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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)

CONTINUING CONNECTED TRANSACTIONS

MASTER SUPPLY AGREEMENT

INTRODUCTION

Reference is made to the announcement of the Company dated 14 December 2018 and the supplemental announcement dated 16 January 2019, regarding, among others, the continuing connected transactions under the Existing Agreement entered into between DaChan Hebei, an indirect wholly-owned subsidiary of the Company, and Sisters Kitchen, an indirect wholly-owned subsidiary of Better Me (BVI). The term of the Existing Agreement will expire on 10 September 2020.

On 6 August 2020, the Company entered into the Master Supply Agreement with Better Me (BVI) with an aim of continuing the transactions contemplated under the Existing Agreement upon the expiration of the Existing Agreement.

The Master Supply Agreement will take effect from 1 September 2020 for a period of two years.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Better Me (BVI) is an associate of Mr. Han, who is a director of the Company, and a connected person of the Company by virtue of being Mr. Han's 30%-controlled company (as defined under the Listing Rules). Accordingly, the transactions contemplated under the Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all applicable percentage ratios for the proposed annual caps under the Master Supply Agreement are more than 0.1% but less than 5%, the continuing connected transactions contemplated under the Master Supply Agreement are subject to the reporting and announcement requirements but exempted from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

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MASTER SUPPLY AGREEMENT

Major terms of the Master Supply Agreement are set out below:

Date: 6 August 2020

Parties: (i) the Company – supplier, for itself and on behalf of other member companies of the Group; and
(ii) Better Me (BVI) – purchaser, for itself and on behalf of other member companies of Better Me.

Term: From 1 September 2020 to 31 August 2022 for a period of two years.

- Major terms:** Relevant member companies of the Group shall supply the relevant member companies of Better Me with, and relevant member companies of Better Me shall purchase the processed chicken meat products processed, manufactured, produced, sold or wholesaled by the relevant member companies of the Group, and the relevant member companies of the Group and the relevant member companies of Better Me shall undergo transactions from time to time in accordance with the supply contracts entered into under the terms of the Master Supply Agreement. Those supply contracts shall not violate the terms and conditions of the Master Supply Agreement.
- Pricing:** The price of the products shall be determined by the relevant member companies of the Group and the relevant member companies of Better Me on arm's length basis, which will be in accordance with the production costs of the products involved, and the pricing benchmark shall allow for a certain level of profit margin, and shall comply with normal commercial terms.
- Payment:** Upon receipt of products supplied in accordance with the supply contract, the relevant member companies of Better Me shall pay the purchase price of those products in the manner listed in the above-mentioned supply contract within the period specified therein.

PRICING MECHANISM AND INTERNAL MONITORING MEASURES RELATED TO THE PRICING OF THE TRANSACTIONS

The Group shall supply processed chicken meat products to the member companies of Better Me at their request from time to time, and internal monitoring measures have been formulated to ensure the products supplied to the relevant member companies of Better Me are in compliance with the terms of the Master Supply Agreement.

The products supplied by the Group to Better Me are customised products whose formulas and production methods are provided by Better Me. The ingredients, cooking methods and packaging process shall be handled in the way provided by Better Me. Due to the uniqueness of the related products, no independent third-party customers would ask for quotations from the Group in respect of those processed chicken meat products. Also, as those products are different from general processed chicken meat products, the selling prices of the products to be supplied to Better Me cannot be directly compared with the market price or third-party selling prices of other processed chicken meat products.

The finance department of the Group will gather and update relevant information from time to time on a monthly basis to create a database (the “Database”) to verify the costs of the products and the profit margin so contributed (“Profit Margin”), and such Profit Margin shall not be lower than 3%. The sales department will also determine on whether to enter into the Transactions with the relevant member companies of Better Me, taking into account factors such as the payment terms, credit limit and credit validity period, specific demands and overall purchase quantity of the relevant member companies of Better Me, as well as the production capacity of the Group’s plants, etc. Upon receipt of an offer from the relevant member companies of Better Me to enter into a supply contract, the Group will consider the price and production quantity of the transactions contemplated under such offer, and enter into a supply contract with the relevant member companies of Better Me only if the Profit Margin is not lower than 3% and with approval of the sales department on the related transactions.

The above-mentioned minimum Profit Margin of 3% is determined by the Group with reference to the profit margin of other processed products currently produced by the Group, the uniqueness of Better Me’s products and the current production capacity of the Group’s plants. The sales department of the Group will review the appropriateness of the Profit Margin on a monthly basis under the prevailing market conditions, provided that the Profit Margin shall not be lower than 3%. In the event that it is necessary to adjust the Profit Margin of the transactions due to changes in market demand or other factors, the sales department of the Group will take the Profit Margin after adjustment and the cost of the processed chicken meat products under the transactions as the pricing standard when reviewing the next supply contract to be entered into with the relevant member companies of Better Me after such monthly review.

The finance department of the Group will calculate the account receivables from the relevant member companies of Better Me and issue demand notes to them in accordance with the settlement cycle of two months. The finance department will also monitor the total amount received or receivable to ensure that the annual cap is not to be exceeded, and notify the management and the executive Directors when the annual cap is close to being fully utilized. Under appropriate circumstances, if the expected amount is to exceed the annual cap, the Company would seek to revise the annual cap and re-comply with the requirements under Chapter 14A of the Listing Rules.

Having considered the pricing policies and internal monitoring measures of the Group in relation to the determination of such transaction prices, the Directors (including independent non-executive 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 DATA

The following table sets out the total value of sales of products under the continuing connected transactions entered into pursuant to the Existing Agreement for the year ended 10 September 2019 and for the ten months ended 10 July 2020, the annual caps under the Existing Agreement for the two years ending 10 September 2020 and the relevant utilization rates of the existing annual caps:

Continuing connected transactions under the Existing Agreement		For the year ended 10 September 2019	For the ten months ended 10 July 2020 (unaudited) (for actual amount only)/
		(audited)	for the year ending 10 September 2020 (for annual caps only)
		<i>RMB thousand</i>	<i>RMB thousand</i>
Master Supply Agreement	Actual	5,824	5,674
	Annual caps	15,000	15,000
	Utilization rates [^]	38.813%	45.39%

[^] The utilization rate for the related transactions under the Existing Agreement as of 10 July 2020 (45.39%) is calculated by the ten-month sales amount (RMB5,674,000) divided by the annual cap amount adjusted in proportion to the ten-month (i.e. RMB12,500,000).

PROPOSED ANNUAL CAPS

The proposed annual caps for the transactions contemplated under the Master Supply Agreement are set out in the following table:

Continuing connected transactions under the Master Supply Agreement	For the year ending 31 August 2021	For the year ending 31 August 2022
	<i>RMB thousand</i>	<i>RMB thousand</i>
Proposed annual caps under the Master Supply Agreement	15,000	15,000

REASONS FOR THE PROPOSED ANNUAL CAPS

The major basis and assumptions for determining the proposed annual caps for the continuing connected transactions under the Master Supply Agreement are set out below.

The proposed annual caps for the continuing connected transactions contemplated under the Master Supply Agreement are determined after taking into account the following factors:

- A) Regarding the estimated production quantity, the estimated demand for Better Me products in the future will maintain at 500 to 550 tons per year. The above estimation is based on the past transaction volume between DaChan Hebei and Sisters Kitchen and the following special factors:
- (1) in 2018-2019, due to the fact that Sisters Kitchen was under organizational restructuring and had not re-established supply agreements with its customers, sales were below expectation, and only 38% of the annual cap was used; and
 - (2) in the first half of 2020, affected by COVID-19, sales decreased by 35%-40% as compared to the estimated amount;
- B) The prevailing cost of the processed chicken meat products is estimated to be approximately RMB21 to RMB25 per kilogram; and
- C) A buffer of 15% to 30%.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

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

The Group will receive a profit margin of not less than 3% for the provision of relevant products in accordance with the Master Supply Agreement, and the relevant transactions contemplated under such agreement will increase the total revenue of the Group and make use of the Group's production capacity in a more effective manner.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Han, a Director, indirectly holds 50% of the share capital of Better Me (BVI) through his wholly-owned subsidiary, therefore Better Me (BVI) is a 30%-controlled company (as defined under the Listing Rules) of Mr. Han, and also an associate of Mr. Han and a connected person of the Company. Accordingly, the transactions contemplated under the Master Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all applicable percentage ratios for the proposed annual caps under the Master Supply Agreement are more than 0.1% but less than 5%, the continuing connected transactions contemplated under the Master Supply Agreement are subject to the reporting and announcement requirements but exempted from the circular (including independent financial advice) and shareholders' approval requirements pursuant to Rule 14A.76 of the Listing Rules.

In view of his indirect shareholding in Better Me (BVI), Mr. Han is considered to have a material interest in the transactions contemplated under the Master Supply Agreement and therefore has abstained from voting on the Board resolutions to approve the Master Supply Agreement and annual caps.

Mr. Han Chia-Yin, Mr. Han Chia-Yau and Mr. Harn Jia-Chen are brothers of Mr. Han and are associates of Mr. Han. They 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 Supply Agreement and annual caps.

Save as disclosed above, none of the Directors has a material interest in the continuing connected transactions contemplated under the Master Supply Agreement 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 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).

Better Me is principally engaged in the sales and operation of “better me” branded healthy chicken food and other products.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Better Me (BVI)”	Better Me Precision Nutrition Limited, a company incorporated in the British Virgin Islands with limited liability;
“Better Me”	Better Me (BVI) and its subsidiaries from time to time;
“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 meaning ascribed to it under the Listing Rules;
“DaChan Hebei”	大成食品(河北)有限公司(DaChan Food (Hebei) Co., Ltd.*), a company established in the PRC, and an indirect wholly-owned subsidiary of the Company as at the date of this announcement;
“Director(s)”	the director(s) of the Company;
“Existing Agreement”	the sales agreement entered into between DaChan Hebei and Sisters Kitchen on 11 September 2018;
“Group”	the Company and its subsidiaries from time to time;
“HKD”	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 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 Supply Agreement”	the Master Supply Agreement entered into between the Company and Better Me (BVI) on 6 August 2020;

“Mr. Han”	Mr. Han Jia-Hwan, a non-executive Director as at the date of this announcement;
“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;
“Sisters Kitchen”	北京姐妹廚房餐飲管理有限公司(Beijing Sisters Kitchen Food and Beverage Management Co., Ltd*), a company established in the PRC, and an indirect wholly-owned subsidiary of Better Me (BVI) as at the date of this announcement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Transactions”	the transactions contemplated under the Master Supply Agreement; and
“%”	per cent.

* *for identification purposes only*

On behalf of the Board
Wei Anning
Chairman

Hong Kong, 6 August 2020

As at the date of this announcement, Mr. Wei Anning (Chairman) and Mr. Han Chia-Yin are the executive Directors, Mr. Harn Jia-Chen, Mr. Han Chia-Yau, Mr. Han Jia-Hwan and Mr. Chao Tien-Shin are the non-executive Directors, and Mr. Way Yung-Do, Mr. Chen Chih and Mr. Ting Yu-Shan are the independent non-executive Directors.