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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 WITH THE ULTIMATE
CONTROLLING SHAREHOLDER OF THE COMPANY**

On 27 April 2020, the Company and GWE entered into the Master Purchase Agreement, pursuant to which, subject to the approval for the relevant transactions by the Independent Shareholders at the EGM, GWE agreed to supply and procure other relevant members of GWE Group to supply products (including but not limited to aquatic animal feeds) to the members of the Group in accordance with the Master Purchase Agreement. The term of the said agreement is from the Effective Date to 31 December 2022.

GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 52.04% of the issued share capital of the Company as at the date of this announcement. Therefore, GWE is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions under the Master Purchase Agreement. The Company has also appointed independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Master Purchase Agreement. The Company is expected to despatch to the Shareholders on or before 11 June 2020 a circular containing further details of the Master Purchase Agreement, letters from the Independent Board Committee and the independent financial advisers, and a notice convening the EGM.

THE CONTINUING CONENCTED TRANSACTIONS BETWEEN GWE GROUP AND THE GROUP

On 27 April 2020, the Company and GWE entered into the Master Purchase Agreement in relation to the supply of products to the Group by GWE Group. 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: 27 April 2020

Parties: (i) the Company – the purchaser (for itself and on behalf of other members of the Group); and
(ii) GWE – the supplier (for itself and on behalf of other members of GWE Group).

Duration: Starting from the Effective Date to 31 December 2022.

Major terms: The Company agrees to purchase and procure members of the Group to purchase and GWE agrees to supply and procure relevant members of GWE Group to supply products processed, manufactured, produced, sold or distributed by the relevant members of GWE Group including but not limited to aquatic animal feeds 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 GWE Group 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 or, for relevant members of the Group, no less favorable than the terms offered by relevant members of GWE Group for selling their products to Independent Third Parties, and shall be within the range of fair price prevailing on the relevant market of the same or similar products 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 GWE Group from time to time after the relevant member of GWE Group 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 aquatic animal feeds from GWE Group.

The Group will make reference to the market price, the discount policy and payment terms of the products with same specification and nutrient contents in the area where the contemplated transactions would take place for the time being, and conduct the transactions with relevant members of GWE Group on normal commercial terms after fair negotiation.

The Group will periodically review the transaction price of the products and negotiate with relevant members of GWE Group to adjust the price of specific or all product items on irregular basis. Therefore, the Group will compare the prices by obtaining quoted prices in respect of comparable products from GWE Group or other suppliers of the Group. When negotiating on the final transaction price between the Group and relevant members of GWE Group, the aforesaid quoted price will also be referred and compared.

During the effective period of the Master Purchase Agreement, if GWE Group provides the same product to third parties other than the Group with more favorable conditions (including sales price, discount or payment terms), GWE Group shall notify the Group. GWE Group shall provide products to the Group with the same terms starting from the next transaction after the Group provided relevant information to GWE Group. Relevant members of the Group will enter into the contract of purchase with relevant members of GWE Group only when the price of the products provided by relevant members of GWE Group is the same or more favorable than that provided by other potential suppliers regarding the same product of the same quality.

If the Group researches and develops new products, there is no comparable products in the market for verifying the quoted price provided by GWE Group; in this case, the Group will consider the quoted price of the new products provided by GWE Group and other costs to be incurred in relevant contemplated transactions of the Group, and will purchase products from GWE Group only when the Group can receive not less than 10% of profits in relevant sales transactions.

There is no public disclosure of sales price of aquatic animal feeds in Vietnam (no matter they are existing products in the market or new products), and relevant information is not available on the company websites of feed manufacturers. Hence, the Group has to obtain quoted prices from other potential suppliers as the purchaser.

When the Group needs to purchase aquatic animal feeds, it will notify potential suppliers (including but not limited to GWE Group) the intended purchase amount and request for their quoted prices. Relevant procurement department will obtain quoted prices from at least 2 Independent Third Parties for direct comparison. When determining the suppliers for the purchase of aquatic animal feeds by the Group, relevant procurement department will consider (i) the quoted price provided by each potential supplier; and (ii) the quality of aquatic animal feeds to be provided by each potential supplier. When relevant procurement department purchases aquatic animal feeds, price is the major factor of consideration.

The Group will request relevant members of the Group to periodically review the company websites of potential suppliers to understand the latest sales activities of potential suppliers and their promotion policies. Further, the Group will also periodically review the market price of each major raw-material for production, and if there are significant cost movements, in addition to company websites of potential suppliers, the Group will also obtain information from customers who are not exclusively distributing products of the Group as to whether there is any update on the sales policies of potential suppliers in order to confirm whether the prices of products purchased by the Group from GWE Group are reasonable.

PROPOSED ANNUAL CAPS

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

Continuing connected transactions under the Master Purchase Agreement	Ended 31 December 2020[#] <i>USD'000</i>	Ended 31 December 2021[#] <i>USD'000</i>	Ended 31 December 2022[#] <i>USD'000</i>	
Master Purchase Agreement	Proposed annual caps	27,000	56,200	61,000

The abovementioned three-year period respectively refers to (i) the first year starts from the Effective Date to 31 December 2020 (the first year starts from 1 July 2020 to 31 December 2020, assuming that the continuing connected transactions under the Master Purchase Agreement are approved by the Independent Shareholders at the EGM on 30 June 2020); (ii) the second year starts from 1 January 2021 to 31 December 2021; and (iii) the third year starts from 1 January 2022 to 31 December 2022. The above dates are for illustrative purposes only.

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 Group has been selling domestic animal feeds in Vietnam for many years and established sales channels and sales teams. Due to the restructuring of GWE Group, GWE Group will focus on the management of manufacture process of aquatic animal feeds and quality enhancement in Vietnam. The Group intends to commence aquatic animal feed sales business by reselling the aquatic animal feeds purchased from GWE Group to the existing customers of GWE Group so as to expand the Group's customer base. Based on the current sales volume of aquatic animal feeds of GWE Group in Vietnam, it is estimated that the abovementioned business expansion will contribute to the Group monthly sales volumes of fish feeds and shrimp feeds of 5,500 tons and 1,000 tons, respectively.

According to the information collected by the Group regarding aquatic animal feeds in Vietnam, it is expected to have an approximately 5% of compound annual growth rate in aquatic animal keeping industry in Vietnam for 2020 to 2024, therefore the Company estimates the sales volume of aquatic animal feeds for 2020 to 2022 as follows:

Sales volume (tons)	2020 (from July to December)	2021	2022
Fish feeds	33,000	69,300	72,765
Shrimp feeds	6,000	12,600	13,230
Total	<u>39,000</u>	<u>81,900</u>	<u>85,995</u>

According to the quoted prices obtained by the Group from other potential suppliers (i.e. USD550 per ton of fish feeds and USD1,030 per ton of shrimp feeds) and the estimation on the sales volume of aquatic animal feeds for the future three years as set out above, the Group expects the transaction amount of the continuing connected transactions with GWE for the future three years as follows:

Transaction amount (USD'000)	2020 (from July to December)	2021	2022
Fish feeds	18,150	38,115	40,021
Shrimp feeds	6,180	12,978	13,627
Total	<u>24,330</u>	<u>51,093</u>	<u>53,648</u>

On top of the estimated total amount of aquatic animal feeds to be purchased from GWE Group for the three periods ended 31 December 2022 as set out above, approximately 10% of flexibility buffer is added to cope with the movement of price of aquatic animal feeds and the potential further increase in the demand for aquatic animal feeds arising from the sales of aquatic animal feeds of the Group based on the following factors:

- (i) the Group intends to implement a series of sales strategy in the aquatic animal feed market in Vietnam, including frequent customer visiting, more sharing of experience of animal keeping and selection of feeds, arrangement of seminars in respect of animal health, etc., to enhance the recognition of products sold by the Group in the market;
- (ii) the Group expects to launch new products such as frog feeds, Thai shrimp feeds, etc.; and
- (iii) the expected growth of breeding areas in the major sales market for the future three years.

Calculating on this basis, the Group proposes to fix the annual caps for the transactions under the Master Purchase Agreement to be USD27,000,000 (from July to December 2020), USD56,200,000 (the whole year of 2021) and USD61,000,000 (the whole year of 2022).

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (other than the independent non-executive Directors whose view will be set out in the circular to be despatched by the Company) consider that the terms of the Master Purchase 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:

1. The Company has been selling domestic animal feeds in Vietnam for many years, and the existing sales channels and human resources are the Company's most valuable assets in Vietnam. If the Company engages in the sales of aquatic animal feeds, the Company will be able to provide feed products needed by the breeders who keep domestic animals and aquatic animals at the same time in one purchase, and also integrate the aquatic animal feed customers of GWE Group into the Group's management and provide services for the aquatic animal feed customers through existing sales channels to further enhance the value of the existing sales channels.
2. It is observed that there is a long-term growth in the aquatic animal keeping industry, and as the sales of relevant products increased, the demand for aquatic animal feeds is also expected to experience a long-term growth. The Company's investments in Vietnam's domestic animal feed companies have recorded impressive operating performances for many years, which contributed considerable amount of profits for the Company. However, in addition to the risk from spread of diseases, the domestic animal customers are exposed to the risk of human-made trade barriers. In facing the impact on operating profits from various factors, the introduction of the sales of aquatic animal feed products will strengthen the flexibility and adaptability of the Group's investment in Vietnam towards operating risks so as to safeguard the Company's operating profits.

3. GWE Group is a remarkable feed manufacturing company in Taiwan, which has comprehensive R&D and production management teams for both domestic animal feeds and aquatic animal feeds, and has strict quality control. By entering into the Master Purchase Agreement with GWE, the Group can obtain high quality aquatic animal feed supply with stable delivery, which will be beneficial for the Group's business expansion and development in the future.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GWE is the ultimate controlling shareholder of the Company which indirectly holds approximately 52.04% of the issued share capital of the Company as at the date of this announcement. Therefore, GWE is a connected person of the Company under the Listing Rules and the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions of the Company as defined under the Listing Rules.

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

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions under the Master Purchase Agreement. The Company has also appointed independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions under the Master Purchase Agreement. The Company is expected to despatch to the Shareholders on or before 11 June 2020 a circular containing further details of the Master Purchase Agreement, letters from the Independent Board Committee and the independent financial advisers, and a notice convening the EGM.

Mr. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Han Chia-Yin and Mr. Ting Yu-Shan are common directors of the Company and GWE and were required under the articles of association of the Company to abstain, and did abstain, from voting on the Board resolutions to approve the Master Purchase Agreement and the proposed annual caps. Save as disclosed above, none of the Directors have a material interest in the 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 GWE are production and processing of soybean products, feeds and chicken meat.

DEFINITIONS

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

“Board”	the board of Directors 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));
“Effective Date”	the next day of the date of approval for the continuing connected transactions under the Master Purchase Agreement by the Independent Shareholders at the EGM;
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve the transactions under the Master Purchase Agreement;
“Group”	the Company and its subsidiaries from time to time;
“GWE”	Great Wall Enterprise Co. Ltd., a joint stock company established under the laws of the Republic of China, whose shares are listed on the Taiwan Stock Exchange Corporation, and the ultimate controlling shareholder of the Company;
“GWE Group”	GWE and its subsidiaries from time to time but excludes the members of the Group for the purpose of the transactions under the Master Purchase Agreement;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an committee of the Board established for reviewing the terms of the transactions under the Master Purchase Agreement, consisting only of all independent non-executive Directors who do not have any material interest in the transactions;

“Independent Shareholders”	Shareholders who do not have any material interest in the transactions under the Master Purchase Agreement;
“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;
“Master Purchase Agreement”	the master purchase agreement entered into between the Company and GWE dated 27 April 2020;
“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;
“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;
“USD”	US dollar, the lawful currency of the United States; and
“%”	per cent.

By order of the Board
Wei Anning
Chairman

Hong Kong, 27 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.