Purchase (Renewal) Agreement”	the master (renewal) purchase agreement entered into between the Company and GWE dated 9 August 2021;
“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; and
“%”	per cent.

By order of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 9 August 2021

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. Way Yung-Do, Mr. Chen Chih, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan are the independent non-executive directors of the Company.