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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 PURCHASE AGREEMENT**

On 24 April 2020, the Company and DLF-SH entered into the Master Purchase Agreement, pursuant to which, DLF-SH agreed to supply and procure other relevant members of DLF to supply products (including but not limited to flour and wheat bran) to the members of the Group in accordance with the Master Purchase Agreement for a term of three years.

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. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) calculated based on the annual caps of the Master Purchase Agreement exceeds 0.1% but less than 5%, the continuing connected transactions contemplated thereunder are exempted from the Shareholders’ approval requirement under Rule 14A.76(2)(a) but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

## **THE CONTINUING CONENCTED TRANSACTIONS BETWEEN DLF AND THE GROUP**

On 24 April 2020, the Company and DLF-SH entered into the Master Purchase Agreement in relation to the supply of products to the Group by DLF. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company as defined under the Listing Rules. The details of the Master Purchase Agreement are summarized as follows:

### **The Master Purchase Agreement**

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

- Date: 24 April 2020
- 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: 3 years starting from 1 May 2020 to 30 April 2023.
- 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 Master Purchase Agreement. The terms of such contracts of purchase shall not contradict the Master Purchase 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 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 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.

The internal purchase policies of the Group require the Group to enter into annual purchase contracts with at least 2 suppliers in respect of items of which the Group makes routine purchases. Therefore, the Group enters into annual purchase contracts with at least 2 suppliers (including DLF) in respect of flour. 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 after a certain period of time. 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; (ii) the prevailing price trend of wheat for production of flour in the PRC as shown in “China JCI”, a professional China block 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 of the Group, who has over 10 years of experience in the relevant industry and has led the purchase department of the Company for over 5 years, reviews the purchase price or suggested adjusted price with reference to the factors above. If the purchase supervisor is satisfied that the purchase prices stipulated in the annual purchase contract or the suggested adjusted price (as the case may be) are reasonable, he 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 ingredient 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 meeting the required specifications for the purchase. When more than one supplier meet the required specifications, the relevant purchase department will make purchases from the one which offers the best terms. 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 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 informs the potential suppliers (including but not limited to DLF) of the amount of intended purchase and asks for quotations from them. Unlike flour, the type of wheat bran sourced by the Group is common in the market. The relevant purchase department therefore obtains quotations from at least 2 Independent Third Parties and compares 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](http://www.cofeed.com) (天下糧倉糧油飼料資訊網), a professional China oils, grains and feeds information website. Price is the primary consideration of the relevant purchase department when they source 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 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.

## PROPOSED ANNUAL CAPS

The following table sets out the respective annual caps of the transactions under the Master Purchase Agreement:

<b>Continuing connected transactions under the Master Purchase Agreement</b>	<b>For the year ended 30 April 2021</b>	<b>For the year ended 30 April 2022</b>	<b>For the year ended 30 April 2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Master Purchase Agreement</b> Proposed annual caps	16,860	19,250	22,000

The actual aggregate amount of transactions under the Master Purchase Agreement will be reported orally or in writing to the finance manager of the Group by the accounting staff of the relevant members of the Group within 10 days after the end of each quarter. If the aggregate transaction amount under the Master Purchase Agreement during the previous quarters exceeds 70% of the annual cap, the accounting staff of the relevant members of the Group will be required to do monthly or bi-weekly reporting of the transaction amount.

The Company will inform the members of the Group conducting transactions with the connected person when the aggregate transaction amount under the Master Purchase Agreement reaches 90% of the annual cap and require the relevant members of the Group to seek approval from the chief financial officer of the Group before the contract of purchase is entered into so as to ensure the annual cap is not exceeded.

## 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 Purchase Agreement are set out below.

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

- (i) The Group plans to expand its processed food segment and boost its sales of processed food in the next few years. The expected growth in total sales of processed food is due to the expected growth of the newly established plant in Bengbu, the PRC, and it is expected that the sales of processed food of the Group will record an annual growth rate of approximately 15% in the next three years. In 2019, the procurement amount of flour for food processing by the Group amounted to approximately RMB13,500,000. Calculating on this basis, it is expected that the procurement amount of flour in the next three years will be approximately RMB15,530,000, RMB17,850,000 and RMB20,530,000, respectively.

- (ii) Further, the Group expects that the annual growth rate of sales of feeds in the next three years will be approximately 5%. In 2019, the total procurement amount of wheat bran by the Group's feed plant in Tianjin amounted to approximately RMB1,270,000. Calculating on this basis, it is expected that the procurement amount of wheat bran in the next three years will be approximately RMB1,330,000, RMB1,400,000 and RMB1,470,000, respectively.
- (iii) Combining (i) and (ii) above, and calculating based on the expected growths in procurement amount of flour and wheat bran in the next three years, the upper limit amount of procurement from DLF for the next three years from 2020 to 2022, in aggregate, will be RMB16,860,000 RMB19,250,000 and RMB22,000,000, respectively.

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

The Directors consider that the terms of the Master Purchase Agreement are fair and reasonable, on normal commercial terms 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:

DLF is a very reliable supplier of high quality raw materials. By entering into the Master Purchase Agreement with DLF, the Group would secure a long term of 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. The transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) calculated based on the annual caps of the Master Purchase Agreement exceeds 0.1% but less than 5%, the continuing connected transactions contemplated thereunder are exempted from the Shareholders' approval requirement under Rule 14A.76(2)(a) but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Mr. Han Chia-Yau and Mr. Harn Jia-Chen are common directors of the Company and DLF-SH 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 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 Purchase Agreement 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, process 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: 3999);
“connected person(s)”	has the meanings ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company (including independent non-executive director(s));
“Group”	the Company 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;
“DLF”	DLF-SH 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;
“Master Purchase Agreement”	the master purchase agreement entered into between the Company and DLF-SH dated 24 April 2020;
“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”	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;
“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  
**Wei Anning**  
*Chairman*

Hong Kong, 24 April 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 Jia-Hwan, Mr. Han Chia-Yau 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.*

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