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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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).

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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### 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)**

### **CONNECTED TRANSACTION — SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



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A letter from the Board is set out on pages 4 to 27 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 28 to 29 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 30 to 57 of this circular.

A notice convening the EGM to be held at Bauhinia Room I-II, 4th floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 10:30 a.m. on Thursday, 12 December 2019 is set out on pages 63 to 64 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 54, 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 10:30 a.m. on Tuesday, 10 December 2019 (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.

\* for identification purposes only

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
1. Introduction .....	4
2. The Subscription Agreement .....	5
3. General .....	9
4. Reasons and Benefits for the Subscription .....	9
5. Use of Net Proceeds .....	11
6. Fundraising Activities of the Company in the Past 12 Months .....	14
7. Effect on the Shareholding Structure of the Company .....	16
8. Information of the Group and the Subscriber .....	17
9. Implications under the Listing Rules .....	25
10. Disclosure of Directors' interests .....	25
11. EGM .....	26
12. Recommendation .....	27
13. Additional information .....	27
<b>Letter from the Independent Board Committee</b> .....	28
<b>Letter from Octal Capital</b> .....	30
<b>Appendix — General Information</b> .....	58
<b>Notice of EGM</b> .....	63

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than Saturdays) on which licensed banks in Hong Kong are open for business
“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
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Directors”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Bauhinia Room I-II, 4th floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 10:30 a.m. on Thursday, 12 December 2019, the notice of which is set out on pages 63 to 64 of this circular, and any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the Securities of Futures Commission
“First Subscription”	the subscription of Shares by the Subscriber pursuant to a subscription agreement dated 19 July 2019, completion of which took place on 20 August 2019
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Board comprising Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Mr. Zhao Jin, being the independent non-executive Directors appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder

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## DEFINITIONS

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“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the laws of Hong Kong), being 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 Subscription Agreement and the transaction contemplated thereunder
“Independent Shareholders”	Shareholders other than the Subscriber and its associates, and all other Shareholders interested in the Subscription Agreement and the transaction contemplated thereunder
“Last Trading Day”	27 September 2019, being the date of the Subscription Agreement
“Latest Practicable Date”	19 November 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for considering applications for listing and the granting of listing on the main board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	27 December 2019 (or such later date as may be agreed between the Company and the Subscriber in writing)
“Modern Agricultural”	Modern Agricultural Industry Investment Limited, a company incorporated in the British Virgin Islands which is the controlling shareholder of the Company holding 40.8% of the entire issued share capital of the Company as at the Latest Practicable Date
“MT”	metric tonnes
“Nongtou”	吉林省農業投資集團有限公司 (Jilin Province Agricultural Investment Group Co., Ltd.*), a company established in the PRC which is controlled by 吉林省人民政府國有資產監督管理委員會 (State-Owned Assets Supervision and Administration Commission of the People’s Government of Jilin Province*)

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## DEFINITIONS

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“Nongtou Group”	Nongtou and its subsidiaries from time to time
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	a specific mandate to be sought from the Independent Shareholders to allot and issue the Subscription Shares to the Subscriber pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	HK Bloom Investment Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription”	the subscription of the Subscription Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional agreement dated 27 September 2019 entered into between the Company (as issuer) and the Subscriber (as subscriber) in relation to the Subscription
“Subscription Completion”	completion of the Subscription
“Subscription Price”	the subscription price of HK\$0.1080 per Subscription Share
“Subscription Shares”	1,228,607,685 Shares to be subscribed by the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs of Hong Kong
“%”	per cent

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## LETTER FROM THE BOARD

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### 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

*Non-executive Director:*

Ms. Liang Wanpeng

*Independent non-executive Directors:*

Mr. Ng Kwok Pong

Mr. Yeung Kit Lam

Mr. Zhao Jin

*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

22 November 2019

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION —  
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**1. INTRODUCTION**

As announced by the Company on 27 September 2019, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, the Subscription Shares at the Subscription Price.

\* for identification purposes only

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other matters, (i) further information on the Subscription Agreement and the transaction contemplated thereunder (including the Specific Mandate); (ii) the respective letters from the Independent Board Committee and the Independent Financial Adviser in respect of the Subscription Agreement and the transaction contemplated thereunder; and (iii) the notice of the EGM.

### 2. THE SUBSCRIPTION AGREEMENT

#### Principal terms

Date: 27 September 2019

Parties: (1) the Company (as issuer); and  
(2) the Subscriber (as subscriber).

As at the Latest Practicable Date, the Subscriber is the beneficial owner of approximately 16.7% of the total issued share capital of the Company. Accordingly, the Subscriber is a substantial Shareholder and a connected person of the Company under Chapter 14A of the Listing Rules.

The Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,228,607,685 new Shares at the Subscription Price of HK\$0.1080 per Subscription Share to the Subscriber, at an aggregate consideration of approximately HK\$132,690,000 and nominal value of HK\$122,860,768.5. Such consideration shall be paid by telegraphic transfer to the bank account of the Company within 30 days (or such other date as shall be agreed between the parties in writing) after fulfilment of conditions precedent (a) to (d) set out in the paragraphs headed “Conditions precedent to the Subscription Completion” in this circular.

As at the Latest Practicable Date, the Company has no intention, nor is in negotiation and has not entered into any agreement, arrangements or understanding with the Subscriber and its ultimate beneficial owners, and any other parties to (i) acquire and/or develop any new business; (ii) dispose of or downsize any of the existing businesses and/or material operating assets of the Company; and/or (iii) conduct any other fundraising activities of the Company, other than the Subscription.

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## LETTER FROM THE BOARD

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### **Subscription Shares**

The Subscription Shares represent:

- (i) approximately 16.0% of the existing issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 13.8% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion, save for the allotment and issue of the Subscription Shares).

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves free from all liens, charges, guarantee, adverse interests and adverse claims, and with the Shares in issue on the date of allotment and issue of the Subscription Shares including all dividends declared or payable or distributions made or proposed on or after the Subscription Completion.

### **Conditions precedent to the Subscription Completion**

Subscription Completion is conditional upon fulfilment of the following conditions prior to 4 p.m. on the Long Stop Date:

- (a) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Subscription Shares;
- (b) the Company having obtained all approvals and/or filings required for the Subscription Shares and other related transaction under the Subscription Agreement in accordance with the relevant laws and regulations of the PRC involving state-owned enterprises;
- (c) the Subscription Agreement and the transaction contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue of the Subscription Shares having been approved by the Independent Shareholders at the EGM;
- (d) the Subscriber having obtained a positive ruling from the Executive for the rebuttal of the presumption that the Subscriber and the holder(s) who hold or deemed to hold 30.0% or more of the voting rights of the Company are acting in concert under the Takeovers Code; and

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## LETTER FROM THE BOARD

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- (e) all the warranties given under the Subscription Agreement remaining true, accurate and not misleading in all material respects from the date of the Subscription Agreement up to Subscription Completion.

If the Company cannot fulfil any of the above conditions precedent, the Company shall serve a written notice to inform the Subscriber. The Subscriber may at its absolute discretion waive condition precedent (e) above. In the event that any of the conditions of the Subscription is not fulfilled or waived prior to 4 p.m. on the Long Stop Date (or such later date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement will terminate and all obligations of the Company and the Subscriber under the Subscription Agreement shall cease and determine and neither the Company nor the Subscriber shall have any claim against the other in respect of any matter arising out of or in connection with the Subscription Agreement except for any antecedent breach of any obligation and any liabilities under the Subscription Agreement.

As at the Latest Practicable Date, condition (b) of the above conditions precedent had been fulfilled.

### **Subscription Completion**

Subscription Completion will take place on the fifth Business Day after the total Subscription Price of the Subscription Shares is paid (or on such other Business Day as may be agreed between the Company and the Subscriber in writing).

### **Lock-up arrangement for the Subscription Shares**

Pursuant to the Subscription Agreement, the Subscriber undertook that, without the prior written consent of the Company, during a period commencing from and including the date of Subscription Completion and ending on and including the date which is 12 months from the date of Subscription Completion, the Subscriber shall not, and shall procure that none of its associates or companies controlled by it or nominees or trustees holding in trust for it shall sell, transfer or otherwise dispose of (or enter into any agreement to dispose of) any Subscription Shares held by the Subscriber, or the interests in the Subscription Shares, held by the Subscriber.

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## LETTER FROM THE BOARD

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### Subscription Price

The Subscription Price is HK\$0.1080 per Subscription Share, which represents:

- (a) a discount of approximately 20.0% to the closing price of HK\$0.1350 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (b) a discount of approximately 23.7% to the average closing price of HK\$0.1416 per Share as quoted on the Stock Exchange for the last five consecutive trading days prior to the Last Trading Day.

The closing price of the Shares on the Last Trading Day was HK\$0.1350.

Taking into account the estimated expenses of the Subscription in the amount of approximately HK\$690,000, the net price to the Company of each Subscription Share is estimated to be approximately HK\$0.1074. The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber with reference to various factors, including but not limited to (i) the recent market price of the Shares and the current market condition; and (ii) the financial situation of the Company.

In arriving at the Subscription Price with reference to the recent market price of the Shares, the Company considered that the average closing prices of the Shares as quoted on the Stock Exchange for the 12 months from 3 September 2018 and up to the date prior to the date of the Subscription Agreement (the “**Review Period**”), during which, (i) the lowest closing price of the Shares was HK\$0.0350; (ii) the highest closing price of the Shares was HK\$0.1870; and (iii) the average closing price of the Shares was HK\$0.0999. As such, the Subscription Price of HK\$0.1080 per Subscription Share represents (i) a premium of approximately 208.6% to the lowest closing price during the Review Period; (ii) a discount of approximately 42.2% to the highest closing price during the Review Period; and (iii) a premium of approximately 8.1% to the average closing price during the Review Period.

As at 31 December 2018, the Group had current assets of approximately HK\$2,684.6 million, and current liabilities of approximately HK\$10,408.4 million, representing net current liabilities and current ratio of approximately HK\$7,723.8 million and 0.3 time, respectively. The Group's current ratio was below 1.0 time as at 31 December 2017 and 2018, indicating that the Group was under pressure on meeting its short-term repayment obligations. As at 31 December 2018, the Group had cash and bank balances of approximately HK\$135.0 million. The cash and bank balance dropped to approximately HK\$96.2 million as at 30 June 2019, indicating that the Company is facing a rather challenging cash flow pressure in view of the increasing liabilities.

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## LETTER FROM THE BOARD

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Having considered (i) the lowest, highest and average closing prices of the Shares as quoted on the Stock Exchange during the Review Period; (ii) the Group has recorded net losses attributable to owners of the Company since the financial year ended 31 December 2012; (iii) the imminent need of cash and high leverage status of the Group as at 30 June 2019; and (iv) the current ratio and other financial analysis as set out above indicating that the Group's was under pressure on meeting its short-term repayment obligations, the Directors consider that the Subscription Price is fair and reasonable.

### 3. GENERAL

#### **Specific Mandate**

The Subscription Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

#### **Application for listing**

Application has been made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

### 4. REASONS AND BENEFITS FOR THE SUBSCRIPTION

As at 30 June 2019, the Group had total cash and cash equivalents of approximately HK\$96.2 million while the Group had current liabilities of approximately HK\$9,954.0 million, which mainly consisted of (i) bank and other borrowings of approximately HK\$5,552.6 million which are repayable within 12 months; (ii) other payables and accruals of approximately HK\$2,354.3 million; and (iii) trade and bills payables of approximately HK\$1,943.2 million.

## LETTER FROM THE BOARD

Set out below is a detailed breakdown of the Company's indebtedness in the upcoming 12 months as at 30 September 2019:

		Accrued	Trade and other payables due to independent suppliers and creditors	Trade and other payables due to the Nongtou Group and Nongtou's related party
	Loan (Note) HK\$'000	Interest HK\$'000	HK\$'000	HK\$'000
Over due	—	19,172	1,891,126	955,801
Due after 1 month	2,703,980	19,172	135,705	39,888
Due after 2 to 3 months	45,489	19,172	292,594	37,998
Due after 4 to 6 months	2,494,009	378,361	805,104	55,643
Due after 7 to 12 months	485,227	115,031	—	—
Total	<u>5,728,705</u>	<u>550,908</u>	<u>3,124,529</u>	<u>1,089,330</u>

*Note:* As at 30 September 2019, interest-bearing bank and other borrowings in an aggregate amount of approximately RMB6,882.5 million (equivalent to approximately HK\$7,821.0 million) has been drawn down by the Group. It is expected that a substantial part of the Group's outstanding loan that is repayable within 12 months will be waived or capitalised by the Group's creditor banks pursuant to the Further Revised Debt-Equity Swap Proposal (please refer to the paragraph headed "Latest update on the debt-equity swap proposal" below for further details), with the remaining part not included in Further Revised Debt-Equity Swap Proposal to be renewed according to the track record of the Group or to be settled with the proceeds from the disposal of land and buildings of the Group in Luyuan District, Changchun.

Given the foregoing, the Group is in an imminent need of cash. The Directors are of the view that the Subscription would provide funds to the Group to repay part of its trade and other payables which have become overdue and would provide the necessary funds for the operation of the Group's upstream corn-refineries which is necessary for generating cash flow and produce raw materials for the Group's downstream production as discussed in the paragraph headed "Use of Net Proceeds" below. On the other hand, the Subscriber had expressed its confidence in the future development of corn related industry and the Group, and its interest to further invest in the Group. By entering into the Subscription Agreement, the Group can raise fund for its general working capital purposes and further strengthen its financial position, within a relatively shorter time frame and without any additional interest burden.

The Directors are of the view that the terms of the Subscription are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Apart from the Subscription, the Company and Directors have considered the feasibility of other fundraising methods, such as debt financing and other forms of equity financing. However, given that the Group recorded finance costs of approximately HK\$301.2 million for the six months ended 30 June 2019, representing approximately 10.8% of the revenue of the Group for the corresponding period, the Directors considered that debt financing will incur further interest expenses and leverage for the Group. Due to the increasing market rate of interest in the debt financing market and the high leverage status of the Group, the Directors are of the view that the Group may not be able to obtain new banking facilities on terms that are favourable or cost-effective and would place additional financial burden on the Group in view of its net liabilities position of approximately HK\$4,376.7 million as at 30 June 2019. The Directors have also considered other ways of equity financing, including pre-emptive fundraising methods. The Directors are of the view that while both open offer and rights issue would allow the Shareholders to maintain their respective pro-rata shareholding in the Company and at the same time strengthen the capital base of the Company, such fundraising exercises would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with the Subscription. Given the reasons above, the Directors considered that the Subscription as a relatively more timely and cost-efficient source of funding to satisfy the Group's imminent need of cash.

### 5. USE OF NET PROCEEDS

It is estimated that the gross proceeds from the Subscription will amount to approximately HK\$132,690,000. The net proceeds from the Subscription, after the deduction of relevant expenses, will be approximately HK\$132,000,000.

The details on the intended use of the estimated net proceeds from the Subscription are as follows:

<b>Proposed use of the net proceeds</b>	<b>Expected timeline of use</b>	<b>Approximate amount (HK\$'000)</b>
Repayment of trade and other payables of the Group's PRC subsidiaries	December 2019 – February 2020	56,000
Procurement of corn and other operational expenses	December 2019 – February 2020	76,000

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## LETTER FROM THE BOARD

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As at 30 September 2019, approximately 67.6% of the trade and other payables of the Group in the amount of approximately HK\$2,846.9 million had become overdue, of which approximately HK\$78.6 million is required to be settled immediately and approximately HK\$2,768.3 million may be repaid at a later date following the Group having reached an agreement with the respective payees. Out of the approximately HK\$78.6 million trade and other payables of the Group that are required to be settled immediately, approximately HK\$45.5 million were trade and other payables due to the Nongtou Group, which provides more flexible settlement arrangement for the Group to settle when the Group has settled its trade and other payables due to the independent third party suppliers and creditors and when the Group has available working capital. After taking into account of the above arrangements and negotiation outcomes with the respective payees, as at the Latest Practicable Date, the trade and other payables of the Group that will become due and payable by November 2019, December 2019 and January 2020 amounted to approximately HK\$38.1 million, HK\$37.3 million and HK\$82.5 million, respectively. The Group expects to repay such trade and other payables with the net proceeds from the Subscription of approximately HK\$56.0 million, the net compensation of approximately HK\$50.0 million from the land and property resumption (the “**Land and Property Resumption**”) as announced by the Company on 9 October 2019 and other general working capital of the Group, which includes approximately HK\$52.0 million to be received by the Group upon the settlement of trade and other receivables by its customers. It is expected that the Group will receive compensation of RMB50.0 million, being the first instalment of compensation for the Land and Property Resumption, within three days after the surrender of the first parcel of land, together with the buildings, warehouses and fixtures erected thereon, and the relevant property ownership certificate, land use certificate and any other ownership certificate to the government authority and the cancellation of the ownership registration of the first parcel of land and the buildings, warehouses and fixtures erected thereon by the relevant bureau. As at the Latest Practicable Date, the ownership cancellation process is yet to be completed. It is expected these procedures will be completed by the end of November 2019 and the Group will receive compensation of RMB50.0 million in or around early December 2019. The resumption of remaining parcel of land and relevant properties is expected to be completed by the end of December 2019 and the Group will receive remaining compensation by early January 2020.

It is estimated that, for the upcoming 12 months, the operation of the Group’s upstream corn-refineries will require monthly working capital of approximately HK\$597.8 million. Out of such amount, approximately HK\$342.4 million will be used in the procurement of corn to maintain the operation of the Group’s upstream corn-refineries, which is necessary for generating cash flow and producing raw materials for the Group’s downstream production. The budgeted shortage of procurement cost is approximately HK\$147.7 million for supporting the current operation of the Group’s upstream corn-refineries. Nongtou has confirmed its support

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## LETTER FROM THE BOARD

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to the Group to continue its operation on an ongoing basis through the issuance of a letter of support on 30 June 2019, the provision of financial guarantee to the Group for the bank borrowings of the Group's PRC subsidiaries in an aggregate amount of RMB500.0 million as at 30 September 2019, and the corn procurement arrangement. As disclosed in the Company's announcement dated 12 September 2018, the Company has renewed the continuing connected transactions entered into with Nongtou for the supply of corn kernels to the Group by the Nongtou Group and the supply of corn starch and other products by the Group to the Nongtou Group. Such continuing connected transactions of the Group entered into with the Nongtou Group aim at securing stable supply of raw material to the Group as well as easing the financial pressure of the Group through the granting of better credit period and therefore minimise cash outflow of the Group. Under the latest corn procurement plan, as over one-third of the corn kernels for the Group's upstream corn-refineries will be procured from the Nongtou Group under the corn procurement arrangement, the Group has been able to procure corn kernels under better credit period as opposed to cash on delivery adopted by the Group's independent third party suppliers. During the nine months ended 30 September 2019, the Group has signed corn purchasing contracts for an aggregate quantity of 850,000 MT of corn kernels with the Nongtou Group, which has helped to maintain a stable supply of corn kernels to the Group.

All of the net proceeds raised by the Company in the First Subscription which were allocated to the use of procurement of corn and other general working capital have been fully utilised in October 2019. As such, approximately HK\$76.0 million of the estimated net proceeds from the Subscription will be allocated to the Group's procurement of corn and other operation expenses for the continued operation of the Group's production facilities. The Group expects to meet the rest of its procurement and operational costs with the advanced payment from its customers and settlement of trade receivable from customers. It is expected that following the injection of sufficient working capital to run the upstream corn-refineries, the monthly operational expenses during November 2019 to January 2020 will amount to approximately HK\$255.4 million and will be covered by the daily operating cash inflow.

The Directors are of the view that, taking into consideration of (i) the net proceeds from the Subscription; (ii) the net compensation from the Land and Property Resumption; (iii) the trade and other receivables to be received by the Group from the settlement by its customers; and (iv) the support from the Nongtou Group as discussed above, the Group will have sufficient working capital for its continual production for the two months ending 31 December 2019 and the Group's urgent needs of cash for the period between November 2019 and January 2020 could be satisfied.

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## LETTER FROM THE BOARD

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### 6. FUNDRAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The following table sets out the fundraising activities of the Company during the past 12 months immediately preceding the Latest Practicable Date and the detailed breakdown and description of the use of the net proceeds:

Date of announcement	Fundraising activity	Intended use of proceeds	Expected timeline of use	Amount intended use of net proceeds (HK\$'000) (approx.)	Amount actually used for the intended purpose	Proceeds remaining unutilised as at the Latest Practicable Date
					(HK\$'000) (approx.)	(HK\$'000) (approx.)
19 July 2019	First Subscription	Repayment of interest of bank borrowings of the Group	August 2019 — September 2019	31,000	31,000	—
		Daily administrative and operational expenses of the Group	August 2019 — October 2019	62,500	62,500 (Note 1)	—
		Repayment of trade and other payables of the Group's PRC subsidiaries	August 2019	20,000	20,000	—
		Procurement of corn and other general working capital	August 2019 — October 2019	14,400	14,400 (Note 2)	—

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## LETTER FROM THE BOARD

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*Notes:*

1. The following table sets out a detailed breakdown of the actual use of the proceeds in daily administrative and operational expenses of the Group:

	<b>Amount</b> <i>(HK\$ '000)</i> <i>(approx.)</i>
Financial guarantee expenses	35,000
Staff insurance and housing funds and other benefits	17,000
Utilities expense (administrative)	800
Legal and professional fee	4,000
Salaries and other staff benefits in Hong Kong	3,000
Rent and rates	1,100
Others (directors' insurance, company registration fees and other office expenses, etc.)	1,600
	<hr/>
Total:	<b>62,500</b> <hr/> <hr/>

2. The following table sets out a detailed breakdown of the actual use of the proceeds in procurement of corn and other general working capital:

	<b>Amount</b> <i>(HK\$ '000)</i> <i>(approx.)</i>
Procurement of corn and other materials	2,000
Utilities expense (factory)	700
Wages and salaries in the PRC	8,900
Compensation for termination of employment contracts	2,800
	<hr/>
Total:	<b>14,400</b> <hr/> <hr/>

Save as disclosed above, the Company has not conducted any other equity fundraising activities during the past 12 months immediately preceding the Latest Practicable Date.

## LETTER FROM THE BOARD

### 7. EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 7,678,798,032 Shares in issue. Set out below is a table showing the shareholding structure of the Company based on the latest disclosure of interests notices filed by the respective Shareholders under Part XV of the SFO (i) as at the Latest Practicable Date; and (ii) immediately after the Subscription Completion (assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the date of Subscription Completion, save for the allotment and issue of the Subscription Shares).

Name of Shareholders	As at the Latest		Immediately after	
	Practicable Date		the Subscription Completion	
	Number of Shares	% (Approx.)	Number of Shares	% (Approx.)
<i>Connected Persons</i>				
— Modern Agricultural (Note 1)	3,135,509,196	40.8	3,135,509,196	35.2
— The Subscriber	1,279,799,672	16.7	2,508,407,357	28.2
— Kong Zhanpeng (Note 2)	260,176,000	3.4	260,176,000	2.9
<i>Public Shareholders</i>	3,003,313,164	39.1	3,003,313,164	33.7
Total:	<u>7,678,798,032</u>	<u>100.0</u>	<u>8,907,405,717</u>	<u>100.0</u>

*Notes:*

- The entire issued capital of Modern Agricultural is held by Modern Agricultural Industry Investment Holdings Limited (“Modern Agricultural Holdings”) which is in turn wholly owned by 吉林省現代農業產業投資基金(有限合夥) (Jilin Province Modern Agricultural Industry Investment Fund (LLP)\*) (“PRC LLP”). The sole general partner of PRC LLP is 吉林省現代農業產業基金有限公司 (Jilin Province Modern Agricultural Industry Fund Limited\*) (“GP”). As at the Latest Practicable Date, 60.0% of the investment capital of PRC LLP is owned 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 吉林省人民政府國有資產監督管理委員會 (State-Owned Assets Supervision and Administration Commission of the People’s Government of Jilin Province\*) (“Jilin SASAC”). Each of Modern Agricultural, Modern Agricultural Holdings, PRC LLP, GP, Nongtou and Jilin SASAC are deemed to be interested in the interest held by the Company.
- Mr. Kong Zhanpeng resigned as an executive director of Global Sweeteners Holdings Limited, a subsidiary of the Company owned as to approximately 64.04% by the Company, with effect from 31 December 2018 and is therefore considered as a connected person of the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### 8. INFORMATION OF THE GROUP AND THE SUBSCRIBER

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

#### **Latest future business plan of the Group**

As disclosed in the Company's annual reports and interim reports, the Company has been in discussion with the Group's principal banks in the PRC, the local government and other strategic investors in relation to (i) the debt-equity swap proposal; (ii) the disposal of land in the Group's production site in Luyuan District, Changchun, the PRC; and (iii) the proposed restructuring of the Group's business. As at the Latest Practicable Date, the discussion was still ongoing. The future business plan of the Group currently involves:

- (1) The disposal of certain assets of the Group (including but not limited to certain properties and production facilities that have been, and will continue to be, left idle or adding no value to the Group's downstream production)

As announced by the Company on 9 October 2019, a subsidiary of the Group has entered into the land and property resumption agreements with the relevant government body in Changchun, the PRC for the Land and Property Resumption for the compensation of approximately RMB58.96 million. It is currently expected that the resumption of the land in Luyuan District will be carried out in stages. As for the disposal of the other idle properties or production facilities of the Group, the negotiations have been ongoing and further announcement will be made by the Company pursuant to the Listing Rules as and where appropriate.

The proposed disposals aim to (i) generate cash inflow; (ii) improve the financial position of the Group through lowering the amount of outstanding debt; (iii) streamline the business portfolio of the Group to adapt to the changing market demands; and (iv) lower the operating capital requirements of the Group through scaling down and focusing on the core businesses.

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## LETTER FROM THE BOARD

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(2) The relocation of production facilities to Xinglongshan

As disclosed in the Company's announcements, annual reports and interim reports, the Group has been planning to relocate certain production facilities in the Luyuan District to Xinglongshan. The relocation plan includes the production facilities for the Group's existing and new products. While some of the planned relocations have been completed as disclosed previously, some of the planned relocation are yet to be started pending on the availability of capital. It is currently estimated that the capital requirement for all the relocation projects would amount to approximately HK\$900.0 million. The Company plans to utilise the compensation of resumption of land and properties and through collaboration with industry players or strategic investors to finance the capital expenditure of such relocation plans. The expected timetable for relocation of the production facilities is revised as follows:

Products of the Group to which the production facilities relate	Production site to which the production facilities will be relocated	Production capacity of the relevant production facilities to be relocated	Expected time for the relocation of production facilities	Source of funding
		(MT per annum)	(Note 1)	
Methanol	The Xinglongshan site	165,000	Tentatively to be completed by 2020	Internal resources of the Group
Modified starch — food grade (phase 1)	The Xinglongshan site	20,000	June 2019 – May 2020	Through establishing a joint venture with another industry player
Modified starch (phase 2)	The Xinglongshan site	60,000	December 2019 – October 2020	Through establishing a joint venture with another industry player
Corn oil	The Xinglongshan site	63,000	June 2019 – May 2020	Through establishing a joint venture with another industry player

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## LETTER FROM THE BOARD

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Products of the Group to which the production facilities relate	Production site to which the production facilities will be relocated	Production capacity of the relevant production facilities to be relocated (MT per annum)	Expected time for the relocation of production facilities (Note 1)	Source of funding
Other amino acid (L-lysine monohydrochloride and glutamic acid)	The Xinglongshan site/Dehui City of Changchun (Note 2)	100,000	Pending the availability of capital and favourable market condition	Internal resources of the Group
Corn refinery	Dehui City of Changchun (Note 3)	450,000	Pending the availability of capital and favourable market condition	Internal resources of the Group
Amino acids (other varieties of amino acids complementary to current product mix with smaller capacity)	The Xinglongshan site	20,000	Pending the availability of capital and favourable market condition	Internal resources of the Group

*Notes:*

1. The expected time for relocation of production facilities are subject to the final decision of the management from time to time, taking into account the relevant product markets and the obtaining of the approval from among others, the relevant government bodies on the feasibility studies and working capital of the Group. The timetable may thus change accordingly of which the Group shall update the Shareholders and potential investors as and when appropriate.
2. The relocation projects in Dehui site, the amino acids production site of the Group, also include certain facilities upgrade to enhance production efficiency and lower energy consumption.
3. The corn refinery with 450,000 MT per annum corn processing capacity aims to act as a feedstock for the additional amino acids capacity.

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## LETTER FROM THE BOARD

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The following table sets forth details of the Group's production bases, including products and their respective production capacity, utilisation rate, status and resumption of production plan (if production was suspended) as at the Latest Practicable Date:

Location of the production base	Product(s)	Designed production capacity (MT per annum)	Current utilisation rate	Status of the production base as at the Latest Practicable Date	Resumption of production plan
Luyuan, Changchun	Corn refinery	450,000	N/A	Suspended, pending relocation to Xinglongshan site	To be resumed after its relocation to Dehui city of Changchun to act as a feedstock for the additional amino acids capacity for the Group's Dehui site and such relocation is pending the availability of capital and favorable market condition
	Amino acids	200,000	N/A	Suspended, some of the parts and machineries in the facilities are relocated to the Dehui Site	N/A

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## LETTER FROM THE BOARD

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Location of the production base	Product(s)	Designed production capacity <i>(MT per annum)</i>	Current utilisation rate	Status of the production base as at the Latest Practicable Date	Resumption of production plan
Xinglongshan, Changchun	Corn refinery	600,000	54%	Operating	N/A
	Polyol chemicals	200,000	20%	Partially suspended (currently producing small quantity of anti- freeze products)	<p>i) The supporting production units are planned for modification which is scheduled to complete by 2020;</p> <p>ii) Part of the polyol facilities will be converted into production lines for new products such as isosorbide upon funds becoming available; and</p> <p>iii) New production lines for a number of new products will be added to the site upon funds becoming available to ensure the infrastructure of the site (such as wastewater treatment facility and the power plant) will run at optimal utilisation rate to lower the unit production cost</p>
	Corn sweeteners	90,000	90%	Operating	N/A

## LETTER FROM THE BOARD

Location of the production base	Product(s)	Designed production capacity (MT per annum)	Current utilisation rate	Status of the production base as at the Latest Practicable Date	Resumption of production plan
Dehui, Changchun	Corn refinery	600,000	N/A	Under overhaul	To be resumed in early December 2019 after completion of the overhaul (subject to availability of capital and favourable market condition) (Note)
	Amino acids	480,000	N/A		
Harbin	Corn refinery	600,000	N/A	Suspended	To be resumed subject to availability of capital and favourable market condition
Shanghai	Corn sweeteners	237,000	83%	Operating	N/A
Jinzhou	Corn refinery	800,000	75%	Operating	N/A
	Corn sweeteners	100,000	N/A	Suspended	To be resumed subject to availability of capital and favourable market condition

*Note:*

In light of the unfavourable market conditions and the need for regular maintenance, the Group took the opportunity to accelerate the schedule for regular maintenance by temporarily suspending the production operation at the production base in Dehui, Changchun for machinery overhaul since August 2019. Despite of the temporary suspension, 長春大合生物技術開發有限公司 (Changchun Dahe Bio Technology Development Co. Ltd.\*) (“Changchun Dahe”), which operates the production facilities in Dehui, Changchun, remained an operating business and was actively engaging in selling activities up to the Latest Practicable Date. As at 30 September 2019, the finished goods balance of Changchun Dahe amounted to approximately HK\$62.2 million. The machinery overhaul is still ongoing and is expected to be completed by end of November 2019. During the overhaul and maintenance period, the management of the Company is in the course of examining the feasibility of partial resumption of production by taking into consideration the market conditions in the corn industry, the working capital requirement and cost-efficiency for full or partial resumption of the production operation and whether and how the resumption of production would bring a positive impact to the Group’s profitability. Based on the unaudited financial information of the Group, the turnover and net loss of Changchun Dahe represented approximately 25.3% and 37.4% of the Group’s total turnover and net loss, respectively, for the nine months ended 30 September 2019. During the temporary suspension, Changchun Dahe has been able to reduce its operational loss as a result of the reduced operating cash outflow following the suspension.

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## LETTER FROM THE BOARD

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### Latest update on the debt-equity swap proposal

As disclosed in the Company's interim report for the six months ended 30 June 2019, the discussion on the debt-to-equity swap proposal is still ongoing. It was proposed in the further revised debt-equity swap proposal (the "**Further Revised Debt-Equity Swap Proposal**") submitted by the Group to the Bank of China Jilin Province Branch, among others, the conversion of debt due to banks to equity in order to lower the debt ratio of the Group, the introduction of strategic investor(s) in order to strengthen the capital of the Group and other alternatives to resolve the audit modification in respect of the financial guarantee contracts given by members of the Group, such as the option to include the indebtedness of 長春大金倉玉米收儲有限公司 (Changchun Dajincang Corn Procurement Co., Ltd.\*) in the debt-equity swap proposal. The Further Revised Debt-Equity Swap Proposal has been passed on to the headquarters of the Bank of China, and further submitted to the People's Government of Jilin Province in August 2018 for their consideration. As part of the Further Revised Debt-Equity Swap Proposal, the Company has also been actively seeking potential investors for equity investment in the Company in order to increase the banks' confidence in recouping their debts (including the equity investment converted from their debts) and strengthen the Group's capital base and working capital. However, as at the Latest Practicable Date, there have only been preliminary discussions and no conclusion or outcomes have been reached between the Company and any of the potential investors. The Company has had preliminary discussion with a number of potential investors, all of them are multi-billion central enterprises engaged in a wide range of businesses covering agricultural, petrochemical, biochemical, machinery design and engineering, logistics, financing and property development sectors. These enterprises have subsidiaries listed on the Stock Exchange, the Shenzhen Stock Exchange and/or Shanghai Stock Exchange. There is no assurance that any agreement will be entered into between the Company and any of the potential investors for the investment in the Company.

During this period of time, while the parties continued the discussion on the details of the proposal, they have also explored the possibility of utilising the opportunity of the resumption/redevelopment of land in Luyuan District as part of the Further Revised Debt-Equity Swap Proposal in order to maximise the value of the land and relevant properties and relieve the financial liabilities of the Group. Various implementation directions have been discussed. However, up to the Latest Practicable Date, the parties have not reached an agreement on the Further Revised Debt-Equity Swap Proposal. Currently, the Company expects to receive concrete feedbacks on Further Revised Debt-Equity Swap Proposal from the People's Government of Jilin Province and the headquarters of the principal lending banks of the Group in the

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## LETTER FROM THE BOARD

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PRC by the end of 2019. With reference to (i) the steps as set out in note 2.2 of the interim condensed consolidated financial statement of the Group for the six months ended 30 June 2019 and (ii) the present and expected banking facilities available, the Directors considered that the Group has sufficient working capital for at least 12 months from the Latest Practicable Date.

Based on the information provided by the Subscriber, (i) the Subscriber is a company incorporated in the British Virgin Islands on 21 March 2019 and is principally engaged in equity and fund investment; and (ii) the Subscriber is legally and beneficially owned as to 50% by each of Mr. Li Zhenghao (“**Mr. Li**”) and Ms. Sun Zhen (“**Ms. Sun**”). Mr. Li has work experience in trading and futures investment in the corn industry. Mr. Li has also gained extensive knowledge in the corn industry through the connection of a family business in the field. Mr. Li is currently working as a manager in the business development department of a corn trading company that has an annual turnover of approximately RMB120.0 million and corn sales volume of approximately 52,000 MT, responsible for customer relationship management, gathering latest market information to facilitate proper trading decision-making process for the company. Ms. Sun has over five years of investment experience in property development in the PRC. Since 2014, Ms. Sun has worked as a senior management in companies that are principally engaged in property development and investment and has participated in property investment project for the development of industrial park with site area of approximately 3.64 square kilometres and for the development of a medical property project with total gross floor area of approximately 520,000 square metres. Ms. Sun is currently working as a deputy general manager in the property development department of a media company in the PRC. Ms. Sun was acquainted with Mr. Li as they both took part in a real estate project in Shanghai in 2017. Ms. Sun learnt about the investment opportunity in the Group from Mr. Li and was interested in investing in the Group, as she saw the Group as a great investment opportunity given its land resources in Changchun. As such, Ms. Sun invested in the Group with Mr. Li as business partner. Apart from investment in the Group, the Subscriber is intending to invest in two projects relating to the construction of a trade union cloud platform and waste incineration power plant.

Mr. Li, as a representative of the Subscriber, was introduced to the Group by one of the Group’s PRC principal banks in December 2018 during a physical meeting held between Mr. Li and the representatives of the PRC bank. In March 2019, Mr. Li had the first meeting with Mr. Zhang Zihua, an executive Director, during which Mr. Li learnt about the Company’s plan to lower its debt through the debt-equity swap proposal and the restructuring of its business for future development. Given

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## LETTER FROM THE BOARD

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that the Group is a well-known and a leading enterprise in Jilin Province and that the Subscriber was confident about future development of corn related industry and the business of the Group, the Subscriber expressed its intention to invest in the Group. At the time the Subscriber was introduced to the Company and prior to the completion of the First Subscription in August 2019, neither the Subscriber, Mr. Li or Ms. Sun has any relationship (whether shareholding, business relationship or otherwise) with the Company and its connected persons.

The Company has only become aware of the change in shareholding in the Subscriber, whereby Mr. Li has transferred 50% of his shareholding in the Subscriber to Ms. Sun, on or around 26 August 2019 after the completion of the First Subscription by the Subscriber. The Company was given to understand that the transfer of shareholding from Mr. Li to Ms. Sun took place on 6 August 2019. Prior to entering into the Subscription Agreement, the Company enquired to the Subscriber about the background of Ms. Sun and was given to understand that Ms. Sun has experience in property development and business connections in the real estate field. The Company considered that the background of Ms. Sun in property investment and development would be invaluable to the Group's proposed disposal of land and buildings in Luyuan District, Changchun and therefore the introduction of Ms. Sun as the other shareholder of the Subscriber is in the interest of the Company and the Shareholders. As at the Latest Practicable Date, the Company is not aware of any other changes to the shareholding structure of the Subscriber.

### **9. IMPLICATIONS UNDER THE LISTING RULES**

As at the Latest Practicable Date, the Subscriber is the beneficial owner of approximately 16.7% of the total issued share capital of the Company. Accordingly, the Subscriber is a substantial Shareholder and a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Subscription Agreement and the transaction contemplated thereunder constitute a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **10. DISCLOSURE OF DIRECTORS' INTERESTS**

None of the Directors has or is deemed to have a material interest in the Subscription Agreement or the transaction contemplated thereunder and was required to abstain from voting on the relevant board resolution.

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## LETTER FROM THE BOARD

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### 11. EGM

The Company will convene the EGM at Bauhinia Room I-II, 4th floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 10:30 a.m. on Thursday, 12 December 2019 to consider and, if thought fit, approve (i) the Subscription Agreement and the transaction contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issue of the Subscription Shares. A notice of the EGM is set out on pages 63 to 64 of this circular.

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

The Subscription Agreement and the transaction contemplated thereunder (including the grant of the Specific Mandate) are subject to, among other things, the approval by the Independent Shareholders at the EGM. As at the Latest Practicable Date, the Subscriber (including its associates) is entitled to exercise control over the voting right in respect of 1,279,799,672 Shares (representing approximately 16.7% of the total voting rights of the holders of the Shares) and is a substantial Shareholder. The Subscriber (including its associates) controls or is entitled to control over the entire voting right in respect of its Shares. Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution at the EGM. As such, the Subscriber and its associates who are materially interested in the Subscription Agreement and the transactions contemplated thereunder are required to abstain from voting on the resolutions proposed to be passed at the EGM for approving the Subscription Agreement and the transaction contemplated thereunder. Save as disclosed, to the best of the Directors' knowledge, information and belief, as at the Latest Practicable Date, no other Shareholder has material interest in the Subscription Agreement and the transaction contemplated thereunder and is required to abstain from voting at the EGM.

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 10:30 a.m. on Tuesday, 10 December 2019 (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.

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## LETTER FROM THE BOARD

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### 12. RECOMMENDATION

The Directors consider that the Subscription Agreement and the transaction contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue the Subscription Shares 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.

### 13. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out in pages 28 to 29 of this circular which contains its advice to the Independent Shareholders regarding the Subscription Agreement and the transaction contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue the Subscription Shares, the letter from Octal Capital set out in pages 30 to 57 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Subscription Agreement and the transaction contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue of the Subscription Shares 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.

As the Subscription Completion is subject to the fulfillment of certain conditions precedent and may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

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)

22 November 2019

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION —  
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE**

We refer to the circular issued by the Company to its shareholders and dated 22 November 2019 (“**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 transaction contemplated under the Subscription Agreement constitutes connected transaction for the Company and is subject to the approval of the Independent Shareholders.

We have been appointed by the Board to consider the terms of the Subscription Agreement and to advise the Independent Shareholders in connection with the connected transaction as contemplated under the Subscription Agreement as to whether, in our opinion, the terms of the Subscription Agreement are fair and reasonable and whether such connected transaction 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 purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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 Subscription Agreement are fair and reasonable. We also consider that the connected transaction as contemplated under the Subscription Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the connected transaction as contemplated under the Subscription Agreement at the EGM.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Ng Kwok Pong**

**Yeung Kit Lam**

**Zhao Jin**

*Independent non-executive Directors*

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## LETTER FROM OCTAL CAPITAL

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*The following is the full text of the letter from Octal Capital Limited, the Independent Financial Adviser, for the purpose of inclusion in this circular, to the Independent Board Committee and Independent Shareholders regarding the Subscription Agreement and the transaction contemplated under the Subscription Agreement.*



801-805, 8/F, Nan Fung Tower,  
88 Connaught Road Central,  
Hong Kong

22 November 2019

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE**

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transaction contemplated thereunder, details of which are contained in the circular to the Shareholders dated 22 November 2019 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 27 September 2019 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 1,228,607,685 new Shares at the Subscription Price of HK\$0.1080 per Subscription Share.

The Subscription Shares represent approximately 16.0% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 13.8% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only (assuming that there will be no change in the issued share capital of the Company between the Latest Practicable Date and the date of the Subscription Completion, save for the allotment and issue of the Subscription Shares). The Subscription Shares will be allotted and issued under the Specific Mandate.

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## LETTER FROM OCTAL CAPITAL

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The Company will seek the approval from the Independent Shareholders at the EGM to allot and issue the Subscription Shares under the Specific Mandate. Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

As at the Latest Practicable Date, the Company has 7,678,798,032 Shares in issues and the Subscriber is the beneficial owner of approximately 16.7% of the total issued share capital of the Company. Accordingly, the Subscriber is a substantial Shareholder and a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, entering into of the Subscription Agreement and the transaction contemplated thereunder constitute a connected transaction for the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Subscriber and its respective associates, who have material interest on the Subscription, will be required to abstain from voting on the relevant resolution(s) at the EGM regarding the Subscription Agreement and the transaction contemplated thereunder, including the granting of the Specific Mandate for the allotment and issue the Subscription Shares.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Mr. Zhao Jin, has been established to advise the Independent Shareholders as to whether the terms of the Subscription Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the forthcoming EGM taking into account the advice of the Independent Financial Adviser.

We, Octal Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transaction contemplated thereunder, and to make recommendations as to, among others, whether the terms of the Subscription Agreement and the transaction contemplated thereunder are fair and reasonable and as to voting in respect of the resolution(s) at the EGM. Our appointment has been approved by the Independent Board Committee.

We are not connected with the Directors, chief executives and substantial Shareholders or any of their respective subsidiaries or associates and are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged by the Company as

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## LETTER FROM OCTAL CAPITAL

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an Independent Financial Adviser to the Company in respect of the continuing connected transactions in relation to the new master supply agreement and the master sales agreement (details can be referred to the circular of the Company dated 25 October 2018)(the “**Previous Engagement**”). Under the Previous Engagement, we were required to express our opinion on and give recommendations to the Independent Board Committee and Independent Shareholders in respect of the transactions. Apart from normal professional fee 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 or the Directors, chief executive and substantial Shareholders or the Subscriber or any of its subsidiaries or their respective associates.

Despite the Previous Engagement, we consider our independence is unaffected due to the facts that (i) under Previous Engagement, we were entitled to receive normal professional fee that are comparable to market rates; (ii) we have discharged our responsibilities with due care and skill and performed our duties with impartiality in respect of each of our engagements with the Company; and (iii) each of the engagement was handled independently as an individual task. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company under the requirements of the Listing Rules.

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 Subscriber and the Subscription Agreement 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 Subscriber and their respective associates nor have we carried out any independent verification of the information supplied.

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## LETTER FROM OCTAL CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transaction contemplated thereunder, we have taken into account the following principal factors and reasons:

#### **Background of and reasons for the Subscription and use of proceeds**

##### **1. *Background 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 breaks 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 Northeast China.

##### **2. *Background of the Subscriber***

The Subscriber is a company incorporated in the British Virgin Islands with limited liability, which is principally engaged in equity and fund investment. As at the Latest Practicable Date, the Subscriber is the beneficial owner of 1,279,799,672 Shares, representing approximately 16.7% of the total issued share capital of the Company.

##### **3. *Financial information of the Group***

###### *Review of financial performance*

Set out below is a summary of the consolidated financial information of the Group for each of the three financial years (the “FY”) 2016, 2017 and 2018 and the six months ended 30 June 2019 as extracted from the annual reports of the Company

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## LETTER FROM OCTAL CAPITAL

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for the FY2017 and FY2018 (the “**Annual Reports**”) and the interim report of the Company for the six months ended 30 June 2019 (the “**Interim Report**”):

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	3,882,840	4,397,005	5,657,726	2,933,947	2,799,444
Cost of sales	<u>(3,567,018)</u>	<u>(3,787,974)</u>	<u>(5,398,016)</u>	<u>(2,765,887)</u>	<u>(2,745,683)</u>
Gross profit	315,822	609,031	259,710	168,060	53,761
Gross profit margin	8.1%	13.9%	4.6%	5.7%	1.9%
Loss for the year/period	(1,912,286)	(890,258)	(1,299,219)	(768,402)	(838,241)

*Source: Annual Reports and Interim Report*

### FY2017 versus FY2016

The Group recorded revenue of approximately HK\$3,882.8 million and approximately HK\$4,397.0 million for FY2016 and FY2017, respectively, representing an increase of approximately 13.2%, which was mainly due to (i) the increase in operational efficiency of the upstream segment and completion of the first phase of relocation of the corn sweeteners production facilities; and (ii) the marketisation of corn price in the PRC driven by the PRC agricultural reforms. Meanwhile, the gross profit of the Group increased by approximately HK\$293.2 million from approximately HK\$315.8 million for FY2016 to approximately HK\$609.0 million for FY2017, representing an increase of gross profit margin from 8.1% for FY2016 to 13.9% for FY2017.

The loss after taxation decreased from approximately HK\$1,912.3 million for FY2016 to approximately HK\$890.3 million for FY2017 due to the improvement in gross profit by approximately HK\$293.2 million and the decrease in the other expenses by approximately HK\$915.6 million.

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## LETTER FROM OCTAL CAPITAL

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### FY2018 versus FY2017

The Group recorded revenue of approximately HK\$4,397.0 million and approximately HK\$5,657.7 million for FY2017 and FY2018, respectively, representing an increase of approximately 28.7%, which was mainly due to the increase in sales volume by approximately 33.5% as a result of the resumption of the production facilities located in Harbin, the PRC and the completion of relocation and commencement of the sweeteners production facilities in Xinglongshan, the PRC. Meanwhile, the gross profit of the Group decreased by approximately HK\$349.3 million from approximately HK\$609.0 million for FY2017 to approximately HK\$259.7 million for FY2018, representing a material drop of gross profit margin from 13.9% for FY2017 to 4.6% for FY2018, despite the increase in revenue for FY2018.

The loss after taxation increased from approximately HK\$809.3 million for FY2017 to approximately HK\$1,299.2 million for FY2018 due to the significant increase in selling expenses by approximately HK\$185.9 million and finance costs by approximately HK\$110.4 million.

### Six months ended 30 June 2019 versus six months ended 30 June 2018

The Group's revenue declined slightly by approximately 4.6% from approximately HK\$2,933.9 million for the six months ended 30 June 2018 to approximately HK\$2,799.4 million for the six months ended 30 June 2019, which was mainly attributable to the decrease in sales volume of the Group's downstream lysine and sweetener products. Meanwhile, the gross profit of the Group decreased by approximately HK\$114.3 million from approximately HK\$168.1 million for the six months ended 30 June 2018 to approximately HK\$53.8 million for the six months ended 30 June 2019.

The Group recorded a net loss of approximately HK\$838.2 million for the six months ended 30 June 2019 as compared to a net loss of approximately HK\$768.4 million recorded during the six months ended 30 June 2018, which was due to the decrease in gross profit margin to approximately 1.9%.

## LETTER FROM OCTAL CAPITAL

### *Review of financial position*

Set out below is the summary of the audited consolidated statement of financial position of the Group as at 31 December 2017 and 2018 and unaudited condensed consolidated statement of financial position as at 30 June 2019 as extracted from the Annual Reports and Interim Report:

	<b>As at</b>		
	<b>31 December</b>		<b>30 June</b>
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	(Audited)	(Audited)	(Unaudited)
	HK\$ '000	HK\$ '000	HK\$ '000
Non-current assets	7,877,694	7,140,242	6,927,269
Current assets	2,885,392	2,684,597	2,064,455
Total assets	10,763,086	9,824,839	8,991,724
Non-current liabilities	4,628,723	2,987,019	3,414,418
Current liabilities	8,600,887	10,408,354	9,954,000
Total liabilities	13,229,610	13,395,373	13,368,418
Net current liabilities	5,715,495	7,723,757	7,889,545
Net liabilities	2,466,524	3,570,534	4,376,694
Deficit attributable to owners of the Company	2,407,532	3,447,881	4,219,351
Cash and bank balances	304,362	135,033	96,182
Interest-bearing bank and other borrowings			
— Current portion	4,861,642	6,127,288	5,552,568
— Non-current portion	3,555,927	1,870,716	2,272,989
Total borrowings	8,417,569	7,998,004	7,825,557
Convertible bonds	913,070	971,771	1,002,522
Current ratio <sup>Note 1</sup>	0.3 time	0.3 time	0.2 time
Gearing ratio <sup>Note 2</sup>	141.4%	180.6%	226.9%

Source: Annual reports and Interim reports

Note 1: Current ratio represents total current assets divided by total the current liabilities

Note 2: Gearing ratio represents total debts (i.e. total interest-bearing bank and other borrowings) to total deficit and debts (i.e. total interest-bearing bank and other borrowings minus net liabilities)

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## LETTER FROM OCTAL CAPITAL

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As at 31 December 2018, the Group had current assets of approximately HK\$2,684.6 million (31 December 2017: approximately HK\$2,885.4 million), and current liabilities of approximately HK\$10,408.4 million (31 December 2017: approximately HK\$8,600.9 million), representing net current liabilities and current ratio of approximately HK\$7,723.8 million (31 December 2017: net current liabilities of approximately HK\$5,715.5 million) and approximately 0.3 time (31 December 2017: approximately 0.3 time), respectively. The Group's current ratio was under 1.0 time as at 31 December 2017 and 2018, indicating that the Group's was under pressure on meeting its short-term repayment obligations. As at 31 December 2018, the Group had cash and bank balances of approximately HK\$135.0 million (31 December 2017: approximately HK\$304.4 million). The cash and bank balance further dropped to approximately HK\$96.2 million as at 30 June 2019, indicating that the Company is facing a very challenging cash flow pressure in view of the increasing liabilities. As at 30 June 2019, the current assets of the Group decreased by approximately 23.1% to approximately HK\$2,064.5 million, while its current liabilities decreased only by approximately 4.4% to approximately HK\$9,954.0 million, leading to a decrease in the current ratio to 0.2 time.

The Group's total borrowings amounted to approximately HK\$7,998.0 million as at 31 December 2018 (31 December 2017: approximately HK\$8,417.6 million), and further decreased to approximately HK\$7,825.6 million as at 30 June 2019. The Group's gearing ratios as at 31 December 2017 and 2018 were approximately 141.4% and 180.6%, respectively, and further increased to approximately 226.9% as at 30 June 2019. Such increase in the gearing ratio of the Group from 31 December 2017 to 30 June 2019 was mainly due to the increase in the net liabilities and the high borrowing level of the Group. The high gearing ratio of the Group also represents that the Group is heavily relied on debt to support for its continuing operations.

During the three years ended 31 December 2018, the auditors of the Group issued disclaimer of opinion and have significant doubt on the Group's ability to continue as a going concern due to the existence of a material uncertainty of the Group.

### *Outlook and prospects*

As mentioned in the Interim Report, despite the continuous effort of the state government to stimulate economic growth of the PRC, the trade tensions between the PRC and the United States added uncertainties to the overall economic environment in the PRC. The growth of the gross domestic products in the PRC slowed down to approximately 6.2% in the second quarter of 2019 which was the lowest since 1992. On the other hand, the outbreak of African Swine Flu across Asia since 2018 had continued to weigh on the feed industry during FY2018. As such, the performance of the Group was under extreme pressure.

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## LETTER FROM OCTAL CAPITAL

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The uncertainty over the trade tensions between the PRC and the United States has left the farmers in these two countries unsure about planting. As such, the outlook on the supply of corn and soybean (which is lysine substitute) are still subject to a number of variables that will in turn influence their pricing. The operating environment in the second half of 2019 and the first half of 2020 is expected to be challenging. The management of the Company is aiming to strengthen its market position with its brand name and customer relationship management, further improve cost effectiveness through continuous research and development efforts, and at the same time, optimise utilisation rate to achieve operational efficiency in response to market movements.

#### **4. *Reasons for the issue of Subscription Shares and use of proceeds***

As set out in the “Letter from the Board” of the Circular, as at 30 June 2019, the Group had total cash and cash equivalents of approximately HK\$96.2 million while the Group had current liabilities of approximately HK\$9,954.0 million, which mainly consisted of (i) interest-bearing bank and other borrowings of approximately HK\$5,552.6 million which are repayable within 12 months; (ii) other payables and accruals of approximately HK\$2,354.3 million; and (iii) trade and bills payables of approximately HK\$1,943.2 million. According to the Annual Reports and the Interim Report, the Group recorded net operating cash outflow of approximately HK\$64.5 million during the year ended 31 December 2018 and the cash and cash equivalents significantly dropped from approximately HK\$304.4 million as at 31 December 2017 to approximately HK\$135.0 million as at 31 December 2018. The Group’s cash position deteriorated during the first half of 2019 and further dropped to approximately HK\$96.2 million as at 30 June 2019.

On 19 July 2019, the Company entered into a subscription agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 1,279,799,672 new Shares at the subscription price of HK\$0.10 per subscription Share (the “**Previous Subscription**”). As at the Latest Practicable Date, the net proceeds of approximately HK\$127.9 million from the Previous Subscription have been fully utilised.

The estimated net proceeds from the Subscription, after the deduction of relevant expenses, will be approximately HK\$132.0 million of which (i) approximately HK\$56.0 million for repayment of trade and other payables of the Group’s PRC subsidiaries during December 2019 to February 2020; and (ii) approximately HK\$76.0 million for procurement of corn and other operational expenses during December 2019 to February 2020.

## LETTER FROM OCTAL CAPITAL

In review of the current financial position of the Group, the Directors consider that the Subscription would provide cash for the Group to repay part of its trade and other payables which have become overdue and finance the operation of the Group's upstream corn-refineries which is necessary for generating cash flow and produce raw materials for the Group's downstream production. On the other hand, the Subscriber had expressed its confidence in the future development of corn related industry and the Group, and its interest to further invest in the Group. By entering into the Subscription Agreement, the Group can raise fund for its general working capital purposes and further strengthen its financial position within a relatively shorter time frame and without any additional interest burden.

### *Indebtedness position of the Group*

As set out in the Letter from the Board, the table below is a summary of the Company's indebtedness in the upcoming 12 months as at 30 September 2019:

		Accrued	Trade and other payables due to independent suppliers and creditors	Trade and other payables due to the Nongtou Group and Nongtou's related party
	Loan HK\$'000	interest HK\$'000	HK\$'000	HK\$'000
Over due	—	19,172	1,891,126	955,801
Due after 1 month	2,703,980	19,172	135,705	39,888
Due after 2 to 3 months	45,489	19,172	292,594	37,998
Due after 4 to 6 months	2,494,009	378,361	805,104	55,643
Due after 7 to 12 months	485,227	115,031	—	—
	5,728,705	550,908	3,124,529	1,089,330
Settled by the net proceeds from the Subscription	—	—	(56,000)	—
Remaining financial obligations	5,728,705	550,908	3,068,529	1,089,330

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## LETTER FROM OCTAL CAPITAL

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As at 30 September 2019, approximately 67.6% of the trade and other payables of the Group in the amount of approximately HK\$2,846.9 million had become overdue, of which (i) approximately HK\$78.6 million is required to be settled immediately and (ii) approximately HK\$2,768.3 million may be repaid at a later date following the Group having reached an agreement with the respective payees. Out of the approximately HK\$78.6 million trade and other payables of the Group that are required to be settled immediately, approximately HK\$45.5 million were trade and other payables due to the Nongtou Group, which provides more flexible settlement arrangement for the Group to settle when the Group has settled its trade and other payables due to the independent third party suppliers and creditors, when the Group has available working capital.

After taking into account of the above arrangements and negotiation outcomes with the respective payees, as at the Latest Practicable Date, the trade and other payables of the Group that will become due and payable by November 2019, December 2019 and January 2020 amounted to approximately HK\$38.1 million, HK\$37.3 million and HK\$82.5 million, respectively. The Group expects to repay such trade and other payables with (i) the net proceeds from the Subscription of approximately HK\$56.0 million; (ii) a portion of compensation from land and property resumption of approximately HK\$50.0 million as disclosed in the announcement of the Company dated 9 October 2019; and (iii) the settlement of the trade and other receivables of approximately HK\$52.0 million.

As described in the Letter from the Board, for the upcoming 12 months, the operation of the Group's upstream corn-refineries will require monthly working capital of approximately HK\$597.8 million. Out of such amount, approximately HK\$342.4 million will be used in the procurement of corn to maintain the operation of the Group's upstream corn-refineries, which is necessary for generating cash flow and produce raw materials for the Group's downstream production. Under the Group's latest corn procurement plan, over one-third of the corn for the Group's upstream corn-refineries will be procured from the Nongtou Group, the Group expects that it could obtain more flexible credit period for part of its corn procurement and some upstream production facilities have generated sufficient cash flow for the procurement of corn kernels. The budgeted shortage of procurement cost is approximately HK\$147.7 million for supporting the current operation of the Group's upstream corn-refineries. All of the net proceeds raised from the Previous Subscription have been fully utilised. As such, approximately HK\$76.0 million of the net proceeds from the Subscription has been allocated to the Group's procurement of corn and other operational expenses for the continued operation of the Group's production facilities. The Group expects to meet the rest of its procurement and

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## LETTER FROM OCTAL CAPITAL

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operational costs with the advanced payment from its customers for the three-month period from November 2019 to January 2020 which is expected to be approximately HK\$66.5 million. It is further expected that following the injection of sufficient working capital to run the upstream corn-refineries, the monthly operational expenses for the three-month period from November 2019 to January 2020 will amount to approximately HK\$255.4 million and will be covered by the daily operating cash inflow.

*Settlement of the consideration in relation to the property resumption agreements dated 9 October 2019*

As disclosed in the announcement of the Company dated 9 October 2019, Changchun GBT Bio-Chemical Co., Ltd. (“**Changchun JBT**”) and the Changchun Housing Requisition Office entered into property resumption agreements in relation to the resumption of two parcels of land and relevant properties (the “**Land and Property Resumption**”). The compensation from the Land and Property Resumption of approximately RMB58.96 million in which (i) the first instalment is RMB50.0 million (equivalent to approximately HK\$56.8 million) for the first parcel of land and the relevant properties (the “**Property I**”) and (ii) the second instalment is RMB8.96 million (equivalent to approximately HK\$10.2 million) for the second parcel of land and the relevant properties (the “**Property II**”), subject to the cancellation of the ownership registration of Property I and Property II at the relevant bureau.

We discussed with the management of the Company and understood that (i) the Property I and Property II, which are currently vacant and idle, is ready for transferring to the Changchun Housing Requisition Office; (ii) Changchun JBT is currently in possession of the previous sale and purchase agreements and relevant documents which are sufficient for Changchun JBT to cancel the ownership registration of Property I at the relevant bureau; and (iii) Changchun JBT is pending to review the fund proof from Changchun Housing Requisition Office before Changchun JBT carries out the procedures to cancel the ownership registration of Property I and Property II. We have further enquired the management of the Company whether any objection received from other local government bodies or obstacles encountered in relation to the transactions contemplated under the property resumption agreements. Based on the communication between the Company and the Changchun Housing Requisition Office, the management of the Company confirmed that the execution of the land and property resumption agreement should have no major obstacles, subject to the availability of the funding from Changchun Housing Requisition Office. In view of the current status of the Land and Property Resumption, we consider that the first instalment and the second instalment could be received by Changchun JBT in early December 2019 and early January 2020,

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## LETTER FROM OCTAL CAPITAL

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respectively, given that the cancellation of the ownership registration of Property I and Property II could be completed on or before 31 December 2019, and most of the first instalment of compensation will be utilised to finance the settlement of the trade and other payables of the Group for the three-month period from November 2019 to January 2020.

### *Remedial measures to the Group's financial obligations*

The table below summarises the unsettled financial obligations in the upcoming 12 months as at 30 September 2019 after utilising the net proceeds from the Subscription.

Financial obligations	Nature	Remaining financial obligations (HK\$'000)
Bank and other borrowings	Secured and unsecured bank loans and other loans	5,728,705
Accrued interest	Interest payments of bank loans, other loans and trade payables and other payables	550,908
Trade and other payables due to independent suppliers and creditors	Mainly refer to the trade nature transactions, accrued expenses, advances from a municipal government-owned enterprise, and advances from customers	3,068,529
Trade and other payables due to the Nongtou Group and Nongtou's related party	Trade nature transactions and advances from the Nongtou Group and Nongtou's related party	1,089,330

As shown in the above table, the financial obligations of the Group in the coming 12 months amounted to approximately HK\$10,437.5 million, representing a substantial amount of liabilities to the Group which has no sufficient cash on hand and future operating cash inflow to fully settle these liabilities. The net proceeds from the Subscription are only able to repay a small portion of the outstanding trade and

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## LETTER FROM OCTAL CAPITAL

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other payables due to independent suppliers and creditors. As discussed with the management of the Company, the net proceeds from the Subscription serves as an immediate assistance to repay the urgent outstanding payables for maintaining the current production activities of the Group. In order to keep the business relationship with the suppliers and creditors, the Group must make partial payments to them so that the Group can continue to purchase raw materials from the suppliers to sustain the Group's production activities. We agree that maintaining the Group's production activities can generate cash flow to support the Group's overall operation and obtain additional time to conduct its relocation plan and debt restructuring plan, therefore it is very crucial to keep the production lines in operation.

As discussed with the management of the Company, the Company is currently taking the following remedies to alleviate the net deficiency position in the coming 12 months as at the Latest Practicable Date:

- (a) strengthening control in the credit terms of the customers and closely follow up the recovery of trade and other receivables;
- (b) actively negotiating with the respective payees of the trade and other payables of the Group for more flexible settlement arrangement;
- (c) speeding up the relocation production facilities in the Luyuan District to Xinglongshan in order to reduce the production cost;
- (d) actively discussing with the Nongtou Group to obtain more flexible credit period for the corn procurement from the Nongtou Group and the sales of corn starch and other products with the members of the Group, and other financial support from the Nongtou Group ("**Nongtou Financial Support**");
- (e) speeding up the disposal of the land in the Luyuan District, Changchun and the buildings erected thereon; and
- (f) actively lowering the debt level of the Group through the submission of the Further Revised Debt-Equity Swap Proposal to the Bank of China Jilin Province Branch.

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## LETTER FROM OCTAL CAPITAL

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Regarding the Nongtou Financial Support, the Nongtou Group has been providing financial assistance to the Group from the following aspects.

1. The Company entered into a new master supply agreement and a master sales agreement with Nongtou on 12 September 2018. Nongtou offers a longer credit term for the procurement of corn kernels as compared to independent suppliers who would not offer credit period for purchasing corn kernels and request cash on delivery. Compared to the existing credit terms of 30 to 90 days granted to other customers of the Group, Nongtou accepts shorter payment terms for the sales of corn starch and other products with the members of the Group.
2. The Group has received a written confirmation dated 30 June 2019 from Nongtou which confirmed that Nongtou continues to provide financial support to the Group in the following 24 months on an on-going basis and undertake all liabilities from the financial guarantee contracts for in respect of banking facilities granted to Changchun Dajincang Corn Procurement Co., Ltd with a maximum amount of banking facilities amounted to RMB2,500.0 million. The financial assistance from Nongtou is not secured by any assets of the Group.

Nongtou, being a state-owned enterprise under Jilin SASAC, was established in August 2016. It is tasked to consolidate the state-owned investments in the agricultural sector in the Jilin Province. With reference to the financial information of Nongtou, we noted that the unaudited net assets value of the Nongtou Group amounted to approximately RMB1,446.5 million at 30 June 2019 and its paid up registered capital amounted to approximately RMB912.3 million as at 30 June 2019. We consider that the Nongtou Group is financially competent to provide the financial assistance to the Group.

Regarding the disposal of the land in the Luyuan District, Changchun and the buildings erected thereon, the potential purchaser issued a letter of intent dated 2 March 2017 and the potential purchase expressed its interests to the above-mentioned land and buildings at a consideration of RMB2,200.0 million. The management of the Company indicated that the final consideration will be determined through a bidding process with reference to the prevailing market value and the valuation report to be issued by a professional valuer.

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## LETTER FROM OCTAL CAPITAL

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Regarding the Further Revised Debt-Equity Swap Proposal, on 1 February 2019, a meeting amongst the representatives of the principal lending banks of the Group in the PRC, Jilin SASAC, the Nongtou Group and the management of the Group was held in Changchun, in which the parties acknowledged the direction of the Further Revised Debt-Equity Swap Proposal and reinstated their intention to push through the execution of such proposal. The principal lending banks also confirmed at the meeting that during this transitional period, they would continue their support to the Group and agreed (i) not to withdraw any banking facilities already provided; (ii) to take all possible measures to ensure the renewal of all existing bank borrowings; and (iii) to allow interest payment to be settled annually instead of monthly so as to ease the pressure of cash flow of the Group. As at the Latest Practicable Date, the Further Revised Debt-Equity Swap Proposal is pending from the finalisation of the details and the conditions from the People's Government of Jilin Province and the headquarters of the principal landing banks of the Group. We noted that the outstanding bank borrowings were approximately HK\$7,919.3 million and HK\$7,741.2 million as at 31 December 2018 and 30 September 2019, respectively. The bank borrowings of the Group remain relatively stable during the nine months of 2019, implying that the principal lending banks have been continuously supporting the Group without requesting immediate repayments from the Group. As confirmed by the management of the Company, during the transitional period before the conclusion of the Further Revised Debt-Equity Swap Proposal, most of the outstanding bank borrowings of approximately HK\$7,741.2 million as at 30 September 2019 will not be re-called by the principal banks for immediate repayment.

If the Further Revised Debt-Equity Swap Proposal is finalised, most of the outstanding bank borrowings of approximately HK\$7,741.2 million as at 30 September 2019 may be either waived or capitalised as the equity of the Company, the remaining part of outstanding bank borrowings which have not included in Further Revised Debt-Equity Swap Proposal could be renewed according to the track record of the Group. Moreover, the current asset of approximately HK\$1,725.2 million as at 30 September 2019 can be used to cover a portion of the trade and other payable of approximately HK\$3,068.5 million; in addition, the consideration of the disposal of the land and buildings in the Luyuan District, Changchun will bring additional cash inflow of approximately RMB2,200.0 million (equivalent to approximately HK\$2,500.0 million) which can be used to settle the interest payment of approximately HK\$550.9 million, a portion of the trade and other payables of approximately HK\$3,068.5 million and a portion of trade and other payables due

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## LETTER FROM OCTAL CAPITAL

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to the Nongtou Group and Nongtou's related party of approximately HK\$1,089.3 million. Based on the above estimation, the outstanding debt of approximately HK\$10,437.5 million as at 30 September 2019 is expected to be solved or relieved in due course. In the meantime, the Group closely follows up the outstanding trade receivable amount, negotiates with the payees of the trade and other payables of the Group for more flexible settlement arrangement and speeds up the relocation production facilities, in addition to the Nongtou Financial Support. Assuming the above-mentioned six remedies are successfully executed together, we are of the view that the Group could generate sufficient financial resources to settle a majority of the outstanding financial liabilities of approximately HK\$10,437.5 million. However, we are uncertain of the timing of the debt settlement, mainly because the Further Revised Debt-Equity Swap Proposal is subject to government approval and the disposal of the land and buildings in the Luyuan District is subject to negotiation, all of which are beyond the control of the Company and are difficult to predict.

### *Other fundraising methods*

As advised by the Company, other than the Subscription, the Company has considered the feasibility of other fundraising methods such as debt financing and other forms of equity financing. During FY2016, FY2017, FY2018 and the six months ended 30 June 2019, the Group recorded finance costs of approximately HK\$441.1 million, HK\$454.7 million, HK\$565.0 million and HK\$301.2 million, representing approximately 11.4%, 10.3%, 10.0% and 10.8% of the corresponding revenue. For debt financing (including bank borrowings), the Directors considered that it will incur further interest expenses and leverage on the Group. Due to the increasing trend of the interest rate in the debt market and currently high leverage status of the Company, it may not be feasible for the Group to obtain additional debt financing in a cost-effective manner and would place heavier interest burden on the Group, in particular view of its loss-making performance for the three years ended 31 December 2018 and the six months ended 30 June 2019. Therefore, we concur with the Directors that the issuance of additional debt or obtaining bank borrowings is not a preferable choice.

The Directors have also considered other ways of equity financing, including pre-emptive equity issue. The Directors are of the view that open offer and rights issue would allow the Shareholders to maintain their respective pro-rata shareholding in the Company and at the same time strengthening the capital base of the Company, such fundraising exercises would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with any placing and/or subscription of new Shares. Given the Group's loss-making performance, net

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## LETTER FROM OCTAL CAPITAL

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liability position and high gearing position, the existing Shareholders may not fully support the open offer and/or rights issues and the Company may not be able to raise sufficient funding through these pre-emptive equity issue. The Directors regard that the Subscription, as a relatively faster source of funding to the Group, is a more preferable fundraising method for the Group. Moreover, the expenses in relation to the Subscription are comparatively lower. Thus, we concur with the Directors' view that the Subscription is a relatively cost-effective and time-saving way to raise funding when compared with open offer, rights issue and debt financing.

However, without the net proceeds from the Subscription, the Company may be unable to maintain the current production activities and may substantially reduce the operating cash inflow. Without sufficient operating cash inflow, the Company's production bases may be gradually reduced its production activities and eventually shut down the operation to minimise the operating expenses. In the worst situation, the trading of the Shares may be suspended due to the lack of sufficient level of operation, and it is detrimental to the interests of the Shareholders. Moreover, the suspension of trading of the Shares will greatly reduce the confidence of the creditors of the Group and the Group will encounter further difficulties to negotiate or bargain a favourable settlement terms of the outstanding debt with the creditors. Having considered that (i) the Group recorded net losses attributable to owners of the Company from FY2016 to the six months ended 30 June 2019; (ii) the high leverage status of the Group; (iii) the imminent need of cash to support the current production activities of the Group; (iv) the importance to maintain the production activities of the Group and the trading status of the Shares; and (v) the efficiency of the Subscription in term of time and cost as compared with other forms of equity financing and debt financing, it is justifiable for the Group to carry out the Subscription to meet its current repayment obligations.

### **Principal terms of the Subscription Agreement**

The principal terms of the Subscription Agreement are summarised as below:

Parties:	(a) the Company (as issuer); and  (b) the Subscriber (as subscriber).
Number of Subscription Share:	1,228,607,685 new Shares, approximately 13.8% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only
Subscription Price:	HK\$0.1080 per Subscription Share

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## LETTER FROM OCTAL CAPITAL

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Subscription Completion: Fifth Business Day after the total Subscription Price of the Subscription Shares is paid (or on such other Business Day as may be agreed between the Company and the Subscriber in writing)

### *Subscription Price*

To assess the fairness and reasonableness of the Subscription Price at HK\$0.1080 per Subscription Share, we set out the following analyses:

	Price/value per Share approximately HK\$	Premium/ (discount) over/to at approximately %
(i) The closing price as quoted on the Stock Exchange on 26 September 2019, the last trading day prior to the date of the Subscription Agreement (i.e. 27 September 2019) (the “ <b>Announcement Date</b> ”)	0.1380	(21.7)
(ii) The closing price as quoted on the Stock Exchange on the Announcement Date	0.1350	(20.0)
(iii) The average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days prior to the Announcement Date	0.1416	(23.7)
(iv) The average closing price of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days prior to the Announcement Date	0.1455	(25.8)
(v) Average of the closing prices of the Shares as quoted on the Stock Exchange for the six months prior to the Announcement Date (i.e. 27 March 2019 to 26 September 2019)	0.1340	(19.4)
(vi) Average of the closing prices of the Shares as quoted on the Stock Exchange for the trading period of the Shares with 12 months from 3 September 2018 and up to the date prior to the Announcement Date (the “ <b>Review Period</b> ”)	0.0999	8.1
(vii) The closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date	0.1700	36.5

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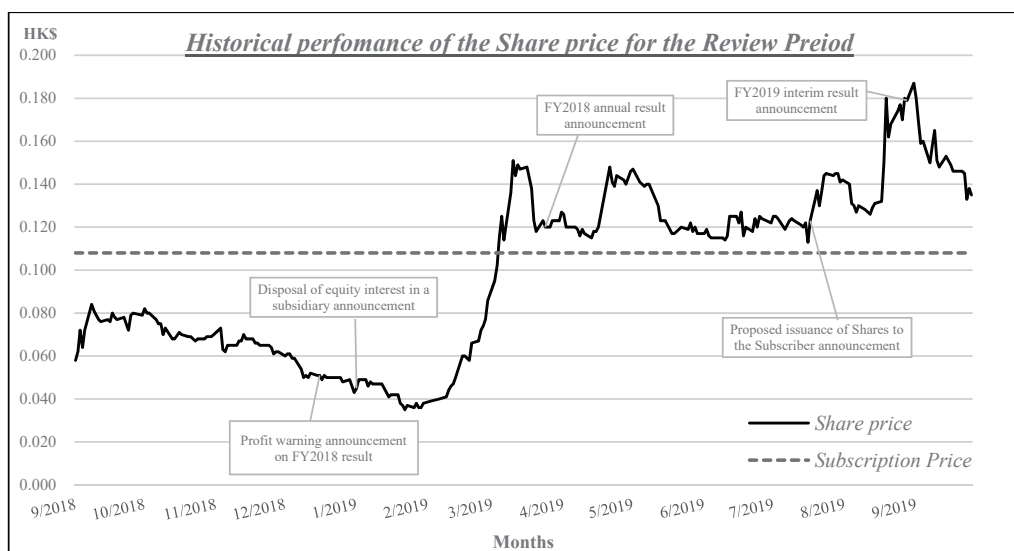
## LETTER FROM OCTAL CAPITAL

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The Subscription Price of HK\$0.1080 per Subscription Share was arrived at after arm's length negotiation between the Company and the Subscriber with reference to various factors, including but not limited to (i) the recent market price of the Shares and the current market condition; and (ii) the financial situation of the Company. The Directors consider that the Subscription Price is fair and reasonable.

### *Historical price performance of the Shares*

We consider that it is relevant to compare the closing price level of the Shares traded on the Stock Exchange during the Review Period against the Subscription Price. We reviewed the daily closing price of the Shares during the Review Period, which is a reasonably long period covering the annual operating cycle of the Company for analysis purpose, to illustrate the general trend and level of movement of the daily closing price of the Shares. The comparison of the historical performance of the Share price with the Subscription Price for the Review Period is illustrated below:



Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

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## LETTER FROM OCTAL CAPITAL

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During the Review Period, the lowest and highest closing price of the Shares were HK\$0.0350 per Share recorded on 24 January 2019 and HK\$0.1870 per Share recorded on 2 September 2019, respectively. The average daily closing price of the Shares during the Review Period was HK\$0.0999 per Share. The Subscription Price of HK\$0.1080 per Subscription Share represents (i) a premium of approximately 208.6% over the lowest closing price; (ii) a discount of approximately 42.2% to the highest closing price; and (iii) a premium of approximately 8.1% over the average daily closing price during the Review Period.

During the period from 1 September 2018 to 28 February 2019, the closing prices of the Shares had at most of the material times been trading between HK\$0.0350 per Share and HK\$0.0840 per Share. The Share price showed a downward trend during such period of time. As advised by the management of the Company, the downward trend of the Share price may be likely caused by the poor financial performance of the Group. The Shares were trading at price far below the Subscription Price during such period of time.

The Share price experienced an upsurge from the early March 2019 to the mid-May 2019. From the mid-May 2019 to the mid-August 2019, the closing prices of the Shares were hovering between HK\$0.1130 per Share and HK\$0.1450 per Share. There was a further surge of Share price to HK\$0.1870 per Share on 2 September 2019. Immediately afterwards, the Share price experienced a rapid drop to HK\$0.1330 per Share on 25 September 2019 and the Share price on the Announcement Date was closed at HK\$0.1350.

In view of the fluctuation in the Share price of the Company during the period from March 2019 to the Announcement Date, we have enquired with the Directors regarding the possible reasons and were advised that they were not aware of any particular matters which might have material impact on the Share price expect for the announcement of the Company dated 19 July 2019 in relation to the Previous Subscription. Based on our research from the Stock Exchange's website, other than the Company's (i) annual report for FY2018 and interim report for the six months ended 30 June 2019; (ii) announcements dated 18 December 2018 and 8 August 2019 in respect of profit warning; and (iii) business and operation update, we are not aware of any other public announcements made by the Company that were price sensitive in nature.

## LETTER FROM OCTAL CAPITAL

### *Historical trading volume of the Shares*

The average daily number of Shares traded per month, the respective percentages of the Shares' monthly trading volume during the Review Period as compared to (i) the total number of issued Shares; and (ii) the total number of issued Shares held by the public for each month during the Review Period, are tabulated as follows:

	Total monthly trading volume of the Shares	Average trading volume of the Shares per trading day during the month	% of average daily trading volume of the Shares to the average total issued Shares (Note 1)	% of average daily trading volume of the Shares to average Shares held by public Shareholders (Note 2)	Number of trading days in each month
<b>2018</b>					
September	495,540,000	26,081,053	0.41%	0.87%	19
October	51,856,144	2,469,340	0.04%	0.08%	21
November	178,496,159	8,113,462	0.13%	0.27%	22
December	115,351,328	6,071,123	0.09%	0.20%	19
<b>2019</b>					
January	133,975,098	6,089,777	0.10%	0.20%	22
February	213,546,343	12,561,550	0.20%	0.42%	17
March	805,781,800	38,370,562	0.60%	1.28%	21
April	336,972,220	17,735,380	0.28%	0.59%	19
May	121,748,000	5,797,524	0.09%	0.19%	21
June	50,912,088	2,679,584	0.04%	0.09%	19
July	231,283,620	10,512,892	0.16%	0.35%	22
1 – 19 August	68,843,223	5,295,633	0.08%	0.18%	13
20 – 31 August	220,385,600	24,487,289	0.32%	0.82%	9
September (up to and including the Announcement Date)	348,319,600	17,406,980	0.23%	0.58%	20

*Notes:*

1. Based on 6,398,998,360 Shares throughout the period from 1 September 2018 to 19 August 2019 and based on 7,678,798,032 Shares throughout the period from 20 August 2019 to the Announcement Date.
2. Based on 3,003,313,164 Shares throughout the Review Period and up to the Announcement Date.

Source: the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk))

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## LETTER FROM OCTAL CAPITAL

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The percentage of average daily trading volume of the Shares per month to the average total issued Shares during the Review Period was ranging from approximately 0.04% to 0.60%. If only those Shares held by public Shareholders, i.e. the public float, are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the percentage was ranging from approximately 0.08% to 1.28%. The Directors are not aware of any particular events and/or public announcements which might materially affect the fluctuation of trading price and volume of the Shares during the Review Period. We considered that the average daily trading volume of the Shares per month were extremely thin during most of the Review Period.

We are aware of that the Subscription Price represents considerable discounts to the recent market prices of the Shares. However, we consider that the discounts are justifiable taking into account the facts that (i) the Group had recorded net losses attributable to owners of the Company from FY2016 to FY2018 and up to the six months ended 30 June 2019; (ii) the Group recorded net liabilities from 31 December 2016 to 30 June 2019; (iii) the imminent need of cash and high leverage status of the Group; and (iv) the extremely low liquidity of the Shares as detailed above.

### *Comparison of the Subscription Price with peer companies*

With a view to analysing the market price of the Company and the Subscription Price, we intend to compare the price-to-earnings ratio (the “**P/E ratio**”) and the price-to-book ratio (the “**P/B ratio**”) with those of other listed companies in Hong Kong which are engaged in the same industry of the Group. However, the Group recorded net losses attributable to owners of the Company during FY2018 and was at net liability position as at 30 June 2019, neither P/E ratio nor P/B ratio is available to perform comparable analysis with other peer companies listed in Hong Kong, thus we are unable to present such comparable analysis in this letter.

### *Subscription of shares by other listed issuers with connected persons under specific mandates*

In addition to analyse the performance and liquidity of the Shares, we consider it is worthwhile to compare the Subscription Price against the prevailing market trend and we have conducted a comparable analysis through identifying companies listed on the Stock Exchange which (i) have announced subscription of new shares which could be publicly traded and were listed on the Stock Exchange; (ii) the subscriber is connected person of the listed companies; and (iii) the subscription is conducted under specific mandates during the period between 1 January 2019 and 26 September 2019. Based on the above criteria, we have, to the best of our effort by searching through published information on the Stock Exchange’s website, identified an exhaustive list of 14 comparable transactions

## LETTER FROM OCTAL CAPITAL

(the “Comparable Transactions”). For each of the 14 Comparable Transactions, we have compared the premium/(discount) of its subscription price over/(to) (i) the respective closing price on the last trading day; and (ii) the average closing price for the last five and ten consecutive trading days prior to the date of the corresponding announcement summarised in the following table:

				Premium/ (discount) over/to the average closing price of the shares for the last five consecutive trading days prior to the date of the corresponding announcement %	Premium/ (discount) over/to the average closing price of the shares for the last ten consecutive trading days prior to the release of the corresponding announcement %	Premium/ (discount) over/to the average closing price of the shares for the last ten consecutive trading days prior to the release of the corresponding announcement %
	Date of announcement	Company name (stock code)	Subscription price HK\$	Net proceeds received HK\$' million		
1	20/9/2019	Evergreen Products Group Limited (1962)	1.55	19.8	(14.4)	(13.4)
2	28/8/2019	Global Link Communications Holdings Limited (8060)	0.0348	40.0	(13.0)	(10.8)
3	19/7/2019	Colour Life Services Group Co., Limited (1778)	5.22	119.4	(3.5)	(7.0)
4	10/7/2019	Glory Sun Financial Group Limited (1282)	0.25	1,000.0	(19.4)	(21.9)
5	23/5/2019	Alibaba Health Information Technology Limited (241)	7.50	2,272.3	(2.3)	(4.2)
6	9/5/2019	Guangdong Adway Construction (Group) Holdings Company Limited (6189)	7.19	90.5	(2.6)	(7.6)
7	2/5/2019	ZH International Holdings Limited (185)	0.38	1,564.8	8.6	7.3
8	26/4/2019	Elife Holdings Limited (223)	0.188	50.0	6.1	9.8
9	16/4/2019	Pearl Oriental Oil Limited (632)	0.02	180.0	(83.6)	(83.1)
10	15/4/2019	Chong Kin Group Holdings Limited (1609)	3.50	209.7	(7.9)	(10.2)
11	17/2/2019	IBO Technology Company Limited (2708)	1.50	149.0	(6.3)	(5.9)
12	20/1/2019	Panda Green Energy Group Limited (686)	0.3	322.0	(23.1)	(22.3)
13	18/1/2019	Beijing Enterprises Water Group Limited (371)	4.29	547.5	0.2	1.3
14	11/1/2019	TUS International Limited (872)	0.6084	145.6	(13.1)	(10.0)
		14 Comparable Transactions	}	Maximum	8.6	9.8
				Minimum	(83.6)	(83.1)
				Average	(12.4)	(11.6)
				Median	(7.1)	(8.5)
		11 out of 14 Comparable Transactions	}	Maximum	8.6	9.8
				Minimum	(14.4)	(13.4)
				Average	(4.4)	(3.2)
				Median	(3.5)	(5.9)
	27/9/2019	The Company	0.108	132.0	(21.8)	(23.7)

Source: the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk)

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## LETTER FROM OCTAL CAPITAL

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The discounts of approximately 21.8%, 23.7% and 25.8% represented by the Subscription Price to the closing price or average closing price (i) on the last trading day (i.e. 26 September 2019) before the Announcement Date; (ii) for the last five consecutive trading days up to and including the 26 September 2019; and (iii) for the last ten consecutive trading days up to and including the 26 September 2019, respectively, lie below the average discounts represented by the Comparable Transactions to the closing price or average closing price (i) on their respective last trading day prior to the release of their corresponding announcement; (ii) for the last five consecutive trading days prior to the release of the corresponding announcement; and (iii) for the last ten consecutive trading days prior to the release of the corresponding announcement. It suggests that the Subscription Shares are to be issued at a deeper discount as compared to the Comparable Transactions, which is mainly due to (i) the Group's loss-making performance over the past three financial years; (ii) the Group's high debt level; and (iii) the Group's net liability position and going-concern issue from 31 December 2016.

We noted that three Comparable Transactions reported the largest discount to the closing price on the last trading day prior to the corresponding announcement dated on 16 April 2019, 20 January 2019 and 10 July 2019, namely Pearl Oriental Oil Limited (stock code: 632) ("**Pearl Oriental**"), Panda Green Energy Group Limited (stock code: 686) ("**Panda Green**") and Glory Sun Financial Group Limited (stock code: 1282) ("**Glory Sun**"), respectively. We performed another comparison analysis by excluding the above three comparable transactions. We noted that the discount of the Subscription Price is still larger than the average discount of these 11 Comparable Transactions and fall out of the range of discounts/premiums of these 11 Comparable Transactions. Based on these two set of Comparable Transactions analysis, we noted that the discount of the Subscription Price are not in line with the trend of these Comparable Transactions. In order to understand such discrepancy noted from the above two analysis, we looked into the financial performance of Pearl Oriental, Panda Green and Glory Sun before the publication of their corresponding announcements. After reviewing their latest annual reports prior to the corresponding announcements, we found that Pearl Oriental and Panda Green reported net loss attributable to the owners of the company during FY2018 and net current liabilities as at 31 December 2018 with high leverage. The auditors of Pearl Oriental and Panda Green emphasised that these two listed companies have material uncertainties which may cast significant doubt on their ability to continue as a going concern. We understand that when the issuers recorded poor financial performance or/and have encountered financial difficulties, especially having going-concern issues, it is difficult for the issuers to raise fund from the investors. If these issuers want to raise funds by issuing new shares, the issuers have to offer a relatively larger discount to the current trading price in order to attract sufficient number of investors to subscribe for their new shares.

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## LETTER FROM OCTAL CAPITAL

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According to the annual report for the year ended 31 December 2018 and interim report for the six months ended 30 June 2019 of Glory Sun, although Glory Sun recorded net profit after taxation approximately HK\$675.6 million for the year ended 31 December 2018 and was in net asset position as at 30 June 2019, Glory Sun recorded net cash outflow from operating activities in the amount of approximately HK\$203.1 million and approximately HK\$1,786.8 million for the year ended 31 December 2018 and the six months ended 30 June 2019, respectively. We also noted that Glory Sun has been obtaining vast amount of bank borrowings and other loans to support its operation, and Glory Sun intends to raise approximately HK\$1,000.0 million through such share subscription which is significantly higher than the fundraising size of the other two Comparable Transactions. Thus, we consider that it is common that high-leverage companies with financial difficulties or deteriorating financial results would usually issue shares at deeper discount in order to attract investors for investing in the Company for potential compensation of the higher risk level, and we are of the view that the level of discount of the Subscription Price is acceptable and justifiable.

Having considered the above analysis and further taken into account (i) the immediate need of cash to support the Group's daily operation; and (ii) the difficulties to raise funds from debt financing and equity financing, we consider that the basis for determination of the Subscription Price is commercially justifiable, and the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

### ***Lock-up undertakings***

Pursuant to the Subscription Agreement, the Subscriber undertook that, without the prior written consent of the Company, during a period commencing from and including the date of Subscription Completion and ending on and including the date which is one year from the date of Subscription Completion, the Subscriber shall not, and shall procure that none of its associates or companies controlled by it or nominees or trustees holding in trust for it shall sell, transfer or otherwise dispose of (or enter into any agreement to dispose of) any Subscription Shares held by the Subscriber, or the interests in the Subscription Shares, held by the Subscriber.

We are of the view that the lock-up arrangement is in the interests of the Company and the Shareholders as a whole as it will help to ensure that the Subscriber will not dispose the Subscription Shares on market immediately after Subscription Completion, in particular in the view that the Subscription Price may have a discount to the market price of the Shares, and thus avoid potential short-term pressure on the Share price.

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## LETTER FROM OCTAL CAPITAL

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### POTENTIAL DILUTION EFFECT ON THE SHAREHOLDING OF THE COMPANY

Immediately prior to the Previous Subscription, the shareholding of the then existing public Shareholders was approximately 46.9% and the Shares subscribed by the Subscriber under the Previous Subscription represented 20.0% of the then existing issued share capital of the Company. After the completion of the Previous Subscription, the shareholding of the existing public Shareholders was diluted from approximately 46.9% to 39.1%.

As set out in the table showing the shareholding structure and changes of the Company in the “Letter from the Board” of the Circular, the shareholding of the existing public Shareholders as at the Latest Practicable Date was approximately 39.1%. The Subscription Shares to be subscribed by the Subscriber represented 16.0% of the total issued share capital of the Company as at the Latest Practicable Date, and approximately 13.8% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. Independent Shareholders should note that the net proceeds from the Subscription of approximately HK\$132.0 million would provide immediate financial assistance to the Group for its daily operation during December 2019 to February 2020 without adding additional interest burden to the Group. On such basis, the shareholding of the existing public Shareholders will be diluted from approximately 39.1% to 33.7% upon the Subscription Completion. After the completion of these two rounds of share subscription by the Subscriber, the shareholding of the existing public Shareholders in aggregate decreased from approximately 46.9% to approximately 33.7%. We consider that such dilution impact in exchange for an immediate improvement of available cash is very critical and supportive to the current operation of the Group, and therefore such aggregated dilution impact is considered fair and reasonable, and in the interests of the existing Shareholders and the Company as a whole.

### FINANCIAL EFFECT OF THE SUBSCRIPTION ON THE GROUP

#### Earnings

Save for the legal and professional fees/expenses of approximately HK\$690,000 to be incurred in relation to the Subscription, there will not be any immediate material impact on the earnings of the Group in this regard.

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## LETTER FROM OCTAL CAPITAL

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### **Working capital**

According to the Interim Report, the Group had cash and bank balances of approximately HK\$96.2 million as at 30 June 2019. Upon the Subscription Completion, the Group's working capital and liquidity positions will be improved as the cash and bank balances will be increased by the net proceeds of approximately HK\$132.0 million. Accordingly, the cash positions, net current liabilities and current ratio of the Group are expected to be improved upon the Subscription Completion.

### **Net liabilities value**

According to the Interim Report, the Group had consolidated net liabilities value of approximately HK\$4,376.7 million as at 30 June 2019. Upon the Subscription Completion, the net liabilities value of the Group will be improved by the net proceeds of approximately HK\$132.0 million.

### **RECOMMENDATION**

Having taken into account the above principal factors and reasons, we are of the view that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve (i) the Subscription pursuant to the Subscription Agreement and the transaction contemplated thereunder; and (ii) the grant of the Specific Mandate for the allotment and issue of the Subscription Shares.

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. DIRECTORS' AND CHIEF EXECUTIVES' 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 of its associated corporations (within the meaning of Part XV of the SFO) which were 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 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 2018, being the date to which the latest published audited consolidated 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.

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:

<b>Name of Shareholder</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares held (Note 1)</b>	<b>Percentage of the Company's issued share capital</b>
The Subscriber	Beneficial owner (Note 4)	2,508,407,357 (L)	32.67
Mr. Li	Interest of a controlled corporation (Note 4)	2,508,407,357 (L)	32.67
Ms. Sun	Interest of a controlled corporation (Note 4)	2,508,407,357 (L)	32.67
Modern Agricultural	Beneficial owner (Note 2)	8,073,143,582 (L) (Note 3)	105.14
Modern Agricultural Holdings	Interest of a controlled corporation (Note 2)	8,073,143,582 (L) (Note 3)	105.14
PRC LLP	Interest of a controlled corporation (Note 2)	8,073,143,582 (L) (Note 3)	105.14
GP	Interest of a controlled corporation (Note 2)	8,073,143,582 (L) (Note 3)	105.14
Nongtou	Interest of a controlled corporation (Note 2)	8,073,143,582 (L) (Note 3)	105.14
Jilin SASAC	Interest of a controlled corporation (Note 2)	8,073,143,582 (L) (Note 3)	105.14

*Notes:*

1. The letter “L” denotes the Shareholders long position in the Shares of the Company.
2. The entire issued capital of Modern Agricultural is held by Modern Agricultural Holdings which is in turn wholly owned by PRC LLP. The sole general partner of PRC LLP is GP. As at the Latest Practicable Date, 60.0% of the investment capital of PRC LLP is owned 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 Jilin SASAC. Each of Modern Agricultural, Modern Agricultural Holdings, PRC LLP, GP, Nongtou and Jilin SASAC are deemed to be interested in the interest held by the Company.
3. These interest represents 3,135,509,196 Shares and convertible bonds which may be converted into 4,937,634,386 Shares based on the adjusted conversion price of HK\$0.22 per Share upon full conversion.
4. Among these 2,508,407,357 Shares, 1,279,799,672 of which represents Shares registered in the name of and beneficially owned by the Subscriber and 1,228,607,685 of which represents the Subscription Shares which the Subscription Completion is yet to take place. The Subscriber is beneficially owned as to 50.0% and 50.0% by Mr. Li and Ms. Sun, respectively. Under the SFO, each of Mr. Li and Ms. Sun is deemed to be interested in all the Shares interested by the Subscriber.

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 members of the Group which was not determinable by the Company or the relevant member of the Group within one year without payment of compensation other than statutory compensation.

**5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated 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:

<b>Name</b>	<b>Qualification</b>
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 2018, being the date to which the latest published audited consolidated 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 Subscription Agreement will be available for inspection at the head office and principal place of business of the Company in Hong Kong 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 which is 14 days from the date of this circular.

**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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company 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.

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## NOTICE OF EGM

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### 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 Bauhinia Room I-II, 4th floor, The Marco Polo Hongkong Hotel, Harbour City, No. 3 Canton Road, Tsimshatsui, Kowloon, Hong Kong at 10:30 a.m. on Thursday, 12 December 2019 to consider, if though fit, passing the following resolution as ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT:**

- (a) the subscription agreement dated 27 September 2019 (the “**Subscription Agreement**”) (a copy of which is marked “A” now produced to the meeting and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company and HK Bloom Investment Limited (the “**Subscriber**”) in respect of the subscription of 1,228,607,685 new shares of the Company (the “**Subscription Share(s)**”) by the Subscriber at a subscription price of HK\$0.1080 per Subscription Share and the transaction contemplated thereunder be and are hereby ratified, confirmed and approved;
- (b) the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (“**Specific Mandate**”) to exercise the powers of the Company to allot and issue the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement (subject to the fulfilment of the conditions precedent set out in the Subscription Agreement); and **THAT** the Subscription Shares, when issued and fully paid, shall rank pari passu among themselves in all respects and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue; and **THAT** the Specific Mandate is in addition to, and shall not prejudice nor revoke any general or other special mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and

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## NOTICE OF EGM

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- (c) any one or more Directors be and are hereby authorised to do all such acts and things as they consider necessary and to sign and execute all such documents, and to take all such steps which in their opinion may be necessary, appropriate, desirable or expedient for the purpose of giving effect to the Subscription Agreement and the transaction contemplated thereunder.”

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

Hong Kong, 22 November 2019

*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

*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 54, 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 10:30 a.m. on Tuesday, 10 December 2019 (Hong Kong time)) or any adjournment thereof.
3. The register of members of the Company will be closed from Monday, 9 December 2019 to Thursday, 12 December 2019, 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 Friday, 6 December 2019 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; one non-executive Director, namely, Ms. Liang Wanpeng; and three independent non-executive Directors, namely, Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Mr. Zhao Jin.*