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**CHINA KANGDA FOOD COMPANY LIMITED**

**中國康大食品有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Hong Kong Stock Code (Primary Listing): 834)**

**(Singapore Stock Code (Secondary Listing): P74)**

**CONTINUING CONNECTED TRANSACTIONS  
MUTUAL PROVISION OF PRODUCTS  
AND  
LEASE AGREEMENT**

**THE FRAMEWORK AGREEMENT AND THE LEASE AGREEMENT**

Reference is made to the announcement of the Company dated 2 December 2022 and the circular of the Company dated 24 February 2023 in relation to the continuing connected transactions on mutual provision of products. Following the expiry of the Previous Framework Agreement on 31 December 2023, on 31 July 2024, the Company (for and on behalf of the Group) and KD Holding (for and on behalf of KD Holding Group) entered into the Framework Agreement in respect of the Mutual Provision of Products.

On 31 July 2024, Kangda Foods (as the lessor) and Kangda Changrong (as the leasee) entered into a Lease Agreement in respect of the Lease of Premises.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, KD Holding is owned as to approximately 5.295% by Mr. Gao Yanxu, one of the executive Directors, and is ultimately controlled by Mr. Gao Sishi, holding approximately 94.705% equity interest in KD Holding. Mr. Gao Sishi is the director of three wholly-owned subsidiaries of the Company and a relative of Mr. Gao Yanxu. Mr. Gao Yanxu is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Gao Sishi, who is also a relative of Mr. Gao Yanxu and a director of three wholly-owned subsidiaries of the Company, is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. As such, KD Holding is an associate of a connected person at subsidiary level. Accordingly, each of the Provision of Products, the Provision of Breeder Rabbits, the Purchase of Rabbits and the Purchase of Products constitutes continuing connected transactions of the Company.

Kangda Changrong is a company incorporated in the PRC with limited liability. As at the date of this announcement, Kangda Changrong is a wholly-owned subsidiary of Kangda Aibo, which is in turn held as to 20% by KD Holding and 80% by Mr. Gao Sishi. Mr. Gao Sishi is a director of three wholly-owned subsidiaries of the Company and a relative of Mr. Gao Yanxu. Mr. Gao Yanxu is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Gao Sishi, who is also a relative of Mr. Gao Yanxu and a director of three wholly-owned subsidiaries of the Company, is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. As such, Kangda Changrong is an associate of a connected person at subsidiary level. Accordingly, the Lease Agreement constitutes continuing connected transactions of the Company.

Mr. Gao Yanxu, one of the executive Directors, (i) is the relative of Mr. Gao Sishi; and (ii) holds approximately 5.295% of the issues shares in KD Holding. As such, Mr. Gao Yanxu is considered to have a material interest in the Framework Agreement and Mr. Gao Yanxu has abstained from voting on the resolutions passed by the Board to approve the Framework Agreement, the transactions contemplated thereunder, and the corresponding Annual Caps (excluding Annual Cap E). Save as disclosed above, none of the Directors has any material interest in and is required to abstain from voting on the resolutions passed by the Board to approve the same.

Mr. Gao Yanxu, one of the executive Directors, (i) is the relative of Mr. Gao Sishi; and (ii) holds approximately 5.295% of the issued shares in KD Holding. As such, Mr. Gao Yanxu is considered to have a material interest in the Lease Agreement and Mr. Gao Yanxu has abstained from voting on the resolutions passed by the Board to approve the Lease Agreement, the transactions contemplated thereunder, and Annual Cap E. Save as disclosed above, none of the Directors has any material interest in and is required to abstain from voting on the resolutions passed by the Board to approve the same.

Pursuant to Rule 14A.101 of the Listing Rules, a connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if: (1) the listed issuer's board of directors have approved the transaction; and (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuers and its shareholders as a whole.

In respect of each of the Annual Caps, as one or more of the applicable percentage ratios exceeds 1% as calculated in accordance with Rule 14.07 of the Listing Rules, each of the Framework Agreement and the Lease Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

## **BACKGROUND**

Reference is made to the announcement of the Company dated 2 December 2022 and the circular of the Company dated 24 February 2023 in relation to the continuing connected transactions on mutual provision of products. Following the expiry of the Previous Framework Agreement on 31 December 2023, on 31 July 2024, the Company (for and on behalf of the Group) and KD Holding (for and on behalf of KD Holding Group) entered into the Framework Agreement in respect of the Mutual Provision of Products.

On 31 July 2024, Kangda Foods (as the lessor) and Kangda Changrong (as the lessee) entered into a Lease Agreement in respect of the Lease of Premises.

## **(A) THE FRAMEWORK AGREEMENT**

The principal terms of the Framework Agreement are set out below:

**Date** : 31 July 2024

**Parties** : (i) the Company; and  
(ii) KD Holding

**Term** : From 1 August 2024 to 31 December 2026

### **Nature of the transaction**

- (i) Provision of Products – The Group will provide chilled and frozen rabbit meat products, chilled and frozen chicken meat products and other processed food to KD Holding Group.
- (ii) Provision of Breeder Rabbits – The Group will provide breeder rabbits to KD Holding Group.
- (iii) Purchase of Rabbits – The Group will purchase commercial rabbits from KD Holding Group.
- (iv) Purchase of Products – The Group will purchase feedstock from KD Holding Group.

### **Conditions precedent**

The Framework Agreement is conditional upon (i) the Company obtaining the independent Shareholders' approval (if applicable) in accordance with the Listing Rules; and (ii) all parties complying with all requirements in relation to relevant laws and regulations (including but not limited to the Listing Rules).

## **Basis of pricing**

The price under the Framework Agreement should be based on the following principles. The price should be determined according to the market price on an arm's length basis based on normal commercial terms in the ordinary and usual course of business, details of which are set out as follows:

### ***(1) Provision of Products and Provision of Breeder Rabbits***

Regarding the **Provision of Products**, in respect of the publicly available products, the price charged by the Group to KD Holding Group will be determined with reference to the price of the same product charged by the Group to the Independent Third Parties. Such price will be reviewed and adjusted on a weekly basis by the Group with reference to the fluctuation in the market price of respective products.

Regarding the **Provision of Breeder Rabbits**, in respect of the publicly available products, the price charged by the Group to KD Holding Group will be determined with reference to the price of the same or comparable breeder rabbits charged by the Group to the Independent Third Parties. Such price will be reviewed and adjusted on a weekly basis by the Group with reference to the fluctuation of market price of comparable breeder rabbits.

In the event that the Group needs to tailor-make the above products to fulfil the requirements of KD Holding Group and their market price are not available, the Group will determine the market price of such products based on the production costs incurred by the Group plus a markup of 20%. Such price will not be less favourable than the price quoted to the Independent Third Parties, which is also determined based on the production costs incurred by the Group plus a markup of 20%.

**(2) *Purchase of Rabbits and Purchase of Products***

Regarding the **Purchase of Rabbits**, in respect of the publicly available products, the Group will seek quotations from KD Holding Group and three or more independent suppliers. The Company will compare the independent suppliers and KD Holding Group based on the following priorities, including but not limited to the quality, price and payment terms of the commercial rabbits. Provided that the quality of commercial rabbits meets the requirement of the Group, the market price will be determined based on the lowest price of the commercial rabbits of the same quality offered by KD Holding Group and the independent suppliers. Based on the above, the Group will purchase the commercial rabbits at the lowest price to be offered by KD Holding Group or the independent suppliers.

Regarding the **Purchase of Products**, in respect of the publicly available products, the Group will seek quotations from KD Holding Group and three or more independent suppliers. The Company will compare the independent suppliers and KD Holding Group based on the following priorities, including but not limited to the quality, price and payment terms of the feedstock. Provided that the quality of feedstock meets the requirement of the Group, the market price will be determined based on the lowest price of the feedstock of the same quality offered by KD Holding Group and the independent suppliers. Based on the above, the Group will purchase the feedstock at the lowest price to be offered by KD Holding Group or the independent suppliers.

## Annual Caps

The transaction amount in relation to the Mutual Provision of Products for the period from 1 August 2024 to 31 December 2026 will not exceed the amount as set out below:

	For the year ending 31 December 2024 <i>(RMB)</i>	For the year ending 31 December 2025 <i>(RMB)</i>	For the year ending 31 December 2026 <i>(RMB)</i>
Provision of Products by the Group to KD Holding Group (“ <b>Annual Cap A</b> ”) <i>(Note 1)</i>	31,300,000	39,000,000	41,000,000
Provision of Breeder Rabbits by the Group to KD Holding Group (“ <b>Annual Cap B</b> ”)	1,800,000	6,700,000	8,000,000
Purchase of Rabbits by the Group from KD Holding Group (“ <b>Annual Cap C</b> ”) <i>(Note 2)</i>	42,000,000	95,000,000	106,000,000
Purchase of Products by the Group from KD Holding Group (“ <b>Annual Cap D</b> ”)	6,400,000	15,100,000	15,900,000

### Notes:

- (1) Including the historical transaction amount of approximately RMB1,997,260 for the six months ended 30 June 2024 and the expected transaction amount for the month ended 31 July 2024.
- (2) Including the historical transaction amount of approximately RMB1,486,187 for the six months ended 30 June 2024 and the expected transaction amount for the month ended 31 July 2024.

## Historical transaction amounts

Set out below are the historical transaction amounts in relation to the Mutual Provision of Products:

	For the year ended 31 December 2021 <i>(Approximately RMB)</i>	For the year ended 31 December 2022 <i>(Approximately RMB)</i>	For the year ended 31 December 2023 <i>(Approximately RMB)</i>
Provision of Products by the Group to KD Holding Group	2,333,000	2,519,000	20,456,859
Provision of Breeder Rabbits by the Group to KD Holding Group <i>(Note 1)</i>	1,318,095	1,531,046	308,065
Purchase of Rabbits by the Group from KD Holding Group <i>(Note 2)</i>	Nil	Nil	36,543,825
Purchase of Products by the Group from KD Holding Group <i>(Note 3)</i>	Nil	Nil	Nil

*Notes: For illustration purpose, we set out below the historical transaction amounts between the Group or KD Holding Group (as the case may be) on one end and the Independent Third Parties on the other end in each category:*

- (1) For each of the three years ended 31 December 2023, the Group supplied breeder rabbits to the Independent Third Parties in the amount of approximately RMB26,912,169, RMB23,940,198 and RMB29,732,000, respectively.*
- (2) The Group did not purchase commercial rabbits from KD Holding Group for the two years ended 31 December 2022. For each of the three years ended 31 December 2023, the Group purchased commercial rabbits from the Independent Third Parties in the amount of approximately RMB117,026,700, RMB104,045,692 and RMB96,761,377, respectively.*
- (3) As the Group purchased feedstock from the Independent Third Parties previously, there were no historical transactions in respect of the Purchase of Products between the Group and KD Holding Group for the three years ended 31 December 2023. For each of three years ended 31 December 2023, the historical transaction amount arising from the purchase of feedstock by the Group from the Independent Third Parties was approximately RMB11,114,753, RMB13,854,566 and RMB12,312,864, respectively.*



For the six months ended 30 June 2024, the historical transaction amount in respect of (i) the Provision of Products by the Group to KD Holding Group was approximately RMB1,997,260; and (ii) the Purchase of Rabbits by the Group from KD Holding Group was approximately RMB1,486,287. In respect of (i) the Provision of Breeder Rabbits by the Group to KD Holding Group and (ii) the Purchase of Products by the Group from KD Holding Group, there was no historical transaction between the parties for the seven months ended 31 July 2024.

## **Bases of Annual Caps**

### **1. *Provision of Products***

The Annual Cap A was determined based on the following factors:

- (i) the anticipated demand for chilled and frozen rabbit meat products, chilled and frozen chicken meat products and other processed food of KD Holding Group, which was determined with reference to (a) the historical purchase amount of the relevant products by KD Holding Group from the Group in the year ended 31 December 2023 of approximately RMB20.5 million; (b) the actual sales amount of processed foods, chilled and frozen rabbit meat and chilled and frozen chicken meat products to the end customers of KD Holding Group by KD Holding Group for the year ended 31 December 2023 of approximately RMB42.4 million; (c) the purchase plan of four end customers of KD Holding Group in the forthcoming five months ending 31 December 2024; (d) the historical cost-to-sale ratio of a subsidiary of KD Holding, namely Kangda Changrong, for the year ended 31 December 2023, which is calculated by dividing the actual sales amount of Kangda Changrong by its respective cost of goods sold in the relevant year; and (e) the expected year-on-year growth by no less than 5% in market demand for processed foods and chilled and frozen meat products in each of the years ending 31 December 2025 and 31 December 2026, respectively; and
- (ii) an additional 10% buffer to give flexibility in conducting and expanding the business and for the potential fluctuation of the prices of poultry, chicken, rabbit meat and other raw ingredients during the relevant period.

## **2. *Provision of Breeder Rabbits***

The Annual Cap B was determined based on the anticipated demand for breeder rabbits of KD Holding Group, which was determined with reference to (a) the historical average sales amount of breeder rabbits sold by the Group to the Independent Third Parties for the three years ended 31 December 2023 of approximately RMB26.9 million; and (b) the expected increase in the portion of sales amount to KD Holding Group.

## **3. *Purchase of Rabbits***

The Annual Cap C was determined based on the anticipated demand for commercial rabbits of the Group for the corresponding period commencing from 1 August 2024 to 31 December 2026, which was determined with reference to (a) the average historical purchase amount of commercial rabbits by the Group from the Independent Third Parties for the three years ended 31 December 2023 of approximately RMB105.9 million; and (b) the purchase plan of the Group for the corresponding period and the expected increase in the portion of purchase amount from KD Holding Group.

## **4. *Purchase of Products***

The Annual Cap D was determined based on the following factors:

- (i) the expected demand for feedstock during the corresponding period from 1 August 2024 to 31 December 2026 with reference to (a) the actual average purchase amount of feedstock by the Group from the Independent Third Parties for the three years ended 31 December 2023 of approximately RMB12.4 million; (b) the expected increase in the portion of purchase amount from KD Holding Group during the relevant period; and (c) the expected compound annual growth rate in feedstock market of approximately 5.3% as compared to the prior year; and
- (ii) an additional 10% buffer to provide flexibility in conducting and expanding its business and for the potential fluctuation of the price of feedstock during the relevant period.

## **(B) LEASE AGREEMENT**

The principal terms of the Lease Agreement are set out below:

- Date** : 31 July 2024
- Parties** : (i) Kangda Foods (as the lessor); and  
(ii) Kangda Changrong (as the leasee)
- Term** : From 1 August 2024 to 31 December 2026
- Premises** : The land located at No. 517, Ling Shan Wan Road, Huangdao District, Qingdao, together with the industrial complex, machinery, equipment and the office building thereon
- Gross Floor Area** : Approximately 24,824.7 square meters in respect of the land; approximately 9,089.42 square meters in respect of the buildings thereon
- Rent** : RMB370,900 per month (taxes exclusive). Kangda Changrong shall be responsible for the water and electronic bills
- Rental Deposit** : One month rental as rental deposit
- Payment Term** : The rent is payable on a monthly basis and Kangda Changrong shall pay the monthly rental to Kangda Foods within the first week of each corresponding month
- Permitted Use** : For food production use only. If Kangda Changrong uses the Premises for other purpose, it shall obtain prior written consent from Kangda Foods

## Conditions precedent

The Lease Agreement is conditional upon (i) the Company obtaining the independent Shareholders' approval (if applicable) in accordance with the Listing Rules; and (ii) all parties complying with all requirements in relation to relevant laws and regulations (including but not limited to the Listing Rules).

## Annual Cap and historical transaction amount

Based on the monthly rental payable under the Lease Agreement, the transaction amount in relation to the Lease Agreement for the period from 1 August 2024 to 31 December 2026 will not exceed the amount as set out below:

	For the year ending 31 December 2024 (RMB)	For the year ending 31 December 2025 (RMB)	For the year ending 31 December 2026 (RMB)
Rental receivable by the Group from Kangda Changrong (“Annual Cap E”)	3,480,000 (Note)	4,450,800	4,450,800

*Note: The Annual Cap E for the year ending 31 December 2024 includes, on an aggregate basis, (i) the expected transaction amount of approximately RMB1,854,500 (tax exclusive) for the five months ending 31 December 2024; and (ii) the historical transaction amount of approximately RMB1,625,350 (tax exclusive) for the seven months ended 31 July 2024 arising from the existing lease agreement entered into between Kangda Foods and Kangda Changrong on 1 January 2024 (the “Existing Lease Agreement”). In respect of the Existing Lease Agreement, as all the applicable percentage ratios as calculated in accordance with Rule 14.07 of the Listing Rules are less than 5% and the accumulated rental payment for the seven months ended 31 July 2024 under the Existing Lease Agreement is less than HK\$3,000,000, the transaction contemplated thereunder is therefore fully exempt under Rule 14A.76(c) of the Listing Rules. Upon entering into the Lease Agreement, the Existing Lease Agreement shall be terminated with immediate effect.*

The relevant production plants on the Premises were previously used by the Group for pet food production. In 2023, the Group decided to scale down the pet food production. In 2023, the Group as the lessor started leasing certain portion of the production plants and machinery on the Premises to Kangda Changrong, covering a smaller area on the same location as the Premises with gross floor area of (i) approximately 14,150 square meters in respect of the land and (ii) approximately 7,271 square meters in respect of the buildings thereon. The historical rental payable by Kangda Changrong to the Group was approximately RMB2,554,122 for the year ended 31 December 2023 and approximately RMB1,625,350 for the seven months ended 31 July 2024.

### **Bases of Annual Cap**

The rental and the terms of the Lease Agreement were arrived at after an arm's length negotiation between Kangda Changrong and the Group with reference to the market terms of comparable properties in the neighbourhood and the fair rent opinion issued by its valuer dated 30 July 2024. In assessing the rent, the Group take into account of, among others, (i) the location, size, usage, nature and condition of the Premises; (ii) the term of the lease; and (iii) the prevailing market rents of comparable properties within the proximity.

## **INFORMATION ON THE PARTIES**

The Group is principally engaged in the production, processing, sales and distribution of (i) chilled and frozen meat products, which are divided into rabbit and chicken meat; (ii) processed food products, which include a wide range of food products such as instant soup, curry food, chicken-based cooked products and roasted rabbit foods; and (iii) other products, which mainly include pet foods, pork, dehydrated vegetables, poultry, rabbit organs, seasoning and chicken feather.

Kangda Foods is an indirect wholly-owned subsidiary of the Company and is principally engaged in the production and sales of chicken meat products, rabbit meat products and other processed foods.

KD Holding is a company incorporated in the PRC with limited liability. As at the date of this announcement, KD Holding is owned as to approximately 5.295% by Mr. Gao Yanxu, one of the executive Directors, and is ultimately controlled by Mr. Gao Sishi holding approximately 94.705% equity interest in KD Holding. KD Holding is principally engaged in diversified businesses, including breeding and sales of livestock, poultry and rabbits, trading of construction materials and fresh vegetables and property management.

Kangda Changrong is a company incorporated in the PRC with limited liability. As at the date of this announcement, Kangda Changrong is a wholly-owned subsidiary of Kangda Aibo, which is in turn held as to 20% by KD Holding and 80% by Mr. Gao Sishi. Kangda Changrong is principally engaged in trading of food products, processing and sale of pet foods.

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

### **1. Mutual Provision of Products**

The Group is principally engaged in, among others, the sales and production of frozen and chilled chicken and rabbit meat, frozen and chilled chicken and rabbit meat products and processed foods. The Company is one of the major companies in the PRC authorised to supply rabbit meat to the European Union, and it is one of the largest PRC exporters of rabbit meat.

The Group retained the rabbit breeding assets and continued its rabbit breeding operation and sales of progeny rabbits and breeder rabbits. After the Group breed breeder rabbits, the breeder rabbits are then sold to the rabbit breeding quarters that subsequently breed commercial rabbits. The Group will then purchase commercial rabbits from those rabbit breeding quarters and further process the commercial rabbits into chilled and frozen rabbit meat and related processed food products.

On the other hand, KD Holding Group breeds commercial rabbits which are ready to be slaughtered for commercial use. Having considered the fluctuation in the historical live rabbit price, the Company considers that it is for the mutual benefits that each of the Group and KD Holding Group to enter into the Framework Agreement to secure a stable supply of breeder rabbits and commercial rabbits to better cope with the fluctuation in prices and quality as compared to sourcing those from external independent third parties.

Taking into account the gradual increase in the operating cost of the rabbit breeding operation, including (i) high rectification cost in relation to environmental protection due to low efficiency in managing the discharge of the livestock waste from the rabbit breeding process; (ii) compensation paid to the villagers due to the damage to the environment caused by the rabbit breeding process; and (iii) the maintenance cost of the outdated rabbit breeding assets, the Directors consider that it would be more cost-efficient to sell the breeder rabbits at their infant stage to KD Holding Group so that KD Holding Group shall bear the operating costs and the regulatory burdens to raise the breeder rabbits to commercial rabbits that are ready for slaughtering and further processing to frozen and chilled rabbit meat and related products.

On a related note, the Company is given to understand that KD Holding Group will increase its rabbit breeding capacity following the expansion of 58 breeding quarters which is expected to be completed in October 2024, leading to an increasing demand for breeder rabbits from the Group for them to breed more commercial rabbits. Following the Lease of Premises, KD Holding Group would substantially increase its production capacity to further process the chilled and frozen rabbit meat products, chilled and frozen chicken meat products and other processed foods purchased from the Group to meet the increasing demands for processed food from its end customers.

On the other hand, the Group has completed its cold storage facilities expansion work in July 2024 and increased its cold storage from approximately 450 tonnes to approximately 800 tonnes. The Company will be able to increase the slaughtering volume of chicken and rabbits to meet the rising market demand, which will in turn increase the supply of processed and frozen meat products to customers, including KD Holding Group. The increase in slaughtering volume and cold storage in turn drives the demand for purchasing more commercial rabbits from KD Holding Group.

The Group has also compared (i) the cost of procuring commercial rabbits from other suppliers; (ii) the cost of raising breeder rabbits to commercial rabbits; and (iii) the cost of upgrading the outdated rabbit breeding assets and then breeding the rabbits by the Group itself. Having considered the above, the Company is of the view that this arrangement would allow the Group to better allocate its internal resources and offload the corresponding operating and breeding costs to KD Holding Group.

Having considered the long-term business relationship between the Group and KD Holding Group, the parties would have a better understanding of the requirements of one another than transacting with other independent third party suppliers. Further, this mutual cooperation would be able to provide a consistent and stable supply of rabbits, food products and feedstock that meet the requirements of the Group and KD Holding Group.

In respect of the Provision of Products, the prices of the processed foods, chilled and frozen rabbit meat and frozen chicken meat paid by KD Holding Group to the Group are no less favourable than those paid by the Independent Third Parties.

In respect of the Provision of Breeder Rabbits, the prices of the breeder rabbit paid by KD Holding Group to the Group are no less favourable than those paid by the Independent Third Parties. In respect of the Purchase of Rabbits, the prices of the commercial rabbits charged by KD Holding Group are no less favourable to the Group than those charged by the Independent Third Parties.

In respect of the Purchase of Products, the prices of the feedstock charged by KD Holding Group are no less favourable to the Group than those charged by the Independent Third Parties. As the quality of feedstock is crucial for the growth of rabbits and given that the rabbit meat products are exported in large quantities to overseas markets that are subject to strict general food law and regulations, to ensure the quality of the rabbit meat products and in view of the increasing price in feedstock, the Group intends to purchase a larger proportion of feedstock from KD Holding Group to secure a stable and quality purchase and ease the chances of unnecessary cost and lack of production component, which might in turn cause the Group in failing to meet the delivery commitment and capture the market demand.



## **2. Lease Agreement**

Kangda Foods was previously engaged in food manufacturing and processing of pet food. As disclosed in the annual report of the Company for the year ended 31 December 2023, due to changes in the market environment, the Group actively reduced the production and sale of pet food and focused its resources on processed foods and chilled and frozen chicken meat. The production of pet food is a labour-intensive industry requiring significant capital expenditure to operate. As the entry barrier for pet food industry is relatively low and it has become increasingly competitive in recent years, having considered that (i) the profitability for pet food production has been reducing significantly; (ii) the existing factories and machineries have becoming outdated and required capital contribution for improvement; and (iii) the increase in the demands for processed food and chilled and frozen chicken meat that requires more liquidity, the management of the Company decided to cease production of pet foods and shift its focus to the processed foods and chilled and frozen chicken meat to capture the rising market demands in this area.

Upon the clearance of the current production line for pet foods, in 2023, the Group reshuffled and utilised certain production lines for processed foods and chilled and frozen chicken meat production. In respect of the remaining unutilised production lines, the Company intends to lease out the same to maximize the returns to the Company.

As the Company is given to understand that KD Holding intends to expand its production capacity to capture the increasing order volume of processed foods, KD Holding Group (through its associate, Kangda Changrong) proposes to lease the unutilised production facilities for its own operation. Kangda Foods and Kangda Changrong entered into the Lease Agreement so that Kangda Changrong could better utilise the idle production plant of Kangda Foods, and this Lease of Premises arrangement could generate additional rental income to the Group at the same time.

The terms of the Lease Agreement were arrived at after an arm's length negotiation between Kangda Changrong and the Group with reference to the market terms of comparable properties in the neighbourhood and the fair rent opinion issued by its valuer dated 30 July 2024.

## INTERNAL CONTROL MEASURES

The Company has the following internal control mechanism in place to ensure the terms are (i) not less favourable than those provided by the Independent Third Parties to the Group or (ii) not less favourable than those provided by KD Holding Group to the Independent Third Parties:

- (i) the Company has prepared and implemented the System for Management of Connected Transactions (關連交易管理制度) which sets out, among other things, the identification of connected transactions, the responsibilities of sales and purchasing departments in the implementation and management of connected transactions, reporting procedures and ongoing monitoring, with a view to ensure compliance of the Group with applicable laws and regulations (including the Listing Rules) in relation to connected transactions;
- (ii) the Company will ensure the pricing of connected transactions does not deviate from the fair standards of the Independent Third Parties in the market and must adhere to the principles of openness and market fairness. The pricing of connected transactions should comply with the normal commercial terms in the Company's ordinary course of business (or, for the Company, the transaction terms are no less favorable than those available to or provided by the Independent Third Parties). In particular, in order to ensure the terms provided by the connected persons and/or its associates are no less favorable than that offered to the Group by the Independent Third Parties, the Group will obtain quotations from three independent third party suppliers and purchase in accordance to the market prices obtained from the quotations. If the market price cannot be obtained, the purchasing department of the Company will search for government and industry prices, and request the connected persons to provide the transaction contract with the third party for the same product to determine the market price and report it to the Company's procurement supervision committee for review. Upon review, the transaction price and terms should no less favourable than that offered by the connected persons to the third parties;

- (iii) the Company will strictly follow the requirements under “on general commercial terms or better terms” by comparing and verifying the fair price of related party transactions, as well as collecting and recording third-party quotations, government or industry reference prices, contracts, invoices, orders and other related prices as supporting materials for independent non-executive Directors and external auditors to properly review the transactions;
- (iv) the Company will regularly summarise the transaction amounts incurred under the respective continuing connected transaction framework agreements and submit periodic reports to senior management for their evaluation and review of the implementation progress of the connected transactions;
- (v) reporting and prior approval is required from the finance department of the Company in case of procurement from connected persons and must be made within the existing annual cap. If it is anticipated that the existing annual caps may be exceeded in the event that the Company continues to conduct the continuing connected transactions, the relevant business departments shall report to the management of the Company at least two months in advance, the Company will then take all appropriate steps, including proposing supplementary proposals and perform corresponding approval and/or disclosure procedures in accordance with the relevant requirements under the Listing Rules;
- (vi) the Group’s external auditor will conduct an annual review of the transactions entered into under the Framework Agreement and the Lease Agreement in accordance with the relevant requirements under the Listing Rules; and
- (vii) the Company’s independent non-executive Directors will conduct annual review of the status of the transactions contemplated under the Framework Agreement and the Lease Agreement to ensure that the Group has complied with its internal approval process, the terms of the Framework Agreement and the Lease Agreement and the relevant requirements under the Listing Rules.

## **LISTING RULES IMPLICATIONS**

### **1. Mutual Provision of Products**

As at the date of this announcement, KD Holding is owned as to approximately 5.295% by Mr. Gao Yanxu, one of the executive Directors, and is ultimately controlled by Mr. Gao Sishi, holding approximately 94.705% equity interest in KD Holding. Mr. Gao Sishi is the director of three wholly-owned subsidiaries of the Company and a relative of Mr. Gao Yanxu. Mr. Gao Yanxu is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Gao Sishi, who is also a relative of Mr. Gao Yanxu and a director of three wholly-owned subsidiaries of the Company, is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. As such, KD Holding is an associate of a connected person at subsidiary level. Accordingly, each of the Provision of Products, the Provision of Breeder Rabbits, the Purchase of Rabbits and the Purchase of Products constitutes continuing connected transactions of the Company.

Mr. Gao Yanxu, one of the executive Directors, (i) is the relative of Mr. Gao Sishi; and (ii) holds approximately 5.295% of the issued shares in KD Holding. As such, Mr. Gao Yanxu is considered to have a material interest in the Framework Agreement and Mr. Gao Yanxu has abstained from voting on the resolutions passed by the Board to approve the Framework Agreement, the transactions contemplated thereunder, and the corresponding Annual Caps (excluding Annual Cap E). Save as disclosed above, none of the Directors has any material interest in and is required to abstain from voting on the resolutions passed by the Board to approve the same.

### **2. Lease Agreement**

Kangda Changrong is a company incorporated in the PRC with limited liability. As at the date of this announcement, Kangda Changrong is a wholly-owned subsidiary of Kangda Aibo, which is in turn held as to 20% by KD Holding and 80% by Mr. Gao Sishi. Mr. Gao Sishi is a director of three wholly-owned subsidiaries of the Company and a relative of Mr. Gao Yanxu. Mr. Gao Yanxu is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Mr. Gao Sishi, who is also a relative of Mr. Gao Yanxu and a director of three wholly-owned subsidiaries of the Company, is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. As such, Kangda Changrong is an associate of a connected person at subsidiary level. Accordingly, the Lease Agreement constitutes continuing connected transactions of the Company.

Mr. Gao Yanxu, one of the executive Directors, (i) is the relative of Mr. Gao Sishi; and (ii) holds approximately 5.295% of the issued shares in KD Holding. As such, Mr. Gao Yanxu is considered to have a material interest in the Lease Agreement and Mr. Gao Yanxu has abstained from voting on the resolutions passed by the Board to approve the Lease Agreement, the transactions contemplated thereunder, and Annual Cap E. Save as disclosed above, none of the Directors has any material interest in and is required to abstain from voting on the resolutions passed by the Board to approve the same.

Pursuant to Rule 14A.101 of the Listing Rules, a connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if: (1) the listed issuer's board of directors have approved the transaction; and (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuers and its shareholders as a whole.

In respect of each of the Annual Caps, as one or more of the applicable percentage ratios exceeds 1% as calculated in accordance with Rule 14.07 of the Listing Rules, each of the Framework Agreement and the Lease Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

## **GENERAL INFORMATION**

Based on the above, each of the Mutual Provision of Products and the Lease of Premises constitute continuing connected transaction with connected person at the subsidiary level under Rule 14A.101 of the Listing Rules.

The Company has obtained the approval from the Board (including the independent non-executive Directors) regarding the Mutual Provision of Products and the Lease of Premises, and the Directors (including the independent non-executive Directors) have confirmed that (i) the terms of each of the Framework Agreement and the Lease Agreement (together with the corresponding Annual Caps) are fair and reasonable; (ii) each of the Framework Agreement and the Lease Agreement (together with the corresponding Annual Caps) and the transaction contemplated thereunder is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) each of the Framework Agreement and the Lease Agreement (together with the corresponding Annual Caps) is in the interests of the Company and the Shareholders as a whole. As such, pursuant to Rule 14A.101 of the Listing Rules, each of the Framework Agreement and the Lease Agreement (together with the corresponding Annual Caps) is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

“Annual Cap(s)”	collectively, Annual Cap A, Annual Cap B, Annual Cap C, Annual Cap D and Annual Cap E
“Annual Cap A”	the annual cap of the Provision of Products contemplated under the Framework Agreement
“Annual Cap B”	the annual cap of the Provision of Breeder Rabbits contemplated under the Framework Agreement
“Annual Cap C”	the annual cap of the Purchase of Rabbits contemplated under the Framework Agreement
“Annual Cap D”	the annual cap of the Purchase of Products contemplated under the Framework Agreement
“Annual Cap E”	the annual cap in respect of the rental payable by Kangda Changrong to Kangda Foods on an annual basis pursuant to the Lease Agreement
“Board”	the board of Directors
“Company”	China Kangda Food Company Limited, a company incorporated in Bermuda, the Shares of which are primary listed on the Main Board of the Stock Exchange (Stock Code: 834) and secondary listed on the Main Board of the Singapore Stock Exchange (Stock Code: P74)
“Director(s)”	director(s) of the Company
“Framework Agreement”	the framework agreement dated 31 July 2024 and entered into between the Company and KD Holding in relation to the Mutual Provision of Products
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person or company and its ultimate beneficial owner(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Kangda Aibo”	Qingdao Kangda Aibo Biotechnology Co., Ltd* (青島康大愛博生物科技有限公司), a company established in the PRC, which is held as to 20% by KD Holding and 80% by Mr. Gao Sishi
“Kangda Changrong”	Qingdao Kangda Changrong Import & Export Co., Ltd* (青島康大長榮進出口有限公司), a company established in the PRC with limited liability, being the leasee of the Lease Agreement
“Kangda Foods”	Qingdao Kangda Foods Co., Ltd* (青島康大食品有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“KD Holding”	Qingdao Kangda Holding Group Co. Ltd.* (青島康大控股集團有限公司), a company established in the PRC with limited liability and ultimately controlled by Mr. Gao Sishi as at the date of this announcement
“KD Holding Group”	collectively, KD Holding, its subsidiaries, and its associates
“Lease Agreement”	the lease agreement entered into between Kangda Foods and Kangda Changrong on 31 July 2024 in respect of the Lease of Premises

“Lease of Premises”	the lease of the Premises pursuant to the Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mutual Provision of Products”	collectively, the Provision of Products, the Provision of Breeder Rabbits, the Purchase of Rabbits and the Purchase of Products
“PRC”	The People’s Republic of China
“Premises”	the land located at No. 517, Ling Shan Wan Road, Huangdao District, Qingdao, together with the industrial complex, machinery, equipment and the office building thereon
“Provision of Products”	the provision of chilled and frozen rabbit meat products, chilled and frozen chicken meat products and other processed food to KD Holding Group by the Group under the Framework Agreement
“Provision of Breeder Rabbits”	the provision of breeder rabbits to KD Holding Group by the Group under the Framework Agreement
“Purchase of Products”	the purchase of feedstock from KD Holding Group by the Group under the Framework Agreement
“Purchase of Rabbits”	the purchase of commercial rabbits from KD Holding Group by the Group under the Framework Agreement
“Previous Framework Agreement”	the framework agreement dated 2 December 2022 and entered into between the Company and KD Holding in relation to the mutual provision of products
“Shares”	ordinary share(s) of par value of HK\$0.25 each in the issued share capital of the Company



“Shareholder(s)”	holder(s) of the Share(s)
“Singapore Stock Exchange”	The Singapore Exchange Securities Trading Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

On behalf of the Board  
**China Kangda Food Company Limited**  
**Lang Ying**  
*Executive Director*

Hong Kong, 31 July 2024

*As at the date of this announcement, the Executive Directors are Ms. Lang Ying, Mr. Gao Yanxu and Mr. An Fengjun; and the Independent Non-Executive Directors are Mr. Hua Shi, Ms. Li Ying and Mr. Wang Cheng.*