
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **Global Bio-chem Technology Group Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

CONTINUING CONNECTED TRANSACTIONS

**NEW MASTER SUPPLY AGREEMENT FOR
THE PROCUREMENT OF CORN KERNELS
AND**

**MASTER SALES AGREEMENT FOR
THE SALE OF CORN STARCH AND OTHER PRODUCTS**

**Independent Financial Adviser to
Independent Board Committee and Independent Shareholders**



A letter from the Board is set out on pages 4 to 25 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 26 to 27 of this circular. A letter from Octal Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 54 of this circular.

A notice convening the EGM to be held at Function Room, 6th Floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 11:00 a.m. on Wednesday, 14 November 2018 is set out on pages 61 to 63 of this circular. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM (i.e. at or before 11:00 a.m. on Monday, 12 November 2018 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

25 October 2018

* for identification purposes only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	4
2. New Master Supply Agreement	5
3. Master Sales Agreement	15
4. Information of the Group and Nongtou	23
5. Implication under the Listing Rules	23
6. Disclosure of Directors' interests	23
7. EGM	24
8. Recommendation	24
9. Additional information	25
Letter from the Independent Board Committee	26
Letter from Octal Capital	28
Appendix — General Information	55
Notice of EGM	61

DEFINITIONS

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

“associate(s)”	have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Global Bio-chem Technology Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Corn Starch and Other Products”	corn starch and other corn-based products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners and amino acid products
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Function Room, 6th Floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 11:00 a.m. on Wednesday, 14 November 2018, the notice of which is set out on pages 61 to 63 of this circular, and any adjournment thereof
“Existing Master Supply Agreement”	the agreement dated 15 May 2017 and entered into between the Company (for itself and on behalf of the Group) and Jiliang in relation to the supply of corn kernels by Jiliang to members of the Group
“Group”	the Company and its subsidiaries from time to time
“GSH”	Global Sweeteners Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and a subsidiary of the Company
“GSH Group”	GSH and its subsidiaries from time to time

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Board comprising Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, being the independent non-executive Directors appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Transactions
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, the independent financial advisers appointed by the Board and approved by the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Transactions
“Independent Shareholders”	Shareholders other than Modern Agricultural and its associates, and all other Shareholders interested in the New Master Supply Agreement and/or the Master Sales Agreement
“Jiliang”	吉林吉糧資產供應鏈管理有限公司 (Jilin Jiliang Assets Supply Chain Management Co., Ltd.), a company established in the PRC which is indirectly wholly owned by Nongtou
“Latest Practicable Date”	22 October 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Sales Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of the Group) and Nongtou (for itself and on behalf of the Nongtou Group) in relation to the supply of Corn Starch and Other Products by the Group to the Nongtou Group
“Master Sales Agreement Effective Date”	the date on which the Master Sales Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM
“MT”	metric tonne

DEFINITIONS

“Modern Agricultural”	Modern Agricultural Industry Investment Limited, a company incorporated in the British Virgin Islands which is the controlling shareholder of the Company holding 49% of the entire issued share capital of the Company as at the Latest Practicable Date
“New Master Supply Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of the Group) and Nongtou (for itself and on behalf of the Nongtou Group) in relation to the supply of corn kernels by the Nongtou Group to the Group
“New Master Supply Agreement Effective Date”	the date on which the New Master Supply Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM
“Nongtou”	吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.), a company established in the PRC which is controlled by SASAC of Jilin Province
“Nongtou Group”	Nongtou and its subsidiaries from time to time
“PRC” or “China”	the People’s Republic of China
“PRC LLP”	Jilin Province Modern Agricultural Industry Investment Fund, which is an agricultural fund established in the PRC
“SASAC of Jilin Province”	吉林省人民政府國有資產監督管理委員會 (State-owned Assets Supervision & Administration Commission of the People’s Government of Jilin Province)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the continuing connected transactions contemplated under each of the New Master Supply Agreement and the Master Sales Agreement and the related annual caps
“%”	per cent

LETTER FROM THE BOARD



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

Executive Directors:

Mr. Yuan Weisen

Mr. Zhang Zihua

Mr. Liu Shuhang

Independent non-executive Directors:

Mr. Ng Kwok Pong

Mr. Yeung Kit Lam

Registered office:

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Suites 2202-4, 22nd Floor

Tower 6, The Gateway

9 Canton Road

Tsimshatsui, Kowloon

Hong Kong

25 October 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**NEW MASTER SUPPLY AGREEMENT FOR
THE PROCUREMENT OF CORN KERNELS
AND**

**MASTER SALES AGREEMENT FOR
THE SALE OF CORN STARCH AND OTHER PRODUCTS**

1. INTRODUCTION

As announced by the Company on 12 September 2018, the Company entered into the New Master Supply Agreement and Master Sales Agreement which constitute continuing connected transactions of the Company.

* *for identification purposes only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding the resolutions to be proposed at the EGM to approve the New Master Supply Agreement and the related annual caps.

2. NEW MASTER SUPPLY AGREEMENT

(A) Principal terms

Date: 12 September 2018

- Parties: (1) the Company (for itself and on behalf of its subsidiaries) as purchaser
- (2) Nongtou (for itself and on behalf of its subsidiaries) as supplier

Pursuant to the New Master Supply Agreement, the Company appointed Nongtou as one of its suppliers for corn kernels and Nongtou agrees to supply corn kernels to members of the Group. The New Master Supply Agreement shall become effective from the New Master Supply Agreement Effective Date and expiring on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the New Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with members of the Nongtou Group from time to time during the term of the New Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method, quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Supply Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Supply Agreement.

Upon the New Master Supply Agreement Effective Date, the Existing Master Supply Agreement shall be terminated contemporaneously.

LETTER FROM THE BOARD

(B) Pricing and other terms

Under the New Master Supply Agreement, the Nongtou Group shall supply corn kernels to the Group at market rates and such price (exclusive of transportation, storage and/or insurance cost) shall not be higher than the highest price of the prices below:

- (1) the average unit transaction price at the latest corn price in Liaoning Province, Jilin Province and Heilongjiang Province as announced on the official website of National Grain Trade Centre of the PRC (www.grainmarket.com.cn) within 15 days before the proposed date of the making of purchase order by any member of the Group;
- (2) the average unit corn transaction price published on the official website of Dalian Commodity Exchange (www.dce.com.cn) of the latest trade matching day before the proposed date of the making of purchase order by any member of the Group; and
- (3) the latest corn price in Liaoning Province, Jilin Province and Heilongjiang Province obtained from China Corn Network (www.yumi.com.cn), an independent third party price consulting platform on the date of making purchase order by any member of the Group.

The Directors consider that as the price of the corn kernels to be charged by the Nongtou Group under the New Master Supply Agreement shall be determined with reference to the latest market prices at auctions, commodity prices quoted on an exchange and prices quoted from independent price consulting platform, which are all public information and are up-to-date, such pricing term can ensure that the price of the corn kernels will be set at market rates from time to time.

To ensure that price of each individual transaction under the New Master Supply Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders, the Directors shall monitor from time to time to ensure that price of corn kernels supplied by the Nongtou Group to the Group adhere to the pricing mechanism strictly, and that information of price of corn kernels of the same or similar type in each individual transaction have been attained from each source, prior to determining the final price of the corn kernels pursuant to each transaction.

LETTER FROM THE BOARD

(C) Annual caps

The Company expects that the annual caps in respect of the transactions contemplated under the New Master Supply Agreement will be HK\$506,000,000, HK\$2,453,000,000 and HK\$3,158,000,000 for each of the three years ending 31 December 2020, respectively.

The above annual caps are prepared on the basis of multiplying the estimated price of the corn kernels per MT by the estimated quantity to be purchased, plus the inflation rate in the PRC of 3.0% annual growth rate of the unit price of corn kernels. The estimated quantity for the purchase of corn kernels is based on the purchase volume of corn kernels during the six months ended 30 June 2018, the estimated future production output of the Group for 2018 to 2020 and the purchase plan of the Nongtou Group.

Historically, the quantity of corn kernels purchased by members of the Group during the three years ended 31 December 2017 and the six months ended 30 June 2018 were approximately 750,000 MT (amounted to approximately HK\$1,810,000,000), 1,259,000 MT (amounted to approximately HK\$2,150,000,000), 1,404,000 MT (amounted to approximately HK\$2,182,000,000), and 884,000 MT (amounted to approximately HK\$1,764,000,000), respectively.

Corn kernels purchased from Jiliang by members of the Group under the Existing Master Supply Agreement (which became effective on 3 July 2017) during the year ended 31 December 2017 and the six months ended 30 June 2018 were 135,000 MT (amounted to approximately HK\$217,000,000) and 38,000 MT (amounted to approximately HK\$75,000,000), respectively.

LETTER FROM THE BOARD

See below details of the quantities and amount of corn kernels purchased by members of the Group during the three years ended 31 December 2017 and the six months ended 30 June 2018:

Relevant period/ years	Quantity and amount of corn kernels purchased by members of the Group		Quantity and amount of corn kernels purchased from Jiliang by members of the Group and percentage of total purchased corn kernels			Quantity and amount of corn kernels purchased from independent third parties by members of the Group and percentage of total purchased corn kernels		
	<i>MT</i>	<i>HK\$'000</i>	<i>MT</i>	<i>HK\$'000</i>	<i>%</i>	<i>MT</i>	<i>HK\$'000</i>	<i>%</i>
	Year ended 31 December 2015	750,000	1,810,000	N/A	N/A	N/A	750,000	1,810,000
Year ended 31 December 2016	1,259,000	2,150,000	N/A	N/A	N/A	1,259,000	2,150,000	100.0
Year ended 31 December 2017	1,404,000	2,182,000	135,000	217,000	9.9	1,269,000	1,965,000	90.1
Six months ended 30 June 2018	884,000	1,764,000	38,000	75,000	4.3	846,000	1,689,000	95.7

LETTER FROM THE BOARD

See below details of quantities and amount of corn kernels purchased by members of the Group during the year ended 31 December 2017, and the quantities and amount expected to be purchased during the six months ending 31 December 2018 and the two years ending 31 December 2020:

Relevant period/ years	Quantity and amount of corn kernels actual/expected to be purchased by members of the Group					Existing annual caps under the Existing Master Supply Agreement and percentage of expected total purchase			Quantity and amount of corn kernels expected to be purchased from members of the Nongtou Group by members of the Group and percentage of expected total purchased corn kernels			Quantity and amount of corn kernels expected to be purchased from independent third parties by members of the Group and percentage of expected total purchased corn kernels						
	MT		HK\$'000		MT	HK\$'000		%	MT		HK\$'000		%	MT		HK\$'000		%
Year ended 31 December 2017	1,404,000	2,182,000	800,000	1,400,000				64.2										
Six months ending 31 December 2018	884,000	1,686,000	480,000	840,000	49.8	505,000	926,000	54.9	379,000	760,000	45.1							
			(Note 1)	(Note 1)	(Note 1)													
Year ending 31 December 2019	2,080,000	4,088,000	1,200,000	2,090,000	51.1	1,248,000	2,453,000	60.0	832,000	1,635,000	40.0							
Year ending 31 December 2020	2,600,000	5,263,000	N/A	N/A	N/A	1,560,000	3,158,000	60.0	1,040,000	2,105,000	40.0							
			(Note 2)	(Note 2)	(Note 2)													

Note:

- (1) Such amount represents the annual cap for the year ending 31 December 2018 and the percentage of expected total purchased corn kernels during the year ending 31 December 2018.
- (2) The original term of the Existing Master Supply Agreement shall expire on 31 December 2019, as such, no annual cap is available for the year ending 31 December 2020.

It is expected by the Directors that the quantity of corn kernels to be purchased by members of the Group for the six months ending 31 December 2018 and the two years ending 31 December 2020 shall be approximately 884,000 MT (amounting to approximately HK\$1,686,000,000), 2,080,000 MT (amounting to approximately HK\$4,088,000,000) and 2,600,000 MT (amounting to approximately HK\$5,263,000,000), respectively. The expected demand of corn kernels for the six months ending 31 December 2018 is determined by the Group based on the purchase quantity of corn kernels in the first six months of 2018 on a pro-rata basis. In respect of the expected demand of corn kernels for the two years ending 31 December 2020, such is determined based on the assumption that the production sites of the Group, which are located in

LETTER FROM THE BOARD

Xinglongshan, Dehui, Jinzhou and Harbin will be operating at 80% and 90% of their full production capacity, respectively provided that the Group's liquidity will be improved through the measures taken by the Group as disclosed in the interim report of the Company for the six months ended 30 June 2018. The Group will take the chance to further expand the production capacity through the relocation of the production facilities from Luyuan District to Xinglongshan and it is expected the relocation will be completed in 2020, which includes the relocation of an upstream corn refinery with an annual corn processing capacity of 600,000 MT. The relocation of these facilities will demand additional corn kernels for production. The estimated purchase price of corn kernels per MT is determined with reference to the average purchase price of corn kernels for the six months ended 30 June 2018 being HK\$2,194 per MT for corn kernels. Based on the above business development plan and the estimated purchase price, the Directors considered that the basis for setting the related annual caps for each of the three years ending 31 December 2020 is fair and reasonable.

The Group will enter into purchase orders with members of the Nongtou Group from time to time during the term of the New Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Prior to the making of purchase orders, staff from the corn procurement department of the Group will check the transaction prices, terms of transactions (including credit terms) and the accumulated transaction per year to ensure the terms are on normal commercial terms and in the interest of the Company and Shareholders. The procurement department will also monitor the daily transactions and the accounting department will then prepare reports of such transactions on monthly basis to ensure the terms of transactions are on normal commercial terms. Such reports should contain details of the transactions between the Group and the Nongtou Group, the pricing information obtained from the three public domains and the respective quantities to ensure that the transactions do not exceed the annual caps. Such monthly reports will be reviewed by the independent non-executive Directors. In addition, these transactions will be reviewed by the auditor of the Company annually and the findings will be reported at the meeting of the audit committee of the Company.

LETTER FROM THE BOARD

(D) Reasons for and benefits of entering into the New Master Supply Agreement

The supply of corn kernels is abundant in the Northern part of China. Jilin Province alone produced approximately 25,000,000 MT of corn kernels for the 2017/18 harvest, which accounted for about 11.9% of the total production in the PRC. The Group has been purchasing directly from thousands of farmers in the Jilin, Liaoning and Heilongjiang Provinces and has not experienced any difficulties of sourcing corn kernels in the past.

The Board has taken into considerations the following reasons and benefits that would be brought to the Group by entering into of the New Master Supply Agreement:

- (1) the Nongtou Group is willing to offer a better credit term to the Group than other suppliers;
- (2) the production facilities and grain storage sites of the Nongtou Group are located in various cities in Jilin Province and will be further expanded to other cities in Northern China which are in close proximity to the Group's production sites located in Changchun, Harbin and Jinzhou;
- (3) the procurement of corn kernels from the Nongtou Group can reduce the Group's lead time and cost of transportation and storage as compared with procuring from Jiliang alone under the Existing Master Supply Agreement;
- (4) the core storage capacity of the Nongtou Group (including Jiliang) is at least 4,600,000 MT, which is substantially higher than the corn storage capacity of Jiliang which is approximately 1,000,000 MT;
- (5) the state-owned background and the business scale of the Nongtou Group; and
- (6) the New Master Supply Agreement is not an exclusive supplier agreement, rather, it provides an alternative mean for the Group in procuring corn kernels, the Group may still source from other suppliers if it so wishes.

LETTER FROM THE BOARD

As such, the Directors believe that the procurement from the Nongtou Group under the New Master Supply Agreement could secure a relatively more stable supply of corn kernels at reasonable price.

The Nongtou Group was not and will not become an exclusive supplier to the Group under the New Master Supply Agreement. Given that the Group has a diversified list of suppliers and the abundant supply of corn kernels in the areas in which the Group operates, it could readily and easily switch to other sources for procurement if and when needed.

As disclosed in the interim report of the Company for the six months ended 30 June 2018, the Group has been taking measures to improve the liquidity of the Company, the New Master Supply Agreement will also help alleviating the pressure on the Group's cash flow as the Nongtou Group offers better credit terms than local farmers, which serves as an arrangement to assist the Group to ensure its smooth operations during this transitional period. Nonetheless, as mentioned in the paragraph headed "2.(B) Pricing and other terms" above, the price of the corn kernels charged by the Nongtou Group shall be determined with reference to the latest market price. As such, the Board does not consider that the arrangement between the Group and the Nongtou Group under the New Master Supply Agreement would materially distort the financial results of the Group, if at all. After the improvement of the Group's liquidity, the Board expects that the purchase from the Nongtou Group will decrease gradually as it will purchase from local farmers should the pricing is more favourable than that offered by the Nongtou Group. It is expected that such decrease of purchase from the Nongtou Group under the New Master Supply Agreement will take place over the span of roughly three years after 2020, based on the expected timetable for the materialisation of the measures to be taken by the management of the Company as outlined in the interim report of the Company for the six months ended 30 June 2018 which include but not limited to the debt to equity swap proposal, the disposal of land and buildings in Luyuan District and the completion of the relocation of the Group's production facilities to Xinglongshan. Based on the current available information, it is expected that the debt to equity swap proposal and the disposal of land and buildings in Luyuan District will be completed by the end of 2019. The relocation of the Group's production facilities will be completed by the end of 2020 following the disposal of land and buildings in Luyuan District. Such measures are expected to improve the debt structure of the Group and enhance the operating cashflow of the Group. Such improvements are expected to allow the Group to gradually resuming purchase of corn kernels directly from

LETTER FROM THE BOARD

farmers who require payment by cash on delivery, a practice of which the Group has been adopted since its establishment. However, given the variables below, it is currently not feasible for the Group to estimate the exact amount of corn kernels to be sourced from the Nongtou Group by the time the Group would decrease its purchase from the Nongtou Group:

- (1) the harvest condition and timing of harvest in each of the areas where the Group operates (bad weather conditions, pre-mature crop due to moisture level, etc. could affect or delay the supply of corn kernels in the market) which may require the Group to purchase from the Nongtou Group as a contingency plan;
- (2) the then PRC agricultural policy which may affect the performance of the Group directly (e.g. the direct subsidy programme starting from the fourth quarter of 2016 from provincial governments in Northern China to corn refiners who purchase corn directly from farmers. Such policy or alike will affect the Group's decision in determining the source of supply of its corn kernels); and
- (3) the future capital expenditure plan of the Company may affect the liquidity of the Company and its ability to pay supplier upfront and thus the Group may decide to purchase from the Nongtou Group which offers a longer credit period.

To ensure that there will not be any undue reliance on the Nongtou Group for the supply of corn kernels, the Company has established the following internal control measures:

- (1) Maximum monthly purchase amount from the Nongtou Group will be set by the management by taking into account the production requirement and to avoid in any issue of reliance on the supply of corn kernels from the Nongtou Group. Such maximum monthly purchased amount from the Nongtou Group is determined by dividing the relevant annual cap by twelve months, with adjustments based on (i) the monthly production plan of the Group's production facilities which determines the actual demand of corn kernel; (ii) the availability of corn kernels in the open market (driven by corn harvest seasonality and market demand of corn kernels of the relevant month); (iii) any other events that may cause delay of delivery of corn kernels (such as harsh weather conditions that persist over a period of time that may obstruct transportation);

LETTER FROM THE BOARD

- (2) The procurement department will obtain price quotations from three public sources to ensure the purchase price of corn kernels from the Nongtou Group will not be substantially lower or higher than market rates;
- (3) The procurement department will monitor and report to the management the transactions on a daily basis to ensure that the purchase will not exceed the monthly limit and that the purchase price is at market rates;
- (4) The accounting department will prepare a monthly report for review by the independent non-executive Directors;
- (5) The internal control department will perform review regularly to ensure that individual purchase orders comply with the terms of the New Master Supply Agreement and the monthly purchase limit and will report its findings to the management and the independent non-executive Directors; and
- (6) The auditor of the Company will also perform review of the transactions on an annual basis and the findings will be reported to the audit committee of the Company.

Based on the above factors, the Board does not consider there is any issue of reliance on the Nongtou Group on the supply of corn kernels and sufficient internal control measures have been implemented to ensure that there will not be any undue reliance in this regard.

It is noted that quantity of corn kernels expected to be purchased from the Nongtou Group by members of the Group would constitute approximately 60.0% of the expected total purchased corn kernels of the Group during each of the two years ending 31 December 2020. However, given (i) such arrangement is a temporary measure to assist the Group to go through the transitional period pending the materialisation of the measures taken by the management of the Group to address the issue of the Group to its continue operation as a going concern; (ii) 60.0% of the expected total purchased corn kernels is only a maximum cap for the purchase of corn kernels from the Nongtou Group during each of the two years ending 31 December 2020, which can be easily reduced to any level if the liquidity of the Group will be improved or if better credit terms/prices will be offered by the local farmers; (iii) the Group has the unilateral right to reduce or suspend the purchase from the Nongtou Group at

LETTER FROM THE BOARD

anytime as the Group has all along maintained a diversified list of suppliers in light of the abundance of suppliers of corn kernels in the relevant area, the Board does not consider that there is any issue of reliance on the Nongtou Group, and the Board is of the view that the expected amount of corn kernels to be purchased from the Nongtou Group is not excessive.

The Directors are of the view that the terms of the New Master Supply Agreement are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. MASTER SALES AGREEMENT

(A) Principal terms

Date: 12 September 2018

Parties: (1) Nongtou (for itself and on behalf of its subsidiaries) as purchaser
(2) the Company (for itself and on behalf of its subsidiaries) as supplier

Pursuant to the Master Sales Agreement, Nongtou appointed the Company as one of its suppliers for Corn Starch and Other Products and the Group agrees to supply Corn Starch and Other Products to members of the Nongtou Group. The Master Sales Agreement shall become effective from the Master Sales Agreement Effective Date and expiring on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the Master Sales Agreement, members of the Nongtou Group shall enter into purchase orders or sales contracts with members of the Group from time to time during the term of the Master Sales Agreement for the purposes of confirming the purchase of Corn Starch and Other Products by the relevant members of the Nongtou Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including form of delivery, payment and remittance time and method (if there is any delay in payment by the purchaser, interest rate of interest chargeable by the supplier shall not be lower than (a) the payment overdue interest rate charged by the Group

LETTER FROM THE BOARD

to independent third parties from time to time; and (b) the payment overdue interest rate charged by the purchaser to the Group in other transactions), quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the Master Sales Agreement, at pricing terms and otherwise on terms in compliance with those set out in the Master Sales Agreement.

(B) Pricing and other terms

Under the Master Sales Agreement, the Group shall supply Corn Starch and Other Products to the Nongtou Group at market rates charged by the Group to independent third parties for the sale of Corn Starch and Other Products of the same or similar type, and such price shall not be lower than the average unit price of the Corn Starch and Other Products charged by the Group to independent third parties for the sale of Corn Starch and Other Products of the same or similar type during the same period or (if no such transaction during the same period) the most recent period (price exclusive of transportation, storage and/or insurance costs).

The Directors consider that as the price of the Corn Starch and Other Products to be charged by the Group under the Master Sales Agreement shall be determined with reference to the latest market prices charged by the Group to independent third parties which are all up-to-date and fair, such pricing term can ensure that the price of the Corn Starch and Other Products will not be set at prices lower than market rates from time to time.

To ensure that price of each individual transaction under the Master Sales Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority shareholders, the Directors shall monitor from time to time to ensure that price of Corn Starch and Other Products supplied by the Group to the Nongtou Group adhere to the pricing mechanism strictly, and that information of price of Corn Starch and Other Products of the same or similar type in each individual transaction have been attained from each source, prior to determining the final price of the Corn Starch and Other Products pursuant to each transaction.

LETTER FROM THE BOARD

(C) Annual caps

The Company expects that the annual caps in respect of the transactions contemplated under the Master Sales Agreement will be HK\$447,000,000, HK\$2,052,000,000 and HK\$2,642,000,000 for each of the three years ending 31 December 2020, respectively.

The above annual caps have been determined with reference to (i) the estimated demand of the Nongtou Group for the Corn Starch and Other Products as contemplated to be sold under the Master Sales Agreement; and (ii) the historical amount of sales of Corn Starch and Other Products to independent third parties by the Group for the six months ended 30 June 2018.

There was no historical transaction between the Nongtou Group and the Group in relation to the supply of Corn Starch and Other Products by the Group to members of the Nongtou Group.

Historically, the quantity of Corn Starch and Other Products sold by members of the Group during the three years ended 31 December 2017 and the six months ended 30 June 2018 were 1,007,000 MT (amounted to approximately HK\$3,352,000,000), 1,170,000 MT (amounted to approximately HK\$3,883,000,000), 1,385,000 MT (amounted to approximately HK\$4,397,000,000), and 869,000 MT (amounted to approximately HK\$2,934,000,000), respectively.

LETTER FROM THE BOARD

See below details of quantities and amount of Corn Starch and Other Products expected to be sold by members of the Group during the six months ending 31 December 2018 and the two years ending 31 December 2020:

Relevant period/ years	Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group		Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group to members of the Nongtou Group and percentage of expected total sold Corn Starch and Other Products			Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group to independent third parties and percentage of expected total sold Corn Starch and Other Products		
	MT	HK\$'000	MT	HK\$'000	%	MT	HK\$'000	%
	Six months ending 31 December 2018	821,000	2,556,000	143,600	447,000	17.5	677,400	2,109,000
Year ending 31 December 2019	1,943,000	5,863,000	680,100	2,052,000	35.0	1,262,900	3,811,000	65.0
Year ending 31 December 2020	2,429,000	7,549,000	850,100	2,642,000	35.0	1,578,900	4,907,000	65.0

It is expected by the Directors that the quantity of Corn Starch and Other Products to be sold by members of the Group for the six months ending 31 December 2018 and the two years ending 31 December 2020 shall be 821,000 MT (amounting to approximately HK\$2,556,000,000), 1,943,000 MT (amounting to approximately HK\$5,863,000,000) and 2,429,000 MT (amounting to approximately HK\$7,549,000,000), respectively. The expected sale volume of Corn Starch and Other Products for the six months ending 31 December 2018 is determined by the Group based on the sale quantity of Corn Starch and Other Products in the first six months of 2018 on a pro-rata basis. In respect of the expected sale volume of Corn Starch and Other Products for the two years ending 31 December 2020, such is determined based on the assumption that the production sites of the Group, which are located in Xinglongshan, Dehui, Jinzhou and Harbin will be operating at 80% and 90% of their full production capacity, respectively provided that the Group's liquidity will be improved through the measures taken by the Group as disclosed in the interim report of the Company for the six months ended 30 June 2018. The Group will take the chance to further expand the production capacity through the relocation of the production facilities from Luyuan District to Xinglongshan and it is expected the relocation will be completed in 2020. The

LETTER FROM THE BOARD

relocation of these facilities will increase production of Corn Starch and Other Products. The estimated selling price of Corn Starch and Other Products is determined with reference to the actual average selling price of Corn Starch and Other Products for the six months ended 30 June 2018 being HK\$2,643 per MT for corn starch, HK\$2,372 per MT for by-products, HK\$6,135 per MT for amino acids and HK\$3,027 per MT for corn sweeteners. Based on the above business development plan and the estimated selling price, the Directors considered that the basis for setting the related annual caps for each of the three years ending 31 December 2020 is fair and reasonable.

The Group will enter into sales contracts with members of the Nongtou Group from time to time during the term of the Master Sales Agreement for the purposes of confirming the sale of Corn Starch and Other Products by the relevant members of the Group. Prior to the making of sales contracts, staff from the sales and marketing department of the Group will check the transaction prices, terms of transactions (including credit terms) and the accumulated transaction per year to ensure the terms are on normal commercial terms and in the interest of the Company and Shareholders. The accounting department will also monitor the daily transactions and prepare reports of such transactions on monthly basis to ensure the terms of transactions are on normal commercial terms. Such reports should contain details of the transactions between the Group and the Nongtou Group, the pricing information and the respective quantities to ensure that the transactions do not exceed the annual caps. Such monthly reports will be reviewed by the independent non-executive Directors. In addition, these transactions will be reviewed by the auditor of the Company annually and the findings will be reported at the meeting of the audit committee of the Company.

(D) Reasons for and benefits of entering into the Master Sales Agreement

The Group has a very well-established sales network and a diverse customer base from a variety of industries including feed manufacturing, husbandry, food and beverages, chemical, construction materials, etc. The revenue from the top 5 customers of the Group for the year ended 31 December 2017 and the six months ended 30 June 2018 accounted for only 22.3% and 19.3% of the Group's total revenue, respectively. As such, there is low risk of over reliance of particular customers or high concentration of customers for the Group.

LETTER FROM THE BOARD

The Board has taken into considerations the following reasons and benefits that would be brought to the Group by entering into of the Master Sales Agreement:

- (1) the Master Sales Agreement is not an exclusive customer agreement, rather it offers the Group an additional outlet of its products. By entering into the Master Sales Agreement, the Group would be able to exploit the existing product markets leveraging on the sales network of Nongtou;
- (2) the Nongtou Group will accept shorter payment terms for the members of the Group for the sales of Corn Starch and Other Products, as compared to the existing credit terms of 30 to 90 days granted to other customers of the Group; and
- (3) given the state-owned background and the business scale of the Nongtou Group, the credit risk of Nongtou Group is comparatively lower than other commercial customers. Such arrangement will ease the pressure of the cash flow of the Group.

As such, the Directors believe that the sale of Corn Starch and Other Products from the Group to the Nongtou Group under the Master Sales Agreement offers additional options for the Group to sell its products on top of its current list of customers and release the pressure on the Group's cash flow with better payment period offered by the Nongtou Group.

There had been no sales of Corn Starch and Other Products made between the Group and the Nongou Group in the past and the Nongtou Group will not become an exclusive customer to the Group under the Master Sales Agreement. Given that the Group has a well-established sales network and diversified list of customers, the Group could easily and readily distribute its products to other customers.

As disclosed in the interim report of the Company for the six months ended 30 June 2018, the Group has been taking measures to improve the liquidity of the Company, the Master Sales Agreement will also help alleviating the pressure on the Group's cash flow as the Nongtou Group will accept shorter payment terms than other customers, which serves as an arrangement to assist the Group to ensure its smooth operations during this transitional period. Nonetheless, as mentioned in the paragraph headed "3.(B) Pricing and other terms" above, the price of Corn Starch and Other Products charged by the Group to the Nongtou

LETTER FROM THE BOARD

Group shall be determined with reference to market rates charged by the Group to independent third parties. As such, the Board does not consider that the arrangement between the Group and the Nongtou Group under the Master Sales Agreement would materially distort the financial results of the Group, if at all. After the improvement of the Group's liquidity, the Board expects that the sales to the Nongtou Group will decrease gradually as it will increase its sales to other customers with the view of maintaining and expanding its sales network. It is expected that such decrease of sale to the Nongtou Group under the Master Sales Agreement will take place over the span of roughly three years after 2020, based on the expected timetable for the materialisation of the measures to be taken by the management of the Company as outlined in the interim report of the Company for the six months ended 30 June 2018 which include but not limited to the debt to equity swap proposal, the disposal of land and buildings in Luyuan District and the completion of the relocation of the Group's production facilities to Xinglongshan. Based on the current available information, it is expected that the debt to equity swap proposal and the disposal of land and buildings in Luyuan District will be completed by the end of 2019. The relocation of the Group's production facilities will be completed by the end of 2020 following the disposal of land and buildings in Luyuan District. Such measures are expected to improve the debt structure of the Group and enhance the operating cashflow of the Group and allow the Group to increase the sales to independent third party customers who usually expect a credit period of 30-90 days, depending on the credit-worthiness of the respective customers. However, given the variables below, it is currently not feasible for the Group to estimate the exact amount of Corn Starch and Other Products to be sold to the Nongtou Group by the time the Group would decrease its sale to the Nongtou Group:

- (1) the then demand and number of independent customers; and
- (2) the capital expenditure plan of the Company from time to time may affect the liquidity of the Company and thus the Group may decide to sell to the Nongtou Group which accepts a shorter credit period.

To ensure that there will not be any undue reliance on the Nongtou Group for the sale of Corn Starch and Other Products, the Company has established the following internal control measures:

- (1) The sales and marketing department is required to follow customers selection guidelines that on the same sales terms (including price and quantity), it should accept purchase order from independent third parties in priority than the Nongtou Group;

LETTER FROM THE BOARD

- (2) The sales and marketing department will compare the price charged to independent third parties customers to ensure the selling price charged by the Group to the Nongtou Group will not be substantially lower or higher than market rates charged by the Group;
- (3) The sales and marketing department will perform background check and assessment on credit risk on the relevant members of the Nongtou Group before accepting their orders;
- (4) The sales and marketing department will monitor and report to the management the transactions on a daily basis to ensure that payment is made within credit period and the selling price is at market rates;
- (5) The accounting department will prepare a monthly report for review by the independent non-executive Directors;
- (6) The internal control department will perform review regularly to ensure that individual sales orders comply with the terms of the Master Sales Agreement and will report its findings to the management and the independent non-executive Directors; and
- (7) The auditor of the Company will also perform review of the transactions on an annual basis and the findings will be reported to the audit committee of the Company.

Based on the above factors, the Board does not consider there is any issue of reliance on the Nongtou Group on the sale of Corn Starch and Other Products and sufficient internal control measures have been implemented to ensure that there will not be any undue reliance in this regard.

The Directors are of the view that the terms of the Master Sales Agreement are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

4. INFORMATION OF THE GROUP AND NONGTOU

The Group is principally engaged in the manufacture and sale of corn refined products and corn based biochemical products.

Nongtou is principally engaged in the investment in agriculture, sale and purchase of grain, distribution of agricultural products and provision of agricultural science and technology services.

5. IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, Nongtou is interested in 49% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural. As such, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under each of the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the annual caps under each of the New Master Supply Agreement and the Master Sales Agreement for each of the three years ending 31 December 2020 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10.0 million each, the continuing connected transactions under the New Master Supply Agreement and the Master Sales Agreement and the respective annual caps therefor are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

6. DISCLOSURE OF DIRECTORS' INTERESTS

Mr. Yuan Weisen, an executive Director, is the chairman of Nongtou. As such, Mr. Yuan Weisen is considered to have material interests in the New Master Supply Agreement and the Master Sales Agreement and has abstained from voting on the Board resolutions approving the New Master Supply Agreement and the Master Sales Agreement. Other than Mr. Yuan Weisen, no Director has a material interest in the New Master Supply Agreement or the Master Sales Agreement.

LETTER FROM THE BOARD

7. EGM

The Company will convene the EGM at Function Room, 6th Floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 11:00 a.m. on Wednesday, 14 November 2018 to consider and, if thought fit, approve the New Master Supply Agreement and the Master Sales Agreement and the related annual caps. A notice of the EGM is set out on pages 61 to 63 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution to be proposed at the EGM will be taken by poll, the results of which will be announced after the EGM.

Nongtou and its associates, and any Shareholders who are materially interested in the continuing connected transactions under the New Master Supply Agreement and the Master Sales Agreement, are required to abstain from voting on the resolutions proposed to be passed at the EGM for approving the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the related annual caps.

To the best knowledge of the Directors after making all reasonable enquiries, as at the Latest Practicable Date, Nongtou and its associates held an aggregate of 3,135,509,196 shares, representing approximately 49% of the entire issued share capital of the Company as at the Latest Practicable Date.

A form of proxy for use at the EGM is also enclosed. If you are unable to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event no later than 48 hours before the time for the EGM (i.e. at or before 11:00 a.m. on Monday, 12 November 2018 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

8. RECOMMENDATION

The Directors consider that the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the related annual caps are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions in the terms as set out in the notice of the EGM.

LETTER FROM THE BOARD

9. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out in pages 26 to 27 of this circular which contains its advice to the Independent Shareholders regarding the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the related annual caps, the letter from Octal Capital set out in pages 28 to 54 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the related annual caps and the principal factors and reasons taken into consideration in arriving at its advice, and the additional information set out in the appendix to this circular.

By order of the Board

Global Bio-chem Technology Group Company Limited

Yuan Weisen

Chairman



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

25 October 2018

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**NEW MASTER SUPPLY AGREEMENT FOR
THE PROCUREMENT OF CORN KERNELS**

AND

**MASTER SALES AGREEMENT FOR
THE SALE OF CORN STARCH AND OTHER PRODUCTS**

We refer to the circular issued by the Company to its Shareholders and dated 25 October 2018 (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company and are subject to the approval of the Independent Shareholders.

We have been appointed by the Board to consider the terms of the New Master Supply Agreement, the Master Sales Agreement and the related annual caps and to advise the Independent Shareholders in connection with the continuing connected transactions as contemplated under the New Master Supply Agreement and the Master Sales Agreement as to whether, in our opinion, the terms of the New Master Supply Agreement, the Master Sales Agreement and the related annual caps are fair and reasonable and whether such continuing connected transactions are in the interests of the Company and its Shareholders as a whole. Octal Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

* *for identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the letter from the Board and the letter from Octal Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, Octal Capital as set out in its letter of advice, we consider that the terms of the New Master Supply Agreement, the Master Sales Agreement and the related annual caps are fair and reasonable. We also consider that the continuing connected transactions as contemplated under the New Master Supply Agreement and the Master Sales Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the continuing connected transactions as contemplated under the New Master Supply Agreement, the Master Sales Agreement and the related annual caps at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Ng Kwok Pong

Yeung Kit Lam

Independent non-executive Directors

LETTER FROM OCTAL CAPITAL

The following is the letter of advice from Octal Capital Limited to the Independent Board Committee and Independent Shareholders prepared for the purpose of inclusion in this circular.



金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8th Floor, Nan Fung Tower
88 Connaught Road Central
Hong Kong

25 October 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Master Supply Agreement and the Master Sales Agreement, and the transactions contemplated thereunder and the respective annual caps for each of the three years ending 31 December 2020, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the shareholders of the Company dated 25 October 2018 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

According to the announcement of the Company dated 12 September 2018 in respect of the continuing connected transactions in relation to the entering into the New Master Supply Agreement and Master Sales Agreement (the “**Announcement**”), the Company announced that, on 12 September 2018, the Company entered into the New Master Supply Agreement and the Master Sales Agreement with Nongtou in relation to the supply of corn kernels by the members of the Nongtou Group to the members of the Group and supply of Corn Starch and Other Products by the members of the Group to the members of the Nongtou Group on an ongoing basis, respectively. The New Master Supply Agreement and Master Sales Agreement shall become effective from the New Master Supply Agreement Effective Date and the Master Sales Agreement Effective Date, respectively, and expiring on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months’ written notice.

LETTER FROM OCTAL CAPITAL

As at the Latest Practicable Date, Nongtou is interested in 49% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural. Therefore, the transactions contemplated under the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions (the “**Continuing Connected Transactions**”) of the Company under Chapter 14A of the Listing Rules. Since the annual caps under the New Master Supply Agreement and the Master Sales Agreement for each of the three years ending 31 December 2020 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10.0 million each, the Continuing Connected Transactions and the respective annual caps therefore are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In this connection, the Company will seek the Independent Shareholders’ approval for the Continuing Connected Transactions and the respective annual caps at the EGM, at which resolutions to be proposed at the EGM will be taken by poll. At the EGM, Nongtou and its associates and all other Shareholders interested in the New Master Supply Agreement and the Master Sales Agreement are required to abstain from voting on the resolution(s) in relation to the Continuing Connected Transactions and the respective annual caps. In addition, the Independent Board Committee has been established to advise the Independent Shareholders whether the terms and conditions of the New Master Supply Agreement, the Master Sales Agreement and the respective annual caps are fair and reasonable, and whether the Continuing Connected Transactions and the respective annual caps are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole. In this regard, we have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

We are not connected with the Directors, chief executives and substantial shareholders of the Company, the Group, the Nongtou Group or their respective associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group, the Nongtou Group or the Directors, chief executives and substantial shareholders of the Company or Nongtou or any of its subsidiaries or their respective associates.

LETTER FROM OCTAL CAPITAL

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussions with the management of the Company regarding the Group, the Continuing Connected Transactions, the New Master Supply Agreement, the Master Sales Agreement and the respective annual caps including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Nongtou Group and their respective associates nor have we carried out any independent verification of the information supplied.

NEW MASTER SUPPLY AGREEMENT AND MASTER SALES AGREEMENT

Principal factors and reasons considered

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders with regard to the New Master Supply Agreement and the Master Sales Agreement and transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Business overview of the Group

The Group is principally engaged in the manufacture and sale of corn refined products, amino acids, corn sweeteners and polyol chemicals. The raw materials of the Group's products are mainly corn kernels and corn starch. The upstream corn refinery segment serves as a feedstock which break down corn kernels into corn starch, gluten meal, fibre and corn oil; and corn starch is further refined through a series of biochemical and/or chemical processes into a wide range of high value-added downstream products. The major production bases of the Group are located in the Northeast China.

The table below is a summary of the consolidated financial performance of the Group for the three years ended 31 December 2017 and the six months ended 30 June 2018.

LETTER FROM OCTAL CAPITAL

	Year ended 31 December			Six months ended	
				30 June	
	2015	2016	2017	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Upstream products	1,609,114	1,359,215	1,476,858	675,489	1,269,428
Amino acid products	881,615	1,926,653	2,101,478	1,006,037	1,092,030
Corn sweeteners	801,229	592,091	810,584	332,752	561,872
Polyol chemicals	<u>60,045</u>	<u>4,881</u>	<u>8,085</u>	<u>2,870</u>	<u>10,617</u>
Total revenue	3,352,003	3,882,840	4,397,005	2,017,148	2,933,947
Cost of sales	<u>(3,610,572)</u>	<u>(3,567,018)</u>	<u>(3,787,974)</u>	<u>(1,660,376)</u>	<u>(2,765,887)</u>
Gross (loss)/profit	(258,569)	315,822	609,031	356,772	168,060
Loss for the year/period	<u>(2,270,539)</u>	<u>(1,912,286)</u>	<u>(890,258)</u>	<u>(332,999)</u>	<u>(768,402)</u>

Source: Annual reports and interim reports of the Company

The revenue of the Group decreased from approximately HK\$6,399.2 million to approximately HK\$3,352.0 million from the year ended 31 December 2014 to the year ended 31 December 2015 (the “**FY2015**”) because of (i) the low utilization rate of the Group’s production facilities as a result of the poor operating environment for the upstream corn refined products and lysine; and (ii) the suspension of the Group’s production facilities in Changchun during FY2015. The Group’s revenue increased by approximately 15.8% to approximately HK\$3,882.8 million from FY2015 to the year ended 31 December 2016 (the “**FY2016**”) and further increased by approximately 13.2% to approximately HK\$4,397.0 million during the year ended 31 December 2017 (the “**FY2017**”).

The revenue of upstream products decreased from approximately HK\$1,609.1 million in FY2015 to approximately HK\$1,359.2 million in FY2016 because of the reduction in the selling price of the upstream products in FY2016 as a result of the introduction of direct subsidies to local corn farmers in the fourth quarter of FY2016. During FY2017, the revenue of the upstream products increased to approximately HK\$1,476.9 million as a result of (i) the increase in operation efficiency of the production facilities located in Jinzhou; (ii) the recovery of the upstream business driven by the PRC agricultural reforms; and (iii) the marketization of the corn

LETTER FROM OCTAL CAPITAL

price in the PRC. The revenue of amino acids maintained an increasing trend from approximately HK\$881.6 million in FY2015 to approximately HK\$2,101.5 million in FY2017 due to the resumption of operation of the amino acids segment, the rebound of selling prices of amino acids and the adjustment of the Group's product mix to fulfill the market needs.

The Group recorded a gross loss of approximately HK\$258.6 million and a net loss of approximately HK\$2,270.5 million in FY2015 because of the low utilization rate of the production facilities and the temporary suspension of the Group's production facilities in Changchun. During FY2016, the gross profit of the Group rebounded to approximately HK\$315.8 million because of the decrease in the cost of raw materials which was driven by the agricultural reform and the receipt of corn subsidies from the provincial governments in the Northern China. However, the Group still recorded a net loss of approximately HK\$1,912.3 million for FY2016 because the impairment of prepayments, deposits and other receivables amounted to approximately HK\$877.2 million and the impairment of property, plant and equipment amounted to approximately HK\$257.4 million. The gross profit of the Group further increased to approximately HK\$609.0 million in FY2017 because the Group was entitled to approximately HK\$142.4 million of government subsidies. The Group's net loss decreased to approximately HK\$890.3 million in FY2017 due to the reduction in the other expenses by approximately HK\$915.6 million.

The revenue of the Group increased by approximately 45.5% to approximately HK\$2,933.9 million for the six months ended 30 June 2018 from the six months ended 30 June 2017 due to the increase in revenue of upstream products. The Group's gross profit for the six months ended 30 June 2018 was approximately HK\$168.1 million, representing a decrease of approximately 52.9% as compared to the gross profit for the six months ended 30 June 2017, because of the significant increase in corn price. The Group recorded a net loss of approximately HK\$768.4 million for the six months ended 30 June 2018, representing an increase of approximately 130.8% as compared to that of the six months ended 30 June 2017. The increase in net loss was mainly attributable to the deterioration of gross profit and the increase in the selling and distribution expenses and the finance costs.

During the two years ended 31 December 2016, the Group recorded negative cash flow from operating activities amounted to approximately HK\$284.3 million and HK\$143.8 million, respectively. The Group has taken measures to tighten cost controls over production costs and expenses with the aim to attain profitable and positive cash flow operations. The Group optimized its production facilities and negotiated with creditors on repayment plans to improve the cash flow management.

LETTER FROM OCTAL CAPITAL

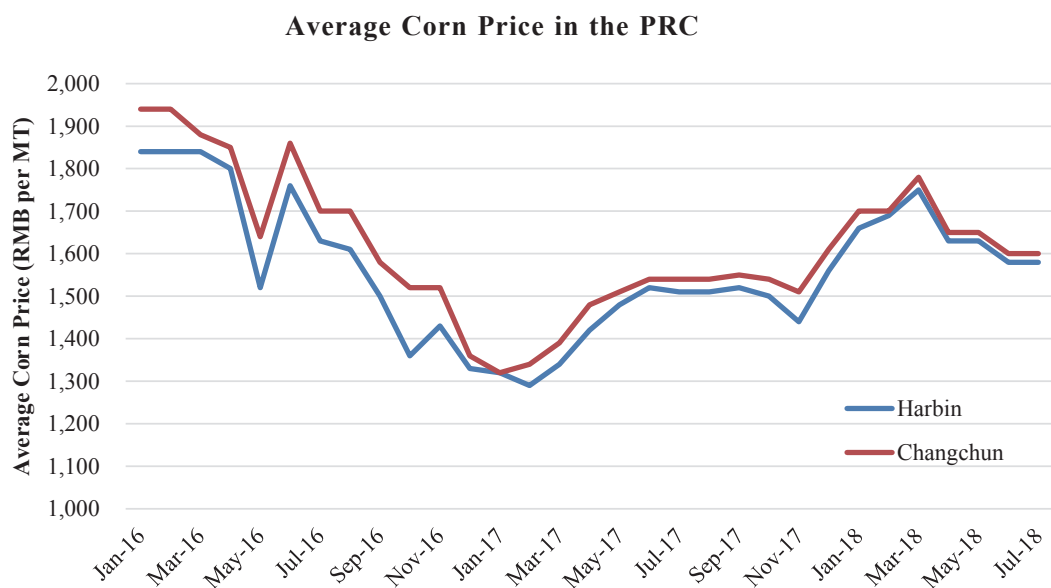
Coupled with (i) the resumption of downstream production in the Group's Jinzhou sites since the fourth quarter of 2016; (ii) the completion of phase one relocation of the sweetener production facility to the Xinglongshan site since April 2017; and (iii) the supply of corn kernels by Jiliang, the Group improved its cash flow from operating activities and recorded a net cash inflow from operating activities amounted to approximately HK\$267.3 million in FY2017.

2. Background of Nongtou

Nongtou is interested in 49% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural. Nongtou is a company established in the PRC which is controlled by the SASAC of Jilin Province and is engaged to consolidate the state-owned investments in the agricultural sector in Jilin Province. The principal business of Nongtou is engaged in the investment in agriculture, sale and purchase of grain, distribution of agricultural products and provision of agricultural science and technology services. The Nongtou Group has approximately 56 entities which are engaged in various agricultural-related businesses in which approximately 40 entities engaged in grain storage in Jilin Province.

3. Industry overview

The following graph shows the average corn prices in the two major corn producing cities in the PRC.



Source: China Corn Network

LETTER FROM OCTAL CAPITAL

The corn prices in the PRC is influenced by supply and demand within the local markets in the PRC as well as the government policy. On 28 March 2016, the PRC Government announced the suspension of the floor price for corn which resulted in the fall in corn prices. In an official government document “Opinion on the implementation of the establishment of subsidy programme to corn producers” dated 19 June 2016, the government abolished the state procurement of corn in Heilongjiang, Jilin, Liaoning and Inner Mongolia Autonomous Region, and the introduction of direct subsidy program in these provinces after the publication of the said opinion. The aforesaid opinion also indicated that the subsidies of the relevant provinces in the PRC would be maintained at the same level and maintain unchanged for a year. As a result, the corn price would be gradually determined by market.

In the north eastern part of the PRC, there is only one corn harvest, which typically starts in October till the end of April the next year. The corn plantation period is usually from May to September. As shown in the above table, the average corn prices of Harbin and Changchun, where two of the main production bases of the Group are located, have been trading at similar price levels during the period from January 2016 to July 2018.

The average corn price in Harbin dropped from the peak level of RMB1,840 per MT in January 2016 to RMB1,330 per MT in December 2016. The average corn price in Changchun also dropped from the peak level of RMB1,940 per MT in January 2016 to RMB1,360 per MT in December 2016. The decreasing trend of the corn price was mainly attributable to the agricultural policy reforms in the PRC. As mentioned before, the government abolished the state procurement of corns in Heilongjiang, Jilin, Liaoning and Inner Mongolia Autonomous Region, leading to a substantial reduction in the demand of corn. Coupled with the weak market sentiment in 2016, the decreasing demand of corns in Harbin and Changchun imposed a downward pressure to the price of corns during 2016.

The corn price exhibited an increasing trend during January 2017 to March 2018 and there were some downward adjustments since March 2018. The increase in corn price from January 2017 to April 2017, was due to the high demand of corn kernels as a result of the peak season in the animal feed industry. During May 2017 to October 2017, most of the corns in the PRC were harvested and most of the corn refiners should have accumulated sufficient storage of corn kernels, thus the average corn price remained stable in the range of RMB1,480 per MT to RMB1,550 per MT. During November 2017 to March 2018 (which was the harvest season), the demand of new corn kernels increased because the corn refiners started to stock up the corn kernels. The average corn price reached RMB1,750 per MT in Harbin and RMB1,780

LETTER FROM OCTAL CAPITAL

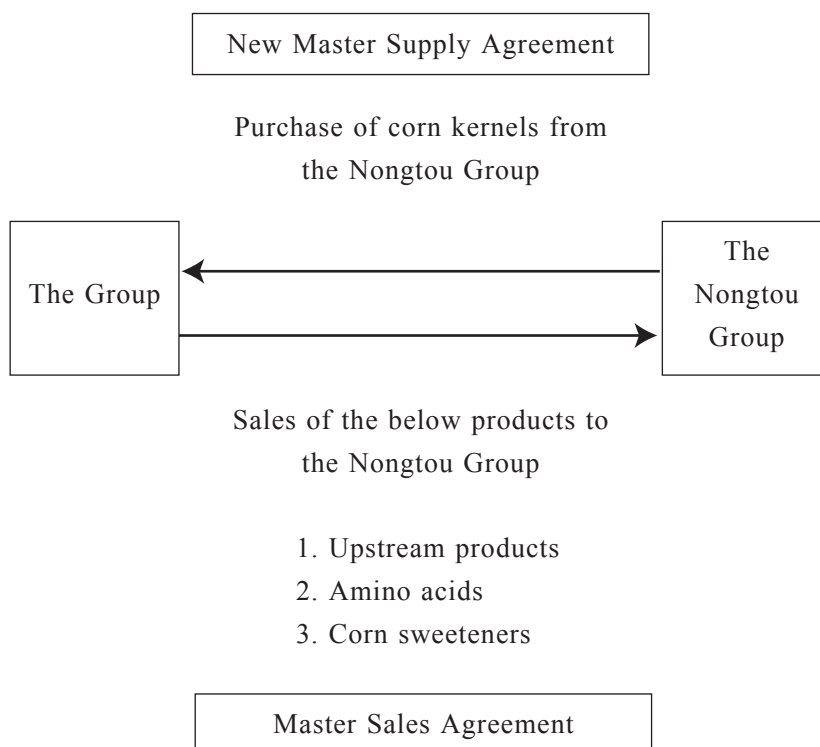
per MT in Changchun in March 2018 due to the positive market sentiment of the corn refinery industry in the first half of 2018 and the lower supply of the corn kernels near the end of harvest season.

During the corn plantation period from April 2018 to July 2018, the corn price exhibited a material decline because most of the corn refiners had sufficient inventory of corns before the next harvest season.

4. Reasons for and benefits of the New Master Supply Agreement

Corn kernel is a major raw material of the Group's products. The corn kernels will be broken down into corn starch, gluten meal, fiber and corn oil and these are the upstream products of the Group. The corn starch is further refined through a series of biochemical and/or chemical process into a wide range of high value-added downstream products such as amino acids, corn sweeteners and polyol chemicals. The total procurement of corn kernels of the Group accounted for approximately 50.1%, 60.3% and 57.6% of the Group's cost of sales during the three years ended 31 December 2017, respectively. Therefore, the price fluctuation of corn kernels has material impact to the profitability of the Group.

The diagram below sets out the workflow for the transactions under the New Master Supply Agreement and the Master Sales Agreement.



LETTER FROM OCTAL CAPITAL

Under the Existing Master Supply Agreement effective from 3 July 2017, Jiliang has given a better credit term to the Group whereas local farmers and other local suppliers would not offer credit period. Thus, if the Group is limited to purchase from local farmers and other local suppliers only, the Group would face a great cash flow pressure. By entering into the New Master Supply Agreement with Nongtou, the Group will be able to purchase corn kernels from Jiliang and other members of the Nongtou Group and the Group will have more alternative sources for its required quantity of corn kernels, especially during the months in non-harvest season (i.e. May to September) where the supply of high quality corn kernels will be tight. We have reviewed and compared the purchase transactions of corn kernels between the Group and other independent suppliers and those entered into between the Group and Jiliang on a sample basis and noted that the credit period provided by Jiliang was more favorable than those provided by other independent suppliers.

Firstly, the members of the Nongtou Group are willing to offer a better credit term to the Group than other suppliers. Secondly, the production facilities and grain storage sites of the Nongtou Group are located in various cities in Jilin Province and will be further expanded to other cities in Northern China which are in close proximity to the Group's production sites located in Changchun, Harbin and Jinzhou. Thirdly, the procurement of corn kernels from the Nongtou Group can reduce the Group's lead time and cost of transportation and storage as compared with procuring from Jiliang alone. Fourthly, the core storage capacity of the Nongtou Group (including Jiliang) is at least 4,600,000 MT, which is substantially higher than the corn storage capacity of Jiliang which is approximately 1,000,000 MT. Fifthly, the New Master Supply Agreement is a non-exclusive supply agreement. It only provides an alternative source for the Group in procuring corn kernels. The Group can source corn kernels from other independent suppliers if the prices and terms offered by independent suppliers are more favorable than those offered by the Nongtou Group. The Directors believe that the purchase arrangement with the Nongtou Group not only provide an alternative source of corn kernels for the Group but also secure a relatively stable supply of corn kernels.

Having considered (i) the state-owned background and the business scale of the Nongtou Group; (ii) a better credit period offered by the Nongtou Group; (iii) the Nongtou Group's production facilities and grain storage sites are in the vicinity of the production plants of the Group; and (iv) the total corn storage capacity of the Nongtou Group, we are of the view that the Group can obtain a stable supply of corn kernels at reasonable price by entering into of the New Master Supply Agreement and we concur with the Directors that transactions under the New Master Supply Agreement are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM OCTAL CAPITAL

5. Reasons for and benefits of Master Sales Agreement

As advised by the management of the Company, the Nongtou Group is consolidating the agricultural sector of the Jilin Province and it has approximately 56 entities in Jilin Province and these entities are mainly engaged in the agricultural-related businesses. The Master Sales Agreement is a non-exclusive sales agreement, under which the Group is not restricted to sell the Corn Starch and Other Products to other independent customers. By entering into the Master Sales Agreement with the Nongtou Group, the Group will secure an additional sales channel of the Corn Starch and Other Products. Leveraging on the Nongtou Group's sales network in Jilin Province, the Group will increase its market shares in Jilin Province. Moreover, the Nongtou Group is willing to accept a shorter credit term, compared to the credit period of 30 to 90 days given to the existing customers of the Group. We have reviewed the sales transactions of the Corn Starch and Other Products entered into between the Group and independent customers on a sample basis and noted that the credit period granted to the independent customers were within the range of 30 to 90 days. The shorter credit period could improve the Group's trade receivable turnover days and enhance the Group's cash inflow. Given that the Nongtou Group is controlled by SASAC of Jilin Province, the credit risk of the Nongtou Group is comparatively lower than other independent customers.

Having considered (i) the market share of the Group in Jilin Province will be increased; and (ii) the credit period of the Nongtou Group is shorter than other independent customers and the credit risk of the Nongtou Group is lower than other independent customers; we are of the view that there is a strong commercial rationale for the Group to enter into the Master Sales Agreement and we concur with the Directors that entering into the Master Sales Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

6. Terms of the New Master Supply Agreement

Pursuant to the New Master Supply Agreement, the Company will appoint the Nongtou Group as one of its suppliers for corn kernels and the Nongtou Group agrees to supply corn kernels to the members of the Group. The New Master Supply Agreement shall become effective from the New Master Supply Agreement Effective Date and expiring on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice. The Existing Master Supply Agreement will be terminated on the New Master Supply Agreement Effective Date.

LETTER FROM OCTAL CAPITAL

(a) Pricing policy of corn kernels

We noted that the Nongtou Group will supply corn kernels to the Group at a price (exclusive of transportation, storage and/or insurance cost) which is not higher than the highest price of the prices quoted from the following sources:

- (1) the average unit transaction price at the latest corn price in Liaoning Province, Jilin Province and Heilongjiang Province published by National Grain Trade Centre of the PRC (國家糧食局糧食交易協調中心) on its official website (www.grainmarket.com.cn) within 15 days before the proposed date of the making of purchase order by any member of the Group;
- (2) the average unit corn transaction price published by Dalian Commodity Exchange (大連商品交易所) on its official website (www.dce.com.cn) of the latest trade matching day before the proposed date of the making of purchase order by any member of the Group; and
- (3) the latest corn price in Liaoning Province, Jilin Province and Heilongjiang Province obtained from China Corn Network at its official website (www.yumi.com.cn), an independent third party price consulting platform on the date of making purchase order by any member of the Group.

In order to assess the fairness and reasonableness of the price determination as set out in the New Master Supply Agreement, we have discussed with the management of the Company and were advised that these three price references were chosen because of their data transparency. We have looked into these three websites and noted that the bid and ask prices of corn kernels and other corn-related products in different regions of China are publicly available and easily accessed.

The information provided on China Corn Network reflected the prices of actual transactions in relation to corn kernels in China and these information are good indicators of market trading price. The corn futures prices indicated on the website of Dalian Commodity Exchange reflect the market speculations on the corn price based on expectations on the future supply and demand situations. According to CommodityBasis.com, an independent commodity information provider, the corn contracts traded on the Dalian Commodity Exchange is the second largest corn contract in the world in terms of volume traded. The

LETTER FROM OCTAL CAPITAL

future price quoted on the Dalian Commodity Exchange is representing the prevailing future corn prices. The China Corn Network (www.yumi.com.cn) was established since 2001 and is now one of the major market information providers in the PRC which specialize in the provision of corn market information in the PRC to the grain suppliers, refinery, traders and commodity exchange in the PRC, including Dalian Commodity Exchange.

Based on the above analysis, we consider that the price information shown on the three websites are good indicators for the Group to determine the purchase prices of corn kernels with the Nongtou Group.

Furthermore, we have reviewed purchase transactions of corn kernels entered into between the Group and Jiliang during the effective period of the Existing Master Supply Agreement on a sample basis and noted that the purchase prices were lower than the highest market prices quoted from the above-mentioned three sources. Among these selected samples, we noted that the credit periods offered by Jiliang were better than the local farmers and other local suppliers. We consider that it is justifiable to follow the same pricing policy under the Existing Master Supply Agreement.

(b) Annual caps of the New Master Supply Agreement

Based on the information provided by the Company, the following table sets out the annual caps of the New Master Supply Agreement.

	Year ending 31 December		
	2018	2019	2020
	(HK\$ million)	(HK\$ million)	(HK\$ million)
Annual caps	506.0	2,453.0	3,158.0
	(Note 1)		

Note 1: The annual cap for the year ending 31 December 2018 is calculated on the assumption that the New Master Supply Agreement becomes effective from the fourth quarter of 2018.

Note 2: The exchange rate of HK\$1 to RMB0.81 is adopted in calculating the proposed annual caps for the three years ending 31 December 2020.

Note 3: The proposed annual caps have excluded the value added tax of corn kernels of 10%.

LETTER FROM OCTAL CAPITAL

Under the Existing Master Supply Agreement, the annual caps for the year ended 31 December 2017 and the year ending 31 December 2018 are HK\$1,400.0 million and HK\$1,680.0 million, respectively. The corn kernels purchased from Jiliang by the members of the Group under the Existing Master Supply Agreement (which became effective on 3 July 2017) during the year ended 31 December 2017 and the six months ended 30 June 2018 were approximately HK\$217.0 million and HK\$75.0 million, representing approximately 15.5% and 4.5% of the respective annual caps. As advised by the Company, the actual purchase amounts for the year ended 31 December 2017 and the six months ended 30 June 2018 were significantly lower than the respective annual caps because the Group incurred a large and comparatively long outstanding amount of trade payable to Jiliang. As mentioned in the annual report of the Company for FY2017, the Group's overall liabilities and finance costs remained high and therefore the Group's operating performance and the cash flow liquidity are under pressure. As Jiliang offered more flexible credit terms to the Group than other independent suppliers, the Group allocated a majority of available cash to settle the amount due to other independent suppliers prior to making payment to Jiliang. The trade payables due to Jiliang increased from approximately HK\$114.3 million as at 31 December 2017 to approximately HK\$186.0 million as at 30 June 2018, mainly because the Group purchased corn kernels from Jiliang which amounted to approximately HK\$75.0 million which was offset by a settlement of approximately HK\$22.2 million to Jiliang during the six months ended 30 June 2018. In the meantime, the Group resumed the operation of Jinzhou and Harbin production sites where Jiliang was not able to provide the required quantity of corn kernels to those locations at the requested time. As Jiliang's grain storage sites are located in Jilin Province, procuring corn kernels from Jiliang for Jinzhou and Harbin production sites will take a longer transportation time and incur higher logistics costs at that time. Therefore the Group purchased the corn kernels from other independent suppliers who offered more favorable terms to the Group. By entering into the New Master Supply Agreement, the Group will be able to source its required quantity of corn kernels from different member of the Nongtou Group instead of relying on Jiliang and may reduce the transportation time and logistics costs, while the Group is still able to procure corn kernels from other suppliers who provide favorable terms to the Group.

The members of the Group will place purchase orders to members of the Nongtou Group or enter into sales contracts with the members of the Nongtou Group from time to time based on the pricing mechanism set out in the New Master Supply Agreement. The purchase orders or sales contracts will specify

LETTER FROM OCTAL CAPITAL

the trading terms including form of delivery, payment method, remittance time, product warranties, inspection, rights and obligation of each contracting party.

We have obtained a list of estimated purchase of corn kernels by each member of the Group and noted that their aggregate sum is roughly equivalent to the quantity used in determining the annual caps. We understand from the Directors that the annual caps are prepared on the basis of multiplying the estimated price of the corn kernels per MT by the estimated quantity to be purchased. We understood that the estimated price and estimated quantity are determined by the Directors after taking into account (i) the volume of corn kernels purchased during the six months ended 30 June 2018; (ii) the production output of the Group; (iii) the historical and current purchase price of corn kernels during the six months ended 30 June 2018; and (iv) the inflation rate in the PRC.

In order to assess the fairness and reasonableness of the estimated quantity of corn kernels to be purchased in the calculation of the proposed annual caps, we have performed the following analysis. The table below illustrates the quantity of corn kernels purchased by the Group during the three years ended 31 December 2017 and the six months ended 30 June 2018.

	Year ended 31 December			Six months ended 30 June
	2015	2016	2017	2018
	In MT			
Sourced from:				
Jiliang	—	—	135,258 ^(Note 1)	37,551
Independent suppliers	750,255	1,258,551	1,268,785	846,107
Total quantity purchased by the Group	750,255	1,258,551	1,404,043	883,658

Note 1: The amount represented the total purchase quantity of corn kernels from Jiliang by the Group for the period from 3 July 2017 (the effective date of the Existing Master Supply Agreement) to 31 December 2017.

LETTER FROM OCTAL CAPITAL

The table below illustrates the estimated quantity of corn kernels to be purchased by the Group during the period from October to December 2018 and two years ending 31 December 2020 after the New Master Supply Agreement becomes effective.

	October to December 2018	Year ending 31 December 2019 2020	
		In MT	
Sourced from:			
The Nongtou Group (<i>Note 1</i>)	265,200	1,248,000	1,560,000
Independent suppliers	176,800	832,000	1,040,000
Total quantity to be purchased by the Group	442,000	2,080,000	2,600,000

Note 1: The total purchase quantity from the Nongtou Group is estimated on the assumption that the New Master Supply Agreement becomes effective from the fourth quarter of 2018.

As set out in the above tables, the total corn kernels purchased by the Group increased at a CAGR of approximately 36.8% from 750,255 MT in FY2015 to 1,404,043 MT in FY2017. The increase in procurement of the corn kernels is mainly due to the higher utilization of production facilities in the Xinglongshan site and the resumption of production facilities in relation to the Jinzhou site and the Harbin site.

The Directors expects that the four of the Group's production sites, which are located in Xinglongshan, Dehui, Jinzhou and Harbin, will demand for a similar quantity of corn kernels as compared to that of the first six months of 2018 because the customer demand of upstream products and downstream products is expected to be similar to the first six months of 2018. Assuming the New Mater Supply Agreement will become effective from the fourth quarter of 2018, the forecast demand of corn kernels for the fourth quarter of 2018 is determined based on the purchase quantity of corn kernels in the first six months of 2018 on a pro-rata basis.

Due to the ongoing financial support from Nongtou and the better credit terms provided by the members of the Nongtou Group, the management of the Company foresees that that the Group's cash flow will be gradually improved.

LETTER FROM OCTAL CAPITAL

Due to the improvement of the Group's cash flow liquidity, the Directors expects that the four main production sites of the Group would be operated at around 80% of their production capacity during the year ending 31 December 2019. As disclosed in the 2018 interim report of the Company, the Company will conduct the debt to equity swap and dispose of the land and buildings of the suspended production site located in Luyuan District during the year ending 31 December 2019. The Directors forecast that the Group's working capital will be improved through the debt to equity swap, the disposal of the relevant land and buildings, the purchase collaboration with the Nongtou Group and the ongoing financial support provided by Nongtou, and thus the production capacity of the Group may be further increased to approximately 90% during the year ending 31 December 2020. The Directors expect that the relocation of the production facilities from Luyuan District to Xinglongshan will be completed in 2020 and the production capacity of the Group will be further expanded.

Based on the above business and production plan, the estimated quantity of corn kernels to be purchased by the Group will be approximately 884,000 MT, 2,080,000 MT and 2,600,000 MT during the six months ending 31 December 2018 and the two years ending 31 December 2020, respectively.

Taking into account of the better credit terms to be given by the members of the Nongtou Group and the supply capacity of corn kernels by the Nongtou Group, the Directors are planning to procure approximately 60% of the total demand of corn kernels of the Group from the Nongtou Group and the estimated quantity of corn kernels to be purchased from the Nongtou Group will be approximately 265,200 MT, 1,248,000 MT and 1,560,000 MT during the fourth quarter of 2018 and the two years ending 31 December 2020, respectively, provided that the terms of purchase from the members of the Nongtou Group are favorable to the Group.

In calculating the proposed annual caps of New Master Supply Agreement, the estimated purchase price of corn kernels per MT is determined with reference to the purchase price of corn kernels for the six months ended 30 June 2018. Based on the information provided by the Company, we noted that the estimated purchase price of corn kernels is RMB1,700 per MT for the three years ending 31 December 2020. We have reviewed the purchase price of corn kernels incurred by the Group during the six months ended 30 June 2018 on sample basis and noted that the price range is between RMB1,648 per MT and RMB1,810 per MT. We also calculated the average purchase price of corn kernels was approximately RMB1,777 per MT during the six months ended 30 June 2018. Having considered that the estimated purchase price is within the range of the purchase price incurred by the Group during the six months ended 30 June 2018 and is slightly below the recent average purchase price, we are of the view that the estimated price of corn kernels for the three years ending 31 December 2020 is justifiable.

LETTER FROM OCTAL CAPITAL

As advised by the management of the Company, the unit prices for corn kernels are expected to increase at an annual rate of approximately 3.0% from 2018 to 2020, taking into account of the price inflation in the PRC. We noted from the research report issued by the Organization for Economic Co-operation and Development that the inflation rates in the PRC are ranged between 1.4% and 5.4% from 2011 to 2017 and the inflation rate in August 2018 is 2.3%. With reference to the historical inflation rate in the PRC, the annual growth rate of unit price of approximately 3.0% is reasonably estimated.

Based on the above analysis, we consider that the respective terms and conditions of the New Master Supply Agreement and the basis for setting the related annual caps for the three years ending 31 December 2020 are fair and reasonable, the transactions contemplated under the New Master Supply Agreement are on normal commercial terms and in the ordinary and usual course of the business of the Group and in the interests of the Shareholders and the Company as a whole.

The total quantity of corn kernels purchased by the Group for the year ended 31 December 2017 and the six months ended 30 June 2018 were approximately 1,404,043 MT and 883,658 MT respectively, of which approximately 90.4% and 95.8% of the total purchase were purchased from independent suppliers during the respective periods. The Group only procured approximately 9.6% and 4.2% of the total purchase of corn kernels from Jiliang during the year ended 31 December 2017 and the six months ended 30 June 2018 respectively. As disclosed in the annual report of the Company for FY2017, the Group's five largest suppliers accounted for approximately 12.2% of the total purchases and the largest supplier of the Group accounted for approximately 3.5% of the total purchases during FY2017. In view of the historical transaction amount, the Group has no significant reliance on a single supplier and the Group is able to procure corn kernels from independent suppliers. The management of the Company advised that there are over thousands of farmers in Jilin, Liaoning and Heilongjiang Provinces who supply corn kernels and the Group have not encountered any difficulties in sourcing corn kernels from local farmers. The Group always maintains a list of qualified suppliers in which the Group could purchase corn kernels from these qualified suppliers at any time.

We have discussed with the management of the Company and understood that the Company has established certain internal control procedures to avoid any significant reliance on the Nongtou Group for the supply of corn kernels, including (i) taking into account of the production plan of the Group, a maximum monthly purchase amount from the Nongtou Group will be

LETTER FROM OCTAL CAPITAL

set; (ii) the procurement department of the Group will monitor and provide the actual purchase amount with the Nongtou Group to the management of the Company on a daily basis to ensure that the purchase amount with the Nongtou Group will not exceed the monthly purchase limit; (iii) the internal control department of the Group will perform regular review on the purchase transactions conducted with the Nongtou Group and will report any findings to the management of the Company and the independent non-executive Directors; and (iv) the accounting department of the Company will prepare a monthly report of the actual purchase transactions with the Nongtou Group for the independent non-executive Directors' review.

Having considered the above historical purchase transactions of the Group and the internal control procedures of the Group, we concur with the Directors that the Group does not place material reliance on the Nongtou Group and internal control measures will be in place to monitor the reliance issue with the Nongtou Group.

7. Terms of the Master Sales Agreement

Pursuant to the Master Sales Agreement, Nongtou will appoint the Company as one of its suppliers for Corn Starch and Other Products and the Group agrees to supply Corn Starch and Other Products to members of the Nongtou Group. The Master Sales Agreement shall become effective from the Master Sales Agreement Effective Date and expiring on 31 December 2020 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

(a) Pricing policy of Corn Starch and Other Products

We noted that the Group will supply Corn Starch and Other Products to the members of the Nongtou Group at market rates charged by the Group to independent third parties for the sale of Corn Starch and Other Products of the same or similar type and such price (exclusive of transportation, storage and/or insurance costs) shall not be lower than the average unit price of the Corn Starch and Other Products charged by the Group to independent third parties during the same period or the most recent period (if no such transaction is conducted during the same period). The Corn Starch and Other Products mainly include upstream products, amino acids and corn sweeteners.

We are advised that the Group will consider the market environment, the cost of production and the volume of the purchase to determine the selling prices of the Corn Starch and Other Products. Moreover, the Directors shall

LETTER FROM OCTAL CAPITAL

monitor the terms of the sales contracts to be entered between the members of the Group and the members of the Nongtou Group from time to time to ensure that the price of Corn Starch and Other Products supplied by the Group to the Nongtou Group will strictly adhere to the pricing mechanism as stated in the Master Sale Agreement and the management of the Group will review comparable transactions of the same or similar type of products prior to determining the final price of the Corn Starch and Other Products to be charged to the members of the Nongtou Group. Furthermore, the auditor of the Company and the independent non-executive Directors will carry out an annual review on the continuing connected transactions of the Group to ensure the sale transactions between the Group and the Nongtou Group are conducted on normal commercial terms and in accordance with the pricing policies of the Master Sales Agreement.

In view that (i) the price determination of Corn Starch and Other Products under the Master Sales Agreement is benchmarked with the price charged to independent customers and such price shall not be lower than the average unit price of the Corn Starch and Other Products charged by the Group to independent third parties within the relevant month; and (ii) the Group has established internal control procedures to monitor the selling prices of the Corn Starch and Other Products charged to the members of the Nongtou Group, we consider that the pricing policy under the Master Sales Agreement is fair and reasonable to the Group.

(b) Annual caps of the Master Sales Agreement

Based on the information provided by the Company, the annual caps for the Master Sales Agreement is set out below:

	Year ending 31 December		
	2018	2019	2020
	(HK\$ million)	(HK\$ million)	(HK\$ million)
Annual caps	447.0	2,052.0	2,642.0
	(Note 1)		

Note 1: The annual cap for the year ending 31 December 2018 is calculated on the assumption that the Master Sales Agreement becomes effective from the fourth quarter of 2018.

Note 2: The exchange rate of HK\$1 to RMB0.81 is adopted in calculating the proposed annual caps for the three years ending 31 December 2020.

Note 3: The proposed annual caps exclude the value added tax of Corn Starch and Other Products of 10% to 16%.

LETTER FROM OCTAL CAPITAL

The members of the Group will receive purchase orders from the members of the Nongtou Group or enter into sales contracts with the members of the Nongtou Group from time to time based on the pricing mechanism set out in the Master Sale Agreement. The sales contracts will specify the trading terms including form of delivery, remittance time, payment method, late payment charge (if there is any delay in payment by the purchaser, late payment interest shall not be lower than (a) the payment overdue interest charged by the Group to independent third parties from time to time; and (b) the payment overdue interest charged by the purchaser to the Group in other transactions), quality of warranties, inspection, rights and obligations of each contracting party.

We understood from the Company that the annual caps for each of the three year ending 31 December 2020 are determined by the Directors after taking into consideration of (i) the estimated production capacity of the Group; (ii) the actual quantity of the Corn Starch and Other Products sold during the six months ended 30 June 2018; (iii) the selling price of the Corn Starch and Other Products during the six months ended 30 June 2018; (iv) the procurement plan of the Nongtou Group; and (v) the inflation rate in the PRC.

We have obtained a list of estimated sales of Corn Starch and Other Products and their aggregate amount is equivalent to the annual caps. We understand from the Company that such list of estimate is prepared on the basis of multiplying the estimated price of Corn Starch and Other Products per MT by the estimated quantity to be sold. We understand from the Company that the Corn Starch and Other Products to be sold to the Nongtou Group under the Master Sales Agreement include upstream products, amino acids and corn sweeteners. The estimated sales of upstream products will account for approximately 58.2%, 67.8% and 67.8% of the total annual caps for the three years ending 31 December 2020. The estimated sales of amino acids will account for approximately 38.8%, 28.8% and 28.8% of the total annual caps for the three years ending 31 December 2020. Thus, we have performed our analysis primarily on the estimated sales quantity and price of upstream products and amino acids for the three years ending 31 December 2020.

LETTER FROM OCTAL CAPITAL

The table below summarizes the estimated quantity to be sold by the Group to the Nongtou Group during the period from October to December 2018 and the two years ending 31 December 2020.

	October to December 2018	Year ending 31 December 2019	2020
	In MT		
Upstream products			
— Corn starch	71,497	361,200	451,500
— Corn fibre	18,168	87,674	109,592
— Gluten meal	7,803	40,169	50,211
— Corn germ meal	6,458	37,632	47,040
— Corn oil	2,914	20,446	25,557
Sub-total	106,840	547,121	683,900
Amino acids			
— 98% Lysine	6,450	16,800	21,000
— 70% Lysine	22,129	84,000	105,000
— Threonine	2,631	7,000	8,750
Sub-total	31,210	107,800	134,750
Corn sweeteners	5,587	25,200	31,500
Total	143,637	680,121	850,150
	<i>(Note 1)</i>		

Note 1: The quantity to be sold by the Group to the Nongtou Group is estimated on the assumption that the Master Sales Agreement becomes effective from the fourth quarter of 2018.

Upstream Products

During the first six months ended 30 June 2018, the Group had sold approximately 683,129 MT of upstream products to the Group's customers and inter-group companies. Assuming the Master Sales Agreement become effective from 1 October 2018, the expected sale volume in the fourth quarter of 2018 will be approximately 305,259 MT which is mainly derived from the

LETTER FROM OCTAL CAPITAL

actual volume sold for the six months ended 30 June 2018 on a pro-rata basis. We understand from the management of the Company that the sales order from the customers are stable and the Group's production capacity maintains at a level similar to that of the first six months of 2018.

During the year ending 31 December 2019, the management of the Company anticipates that the four production facilities of the Group will be operating at approximately 80% of their total production capacity since the Group's operating cash flow is expected to be improved after the debt to equity swap, the disposal of the relevant lands and properties in Luyuan District, the commencement of the purchase of corn kernels from the Nongtou Group and the on-going financial support provided by Nongtou. Given that the Group has sufficient working capital and the completion of relocation of the production facilities from Luyuan District to Xinglongshan in 2020, the utilization rate of the four production sites of Group may further increase to approximately 90% during the year ending 31 December 2020.

We noted that the aggregate production volume of upstream products of the Group for the three years ended 31 December 2017 was approximately 1,700,000 MT and the aggregate sales volume of upstream products of the Group for the same period was also approximately 1,700,000 MT. Based on these historical figures, it is a reasonable assumption that the estimated production volume of the Group during the fourth quarter of 2018 and the two years ending 31 December 2020 will be completely sold to its customers.

We noted that the actual sales quantity (including intercompany sales) of upstream products of the Group amounted to approximately 743,319 MT and 910,748 MT for the two years ended 31 December 2017, representing a growth rate of approximately 22.5%. The estimated sales quantity of upstream products by the Group are approximately 1,294,000 MT, 1,563,000 MT and 1,954,000 MT during the three years ending 31 December 2020, representing a CAGR of approximately 22.9%. We noted that the management of the Company have made reference to the recent growth rate in estimating the sales quantity of upstream products.

We reviewed the procurement plan of the Nongtou Group for the fourth quarter of 2018 and the two years ending 31 December 2020 and noted that the Nongtou Group forecasts to purchase approximately 108,000 MT, 540,000 MT and 685,000 MT of upstream products from the Group during the fourth quarter of 2018 and the two years ending 31 December 2020, respectively representing for approximately 35.0% of the upstream products to be produced

LETTER FROM OCTAL CAPITAL

by the Group. However, the Group has no commitment to the procurement plan provided by the Nongtou Group. As governed by the Master Sales Agreement, the Corn Starch and Other Products will be sold to the members of Nongtou Group only if the terms of transactions are favorable to the Group.

The Group mainly produces five types of upstream products, namely corn starch, corn fibre, gluten meal, corn germ and corn oil. In determining the annual caps for the three years ending 31 December 2020, the estimated price per MT of corn starch, corn fibre, gluten meal, corn germ and corn oil is approximately RMB2,405, RMB886, RMB3,905, RMB1,491 and RMB5,177, respectively. We have reviewed the selling prices of the upstream products charged to the independent customers during the six months ended 30 June 2018 on sample basis and noted that the estimated price of each type of the upstream products is closed to the prevailing selling prices charged to the independent customers. Therefore, we are of the view that the estimated price of each type of five upstream products is reasonable.

Amino Acids

Changchun Dahe Bio Technology Development Co. Ltd (the “**Dahe**”), is currently the only production plant of amino acids of the Group. Dahe sold approximately 178,349 MT of amino acid products during the six months ended 30 June 2018. We understand from the management of the Company that the production capacity of Dahe will maintain at the same scale and the sales demand will be similar to the first six months of 2018 in view of the prevailing market conditions. Assuming the Master Sales Agreement will become effective from 1 October 2018, the management of the Company estimates that the expected sale volume in the fourth quarter of 2018 will be approximately 90,000 MT which is derived from the actual quantity sold for the six months ended 30 June 2018 on a pro-rata basis.

As explained before, the purchase arrangement of corn kernels with the Nongtou Group and the ongoing financial support from Nongtou will improve the cash flow position of the Group and thus Dahe will have sufficient working capital to utilise its production capacity. As further advised by the Company, the sales arrangement with the Nongtou Group also improves the Group’s liquidity because the Nongtou Group is willing to accept a shorter credit period. Due to the estimated sufficiency of working capital, Dahe will run at approximately 80% and 90% of its production capacity during the years ending 31 December 2019 and 2020, respectively. We have reviewed the

LETTER FROM OCTAL CAPITAL

historical production quantity and the historical sales quantity for the three years ended 31 December 2017 and noted that the finished goods were all sold to the Group's customers with no obsolete stocks. Therefore, it is a reasonable assumption that the estimated production quantity for the fourth quarter of 2018 and the two years ending 31 December 2020 will be all sold to the Group's customers.

We reviewed the procurement plan of the Nongtou Group for the fourth quarter of 2018 and the two years ending 31 December 2020 and we noted that the Nongtou Group may purchase approximately 30,000 MT, 100,000 MT and 150,000 MT of amino acids from the Group during the fourth quarter of 2018 and the two years ending 31 December 2020, respectively representing approximately 35.0% of the amino acids to be produced by the Group.

Based on (i) the production capacity of Dahe; and (ii) the procurement plan of the Nongtou Group, we consider that the estimated sales quantity of amino acids is reasonably made.

Dahe mainly manufactured three types of amino acid products, namely 98% lysine, 70% lysine and threonine. The estimated price per MT of 98% lysine, 70% lysine and threonine are RMB7,300, RMB4,300 and RMB7,900, respectively. As advised by the management of the Company, the selling prices of the amino acids exhibited a material fluctuation during the first six months of 2018 and thus the estimated selling prices of amino acid products make reference to the recent selling prices. We have reviewed the sale transactions conducted with independent customers in June 2018 on a sample basis and noted that the estimated selling price of each type of amino acids are closed to their actual selling prices transacted in June 2018. Therefore, we are of the view that the estimated price of each type of amino acids are justifiable.

The Directors has adopted an annual growth rate of approximately 3.0% to the unit price of the Corn Starch and Other Products in deriving the annuals caps for the three years ending 31 December 2020. Based on our analysis set out in the section headed "Annual caps of the New Master Supply Agreement" above, we consider that the 3.0% annual growth rate of the unit price of the Corn Starch and Other Products is a reasonable estimation.

Having considered (i) the procurement plan provided by the Nongtou Group; (ii) the estimated price range of upstream products and amino acid products are closed to their respective selling prices transacted during the six months ended 30 June 2018; and (iii) the annual growth rate of unit price is comparable

LETTER FROM OCTAL CAPITAL

to the historical inflation rate in the PRC, we consider that the respective terms and conditions of the Master Sales Agreement and the basis for setting the respective annual caps for the three years ending 31 December 2020 are fair and reasonable, the transactions contemplated under the Master Sales Agreement are on normal commercial terms and in the ordinary and usual course of the business of the Group and in the interests of the Company and the Shareholders as a whole.

As disclosed in the annual report of the Company of FY2017, the Group's five largest customers accounted for 22.3% of the total revenue of the Group and the largest customer accounted for 8.3% of the total revenue of the Group for the year ended 31 December 2017. Based on the historical transaction amount, the Group did not place material reliance on a single customer.

The Master Sales Agreement is a non-exclusive sales agreement and the Group is not restricted to sell the Corn Starch and Other Products to independent customers. The management of the Company advised that the Group will maintain its business relationship with its existing customers and will continue to explore any potential customers.

To avoid any undue reliance on the Nongtou Group for the sale of Corn Starch and Other Products, we understood from the management of the Company that a set of internal control procedures will be put in place, including but not limited to (i) the sales and marketing department of the Group is required to follow customers selection guidelines in which the Group should accept purchase orders from independent third parties in priority than the Nongtou Group if the purchasing terms are the same; (ii) the staff of the sales and marketing department of the Group will monitor and report the sales transactions with the Nongtou Group on a daily basis to the management of the Company to ensure that payment is made within credit period and the selling price is at market rates; (iii) the internal control department of the Group will perform regular review on the sales transactions with the Nongtou Group and will report its findings to the management of the Company and the independent non-executive Directors; and (iv) the accounting department of the Company will prepare a monthly report in relation to the sales transactions with the Nongtou Group for the independent non-executive Directors' review and such monthly report facilitate the Group to monitor the actual transactions with the Nongtou Group and avoid exceeding the annual caps.

LETTER FROM OCTAL CAPITAL

Having considered the historical sales transactions of the Group and the internal control procedures to monitor the sales transactions with the Nongtou Group, we are of the view that the Group does not have any potential reliance issue with its existing customers and internal control measures will assist the Group to avoid any undue reliance with the Nongtou Group.

8. Internal control measures

Since the annual caps under the New Master Supply Agreement and the Master Sales Agreement for each of the three years ending 31 December 2020 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10.0 million each, the transactions under the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Company will therefore seek the approval by the Independent Shareholders for the Continuing Connected Transactions and the respective annual caps.

Taking into account the measures taken by the Group in relation to transactions contemplated under the Existing Master Supply Agreement and the measures to be taken in relation to transactions contemplated under the New Master Supply Agreement and the Master Sales Agreement, in particular (i) the restriction by way of setting the respective annual caps; (ii) the compliance with all other relevant requirements under the Listing Rules (which include the annual review by the independent non-executive Directors and auditors of the Company on the actual execution of the transactions contemplated under the New Master Supply Agreement and the Master Sales Agreement); (iii) the procurement department of the Group will obtain prevailing market price of corn kernels from three public sources to ensure the purchase price of corn kernels from the Nongtou Group are on normal commercial terms and no less favorable to the Company; (iv) the sales and marketing department of the Group will compare the price charged to independent customers to ensure the selling price charged by the Group to the Nongtou Group are on normal commercial terms and no less favorable to the Company; and (v) the sales and marketing department of the Group will perform background check and assessment on credit risk on the relevant members of the Nongtou Group before accepting their purchase orders of Corn Starch and Other Products; we consider that the Company has taken appropriate and adequate measures to govern the Group in carrying out the transactions under the New Master Supply Agreement and the Master Sales Agreement, thereby safeguarding the interests of the Company and the Shareholders thereunder.

LETTER FROM OCTAL CAPITAL

RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Group; (ii) the terms of New Master Supply Agreement and Master Sales Agreement are on normal commercial terms, and are fair and reasonable; (iii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the annual caps for the three years ending 31 December 2020 in respect of New Master Supply Agreement and Master Sales Agreement are fair and reasonable. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders, to vote in favor of the Continuing Connected Transactions and the respective annual caps thereof at the EGM contemplated under the New Master Supply Agreement and the Master Sales Agreement.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 16 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

None of the Directors had any interest, direct or indirect, in any assets which have been since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Yuan Weisen, an executive Director, is the chairman of Nongtou. As such, Mr. Yuan Weisen is considered to have material interests in the New Master Supply Agreement and the Master Sales Agreement and has abstained from voting on the Board resolutions approving the New Master Supply Agreement and the Master Sales Agreement. Other than Mr. Yuan Weisen, no Director has a material interest in the New Master Supply Agreement or the Master Sales Agreement.

Save as the aforesaid, none of the Directors was materially interested in any contract or arrangement subsisting as at the date thereof and which was significant in relation to the business of the Group as at the Latest Practicable Date.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executives of the Company, the persons (other than a Director or chief executives of the Company); (a) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other members of the Group, were as follows:

Name of Shareholder	Capacity/ nature of interest	Number of shares held <i>(Note 1)</i>	Percentage of the Company's issued share capital
Liu Xiaoming	Beneficial owner and interest of a controlled corporation <i>(Note 2)</i>	365,138,400 (L)	5.71
Personal representative of the late Mr. Xu Zhouwen	Beneficial owner and interest of a controlled corporation <i>(Note 3)</i>	322,111,600 (L)	5.03
Modern Agricultural	Beneficial owner <i>(Note 4)</i>	7,858,463,827 (L) <i>(Note 5)</i>	122.81
Modern Agricultural Industry Investment Holdings Limited	Interest of a controlled corporation <i>(Note 4)</i>	7,858,463,827 (L) <i>(Note 5)</i>	122.81
PRC LLP	Interest of a controlled corporation <i>(Note 4)</i>	7,858,463,827 (L) <i>(Note 5)</i>	122.81
Jilin Province Modern Agricultural Industry Fund Limited (“GP”)	Interest of a controlled corporation <i>(Note 4)</i>	7,858,463,827 (L) <i>(Note 5)</i>	122.81

Name of Shareholder	Capacity/ nature of interest	Number of shares held (Note 1)	Percentage of the Company's issued share capital
Jilin Province Communication Investments Group Co., Ltd. (“Jiaotou”)	Interest of a controlled corporation (Note 4)	7,858,463,827 (L) (Note 5)	122.81
Nongtou	Interest of a controlled corporation (Note 4)	7,858,463,827 (L) (Note 5)	122.81
SASAC of Jilin Province	Interest of a controlled corporation (Note 4)	7,858,463,827 (L) (Note 5)	122.81

Notes:

- The letter “L” denotes the Shareholders’ long position in the shares of the Company.
- Mr. Liu Xiaoming is deemed to be interested in 5.71% of interest in the Company through his interest in (i) 19,090,400 shares as beneficial owner and (ii) 346,048,000 shares as interest in controlled corporation, namely, LXM Limited.
- The personal representative of the late Mr. Xu Zhouwen is deemed to be interested in 5.03% of interest in the Company through his interest in (i) 26,655,600 shares as beneficial owner and (ii) 295,456,000 shares as interest in controlled corporation, namely, Crown Asia Profits Limited.
- The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited which is in turn wholly owned by PRC LLP. The sole general partner of PRC LLP is GP, which is wholly owned by Nongtou. As at the Latest Practicable Date, 20% of the investment capital of PRC LLP is owned by Nongtou and the transfer of a further 40% of the investment capital of PRC LLP to Nongtou from a company controlled by Jiaotou is pending for completion. As announced by the Company on 2 March 2017, during the transition period before the completion, such 40% of the investment capital of PRC LLP shall be managed by Nongtou. As such, by virtue of Nongtou’s control over PRC LLP, Nongtou has become the indirect controlling shareholder of the Company. Nongtou is controlled by SASAC of Jilin Province. Each of Modern Agricultural, Modern Agricultural Industry Investment Holdings Limited, PRC LLP, GP, Jiaotou, Nongtou and SASAC of Jilin Province are deemed to be interested in the interest held by Modern Agricultural.
- These interest represents 3,135,509,196 shares and convertible bonds which may be converted into 4,722,954,631 shares based on the initial conversion price of HK\$0.23 per share upon full conversion.

Save as disclosed herein, there was no person known to any Directors or chief executives of the Company, who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other member of the Group.

4. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which was not determinable by the Company or the relevant members of the Group within one year without payment of compensation other than statutory compensation.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the joint announcement of the Company and GSH dated 21 September 2018 that a wholly owned subsidiary of GSH was in breach of a loan agreement with outstanding principal amount of RMB29.2 million which may trigger cross defaults in other loan agreements entered into by the GSH Group with aggregate outstanding principal amount of approximately RMB454.8 million which circumstances remained unchanged as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group which would otherwise be required to be disclosed under Rule 8.10 of the Listing Rules if any of such Directors or his associates was a controlling Shareholder.

7. QUALIFICATION AND CONSENT OF EXPERT

The following are the qualifications of the expert who has given opinion or, advice contained in this circular:

Name	Qualification
Octal Capital	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Octal Capital has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and its letter in the form and context in which it appears.

As at the Latest Practicable Date, Octal Capital was not beneficially interested in any share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and did not have any direct or indirect interest in any assets which since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or lease, or was proposed to be acquired or disposed of by, or leased to any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Existing Master Supply Agreement, the New Master Supply Agreement and the Master Sales Agreement will be available for inspection at Suites 2202-4, 22nd Floor, Tower 6, the Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM.

9. MISCELLANEOUS

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KYI-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is at Suites 2202-4, 22nd Floor, Tower 6, the Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary is Mr. Chan Sing Fai. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries.
- (e) The English text of this circular shall prevail over its Chinese text.

NOTICE OF EGM



GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED

大成生化科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00809)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Global Bio-chem Technology Group Company Limited (“**Company**”, and together with its subsidiaries, the “**Group**”) will be held at Function Room, 6th Floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 11:00 a.m. on Wednesday, 14 November 2018 to consider, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT** the master supply agreement (“**New Master Supply Agreement**”) (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) dated 12 September 2018 entered into between 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.) (for itself and on behalf of its subsidiaries) (the “**Nongtou Group**”), and the Company (for itself and on behalf of its subsidiaries) in relation to the supply of corn kernels by the Nongtou Group to the Group, the transactions contemplated thereby and the expected annual caps of HK\$506,000,000, HK\$2,453,000,000 and HK\$3,158,000,000 for each of the three years ending 31 December 2020, respectively, in respect of the transactions contemplated under the New Master Supply Agreement be and are hereby approved and that any directors of the Company be and is hereby authorised to take any action and sign any document (under seal, if necessary) as he/she considers necessary, desirable or expedient in connection with the New Master Supply Agreement or the transactions contemplated thereby and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interest of the Company provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the New Master Supply Agreement.”

* *for identification purposes only*

NOTICE OF EGM

2. “**THAT** the master sales agreement (“**Master Sales Agreement**”) (a copy of which has been produced to the meeting marked “**B**” and signed by the chairman of the meeting for the purpose of identification) dated 12 September 2018 entered into between 吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.) (for itself and on behalf of its subsidiaries), and the Company (for itself and on behalf of its subsidiaries) in relation to the supply of corn starch and other corn-based products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners and amino acid products by the Group to the Nongtou Group, the transactions contemplated thereby and the expected annual caps of HK\$447,000,000, HK\$2,052,000,000 and HK\$2,642,000,000 for each of the three years ending 31 December 2020, respectively, in respect of the transactions contemplated under the Master Sales Agreement be and are hereby approved and that any directors of the Company be and is hereby authorised to take any action and sign any document (under seal, if necessary) as he/she considers necessary, desirable or expedient in connection with the Master Sales Agreement or the transactions contemplated thereby and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interest of the Company provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the Master Sales Agreement.”

By order of the Board of
Global Bio-chem Technology Group Company Limited
Yuan Weisen
Chairman

Hong Kong, 25 October 2018

Registered office:

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place

of business in Hong Kong:
Suites 2202-4, 22nd Floor
Tower 6, The Gateway
9 Canton Road
Tsimshatsui, Kowloon
Hong Kong

NOTICE OF EGM

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time of the meeting (i.e. at or before 11:00 a.m. on Monday, 12 November 2018 (Hong Kong time)) or any adjournment thereof.
3. The register of members of the Company will be closed from Friday, 9 November 2018 to Wednesday, 14 November 2018, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the attendance at the EGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch registrars in Hong Kong at the address stated in note 2 above no later than 4:30 p.m. on Thursday, 8 November 2018 for registration.

As at the date of this notice, the Board comprises three executive Directors, namely, Mr. Yuan Weisen, Mr. Zhang Zihua and Mr. Liu Shuhang; and two independent non-executive Directors, namely, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam.