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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)

(Stock Code: 3999)

CONTINUING CONNECTED TRANSACTIONS

On 5 June 2008, the Company entered into the MB Purchase Agreement with Marubeni PRC for provision of MB Products by MB Group to the Group. Marubeni PRC is a wholly-owned subsidiary of Marubeni Corporation which is a substantial shareholder of a subsidiary of the Company.

On 5 June 2008, the Company entered into the Modification Agreement with Great Wall Enterprise extending the term of the GW Purchase Agreement to 31 December 2010, with other terms of the GW Purchase Agreement remaining substantially the same. Great Wall Enterprise is the ultimate controlling shareholder of the Company. The anticipated amount of purchases under the GW Purchase Agreement is expected to exceed the annual cap as disclosed in the Prospectus. As at the date of the announcement, the annual cap for the year ending 31 December 2008 has not been exceeded. Pursuant to Rule 14A.36 of the Listing Rules, the Company is required to re-comply with Rules 14A.35(3) and (4) of the Listing Rules.

As the MB Purchase Agreement and GW Purchase Agreement as modified constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

The Company will issue a circular to the Shareholders as soon as practicable to set out, among other things, details of the MB Transaction and the GW Transaction, a letter from the Independent Board Committee, a letter from the independent financial advisor of the Company to the Independent Board Committee and the Independent Shareholders and a notice to convene the EGM.

Background

The Group has been conducting certain transactions with group of companies under Marubeni Corporation and GWE Group in its ordinary and usual course of business. Certain waivers have been obtained from the Stock Exchange in respect of the continuing connected transactions with them. Details of which are set out in the Prospectus. However, in view of the recent business development and growth of the Company and the rising costs of raw materials, the scope and/or extent of transactions with them are required to be revised.

On 5 June 2008, the Company entered into the MB Purchase Agreement with Marubeni PRC for provision of MB Products by MB Group to the Group.

On 5 June 2008, the Company entered into the Modification Agreement with Great Wall Enterprise extending the term of the GW Purchase Agreement to 31 December 2010, with other terms of the GW Purchase Agreement remaining substantially the same.

Details of the MB Purchase Agreement and GW Purchase Agreement as modified are set out in this announcement below.

MB Purchase Agreement

Date:

5 June 2008

Parties:

(i) Marubeni PRC (as the supplier)

Marubeni PRC is a wholly owned subsidiary of Marubeni Corporation

(ii) the Company (as the purchaser)

Nature of transaction:

Supply of MB Products by MB Group to the Group.

Duration:

Transactions under the MB Purchase Agreement will be effective from the date of approval by Independent Shareholders of the MB Transaction to 31 December 2010. After the expiration of the initial term, both parties may extend the MB Purchase Agreement for one or more successive periods of three years by giving one month's prior written notice to the other party. The Company will re-comply with the applicable requirements under Chapter 14A of the Listing Rules upon renewal of the MB Purchase Agreement.

Principal terms:

Pursuant to the MB Purchase Agreement, Marubeni PRC shall sell and shall procure members of MB Group to sell and the Company shall purchase and shall procure members of the Group to purchase MB Products from MB Group on individual sale and purchase contracts to be entered into by the relevant member of the MB Group and the relevant member of the Group provided that the terms offered by MB Group to the Group should adhere to the fair market price ranges of products comparable to MB Products as offered in the PRC market as at the time when the relevant sale and purchase is performed. If no comparable prices from Independent Third Parties are available for references, the terms shall be determined by agreement between the parties based on normal commercial terms that are considered to be fair and reasonable by the respective member of the MB Group and the respective member of the Group. Subject to the guiding principles as aforesaid, relevant members of the Group and MB Group will negotiate on the terms of contracts and enter into individual sale contract for the sale and purchase of the MB Products.

The MB Products are essential for the Group's business such as feed and processed food and they are required not only for producing products for Marubeni Corporation but for other customers.

As disclosed in the Prospectus, the Group has from time to time entered into various business transactions with Marubeni Corporation including but not limited to provision of technical assistance from Marubeni Corporation to the Group and supply of goods (inclusive of processed foods) from the Group to Marubeni Corporation. The supply of goods to Marubeni Corporation is subject to the annual caps as stated in the Prospectus.

Due to inadvertent oversight, the purchases of MB Products were not brought to the attention of the Stock Exchange and the Shareholders when they occurred. For the period from the Listing Date on 4 October 2007 to 31 December 2007 and for the five months ended 31 May 2008, purchases of MB Products from the MB Group amounted to approximately RMB24,434,000 (equivalent to approximately HK\$25,112,000) and

RMB19,138,000 (equivalent to HK\$21,147,000) respectively which exceeded the threshold under Rule 14A.33(3) of the Listing Rules, but the relevant ratios are less than the 2.5% under Rule 14A.34 of the Listing Rules for each of the years 2007 and 2008. The Company has failed to strictly comply with the reporting and announcement requirements under Rule 14A.34 of the Listing Rules. As no written agreement in compliance with the requirement of Rule 14A.35(1) of the Listing Rules was entered into until 5 June 2008, the Company also breached Rule 14A.35(1) of the Listing Rules. The respective breach of Rule 14A.33(3) for the years 2007 and 2008 first occurred on 26 October 2007 and 7 January 2008. As a result, the annual report of the Company for the year ended 31 December 2007 has failed to strictly comply with the requirements under Rules 14A.45 and 14A.46 of the Listing Rules. The Stock Exchange reserves its right to take appropriate actions against the Company and its Directors for such breach. The respective breach of Rule 14A.33(3) and Rule 14A.35(1) has been remedied by the issue of this announcement and the signing of the MB Purchase Agreement by the Company as disclosed herein. The Group will take measures to ensure that purchases of MB Products will remain within the 2.5% threshold under Rule 14A.34 of the Listing Rules until Independent Shareholders' approval is obtained.

The other business transactions with the MB Group (including the supply of goods but other than the purchases of MB Products) and the purchases under the MB Purchase Agreement are different and separate, accordingly the other business transactions with MB Group have not been aggregated with the purchases contemplated under the MB Purchase Agreement for the purpose of Rule 14A.25 of the Listing Rules.

Proposed annual caps for the MB Purchase Agreement

The Company proposes that the annual caps for the transactions under the MB Purchase Agreement be as follows:

	Proposed annual amount for the financial year ending 31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Amount	11,566	22,963	28,166

The above proposed annual caps are the products of (i) the estimated amount of the MB products to be purchased from the MB Group for each of the three years ending 31 December 2010; and (ii) the estimated average purchase price of the MB Products for each of the three years ending 31 December 2010. The caps are determined by the Board after taking into account the following factors:

- (a) the historical demand and the anticipated growth in demand for the MB Products of the existing chicken slaughtering plants which purchase MB Products from Marubeni PRC and other suppliers;
- (b) the anticipated increasing demand for the MB Products as a result of the expected business growth of the Group arising from the operation of two new chicken slaughtering plants in mid-2008 which will make the Group's production capacity of meat increased by about 14% by the end of 2008 and about 26% by the end of 2009;
- (c) due to the distinctive location of the new production plants, it is more commercially feasible and viable to place orders for the products for the new production plants mainly from MB Group and as a result, the demand for MB Products therefrom is expected to be about US\$6.7 million (equivalent to approximately HK\$52 million) for the remaining 2008;
- (d) the anticipated increase in the market price for MB Products, arising from (i) the anticipated average inflation of approximately 5% a year; and (ii) the expected appreciation of RMB of approximately 5% a year against the US\$.

GW Purchase Agreement as modified and proposed revised caps

Modification Agreement

Date:

5 June 2008

Parties:

- (i) Great Wall Enterprise (as the supplier)
- (ii) the Company (as the purchaser)

Nature of transaction:

Supply of raw materials by GWE Group to the Group.

Duration:

The Modification Agreement will be effective from the date of approval by Independent Shareholders of the GW Transaction, which will effectively extend the term of the GW Purchase Agreement to 31 December 2010.

Principal Terms:

Save as aforesaid and some minor changes, the GW Purchase Agreement remains effective. Pursuant to the GW Purchase Agreement, the Company shall and shall procure members of the Group to purchase and Great Wall Enterprise shall and shall procure members of the GWE Group to sell the products of the GWE Group on a non-exclusive basis in accordance with any written quotation of the relevant member of the GWE Group which is accepted by the relevant member of the Group, or any written order of the relevant member of the Group which is accepted by the relevant member of the GWE Group. The pricing of the goods will be determined by reference to the actual costs of the goods purchased from the GWE Group and a reasonable profit margin determined by the relevant member of the GWE Group taking into account the following:

- (a) any quoted price shall not be less than the price charged by the relevant member of the GWE Group to an Independent Third Party when dealing on an arms' length basis having regard to any other special circumstances such as arm's length negotiated volume discounts; and
- (b) if no such comparable reference prices are available, the quoted price shall be determined by agreement between the parties based on (i) normal commercial terms that are considered to be fair and reasonable by the respective member of the Group and the GWE Group; and (ii) terms no less favourable to the relevant member of the Group than terms available from Independent Third Parties.

Revision of annual caps for the GW Purchase Agreement

As disclosed in the Prospectus, the transactions under the GW Purchase Agreement for the two years ending 31 December 2008 and 2009 will be subject to the annual caps of US\$1,219,000 (equivalent to approximately HK\$9,483,820) and US\$1,245,000 (equivalent to approximately HK\$9,686,100) respectively.

Based on the unaudited management accounts of the Group, purchases from the Group amounted to approximately US\$614,000 (equivalent to approximately HK\$4,776,920) for the four months ended 30 April 2008 representing about 50% of the annual cap as approved for the year ending 31 December 2008. As disclosed in the Prospectus, the Group has from time to time entered into other business

transactions with GWE Group, including but not limited to property leasing and use of certain trademark of GWE Group. For calculation of the caps for the GW Transaction, all the purchases with GWE Group have been aggregated, however as the other transactions with the GWE Group are different and separate from the purchases of GW Products by the Group under the GW Purchase Agreement, other transactions have not been aggregated for the purpose of Rule 14A.25 of the Listing Rules.

Due to the increase of the costs of raw materials, rise in Renminbi as well as the rising demands for the Group's meat products, the Board estimates that the existing annual caps for the GW Purchase Agreement will not be sufficient for the years of 2008 and 2009. As at the date of the announcement, the annual cap for the year ending 31 December 2008 has not been exceeded. Further, the term of the GW Purchase Agreement will be extended by the Modification Agreement to 31 December 2010. Accordingly the Company proposes to revise the annual caps for the years of 2008 and 2009 and proposes a new cap for the year of 2010 as follows:

	Proposed annual amount for the financial year ending 31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Amount	2,857	6,217	8,734

The above proposed annual caps are determined by the Board after taking into account the following factors:

- (a) the historical demand and the anticipated growth in demand of the Group's existing production facilities for the GW Products;
- (b) the anticipated increasing demand for the GW Products as a result of the expected business growth of the Group arising partly from (i) the improvement of the existing processed food plants which will increase the utilization of the Group's production capacity; and (ii) the introduction of two new processed food production plants in late 2008 and mid 2009 respectively which will increase the Group's production capacity of domestic processed food by approximately 2.3 times from year 2008 to year 2010;
- (c) the anticipated increase in the market price for GW Products, arising from (i) the anticipated average inflation of approximately 5% a year; and (ii) the expected appreciation of RMB of approximately 5% a year against the US\$.

Pricing monitoring mechanism for purchases under the MB Purchase Agreement and the GW Purchase Agreement

The Group will take the following measures to monitor and check whether the asking prices or quoted prices under the MB Purchase Agreement and the GW Purchase Agreement are acceptable:

- (a) compare the asking prices or quoted prices with the quotations from supplier in the market for similar products;
- (b) the purchase order to be reviewed by a three tier review system (firstly by the relevant product manager, secondly by the person-in-charge in the purchase department, and lastly by the general manager);
- (c) if no such comparable reference prices are available, the asking prices or quoted prices shall be determined by agreement between the parties based on (i) normal commercial terms that are considered to be fair and reasonable by the respective member of both parties; and (ii) the impact of the asking prices or quoted prices of the relevant products as provided under the MB Purchase Agreement and the GW Purchase Agreement on the cost of the production of the Group.

Reasons for entering into the MB Purchase Agreement and the GW Purchase Agreement as modified

By entering into the MB Purchase Agreement, the Group will benefit by securing a reliable source of high quality MB Products. Furthermore, purchasing goods from Marubeni PRC will strengthen the already close business relationship with the Marubeni Corporation which is one of the main customers of the Group.

The GWE Group has been a very reliable supplier of high quality raw materials to the Group. By extending the GW Purchase Agreement by the Modification Agreement, the Group has secured a longer term of supply of high quality raw materials which will be beneficial to the growth of the Group's business.

The Board (excluding the independent non-executive Directors who will express their views after receiving advice from the independent financial adviser) considers that (a) the MB Purchase Agreement and the GW Purchase Agreement as modified and the respective transactions to be entered into thereunder have been or will be negotiated on an arm's length basis and on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (b) the proposed caps therefor are fair and reasonable.

Listing Rules requirements

Marubeni PRC is a wholly-owned subsidiary of Marubeni Corporation which is a substantial shareholder of a subsidiary of the Company.

Great Wall Enterprise is the ultimate substantial shareholder of the Company. As at the date of this announcement, Great Wall Enterprise is indirectly holding approximately 52.32% through two of its wholly owned subsidiaries, namely Waverley Star Limited as to approximately 37.19% and Asia Nutrition Technologies Corporation as to 15.13%.

Pursuant to the Listing Rules, both Marubeni PRC and Great Wall Enterprise are connected persons of the Company.

As the MB Purchase Agreement and GW Purchase Agreement as modified constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, they will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee (comprising Dr. Chen Chih, Mr. Liu Fuchun and Mr. Way Yung-Do and each of them does not have any material interest in the MB Transaction and the GW Transaction) will advise the Independent Shareholders in connection with the MB Transaction and the GW Transaction. Taifook Capital Limited has been appointed as the independent financial advisor to the Independent Board Committee and the Independent Shareholders in relation thereto.

The Company will issue a circular to the Shareholders as soon as practicable to set out, among other things, details of the MB Transaction and the GW Transaction, a letter from the Independent Board Committee, a letter from the independent financial advisor of the Company to the Independent Board Committee and the Independent Shareholders and a notice to convene the EGM.

General information on the parties

The Group is one of the leading meat products and feed suppliers in the PRC with a particular focus on chicken meat products. For more information on the Group, please visit its official website at www.dfa3999.com (The information that appears in this website does not form part of this announcement).

Marubeni PRC is a company incorporated in the PRC whose principal business is production of raw materials and trading, whilst Marubeni Corporation is a company incorporated in Japan whose shares are listed on Tokyo Stock Exchange Group, Inc. and whose principal business are trading of commodities including but not limited to agri-marine products, metal and mineral, and energy products.

Great Wall Enterprise is a company incorporated in Taiwan whose principal business is production of soybean products, feeds and flours and chicken meat processing.

Definitions

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

“Board”	the board of Directors;
“Company”	DaChan Food (Asia) Limited, a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Stock Exchange (stock code: 3999);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve MB Transaction and GW Transaction;
“Great Wall Enterprise”	Great Wall Enterprise Co., Ltd. (大成長城企業股份有限公司), an enterprise established under the laws of Taiwan on 28 December 1960 and listed on the Taiwan Stock Exchange (stock code: 1210) on 20 May 1978;
“Group”	the Company and its subsidiaries;
“GW Products”	the products to be supplied by the GWE Group to the Group from time to time under the GW Purchase Agreement which are mainly ingredients (i.e. mixed flour) for the Group’s processed food production;
“GW Purchase Agreement”	the existing master purchase agreement entered into between Great Wall Enterprise and the Company dated 14 September 2007, details of which are disclosed in the Prospectus;
“GW Transaction”	the GW Purchase Agreement as modified and the proposed revised caps thereunder;
“GWE Group”	Great Wall Enterprise and its subsidiaries (excluding members comprising the Group for the purpose of this announcement);

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board established to give advice to the Independent Shareholders in respect of MB Transaction and GW Transaction which will be voted upon at the EGM;
“Independent Shareholders”	in respect of (a) the MB Transaction, Shareholders other than Marubeni PRC and its associates; in respect of (b) GW Transaction, Shareholders other than Great Wall Enterprise and its associates;
“Independent Third Party(ies)”	third party(ies) that is not connected to any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them as defined in the Listing Rules;
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Marubeni PRC”	Marubeni (China) Co., Ltd. (丸紅(中國)有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Marubeni Corporation;
“MB Group”	Marubeni PRC and its subsidiaries;
“MB Products”	products to be sold to the Group from time to time under the MB Purchase Agreement, which are mainly soybean meal for chicken feed product;
“MB Purchase Agreement”	the master purchase agreement entered into between Marubeni PRC and the Company dated 5 June 2008;
“MB Transaction”	MB Purchase Agreement and the proposed caps thereunder;
“Modification Agreement”	the modification agreement to modify, among other things, the duration of the GW Purchase Agreement, entered into between Great Wall Enterprise and the Company dated 5 June 2008;

“PRC”	the People’s Republic of China;
“Prospectus”	the prospectus of the Company dated 20 September 2007;
“RMB”	Renminbi, the lawful currency of PRC;
“Shareholder(s)”	holder(s) of share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent;
“US\$”	United States dollars, the lawful currency of United States of America.

By Order of the Board
Han Jia-Hwan
Chairman

Hong Kong, 13 June 2008

As at the date of this announcement, Mr. Han Jia-Hwan (Chairman), Mr. Chang Tiew-Shen (Chief Executive Officer) and Mr. Chen Fu-Shih are the executive Directors, Mr. Chao Tien-Shin, Mr. Han Chia-Yau, Mr. Harn Jia-Chen, and Mr. Nicholas W. Rosa are the non-executive Directors, and Dr. Chen Chih, Mr. Liu Fuchun and Mr. Way Yung-Do are the independent non-executive Directors.

For the purpose of this announcement and unless otherwise specified, conversion of RMB into HK\$ is based on the exchange rate of HK\$1.000 = RMB0.973 for the year 2007 and HK\$1.000 = RMB0.905 for the year 2008; conversion of US\$ into HK\$ is based on the exchange rate of US\$1.00 = HK\$7.78.