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DACHAN FOOD (ASIA) LIMITED

大成食品(亞洲)有限公司

(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 24 April 2020 in relation to the continuing connected transactions contemplated under the Current Agreement entered into between the Company and DLF-SH.

The term of the Current Agreement will expire on 30 April 2023. On 30 March 2023, the Company entered into the Renewal Agreement with DLF-SH.

The Renewal Agreement will be effective for two years and eight months starting from 1 May 2023. The major terms of the Renewal Agreement are substantially the same as those of the Current Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GWIH, a wholly-owned subsidiary of GWE (the ultimate controlling shareholder of the Company), holds 43% equity interests in DLF-SH. As such, DLF-SH is a connected person of the Company. Under the Listing Rules, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all applicable percentage ratios in respect of the proposed annual caps under the Renewal Agreement 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 exempt from the circular (including the independent financial advice) and shareholders' approval requirements under Rule 14A.76(2)(a).

Reference is made to the Company's announcement dated 24 April 2020 in relation to the continuing connected transactions contemplated under the Current Agreement entered into between the Company and DLF-SH.

The term of the Current Agreement will expire on 30 April 2023. On 30 March 2023, the Company entered into the Renewal Agreement with DLF-SH.

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Renewal Agreement

Major terms of the Renewal Agreement are set out below:

- Date: 30 March 2023
- Parties: (i) the Company – the purchaser, for itself and on behalf of other members of the Group; and
(ii) DLF-SH – the supplier, for itself and on behalf of other members of DLF.
- Duration: Two years and eight months starting from 1 May 2023 to 31 December 2025.
- Major terms: The Company agrees to purchase and procure members of the Group to purchase and DLF-SH agrees to supply and procure relevant members of DLF to supply products processed, manufactured, produced, sold or distributed by the relevant members of DLF including but not limited to flour and wheat bran on a non-exclusive basis pursuant to contracts of purchase to be entered into between the relevant members of the Group and the relevant members of DLF from time to time in accordance with the terms of the Renewal Agreement. The terms of such contracts of purchase shall not contradict with the Renewal Agreement (except for terms in relation to general matters such as notice clause).
- Price determination: The prices of the products shall be agreed between the parties to the relevant contract of purchase on an arm's length basis and shall be on normal commercial terms and 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 Company shall procure the members of the Group to pay the price of the products in accordance with the contract of purchase entered into between the relevant member of the Group and the relevant member of DLF from time to time after the relevant member of DLF has supplied products in accordance with the said contract of purchase.

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

The Group intends to purchase (i) flour and (ii) wheat bran from DLF, and internal control procedures are in place to ensure that the transactions of product purchase from relevant members of DLF are in compliance with the terms of the Renewal Agreement.

In respect of the purchase of flour, the Group will enter into annual purchase contracts with at least 3 suppliers (including DLF). The purchase prices of various types of flour are determined in the annual purchase contracts and may be subject to adjustments to be agreed by both parties every month. Given there is no public reference price in the market for the particular type of flour whose composition and ingredients are identical to those sourced by the Group, in determining whether the purchase prices or the suggested adjusted price are reasonable, the Group considers (i) the selling prices of substituting products from other suppliers (including Independent Third Parties); (ii) the prevailing price trend of wheat for production of flour in the PRC as shown in “China JCI” (website: <https://www.chinajci.com/>, a professional China bulk commodity transaction website), independent online sources, and relevant news; and (iii) the cost of the components and ingredients of the products to be purchased. The purchase supervisor, who has over 10 years of experience in the relevant industry and has led the purchase department of the Company for over 5 years, will review the purchase prices or the 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 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 contracts. The Group may buy flour from any supplier with which it has entered into an annual purchase contract. When the Group has to purchase 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 flour and/or (ii) whether the research and development team of the Group has any specific requirements on the flour to be used. If so, the relevant purchase department will only select the supplier(s) meeting the required specifications for the purchase. When more than one supplier meets the required specifications, the relevant purchase department will make purchase from the one which offers the best terms. If there is no required specification, the relevant purchase department will make purchase from the supplier which offers the best price to the Group. If only one supplier with an annual purchase contract (other than DLF) is able to provide a quotation, the relevant purchase department will then compare the quotation with another Independent Third Party supplier without an annual purchase contract and select the supplier with the best price to make the purchase.

In respect of the purchase of wheat bran, the Group did not enter into any annual purchase contracts with any entity. Whenever the Group needs to purchase wheat bran, it will inform the potential suppliers (including but not limited to DLF) of the amount of intended purchase and seek quotations from them. Unlike flour, the type of wheat bran sourced by the Group is common in the market. The relevant purchase department will therefore obtain quotations from at least 2 Independent Third Parties and will compare their quoted prices directly. In determining from which supplier the Group purchases wheat bran, the relevant purchase department takes into account (i) the quotations from various potential suppliers; (ii) the quality of wheat bran of various potential suppliers; and (iii) the

daily price trend of wheat bran as shown on www.cofeed.com (天下糧倉糧油飼料資訊網) (website: <http://www.cofeed.com/corn/produce.html>, a professional China oils, grains and feeds information website). Price is the primary consideration when relevant purchase department sources wheat bran. The relevant member of the Group only enters into contract of purchase with DLF when DLF offers products with the same quality and same price or more favorable prices 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 Current Agreement for the two years ended 30 April 2022 and the ten months ended 28 February 2023, the annual caps under the Current Agreement for the three years ending 30 April 2023, and the corresponding utilisation rates of the existing annual caps:

		For the year ended 30 April 2021 (audited) <i>RMB'000</i>	For the year ended 30 April 2022 (audited) <i>RMB'000</i>	For the ten months ended 28 February 2023 (unaudited) (for actual amount only)/ for the year ending 30 April 2023 (for annual cap only) <i>RMB'000</i>
Continuing connected transactions under the Current Agreement				
Current Agreement	Actual	15,453	14,049	13,943
	Annual Caps	16,860	19,250	22,000
	Utilisation Rates [^]	92%	73%	76%

[^] The utilisation rate for the related transactions under the Current Agreement as of 28 February 2023 (76%) is calculated by the ten-month purchase amount (RMB13,943,000) divided by the annual cap amount adjusted in proportion to the ten month period (i.e. RMB18,333,000).

PROPOSED ANNUAL CAPS

The following table sets out the proposed annual caps of the transactions under the Renewal Agreement:

	For the eight months ending 31 December 2023 RMB'000	For the year ending 31 December 2024 RMB'000	For the year ending 31 December 2025 RMB'000
Proposed annual caps	13,800	21,586	24,932

REASONS FOR THE PROPOSED ANNUAL CAPS

The major basis and assumptions for determining the proposed annual caps for the Transactions are set out below:

- (i) The Group expects the newly established plant in Bengbu, the PRC to bring about growth in the production and sales of processed food and feeds and expects the annual growth rate of processed food and feeds sales to be approximately 10% in the next three years. Also, with reference to the estimated GDP growth rate of 5% in the PRC in 2023, the Group expects processed food and feeds sales to grow at an annual rate of approximately 15.5% over the next three years. Given that flour and wheat bran are raw materials needed for processed food and feeds production, the Group expects a corresponding increase in the purchase of flour and wheat bran.
- (ii) The amount of flour and wheat bran purchased by the Group from DLF for the eight months period ended May to December 2022 was approximately RMB11,948,000. On this basis and combined with the above 15.5% annual growth rate, the estimated amount of flour and wheat bran purchases for the eight months period from 1 May 2023 to 31 December 2023 would be approximately RMB13,800,000.
- (iii) The amount of flour and wheat bran purchased by the Group from DLF for the twelve months period from January to December 2022 was approximately RMB16,181,000. On this basis and combined with the above 15.5% annual growth rate, the estimated amounts of flour and wheat bran purchases for the twelve months period from 1 January to 31 December 2024 and the twelve months period from 1 January to 31 December 2025 are approximately RMB21,586,000 and RMB24,932,000 respectively.

REASON 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 reason:

DLF are very reliable suppliers of high quality raw materials. By entering into the Renewal Agreement with DLF, the Group would secure a long term supply of high quality raw materials and products which will be beneficial to the growth of the Group's business.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GWIH, a wholly-owned subsidiary of GWE (the ultimate controlling shareholder of the Company), holds 43% equity interests in DLF-SH. As such, DLF-SH is a connected person of the Company. Under the Listing Rules, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As all applicable percentage ratios in respect of the proposed annual caps under the Renewal Agreement 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 exempt from the circular (including the independent financial advice) and shareholders' approval requirements under Rule 14A.76(2)(a). Mr. Han Chia-Yau and Mr. Harn Jia-Chen are common directors of the Company and DLF-SH and are 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 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.

GENERAL INFORMATION OF THE PARTIES

The Group is a leading fully integrated animal protein provider whose products range from feeds, poultry and advanced nutritional formulas for aquatic animals to processed foods. For more information on the Group, please visit its official website at <http://www.dachanfoodasia.com>. The information that appears in that website does not form part of this announcement.

The principal business activities of DLF-SH are production, processing and sales of flour, feed powder and wheat bran.

DEFINITIONS

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

“Board”	the board of Directors of the Company;
“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;
“Current Agreement”	the master purchase agreement entered into between the Company and DLF-SH on 24 April 2020;
“Director(s)”	the director(s) of the Company;
“DLF”	DLF-SH and its subsidiaries from time to time;
“DLF-SH”	DaChan Liangyou Foods (Shanghai) Co., Ltd.* (大成良友食品(上海)有限公司) a company established under the laws of the PRC with limited liability;
“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;
“GWIH”	Great Wall International (Holdings) Ltd., a wholly-owned subsidiary of GWE;
“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(ies)”	any third party(ies) 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;
“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;
“Renewal Agreement”	the master purchase (renewal in 2023) agreement entered into between the Company and DLF-SH on 30 March 2023;
“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” or “subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Transactions”	the transactions contemplated under the Renewal Agreement; and
“%”	per cent.

On behalf of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 30 March 2023

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.

The English translation of Chinese names or words in this announcement, where indicated by “”, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*