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DACHAN FOOD (ASIA) LIMITED

大成食品(亞洲)有限公司

(incorporated in the Cayman Islands with limited liability)

(the “Company”)

(Stock Code: 3999)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the Company’s announcement dated 6 August 2020 in relation to the continuing connected transactions contemplated under the Existing Agreement entered into between the Company and Better Me (BVI).

The term of the Existing Agreement will expire on 31 August 2022. On 12 August 2022, the Company entered into the Renewal Agreement with Better Me (BVI).

The Renewal Agreement will take effect from 1 September 2022 for a period of two years and four months. The major terms of the Renewal Agreement are substantially the same as those of the Existing Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Better Me (BVI) is a 30%-controlled entity (as defined under the Listing Rules) of Mr. Han (a director of the Company), and is an associate of Mr. Han and a connected person of the Company. Accordingly, the transactions contemplated under the Renewal 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 Renewal Agreement are more than 0.1% but less than 5%, the continuing connected transactions contemplated under the Renewal 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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RENEWAL AGREEMENT

Major terms of the Renewal Agreement are set out below:

Date:	12 August 2022
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 2022 to 31 December 2024, for a period of two years and four months.
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 pursuant to the terms of the Renewal Agreement. Those supply contracts shall not violate the terms and conditions of the Renewal 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, with a pricing benchmark that allows a certain level of profit margin, and shall comply with normal commercial terms.

Payment: Upon receipt of products supplied in accordance with the supply contracts issued by the relevant member companies of Better Me, the relevant member companies of Better Me shall pay the purchase price of those products in the manner listed in the above-mentioned supply contracts within the period specified therein.

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

The Group will supply processed chicken meat products to the relevant member companies of Better Me at their request from time to time, 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 Renewal Agreement.

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 calculate the costs of the products and the profit margin so contributed (“**Profit Margin**”), such Profit Margin shall not be lower than 3%. The sales department will also determine on whether to enter into 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 company of Better Me to enter into a supply contract, the Group will consider the price and production quantity of the transaction contemplated under such offer, and will enter into a supply contract with the relevant member company of Better Me only if the Profit Margin is not lower than 3% and with approval of the sales department on the related transaction.

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 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 a settlement cycle of every two months. The finance department will also monitor the total amount received or receivable to ensure that the annual cap is not 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 31 August 2021 and for the 11 months ended 31 July 2022, the annual caps under the Existing Agreement for the two years ending 31 August 2022 and the relevant utilization rates of the existing annual caps:

Continuing connected transactions under the Existing Agreement	For the year ended 31 August 2021 (audited) <i>RMB thousand</i>	For the 11 months ended 31 July 2022 (unaudited) (for actual amount only)/ for the year ending 31 August 2022 (for annual caps only) <i>RMB thousand</i>
Existing Agreement	Actual	10,064
	Annual cap	7,786
	Utilization rate [^]	15,000
		67%
		57%

[^] The utilization rate for the related transactions under the Existing Agreement as of 31 July 2022 (57%) is calculated by the eleven-month sales amount (RMB7,786,000) divided by the annual cap amount adjusted in proportion to the eleven-month period (i.e. RMB13,750,000).

PROPOSED ANNUAL CAPS

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

		For the four months ending 31 December 2022 <i>RMB thousand</i>	For the year ending 31 December 2023 <i>RMB thousand</i>	For the year ending 31 December 2024 <i>RMB thousand</i>
Renewal Agreement	Proposed annual cap	3,522	11,096	11,650

REASONS FOR THE PROPOSED ANNUAL CAPS

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

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

- (1) Better Me experienced a significant reduction in turnover in the first half of 2022 due to the impact of COVID-19 pandemic, and it is expected that the remission of COVID-19 will enable total sales of Better Me to resume to normal level for the four months from September to December 2022;
- (2) With reference to the estimated GDP growth rate of 5.5% in the PRC in 2022, based on the Group's actual gross sales of RMB10,064,000 of relevant products sold to Better Me in 2021, the proposed annual caps for the next two years and four months are estimated based on an annual budgeted growth rate of 5% as follows:

From 1 September 2022 to 31 December 2022	RMB3,522,000
From 1 January 2023 to 31 December 2023	RMB11,096,000
From 1 January 2024 to 31 December 2024	RMB11,650,000

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors (including independent non-executive Directors) consider that the terms of the Renewal Agreement are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group, and it is also 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 Renewal 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, Better Me (BVI) is a 30%-controlled entity (as defined under the Listing Rules) of Mr. Han (a director of the Company), and is an associate of Mr. Han and a connected person of the Company. Accordingly, the transactions contemplated under the Renewal 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 Renewal Agreement are more than 0.1% but less than 5%, the continuing connected transactions contemplated under the Renewal 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 Mr. Han's indirect shareholding in Better Me (BVI), he is considered to have a material interest in the transactions contemplated under the Renewal Agreement and therefore has abstained from voting on the Board resolutions to approve the Renewal 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 Renewal Agreement and annual caps.

Save as disclosed above, none of the Directors has a material interest in the continuing connected transactions contemplated under the Renewal 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 about the Group, please visit its official website at <http://www.dachanfoodasia.com> (information published on 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”	Better Me (BVI) and its subsidiaries from time to time;
“Better Me (BVI)”	Better Me Precision Nutrition Limited, a company incorporated in the British Virgin Islands with limited liability;
“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;
“Director(s)”	the director(s) of the Company;
“Existing Agreement”	the Master Supply Agreement entered into between the Company and Better Me (BVI) on 6 August 2020;
“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;
“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;
“Renewal Agreement”	the Master Supply (2022 Renewal) Agreement entered into between the Company and Better Me (BVI) on 12 August 2022;
“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(ies)”	has the meaning ascribed to it under the Listing Rules;
“Transaction(s)”	the transaction(s) contemplated under the Renewal Agreement; and
“%”	per cent.

On behalf of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 12 August 2022

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