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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)

SUPPLEMENTAL ANNOUNCEMENT
CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement made by the Company dated 14 December 2018 (the “**Announcement**”), regarding, among others:

1. the disposal of 50% of the total issued shares of Better Me from NAC to HCL under the Share Transfer Agreement (“**Disposal**”);
2. the continuing connected transactions contemplated under the Sale Agreement entered into between DaChan Hebei and Sisters Kitchen; and
3. the continuing connected transactions contemplated under the Distribution Agreement entered into between DaChan Hebei and Sisters Kitchen.

In addition to the information disclosed in the Announcement, the Company would like to provide further details regarding the transactions contemplated under the Share Transfer Agreement, the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those used in the Announcement.

LISTING RULES IMPLICATIONS

The connected relationships among NAC, DaChan Hebei, HCL and Sisters Kitchen, and the background which leads to such relationships have been set out in the Announcement.

Subsequent to the Announcement, the Disposal was completed and HCL (a company wholly owned by Mr. Han) became the registered shareholder of 50% of the total issued shares in Better Me, and the registration of Batemi, a wholly owned subsidiary of Better Me, as the sole shareholder of Sisters Kitchen was completed on 26 December 2018.

As at the date of this announcement, each of HCL, Better Me and its subsidiaries (including Sisters Kitchen) is an associate of Mr. Han by virtue of being his 30%-controlled company (within the meaning of the Listing Rules) and thus a connected person of the Company. As such, the Disposal constitutes a connected transaction of the Company under the Listing Rules, and the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As certain applicable percentage ratios (calculated as if Sisters Kitchen were already an indirect subsidiary of Better Me) as defined in Rule 14.07 of the Listing Rules for the Disposal are more than 0.1% but less than 5%, and all the applicable percentage ratios for the proposed annual caps under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) are more than 0.1% but less than 5%, the connected transaction under the Disposal and the continuing connected transactions contemplated under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental 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.

INTRODUCTION

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2. the continuing connected transactions contemplated under the Sale Agreement entered into between DaChan Hebei and Sisters Kitchen; and
3. the continuing connected transactions contemplated under the Distribution Agreement entered into between DaChan Hebei and Sisters Kitchen.

In addition to the information disclosed in the Announcement, the Company would like to provide further details regarding the transactions contemplated under the Share Transfer Agreement, the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those used in the Announcement.

CONNECTED TRANSACTION BETWEEN NAC AND HCL

Major terms of the Share Transfer Agreement are set out as below:

Date:	14 December 2018
Parties:	(i) NAC (as vendor); and (ii) HCL (as purchaser)
Subject shares	50% of the entire issued shares of Better Me
Consideration	NIL
Others	No warranties and post completion undertakings are required to be made by NAC to HCL

No capital contribution or shareholder loan was made by the Group to Better Me. Completion of the Disposal took place on 26 December 2018 and Better Me ceased to be an associate of the Group.

Basis of determination of the consideration for the Disposal under the Share Transfer Agreement

The consideration for the Disposal was based on the net asset value of Better Me. Better Me was newly incorporated and as at the date of the Share Transfer Agreement, (i) it has not yet commenced any operation or business, and (ii) the shareholders of Better Me (i.e. NAC and an independent third party) have not yet made any contribution to the capital of Better Me nor have they committed to do so. The net asset value of Better Me as at the date of the Share Transfer Agreement is zero.

Reasons for and benefits of entering into the Share Transfer Agreement

The Company originally planned to invest in Better Me through NAC with the independent third party to develop healthy food products with the “better me” brand. However, having reviewed the business portfolio of the Group and the market positioning and the environment for business, the Company no longer wished to participate in the investment of Better Me and decided to dispose all its interests therein.

It is expected that no gain and no loss will be recorded in respect of the Disposal.

The Directors (including the independent non-executive Directors) are of the view that entering into the Share Transfer Agreement and conducting the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONTINUING CONNECTED TRANSACTIONS BETWEEN SISTERS KITCHEN AND THE GROUP

The connected relationship between DaChan Hebei and Sisters Kitchen and the background which leads to such relationship have been set out in the Announcement. The Company would like to provide further updates as regards the relationship between DaChan Hebei and Sisters Kitchen.

Subsequent to the Announcement, the Disposal was completed and HCL (a company wholly owned by Mr. Han) became the registered shareholder of 50% of the total issued shares in Better Me, and the registration of Batemi, a wholly owned subsidiary of Better Me, as the sole shareholder of Sisters Kitchen was completed on 26 December 2018.

As at the date of this announcement, each of Better Me and its subsidiaries (including Sisters Kitchen) is an associate of Mr. Han by virtue of being his 30%-controlled company (within the meaning of the Listing Rules) and thus a connected person of the Company. As such, the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

Details of the Sale Agreement, the Distribution Agreement and the Supplemental Agreement are summarised as follows:

Sale Agreement

Parties:	<i>Seller:</i> DaChan Hebei
	<i>Purchaser:</i> Sisters Kitchen
Date:	11 September 2018
Term:	2 years
Scope:	DaChan Hebei will supply and Sisters Kitchen will acquire the relevant products (i.e. processed chicken meat) required for the production and operation of Sisters Kitchen as stipulated in the orders placed by Sisters Kitchen from time to time.
Price:	The purchase price for the aforementioned products (“ Purchase Price ”) will be determined between DaChan Hebei and Sisters Kitchen in accordance with the costs of the products plus a processing fee of RMB700 per ton.

The Purchase Price will be calculated on a monthly basis and will be paid by Sisters Kitchen after receipt of the invoice from DaChan Hebei.

Distribution Agreement

Parties: *Service provider (Distributor):*
DaChan Hebei

Service recipient (Manufacturer):
Sisters Kitchen

Date: 11 September 2018

Term: 2 years

Service: DaChan Hebei will act as the non-exclusive distributor of the “better me” brand products of Sisters Kitchen (i.e. healthy food products using, among the others, the chicken meat sold by DaChan Hebei under the Sale Agreement) in the PRC through all online and offline distribution channels.

Service fees: The fees for the aforementioned distribution services (“**Service Fees**”) will be 2% of the proceeds received by DaChan Hebei from its sale of products to third parties after deducting the relevant tax, discount and any other sale-related costs borne by Sisters Kitchen.

The Service Fees will be calculated and paid on a monthly basis. DaChan Hebei will pay the net sum of the sale proceeds received from third parties to Sisters Kitchen after deduction of the Service Fees.

Supplemental Agreement (to amend the Distribution Agreement)

Parties: DaChan Hebei

Sisters Kitchen

Date: 12 December 2018

Main term: The parties will review and (if applicable) re-determine the pricing basis of the Service Fees under the Distribution Agreement before the expiration of one year after the signing of the Distribution Agreement. Other terms of the Distribution Agreement remain unchanged.

Should the pricing basis be re-determined, the Company will comply in full with all applicable reporting, disclosure and, if applicable, shareholders’ approval requirements under Chapter 14A of the Listing Rules.

PRICING POLICIES AND INTERNAL CONTROL MEASURES REGARDING PRICE DETERMINATION FOR THE TRANSACTIONS

1. Supply of products under the Sale Agreement

DaChan Hebei will supply its chicken meat after processing by it to Sisters Kitchen as may be requested by Sisters Kitchen from time to time.

The Company has established internal control procedures to ensure that the products supplied to Sisters Kitchen are in line with the terms of the Sale Agreement and no less favourable to the Group than those offered by the Group to independent customers. The chicken meat department of the Group will gather and update the prevailing costs of the chicken meat products every month (“Database”). Each time after receiving Sisters Kitchen’s request for the processed chicken meat products, the sales department of the Group will check against the Database and will prepare a written quotation based on the said information plus a processing fee of RMB700 per ton. The sales department will also consider factors such as the payment terms, credit limit and validity period of credit, capacity, the specific needs and overall purchasing volume of Sisters Kitchen. It is only when the sales department head confirms that the terms to be offered by DaChan Hebei are no less favourable than those terms offered by the Group to independent customers will DaChan Hebei provide the written quotation and supply the products to Sisters Kitchen.

The processing fee of RMB 700 per ton was determined with reference to the production costs of similar products sold to other third parties, taking into account the difference in the raw materials used and the manufacturing process adopted.

The finance department of the Group will compute the fee receivable by DaChan Hebei based on the terms of the Sale Agreement and issue the debit note. The finance department will also monitor the total fee received or receivable by DaChan Hebei to ensure that the annual caps are not exceeded, and inform the management and the executive Directors in the event the annual caps approach full utilisation. Where appropriate, the Company will seek to revise the annual caps and re-comply with the requirements of Chapter 14A of the Listing Rules in case the fees are expected to exceed the annual caps.

2. Provision of distribution services under the Distribution Agreement (as amended by the Supplemental Agreement)

DaChan Hebei will distribute certain chicken food products of Sisters Kitchen to e-commerce merchants and other merchants as may be requested by Sisters Kitchen from time to time.

The Company has established internal control procedures to ensure that the distribution services provided by DaChan Hebei are in line with the terms of the Distribution Agreement and no less favourable to the Group than those offered or to be offered by the Group to independent customers. Each time after receiving Sisters Kitchen's request for the distribution service, the sales department of the Group will consider factors such as the payment terms, credit limit and validity period of credit, capacity, the specific needs and overall purchasing volume of Sisters Kitchen. It is only when the sale department head confirms that the terms to be provided by DaChan Hebei are no less favourable than those terms offered by the Group to independent customers (if any) or the Group will generate a margin of not less than 5% will DaChan Hebei provide the distribution service to Sisters Kitchen.

The Group does not provide similar distribution services to other third parties, and the distribution fee of 2% of the proceeds received from the sale of products was determined based on the estimated costs for providing the distribution services by staff members of the sales segment of DaChan Hebei and the estimated margin of approximately 5-10%.

The finance department of the Group will compute the fee receivable by DaChan Hebei based on the terms of the Distribution Agreement and remit the net sum after deducting the Service Fees to Sisters Kitchen. The finance department will also monitor the total amount received or receivable by DaChan Hebei under the Distribution Agreement (as amended by the Supplemental Agreement) to ensure that the annual caps are not exceeded, and inform the management and the executive Directors in the event the annual caps approach full utilisation. Where appropriate, the Company will seek to revise the annual caps and re-comply with the requirements of Chapter 14A of the Listing Rules in case the fees are expected to exceed the annual caps.

THE PROPOSED ANNUAL CAPS

The following table sets out the respective proposed annual caps of the transactions under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement):

Continuing connected transactions under the Agreements		For the year ending 10 September 2019	For the year ending 10 September 2020
		<i>RMB'000</i>	<i>RMB'000</i>
1. <i>Sale Agreement</i>	Proposed annual cap	15,000	15,000
2. <i>Distribution Agreement (as amended by the Supplemental Agreement)</i>	Proposed annual cap	18,000	18,000

REASONS FOR THE PROPOSED ANNUAL CAPS

The major basis and assumptions for determining the proposed annual caps for the transactions are set out below.

1. Proposed annual caps for the Sale Agreement

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

- A) the estimated production and operation needs of Sisters Kitchen taking into account the estimated demand of Sisters Kitchen's products of 500 to 550 ton per year;
- B) the estimated prevailing costs of the chicken meat products in the region of RMB 21 to 24 per kilogram; and
- C) a buffer in the region of 15% to 30%.

2. Proposed annual caps for the Distribution Agreement (as amended by the Supplemental Agreement)

The proposed annual caps for the transactions contemplated under the Distribution Agreement (as amended by the Supplemental Agreement) are determined after taking into account the following factors:

- A) the estimated demand for the “better me” brand products of Sisters Kitchen in the PRC under the Distribution Agreement of 500 to 550 ton per year and the average selling price of the products of RMB 27 to 29 per kilogram; and
- B) a buffer in the region of 5% to 10%.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The provision of the products and services under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) is in the ordinary and usual course of business of the Group. The Group will receive processing fees and the Service Fees for provision of such products and services under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) and thus such transactions contemplated thereunder will increase the total revenue of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of each of the Sale Agreement and the Distribution Agreement (as amended by the Supplemental 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 Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement).

LISTING RULES IMPLICATIONS

Subsequent to the Announcement, the Disposal was completed and HCL (a company wholly owned by Mr. Han) became the registered shareholder of 50% of the total issued shares in Better Me, and the registration of Batemi, a wholly owned subsidiary of Better Me, as the sole shareholder of Sisters Kitchen was completed on 26 December 2018.

As at the date of this announcement, each of HCL, Better Me and its subsidiaries (including Sisters Kitchen) is an associate of Mr. Han by virtue of being his 30%-controlled company (within the meaning of the Listing Rules) and thus a connected person of the Company. As such, the Disposal constitutes a connected transaction of the Company under the Listing Rules, and the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

As certain applicable percentage ratios (calculated as if Sisters Kitchen were already an indirect subsidiary of Better Me) as defined in Rule 14.07 of the Listing Rules for the Disposal are more than 0.1% but less than 5%, and all the applicable percentage ratios for the proposed annual caps under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) are more than 0.1% but less than 5%, the connected transaction under the Disposal and the continuing connected transactions contemplated under the Sale Agreement and the Distribution Agreement (as amended by the Supplemental 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.

Mr. Han (the then chairman and an executive Director of the Company) considered himself to be having a material interest in the transactions contemplated under the Share Transfer Agreement, the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement) in view of his indirect shareholding in Better Me and Sisters Kitchen and accordingly, he has abstained from voting on the board resolution approving the transactions contemplated under the Share Transfer Agreement, the Sale Agreement and the Distribution Agreement (as amended by the Supplemental Agreement).

GENERAL INFORMATION OF THE PARTIES

Information on the Group

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 this website does not form part of this announcement).

DaChan Hebei is principally engaged in manufacturing and trading of animal feeds, processing and trading of chicken meat and meat products.

NAC is principally engaged in investment holding.

Information on Better Me

Better Me was newly incorporated on 13 August 2018. It is an investment holding company and did not hold any asset as at the date of the Share Transfer Agreement. Better Me is currently the sole shareholder of Batemi, which is the sole shareholder of Sisters Kitchen.

Information on HCL

HCL is principally engaged in investment holding.

Information on Sisters Kitchen

Sisters Kitchen is principally engaged in the business of food and beverage management. It commenced its operation in 2008 and operated fried chicken retail shops in cities such as Beijing and Shanghai before the end of 2016. As part of a corporate reform, Sisters Kitchen closed down its business in 2017 and resumed its operation in 2018 by selling healthy chicken products under the “better me” brand through retail shops operated by it as well as e-commerce shops operated by third parties.

DEFINITIONS

In this announcement, the following expressions shall have the meaning set out below unless the context requires otherwise:

"Disposal"	the transactions contemplated under the Share Transfer Agreement;
"Purchase Price"	has the meaning given to it under the section "Continuing Connected Transactions between Sisters Kitchen and the Group" in this announcement;
"Service Fees"	has the meaning given to it under the section "Continuing Connected Transactions between Sisters Kitchen and the Group" in this announcement; and
"Supplemental Agreement"	the supplemental agreement dated 12 December 2018 entered into between DaChan Hebei and Sisters Kitchen to amend the Distribution Agreement.

On behalf of the Board

Harn Jia-Chen

Chairman

Hong Kong, 16 January 2019

As at the date of this announcement, Mr. Harn Jia-Chen (Chairman) and Mr. Han Chia-Yin are the executive Directors, 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. Wei Anning are the independent non-executive Directors.