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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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**GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED**

**大成生化科技集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00809)**

**CONTINUING CONNECTED TRANSACTIONS**

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

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

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



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A letter from the Board is set out on pages 6 to 32 of this circular. A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter from the Independent Financial Adviser, Octal Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 66 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 Friday, 15 January 2021 is set out on pages 74 to 76 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 Wednesday, 13 January 2021 (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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## CONTENT

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	<i>Page</i>
<b>Definitions</b> . . . . .	1
<b>Letter from the Board</b>	
1. Introduction . . . . .	7
2. New Master Supply Agreement . . . . .	7
3. New Master Sales Agreement . . . . .	21
4. Information of the Group and the Nongtou Subsidiaries . . . . .	29
5. Implications under the Listing Rules . . . . .	29
6. EGM . . . . .	30
7. Precautionary Measures for the EGM . . . . .	31
8. Recommendation . . . . .	31
9. Additional Information . . . . .	31
<b>Letter from the Independent Board Committee</b> . . . . .	33
<b>Letter from Octal Capital</b> . . . . .	35
<b>Appendix — General Information</b> . . . . .	67
<b>Notice of EGM</b> . . . . .	74

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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
“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 (Stock Code: 00809)
“Corn Starch and Other Products”	corn starch and other corn-refined products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners, amino acids and enzymes
“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 Friday, 15 January 2021, the notice of which is set out on pages 74 to 76 of this circular, and any adjournment thereof, for the purpose of considering and, if thought fit, approving the continuing connected transactions contemplated under each of the New Master Supply Agreement and the New Master Sales Agreement and their respective annual caps
“Existing Master Sales Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of its subsidiaries from time to time) and Nongtou (for itself and on behalf of its subsidiaries from time to time) in relation to the supply of Corn Starch and Other Products by the Group to the Nongtou Group

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## DEFINITIONS

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“Existing Master Supply Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of its subsidiaries from time to time) and Nongtou (for itself and on behalf of its subsidiaries from time to time) in relation to the supply of corn kernels by the Nongtou Group to the Group
“Group”	the Company and its subsidiaries from time to time
“GSH”	Global Sweeteners Holdings Limited, a company incorporated in the Cayman Islands with limited liability which is a non wholly-owned subsidiary of the Company and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 03889)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Board comprising Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, being the independent non-executive Directors appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Transactions
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Board and approved by the Independent Board Committee for the purpose of advising the Independent Board Committee and the Independent Shareholders in relation to the Transactions
“Independent Shareholders”	Shareholders other than Modern Agricultural and its associates, and all other Shareholders interested in the Transactions

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## DEFINITIONS

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“Latest Practicable Date”	15 December 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Modern Agricultural”	Modern Agricultural Industry Investment Limited, a company incorporated in the British Virgin Islands which is the controlling shareholder of the Company holding approximately 35.2% of the entire issued share capital of the Company as at the Latest Practicable Date
“MT”	metric tonnes
“New Master Sales Agreement”	the agreement dated 27 November 2020 and entered into between the Company (for itself and on behalf of its subsidiaries from time to time) and the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) in relation to the supply of Corn Starch and Other Products by the Group to the Nongtou Subsidiaries Group
“New Master Sales Agreement Effective Date”	the date on which the New Master Sales Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM
“New Master Supply Agreement”	the agreement dated 27 November 2020 and entered into between the Company (for itself and on behalf of its subsidiaries from time to time) and the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) in relation to the supply of corn kernels by the Nongtou Subsidiaries Group to the Group
“New Master Supply Agreement Effective Date”	the date on which the New Master Supply Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM

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## DEFINITIONS

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“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 SASAC of Jilin Province
“Nongtou Group”	Nongtou and its subsidiaries from time to time
“Nongtou Subsidiaries”	collectively, 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.*), a company established in the PRC and directly wholly-owned by Nongtou, and 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.*), a company established in the PRC and directly wholly-owned by Nongtou
“Nongtou Subsidiaries Group”	Nongtou Subsidiaries and their respective subsidiaries from time to time
“PRC” or “China”	the People’s Republic of China
“PRC LLP”	吉林省現代農業產業投資基金 (Jilin Province Modern Agricultural Industry Investment Fund*), which is an agricultural fund established in the PRC
“SASAC of Jilin Province”	吉林省人民政府國有資產監督管理委員會 (State-owned Assets Supervision & Administration Commission of the People’s Government of Jilin Province*)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Transactions”	the continuing connected transactions contemplated under each of the New Master Supply Agreement and the New Master Sales Agreement and their respective annual caps
“%”	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:*

Mr. Gao Dongsheng

*Independent non-executive Directors:*

Ms. Dong Hongxia

Mr. Ng Kwok Pong

Mr. Yeung Kit Lam

*Registered office:*

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place*

*of business in Hong Kong:*

Suites 2202-4, 22nd Floor

Tower 6, The Gateway,

9 Canton Road,

Tsimshatsui, Kowloon

Hong Kong

21 December 2020

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

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

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

\* for identification purposes only



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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

As announced by the Company on 27 November 2020, the Company and the Nongtou Subsidiaries entered into the New Master Supply Agreement and New Master Sales Agreement which constitute continuing connected transactions of the Company.

The purpose of this circular is to provide you with information regarding the resolutions to be proposed at the EGM to approve the Transactions.

### 2. NEW MASTER SUPPLY AGREEMENT

#### (A) Principal terms

Date: 27 November 2020

Parties: (1) the Company (for itself and on behalf of its subsidiaries from time to time) as purchaser

(2) the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) as suppliers

Pursuant to the New Master Supply Agreement, the Company (for itself and on behalf of its subsidiaries from time to time) appointed the Nongtou Subsidiaries as its suppliers for corn kernels and the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) agreed to supply corn kernels to the Group. The New Master Supply Agreement shall become effective from the New Master Supply Agreement Effective Date and expiring on 31 December 2023 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the New Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with members of the Nongtou Subsidiaries Group from time to time during the term of the New Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including but not limited to the form of delivery, payment and remittance time and method, quality

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## LETTER FROM THE BOARD

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warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Supply Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Supply Agreement.

**(B) Pricing and other terms**

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

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

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

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## LETTER FROM THE BOARD

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

**(C) Annual caps**

The Company expects that the annual caps in respect of the transactions contemplated under the New Master Supply Agreement will be HK\$798,000,000, HK\$1,092,000,000 and HK\$1,793,000,000 for each of the three years ending 31 December 2023, respectively.

The above annual caps have been determined with reference to (i) the estimated demand of the Group for corn kernels as contemplated to be purchased under the New Master Supply Agreement, taking into account the resumption plan of the Group's production facilities and the improvement in the liquidity of the Group after the completion of the land and properties resumption of the old production sites in Luyuan District of Changchun City; (ii) the historical and current price trend of corn kernels; and (iii) the historical transaction volume between the Nongtou Group and the Group in relation to the supply of corn kernels by the Nongtou Group to the Group pursuant to the Existing Master Supply Agreement.

Historically, the quantity of corn kernels purchased by the Group during the two years ended 31 December 2019 and the nine months ended 30 September 2020 were approximately 2,009,000 MT (amounted to approximately HK\$3,965,000,000), 1,362,000 MT (amounted to approximately HK\$2,654,000,000), and 72,000 MT (amounted to approximately HK\$143,000,000), respectively.

## LETTER FROM THE BOARD

The aggregate quantity of corn kernels purchased from the Nongtou Group and 吉林吉糧資產供應鏈管理有限公司 (Jilin Jiliang Assets Supply Chain Management Co., Ltd.) (“**Jiliang**”), a company established in the PRC which is indirectly wholly-owned by Nongtou, by the Group under the Existing Master Supply Agreement (which became effective on 14 November 2018) and under a master agreement dated 15 May 2017 (the “**Jiliang Master Agreement**”) entered into between the Company (for itself and on behalf of the Group) and Jiliang (which had been terminated upon the Existing Master Supply Agreement became effective on 14 November 2018) during the two years ended 31 December 2019 and the nine months ended 30 September 2020 were approximately 316,000 MT (amounted to approximately HK\$613,000,000), 408,000 MT (amounted to approximately HK\$774,000,000), and 11,000 MT (amounted to approximately HK\$20,000,000), respectively.

Set out below are details of the quantities and amount of corn kernels purchased by members of the Group during the two years ended 31 December 2019 and the nine months ended 30 September 2020:

Relevant years/period	Quantity and amount		Quantity and amount of corn kernels purchased from the Nongtou Group by members of the Group and percentage of total purchased corn kernels			Quantity and amount of corn kernels purchased from independent third parties by members of the Group and percentage of total purchased corn kernels		
	of corn kernels purchased by members of the Group		of the Group and percentage of total purchased corn kernels			Group and percentage of total purchased corn kernels		
	MT	HK\$'000	MT	HK\$'000	%	MT	HK\$'000	%
Year ended								
31 December 2018	2,009,000	3,965,000	316,000 (Note)	613,000	15.7	1,693,000	3,352,000	84.3
Year ended								
31 December 2019	1,362,000	2,654,000	408,000	774,000	30.0	954,000	1,880,000	70.0
Nine months ended								
30 September 2020	72,000	143,000	11,000	20,000	15.3	61,000	123,000	84.7

*Note:* This includes amount of corn kernels purchased from Jiliang by members of the Group under the Jiliang Master Agreement.

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## LETTER FROM THE BOARD

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Set out below are details of the quantities and amount of corn kernels expected to be purchased by members of the Group during the three years ending 31 December 2023:

Relevant years	Quantity and amount of corn kernels expected to be purchased by members of the Group		Quantity and amount of corn kernels expected to be purchased from the Nongtou Subsidiaries Group by members of the Group and percentage of expected total purchased corn kernels			Quantity and amount of corn kernels expected to be purchased from independent third parties by members of the Group and percentage of expected total purchased corn kernels		
	MT	HK\$'000	MT	HK\$'000	%	MT	HK\$'000	%
Year ending								
31 December 2021	1,282,000	2,662,000	385,000	798,000	30.0	897,000	1,864,000	70.0
Year ending								
31 December 2022	1,713,000	3,640,000	514,000	1,092,000	30.0	1,199,000	2,548,000	70.0
Year ending								
31 December 2023	2,056,000	4,482,000	822,000	1,793,000	40.0	1,234,000	2,689,000	60.0

The Company expects the quantity of corn kernels to be purchased by the Group for the three years ending 31 December 2023 shall be approximately 1,282,000 MT (amounting to approximately HK\$2,662,000,000), 1,713,000 MT (amounting to approximately HK\$3,640,000,000) and 2,056,000 MT (amounting to approximately HK\$4,482,000,000), respectively.

The expected demand of corn kernels for each of the three years ending 31 December 2023 is determined based on the projection of corn prices according to the recent market prices of corn kernels and with reference to the Group's expected demand for corn kernels in the coming years. The resumption plan of the Group's production facilities has also been taken into account, on the assumption that the production sites of the Group, which are located in Xinglongshan, Dehui and Jinzhou, will be gradually resumed and the demand for upstream and downstream products is expected to return to a relatively normal level during the second half of 2021, provided that the Group's liquidity will be improved after the completion of the land and properties resumption of the old production sites in Luyuan District of Changchun City and through the measures taken by the Group as disclosed in the interim report of the Company for the six months ended 30 June 2020. It is expected that the resumption by 長春市綠園區人民政府 (The People's Government

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## LETTER FROM THE BOARD

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of Luyuan District of Changchun City\*) of (i) properties with an aggregate area of land of approximately 149,000 square metres and total gross floor area of approximately 67,000 square metres owned by 長春帝豪食品發展有限公司 (Changchun Dihao Foodstuff Development Co., Ltd.\*), a wholly-owned subsidiary of GSH, will be completed by the end of 2020; and (ii) the remaining land and properties owned by the Group in Luyuan District of Changchun City will be completed in several phases by the end of 2023, depending on the progress of approval process in the relevant authorities.

Set out below are details of the Group's production bases, including their respective products, production capacity, utilisation rate for the nine months ended 30 September 2020, expected utilisation rate for the three years ending 31 December 2023, status and resumption of production plan (where applicable) as at the Latest Practicable Date:

Location of the production base	Product(s)	Designed production capacity (MT per annum)	Status of the production base	Utilisation rate (approx.)	Expected time for production resumption and expected utilisation rate during the three years ending 31 December 2023 (Note)
Xinglongshan, Changchun	Corn refinery	600,000	Suspended	2.0%	To be resumed in early 2021; 40.0% to 75.0%
	Polyol chemicals	200,000	Partially suspended (currently producing small quantity of antifreeze products)	N/A	Production of anti-freeze products to be resumed in early 2021; 5.0% to 10.0%
	Corn sweeteners	90,000	Suspended	7.0%	To be resumed in early 2021; 60.0% to 85.0%
Dehui, Changchun	Corn refinery	600,000	Suspended	N/A	To be resumed in the second half of 2021; 60.0% to 90.0%
	Amino acids	480,000	Suspended	Below 1.0%	To be resumed in the second half of 2021; 60.0% to 90.0%

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## LETTER FROM THE BOARD

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Location of the production base	Product(s)	Designed production capacity (MT per annum)	Status of the production base	Utilisation rate (approx.)	Expected time for production resumption and expected utilisation rate during the three years ending 31 December 2023
					(Note)
Harbin	Corn refinery	600,000	Suspended	N/A	To be resumed depending on the availability of capital and favourable market condition
Shanghai	Corn sweeteners	237,000	Operating	50.0%	80.0% to 95.0%
Jinzhou	Corn refinery	800,000	Suspended	9.0%	To be resumed in early 2021; 40.0% to 50.0%
	Corn sweeteners	100,000	Suspended	N/A	To be resumed depending on the availability of capital and favourable market condition

*Note:* The expected time for the resumption of the suspended production facilities and utilisation rate of the Group's production facilities for the three years ending 31 December 2023 has been estimated by the management of the Group taking into account the estimated demand for the Group's products at the time and availability of capital.

In determining the expected purchase quantity of corn kernels for each of the three years ending 31 December 2023, the Directors have reviewed the historical purchase quantity and the estimated timeline for the resumption of the Group's production operations as set out above. Due to the suspension of

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## LETTER FROM THE BOARD

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most of the Group's operations since early 2020, the utilisation rate of the Group's production facilities was relatively low throughout 2020. Therefore, the historical purchase amount from the Nongtou Group was much less than the amount initially contemplated. Taking into account (i) the gradual resumption plan of the Group's production facilities as set out above; (ii) the expectation that the market will move towards a slow recovery in 2021; and (iii) the availability of capital after completion of the land and properties resumption of the Group's production site in Luyuan District, the Directors expect the utilisation rate of most of the Group's production facilities will reach around 40.0% to 85.0% by the end of 2021 and the Group's demand for corn kernels will also gradually increase starting from 2021.

The management of the Group expects that for each of the two years ending 31 December 2022, approximately 30.0% of the Group's total purchase quantity for corn kernels will be attributable to purchases from the Nongtou Subsidiaries Group, as it is expected that the operation environment and production capacity of the Group will be similar to that in 2019. The management of the Group expects that the utilisation rate of most of the production facilities of the Group will reach over 80.0% during 2023. It is therefore expected that the amount of the Group's corn kernels procurement will reach approximately 2,056,000 MT in 2023. Since the management of the Group expects that the Group will be in tight cash flow after the rapid investment period of capital expenditure for the relocation of the Group's production facilities to the Xinglongshan site, the Directors consider an increment to the percentage of corn kernels purchase from the Nongtou Subsidiaries Group from 30.0% for each of the two years ending 31 December 2022 to 40.0% for the year ending 31 December 2023 is necessary to ensure the Group can operate smoothly with a stable supply of quality corn kernels and to alleviate the Group's operating cash flow pressure.

As most of the Group's production facilities were suspended, and will continue to be suspended during the year ending 31 December 2020, the Directors considered the historical purchase quantity from the Nongtou Group during the year ending 31 December 2020 would be less relevant in determining the percentage of the estimated purchase from the Nongtou Subsidiaries Group to the Group's total estimated purchase. Since the quantity of corn kernels purchased from the Nongtou Group accounted for approximately 30.0% of the Group's total corn kernels purchased in terms of quantity during the year ended 31 December 2019, the Directors considered a similar proportion (which is approximately 30.0%) of the total estimated procurement quantity of corn kernels to be purchased from the Nongtou Subsidiaries Group during the two years ending 31 December 2022 would be reasonable.



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## LETTER FROM THE BOARD

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The estimated purchase price of corn kernels per MT is determined with reference to the average purchase price of corn kernels for the nine months ended 30 September 2020. In estimating the purchase price of corn kernels for the period between 2021 and 2023, the Directors have considered the average unit price of corn kernels in the PRC during the nine months ended 30 September 2020 sourced from China Corn Network, which is an independent price consulting platform that has collated data from transactions that actually took place in the PRC. Notwithstanding the poor market sentiment and the economic slowdown in the PRC in 2020, the prices of corn kernels were on an increasing trend during the period between November 2019 and November 2020, when corn prices hiked up by approximately 21.7% from RMB2,061 per MT to RMB2,509 per MT, due to various reasons including the reduction of corn harvest by about 10.0% as a result of typhoon and the recovery of the PRC swine husbandry industry which helped to boost the demands for feed related products. By the end of the third quarter of 2020, domestic swine population reached approximately 370,000,000, marking the first increase since the third quarter of 2017. It is estimated that the demand-supply situation of pork in the PRC will return to the level before the outbreak of the African Swine Flu (the “ASF”) by the second half of 2021. In addition, the expectation of slow economic recovery and demand pick-up from downstream users such as alcohol and other food related industries are expected to result in corn shortage of approximately 30,000,000 MT in the PRC in the harvest season. Furthermore, the PRC national reserves of corn have been exhausted during the year of 2020, with corn imports surged by approximately 675.0% in September 2020 as compared to the corresponding period in the previous year. The combined effect of the tightened corn supply and the growing demands for corn kernels are expected to keep the PRC corn price at a high level. As such, the Directors considered that estimated prices of corn kernels for the three years ending 31 December 2023 are reasonable.

Based on the above analysis on the business development plan, the estimated timeline for the resumption of the Group’s production operations and the estimated purchase price, the Directors are of the opinion that the basis for setting the annual caps for the continuing connected transactions contemplated under the New Master Supply Agreement for each of the three years ending 31 December 2023 are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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The Group will enter into purchase orders with members of the Nongtou Subsidiaries Group from time to time during the term of the New Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of the Group. Prior to the making of purchase orders, staff from the procurement department of the Group will check the transaction prices, terms of transactions (including credit terms) and the accumulated transaction per year to ensure the transactions are on normal commercial terms and in the interest of the Company and Shareholders as a whole. The procurement department of the Group will also monitor the daily transactions and the accounting department of the Group will then prepare reports of such transactions on monthly basis to ensure the transactions are on normal commercial terms. Such reports should contain details of the transactions between the Group and the Nongtou Subsidiaries Group, the pricing information obtained from the three public domains as listed under the paragraph headed “2. New Master Supply Agreement — (B) Pricing and other terms” above and the respective quantities of corn kernels purchased to ensure that the transactions between the Group and the Nongtou Subsidiaries Group do not exceed the annual caps. Such monthly reports will be reviewed by the independent non-executive Directors. In addition, these transactions will be reviewed by the auditor of the Company annually and the findings will be reported at the meeting of the audit committee of the Company.

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

The Nongtou Group has been providing a stable supply of quality corn kernels to the Group as one of the suppliers of the Group in the past years under the Existing Master Supply Agreement and the Jiliang Master Agreement. In contemplation of the expiration of the Existing Master Supply Agreement on 31 December 2020, the Group entered into the New Master Supply Agreement with Nongtou Subsidiaries in order to continue to take advantage of the strong and stable business relationship between the Nongtou Group and the Group to source its required quantity of corn kernels.

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## LETTER FROM THE BOARD

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The Board has taken into consideration the following reasons and benefits that would be brought to the Group by entering into the New Master Supply Agreement with Nongtou Subsidiaries:

- (1) the Nongtou Group has always been and the Nongtou Subsidiaries Group is willing to continue to offer better credit terms to the Group as compare to other suppliers;
- (2) the production facilities and grain storage sites of the Nongtou Subsidiaries Group are located in various cities in Jilin Province and which are/ will be in close proximity to the Group's production sites;
- (3) the procurement of corn kernels from the Nongtou Subsidiaries Group can reduce the Group's lead time as compared with procuring from other suppliers of the Group;
- (4) the core storage capacity of the Nongtou Subsidiaries Group is at least 2,000,000 MT, such high corn storage capacity can ensure stable supply of quality corn kernels to the Group;
- (5) the state-owned background and the business scale of the Nongtou Subsidiaries; and
- (6) the New Master Supply Agreement is not an exclusive supplier agreement, rather, it provides alternative means for the Group in procuring corn kernels, the Group may still source from other suppliers if it so wishes.

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

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## LETTER FROM THE BOARD

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

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group has been taking measures to improve the liquidity of the Company, the New Master Supply Agreement will also help alleviating the pressure on the Group's cash flow as the Nongtou Group has always been offering the Group with better credit terms than local farmers, which serves as an arrangement to assist the Group to ensure its smooth operations during this transitional period. Nonetheless, as mentioned in the paragraph headed "2. New Master Supply Agreement — (B) Pricing and other terms" above, the price of the corn kernels charged by the Nongtou Subsidiaries Group shall be determined with reference to the latest market price. As such, the Board does not consider that the arrangement between the Group and the Nongtou Subsidiaries Group under the New Master Supply Agreement would materially distort the financial results of the Group, if at all. The Board has established a series of internal control measures to avoid any undue reliance on the Nongtou Subsidiaries Group for the supply of corn kernels and endeavour to maintain a balance between the corn kernels purchased from the Nongtou Subsidiaries Group and those purchased from local farmers. Yet, the maintenance of the balance between the purchase from the Nongtou Subsidiaries Group and local farmers is subject to the financial liquidity of the Group being improved with the completion of the land and properties resumption of the old production sites in Luyuan District of Changchun City and debts restructuring plan. Such improvements are expected to allow the Group to continue to purchase corn kernels directly from farmers who require payment by cash on delivery, a practice which the Group has been adopting since its establishment. However, given the variables below, the Group may have to source a portion of corn kernels from the Nongtou Subsidiaries Group from time to time:

- (1) the harvest condition and timing of harvest in each of the areas where the Group operates (bad weather conditions which may obstruct transportation; harvest of poor quality due to various reasons such as moisture level and pest infestation, etc.) could affect or delay the supply of corn kernels in the market which may require the Group to purchase from the Nongtou Subsidiaries Group as a contingency plan;

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## LETTER FROM THE BOARD

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- (2) the then PRC agricultural policy which may affect the performance of the Group directly (e.g. the direct subsidy programme starting from the fourth quarter of 2016 from provincial governments in the major corn producing regions in Northern China to corn refiners who purchase corn directly from farmers. Such policy or alike will affect the Group's decision in determining the source of supply of its corn kernels); and
- (3) the future capital expenditure plan of the Company may affect the liquidity of the Company and its ability to pay supplier upfront and thus the Group may decide to purchase from the Nongtou Subsidiaries Group which offers a longer credit period.

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

- (1) Maximum monthly purchase amount from the Nongtou Subsidiaries Group will be set by the management by taking into account the production requirement and to avoid in any issue of reliance on the supply of corn kernels from the Nongtou Subsidiaries Group. Such maximum monthly purchased amount from the Nongtou Subsidiaries Group is determined by dividing the relevant annual cap by twelve months, with adjustments based on (i) the monthly production plan of the Group's production facilities which determines the actual demand of corn kernel; (ii) the availability of corn kernels in the open market (driven by corn harvest seasonality and market demand of corn kernels of the relevant month); and (iii) any other events that may cause delay of delivery of corn kernels (such as harsh weather conditions that persist over a period of time which may obstruct transportation);
- (2) The procurement department of the Group will check the price of corn kernels from three public sources to ensure the purchase price of corn kernels from the Nongtou Subsidiaries Group will not be substantially lower or higher than market rates and report to the accounting department accordingly;
- (3) The procurement department of the Group will monitor the transactions between the Group and the Nongtou Subsidiaries Group on a monthly basis to ensure that the purchase will not exceed the monthly limit and that the purchase price is at market rates and the accounting department will report to the management on timely basis;

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## LETTER FROM THE BOARD

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- (4) The accounting department of the Group will prepare a monthly report for review by the independent non-executive Directors;
- (5) The internal control department of the Group will perform review regularly to ensure that individual purchase orders comply with the terms of the New Master Supply Agreement and the monthly purchase limit and will report its findings to the management and the independent non-executive Directors; and
- (6) The auditor of the Company will also perform review of the transactions between the Group and the Nongtou Subsidiaries Group on an annual basis and the findings will be reported to the audit committee of the Company.

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

It is noted that quantity of corn kernels expected to be purchased from the Nongtou Subsidiaries Group by members of the Group would amount to approximately 30.0% of the expected total purchased corn kernels of the Group during each of the two years ending 31 December 2022 and approximately 40.0% of the expected total purchased corn kernels of the Group during the year ending 31 December 2023. However, given such arrangement is a temporary measure to assist the Group to go through the transitional period pending the materialisation of the measures taken by the management of the Group to address the issue of the Group to its continue operation as a going concern and the amount of corn kernels to be purchased from the Nongtou Subsidiaries Group can be easily reduced to any level if the liquidity of the Group improves or if better credit terms/prices are offered by the local farmers and the Group has the unilateral right to reduce or suspend the purchase from the Nongtou Subsidiaries Group at anytime as the Group has all along maintained a diversified list of suppliers in light of the abundance of suppliers of corn kernels in the relevant area, the Board does not consider there to be any issue of reliance on the Nongtou Subsidiaries Group, and the Board is of the view that the expected amount of corn kernels to be purchased from the Nongtou Subsidiaries Group is not excessive.

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## LETTER FROM THE BOARD

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The Directors are of the view that the terms and conditions of the New Master Supply Agreement, the continuing connected transactions contemplated thereunder and its related annual caps for each of the three years ending 31 December 2023 are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### 3. NEW MASTER SALES AGREEMENT

#### (A) Principal terms

Date: 27 November 2020

Parties: (1) the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) as purchasers

(2) the Company (for itself and on behalf of its subsidiaries from time to time) as supplier

Pursuant to the New Master Sales Agreement, the Nongtou Subsidiaries (for themselves and on behalf of their respective subsidiaries from time to time) appointed the Company as one of its suppliers for Corn Starch and Other Products and the Company (for itself and on behalf of its subsidiaries from time to time) agreed to supply Corn Starch and Other Products to the Nongtou Subsidiaries Group. The New Master Sales Agreement shall become effective from the New Master Sales Agreement Effective Date and expiring on 31 December 2023 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

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

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## LETTER FROM THE BOARD

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

### **(B) Pricing and other terms**

Under the New Master Sales Agreement, the Group shall supply Corn Starch and Other Products to members of the Nongtou Subsidiaries Group at market rates and the unit price charged by the Group shall not be lower than the average unit price of Corn Starch and Other Products of the same or similar type sold by the Group to independent third parties in the most recent one-month period (price exclusive of transportation and storage costs, insurance costs, interest and/or other handling charges). In determining the market rates, the Group obtains price information from other industry players in different regions of the PRC from time to time in preparing the price quotations for its customers.

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

To ensure the price of each individual transaction under the New Master Sales Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Independent Shareholders, the Directors shall monitor the continuing connected transactions contemplated under the New Master Sales Agreement from time to time to ensure that the price of Corn Starch and Other Products supplied by the Group to the Nongtou Subsidiaries Group adheres to the pricing mechanism strictly, and that information in relation to the price of Corn Starch and Other Products of the same or similar type in each individual transaction have been accurately attained, prior to determining the final prices of Corn Starch and Other Products for each transaction.



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## LETTER FROM THE BOARD

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### **(C) Annual caps**

The Company expects that the annual caps in respect of the transactions contemplated under the New Master Sales Agreement will be HK\$30,000,000, HK\$70,000,000 and HK\$131,000,000 for each of the three years ending 31 December 2023, respectively.

The above annual caps have been determined with reference to (i) the estimated demand of the Nongtou Subsidiaries Group for Corn Starch and Other Products as contemplated to be sold under the New Master Sales Agreement; (ii) the resumption plan of the Group's production facilities; and (iii) the historical amount of sales of Corn Starch and Other Products to the Nongtou Group by the Group.

Historically, the total quantity of Corn Starch and Other Products sold by the Group during each of the two years ended 31 December 2019 and the nine months ended 30 September 2020 were approximately 1,849,000 MT (amounted to approximately HK\$5,658,000,000), 1,626,000 MT (amounted to approximately HK\$4,561,000,000), and 235,000 MT (amounted to approximately HK\$654,000,000), respectively.

The quantity of Corn Starch and Other Products sold by the Group to the Nongtou Group under the Existing Master Sales Agreement (which became effective on 14 November 2018) during the two years ended 31 December 2019 and the nine months ended 30 September 2020 were nil, 2,000 MT (amounted to approximately HK\$4,000,000) and 6,000 MT (amounted to approximately HK\$13,000,000), respectively.

## LETTER FROM THE BOARD

Set out below are details of quantities and amount of Corn Starch and Other Products sold by members of the Group to the Nongtou Group during the two years ended 31 December 2019 and the nine months ended 30 September 2020:

Relevant years/period	Quantity and amount of Corn Starch and Other Products sold by members of the Group		Quantity and amount of Corn Starch and Other Products sold by members of the Group to the Nongtou Group and percentage of total Corn Starch and Other Products sold			Quantity and amount of Corn Starch and Other Products sold by members of the Group to independent third parties and percentage of total Corn Starch and Other Products sold		
	MT	HK\$'000	MT	HK\$'000	%	MT	HK\$'000	%
Year ended								
31 December 2018	1,849,000	5,658,000	nil	N/A	N/A	1,849,000	5,658,000	100.0
Year ended								
31 December 2019	1,626,000	4,561,000	2,000	4,000	0.1	1,624,000	4,557,000	99.9
Nine months ended								
30 September 2020	235,000	654,000	6,000	13,000	2.6	229,000	641,000	97.4

Set out below are details of quantities and amount of Corn Starch and Other products expected to be sold by members of the Group during the three years ending 31 December 2023:

Relevant years	Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group		Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group to the Nongtou Subsidiaries Group and percentage of expected total Corn Starch and Other Products sold			Quantity and amount of Corn Starch and Other Products expected to be sold by members of the Group to independent third parties and percentage of expected total Corn Starch and Other Products sold		
	MT	HK\$'000	MT	HK\$'000	%	MT	HK\$'000	%
Year ending								
31 December 2021	1,373,000	4,088,000	10,000	30,000	0.7	1,363,000	4,058,000	99.3
Year ending								
31 December 2022	1,510,000	4,613,000	22,000	70,000	1.5	1,488,000	4,543,000	98.5
Year ending								
31 December 2023	1,661,000	5,207,000	42,000	131,000	2.5	1,619,000	5,076,000	97.5

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## LETTER FROM THE BOARD

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The Company expects the quantity of Corn Starch and Other Products to be sold by the Group for the three years ending 31 December 2023 shall respectively be approximately 1,373,000 MT (amounting to approximately HK\$4,088,000,000), 1,510,000 MT (amounting to approximately HK\$4,613,000,000) and 1,661,000 MT (amounting to approximately HK\$5,207,000,000), respectively.

The expected sales volume of Corn Starch and Other Products for the each of the three years ending 31 December 2023 are determined based on the projection of Corn Starch and Other Products prices according to the recent Corn Starch and Other Product market prices, the historical sales performance of the Group, the expected market demand of Corn Starch and Other Products and the estimated production volume of the Group in the coming years. The resumption plan of the Group's production facilities has also been taken into account, on the assumption that the production facilities of the Group located in Xinglongshan, Dehui and Jinzhou, will gradually resume production and the demand for the Group's upstream and downstream products will return to a relatively normal level by the second half of 2021 as a result of the recovery of the PRC swine husbandry industry from the impact of the ASF, provided that the Group's liquidity will be improved after the completion of the land and properties resumption of the old production sites in Luyuan District of Changchun City and through the measures taken by the Group as disclosed in the interim report of the Company for the six months ended 30 June 2020. The Group will take the chance to further expand the production capacity through the relocation of the production facilities from Luyuan District to Xinglongshan and the relocation of these facilities will increase production of Corn Starch and Other Products. In determining the quantity of Corn Starch and Other Products to be sold by the Group to members of the Nongtou Subsidiaries Group for each of the three years ending 31 December 2023, the management of the Group has taken into account (i) the expected market conditions in the coming years; (ii) the expected demand for the Group's Corn Starch and Other Products from the Nongtou Subsidiaries Group based on the Group's understanding on the business development needs of the Nongtou Subsidiaries Group during the process of finalising the terms of the New Master Sales Agreement; and (iii) the historical transactions between the Nongtou Group and the Group, in which around 2.6% of the total quantity of Corn Starch and Other Products sold by the Group during the nine months ended 30 September 2020 was attributable to the Nongtou Group.

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## LETTER FROM THE BOARD

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The estimated selling price of Corn Starch and Other Products during the three years ending 31 December 2023 is determined with reference to the actual average selling price of corn starch for the nine months ended 30 September 2020. Despite most of the production facilities of the Group (except for Shanghai) have been suspended during the nine months ended 30 September 2020, the sales operation of the Group continued during the period. As most of the stock in the amino acids segment had been exhausted by the end of 2019, only an insignificant amount of corn starch in the inventory was sold to the Nongtou Group during the nine months ended 30 September 2020. As such, the selling price of Corn Starch and Other Products sold to the Nongtou Group mainly represented the selling price of corn starch during the nine months ended 30 September 2020. Following the resumption of the production facilities of the Group located in Xinglongshan, Dehui and Jinzhou by the end of 2023 as per the timeline set out under the paragraph headed “2, New Master Supply Agreement — (C) Annual Caps” above, and in light of the expected increase in demand for upstream and downstream products as a result of the recovery of the PRC swine husbandry industry from the impact of the ASF, it is expected that other products under the category of Corn Starch and Other Products will be sold to the Nongtou Subsidiaries Group. As such, the increment in the sales price of the Corn Starch and Other Products to be charged by the Group under the New Master Sales Agreement in each of the three years ending 31 December 2023 also takes into account the change of product mix (including high value-added products such as amino acids) as the resumption of production progresses. The estimated selling price of Corn Starch and Other Products has also been determined with reference to the latest market prices charged by the Group to independent third parties which are expected to increase at an annual rate of approximately 2.6% from 2021 to 2023, taking into account of the inflation rate in the PRC.

Based on the above analysis on the business development plan, the estimated timeline for the resumption of the Group’s production operations and the estimated selling price of Corn Starch and Other Products, the Directors are of the opinion that that the basis for setting the related annual caps under the continuing connected transactions contemplated under the New Master Sales Agreement for each of the three years ending 31 December 2023 are fair and reasonable 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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The Group will enter into sales contracts with members of the Nongtou Subsidiaries Group from time to time during the term of the New Master Sales Agreement for the purposes of confirming the sale of Corn Starch and Other Products by the relevant members of the Group. Prior to the making of sales contracts, staff from the sales and marketing department of the Group will check the transaction prices, terms of transactions (including credit terms) and the accumulated transaction per year to ensure the transactions are on normal commercial terms and in the interest of the Company and Shareholders as a whole. The accounting department of the Group will also monitor the transactions and prepare reports of such transactions on monthly basis to ensure the transactions are on normal commercial terms. Such reports should contain details of the transactions between the Group and the Nongtou Subsidiaries Group, the pricing information and the respective quantities of Corn Starch and Other Products sold to ensure that the transactions do not exceed the annual caps. Such monthly reports will be reviewed by the independent non-executive Directors. In addition, these transactions will be reviewed by the auditor of the Company annually and the findings will be reported at the meeting of the audit committee of the Company.

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

The Nongtou Group has been procuring certain quantity of Corn Starch and Other Products from the Group in the past years under the Existing Master Sales Agreement. In contemplation of the expiration of the Existing Master Sales Agreement, the Group entered into the New Master Sales Agreement with Nongtou Subsidiaries in order to continue to take advantage of the strong and stable business relationship between the Nongtou Group and the Group and to enable the Group to continue to exploit the existing product markets leveraging on the sales network of the Nongtou Group.

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

- (1) the New Master Sales Agreement is not an exclusive customer agreement, rather it offers the Group an additional outlet of its products. By entering into the New Master Sales Agreement, the Group would be able to continue to exploit the existing product markets leveraging on the sales network of the Nongtou Subsidiaries Group;

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## LETTER FROM THE BOARD

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- (2) the Nongtou Group has been and the Nongtou Subsidiaries Group is willing to accept shorter payment terms for members of the Group for the sales of Corn Starch and Other Products, as compared to the existing credit terms of 30 to 90 days granted to other customers of the Group; and
- (3) given the state-owned background and the business scale of the Nongtou Subsidiaries Group, the credit risk of the Nongtou Subsidiaries Group is comparatively lower than other commercial customers. Such arrangement will ease the pressure of the cash flow of the Group.

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

The Nongtou Group was not and the Nongtou Subsidiaries Group will not become an exclusive customer to the Group under the New Master Sales Agreement. Given that the Group has a well-established sales network and diversified list of customers, the Group could easily and readily distribute its products to other customers.

As disclosed in the interim report of the Company for the six months ended 30 June 2020, the Group has been taking measures to improve the liquidity of the Company, the New Master Sales Agreement will also help alleviating the pressure on the Group's cash flow as the Nongtou Subsidiaries Group will accept shorter payment terms than other customers, which serves as an arrangement to assist the Group to ensure its smooth operations during this transitional period. Nonetheless, as mentioned in the paragraph headed "3. New Master Sales Agreement — (B) Pricing and other terms" above, the price of Corn Starch and Other Products charged by the Group to the Nongtou Subsidiaries Group shall be determined with reference to market rates charged by the Group to independent third parties. As such, the Board does not consider that the arrangement between the Group and the Nongtou Subsidiaries Group under the New Master Sales Agreement would materially distort the financial results of the Group, if at all.

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## LETTER FROM THE BOARD

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The Directors are of the view that the terms and conditions of the New Master Sales Agreement, the continuing connected transactions contemplated thereunder and the related annual caps for each of the three years ending 31 December 2023 are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

#### **4. INFORMATION OF THE GROUP AND THE NONGTOU SUBSIDIARIES**

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

The Nongtou Subsidiaries comprise of (i) 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.\*), which is principally engaged in the investment in agriculture and asset management in agriculture sector; and (ii) 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.\*), which is principally engaged in sale and purchase of grain, distribution of agricultural products and provision of agricultural science and technology services. The Nongtou Subsidiaries are wholly-owned by Nongtou, which is controlled by SASAC of Jilin Province.

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

As at the Latest Practicable Date, each of the Nongtou Subsidiaries is wholly-owned by Nongtou and Nongtou is interested in approximately 35.2% of the entire issued share capital of the Company through its control in PRC LLP, which indirectly holds the entire issued share capital of Modern Agricultural. As such, each of the Nongtou Subsidiaries is a connected person of the Company. Accordingly, the transactions contemplated under each of the New Master Supply Agreement and the New Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the annual caps under the New Master Supply Agreement and the New Master Sales Agreement for each of the three years ending 31 December 2023 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules or are expected to exceed HK\$10,000,000 each, the continuing connected transactions under the New Master Supply Agreement and the New Master Sales Agreement and their respective annual caps therefor are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### 6. 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 Friday, 15 January 2021 to consider and, if thought fit, approve the Transactions. A notice of the EGM is set out on pages 74 to 76 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolution to be proposed at the EGM will be taken by poll, the results of which will be announced after the EGM. Nongtou and its associates, and any Shareholders who are materially interested in the continuing connected transactions contemplated under the New Master Supply Agreement and the New Master Sales Agreement, are required to abstain from voting on the resolutions proposed to be passed at the EGM for approving the continuing connected transactions contemplated under the New Master Supply Agreement, the New Master Sales Agreement and their respective annual caps.

To the best knowledge of the Directors after making all reasonable enquiries, as at the Latest Practicable Date, Nongtou, which wholly-owned each of the Nongtou Subsidiaries, indirectly held an aggregate of 3,135,509,196 shares, representing approximately 35.2% of the entire issued share capital of the Company through Modern Agricultural. Therefore, Modern Agricultural shall abstain from voting on the resolutions to be proposed at the EGM to approve the Transactions.

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 Wednesday, 13 January 2021 (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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### 7. PRECAUTIONARY MEASURES FOR THE EGM

Taking into account the ongoing development of the pandemic caused by the coronavirus disease 2019 (“COVID-19”), the Company strongly recommends the Shareholders to appoint the chairman of the EGM as their proxy to vote on their behalf in respect of the resolutions to be proposed at the EGM to minimise the risk of infection. For Shareholders attending the EGM in person, the Company will implement the following prevention and control measures at the EGM:

- (a) compulsory body temperature check will be conducted for every Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the venue or be required to leave the venue (Shareholders whose entry to the venue are denied are still eligible to exercise their voting rights in respect of the resolutions to be proposed at the EGM);
- (b) every Shareholder or proxy is required to sterilise their hands with hand sanitiser after they register their attendance at the counter at the entrance of the venue;
- (c) every Shareholder or proxy is required to wear a surgical mask in the venue and throughout the meeting; and
- (d) no refreshments will be served.

### 8. RECOMMENDATION

The Directors consider that the continuing connected transactions contemplated under the New Master Supply Agreement, the New Master Sales Agreement and their respective annual caps are in the best interests of the Company and the Shareholders as a whole. 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.

### 9. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out in pages 33 to 34 of this circular which contains its advice to the Independent Shareholders regarding the continuing connected transactions contemplated under the New Master Supply Agreement, the New Master Sales Agreement and their

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## LETTER FROM THE BOARD

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respective annual caps, the letter from Octal Capital set out in pages 35 to 66 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the continuing connected transactions under the New Master Supply Agreement, the New Master Sales Agreement and their respective annual caps and the principal factors and reasons taken into consideration in arriving at its advice, and the additional information set out in the appendix to this circular.

By order of the Board  
**Global Bio-chem Technology Group Company Limited**  
**Zhang Zihua**  
*Acting Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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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)**

21 December 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

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

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

We refer to the circular issued by the Company to its Shareholders and dated 21 December 2020 (“**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

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

We have been appointed by the Board to consider the terms of the New Master Supply Agreement, the New Master Sales Agreement and their respective annual caps and to advise the Independent Shareholders in connection with the continuing connected transactions contemplated under the New Master Supply Agreement and the New Master Sales Agreement as to whether, in our opinion, the terms of the New Master Supply Agreement, the New Master Sales Agreement and their respective annual caps are fair

\* *for identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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and reasonable and whether such continuing connected transactions are in the interests of the Company and its Shareholders as a whole. Octal Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

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, the Independent Financial Adviser as set out in its letter of advice, we consider the terms of the New Master Supply Agreement and the New Master Sales Agreement and their respective annual caps to be fair and reasonable. We also consider that the continuing connected transactions contemplated under each of the New Master Supply Agreement and the New Master Sales Agreement to be on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole.

Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Transactions at the EGM.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Dong Hongxia**

**Ng Kwok Pong**

**Yeung Kit Lam**

*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.*



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

21 December 2020

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Master Supply Agreement and the New Master Sales Agreement, and the transactions contemplated thereunder and the respective annual caps for each of the three years ending 31 December 2023, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular to the shareholders of the Company dated 21 December 2020 (the “**Circular**”) and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

According to the announcement of the Company dated 27 November 2020 in respect of the continuing connected transactions in relation to the entering into the New Master Supply Agreement and the New Master Sales Agreement (the “**Announcement**”), the Company announced that, the Company and the Nongtou Subsidiaries entered into (i) the New Master Supply Agreement in relation to the supply of corn kernels by the Nongtou Subsidiaries Group to the Group on an ongoing basis; and (ii) the New Master Sales Agreement in relation to the supply of Corn Starch and Other Products by the Group to the Nongtou Subsidiaries Group on an ongoing basis, both for a fixed period of three years.

As at the Latest Practicable Date, each of the Nongtou Subsidiaries is wholly-owned by Nongtou and Nongtou is interested in approximately 35.2% of the entire issued share capital of the Company through its control in 吉林省現代農業產業投資基金 (Jilin Province Modern Agricultural Industry Investment Fund\*), which indirectly holds the entire issued

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## LETTER FROM OCTAL CAPITAL

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share capital of Modern Agricultural. As such, each of the Nongtou Subsidiaries is a connected person of the Company. Therefore, the transactions contemplated under the New Master Supply Agreement and the New Master Sales Agreement constitute continuing connected transactions (the “**Continuing Connected Transactions**”) of the Company under Chapter 14A of the Listing Rules. Since the annual caps under the New Master Supply Agreement and the New Master Sales Agreement for each of the three years ending 31 December 2023 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules or are expected to exceed HK\$10,000,000 each, the Continuing Connected Transactions and the respective annual caps therefore are subject to the reporting, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all of the independent non-executive Directors, namely Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam, has been established. The Independent Board Committee will advise the Independent Shareholders as to whether the terms of the New Master Supply Agreement and the New Master Sales Agreement and the transaction contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, 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.

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## LETTER FROM OCTAL CAPITAL

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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 whether the terms and conditions of the New Master Supply Agreement, the New Master Sales Agreement and the respective annual caps are fair and reasonable, and whether the Continuing Connected Transactions and the respective annual caps are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Independent Shareholders as a whole and as to voting in respect of the resolution(s) at the EGM. Our appointment has been approved by the Independent Board Committee. In this regard, we have been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

### OUR INDEPENDENCE

In the two years immediately preceding the date of the New Master Supply Agreement and the New Master Sales Agreement and up to the Latest Practicable Date, we were only engaged by the Company as an Independent Financial Adviser to the Company in respect of the connected transaction in relation to the subscription of new shares under specific mandate (details can be referred to the circular of the Company dated 22 November 2019) and the connected transaction in relation to the extension of the maturity date of the convertible bonds of the Company and application of whitewash waiver (details can be referred to the circular of the Company dated 6 November 2020) (the “**Previous Engagements**”). Under the Previous Engagements, we were required to express our opinion on and give recommendations to the Independent Board Committee and Independent Shareholders in respect of the abovementioned 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 Nongtou Subsidiaries Group or any of its subsidiaries or their respective associates.

Despite the Previous Engagements, we consider our independence is unaffected due to the facts that (i) under Previous Engagements, 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 engagements 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.

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## LETTER FROM OCTAL CAPITAL

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

### **I. THE NEW MASTER SUPPLY AGREEMENT AND THE NEW MASTER SALES AGREEMENT**

#### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

#### **1. Background of the Group, the Nongtou Subsidiaries and Nongtou**

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, fiber 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.



## LETTER FROM OCTAL CAPITAL

The Nongtou Subsidiaries comprise of 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.\*), and 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.\*), both of which are established in the PRC and directly wholly-owned by Nongtou.

吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.\*) is principally engaged in sale and purchase of grain, distribution of agricultural products and provision of agricultural science and technology services.

吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.\*) is principally engaged in the investment in agriculture and asset management in agriculture sector.

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

## 2. 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 two financial years (the “FY”) 2018 and 2019 and the six months ended 30 June 2020 as extracted from the annual report of the Company for FY2019 (the “**Annual Report**”) and the interim report of the Company for the six months ended 30 June 2020 (the “**Interim Report**”), respectively:

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
— Upstream products	2,710,478	2,626,291	1,441,945	239,648
— Amino acids	1,794,851	991,591	887,951	9,312
— Corn sweeteners	1,121,227	918,390	465,628	228,895
— Polyol chemicals	31,170	25,119	3,920	1,280
Revenue	5,657,726	4,561,391	2,799,444	479,135
Cost of sales	(5,398,016)	(4,357,862)	(2,745,683)	(438,231)
Gross profit	259,710	203,529	53,761	40,904
Gross profit margin	4.6%	4.5%	1.9%	8.5%
Loss for the year/period	(1,299,219)	(1,116,334)	(838,241)	(902,843)

Source: Annual Report and Interim Report

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## LETTER FROM OCTAL CAPITAL

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### *FY2019 versus FY2018*

The Group recorded revenue of approximately HK\$5,657.7 million and approximately HK\$4,561.4 million for FY2018 and FY2019, respectively, representing a decrease of approximately 19.4%, which was mainly due to the decrease in sales volume of the Group's amino acids segment and sweetener segment. The reduction in sales volume of amino acids products was mainly attributable to the prolonged negative impact imposed by the African Swine Fever (the "ASF"), which substantially lowered the swine production in the PRC. The Group's amino acids segment mainly served the customers from the feed industry and therefore the demand of amino acids products was reduced. Consequently, the Group decided to suspend the production of amino acids segment from August 2019 (As at the Latest Practicable Date, the production of amino acids segment is still suspended). For the sweetener segment, keen market competition and depressed sugar price in the PRC market had put the demand and selling prices of sweetener products under pressure, leading to a reduction in the sales volume of sweetener products.

As disclosed in the Annual Report, the revenue of upstream products decreased slightly from approximately HK\$2,710.5 million in FY2018 to approximately HK\$2,626.3 million in FY2019 because of the negative impact of the ASF, which was partially offset by the optimization of the upstream operation. The revenue of amino acids recorded a drastic decrease from approximately HK\$1,794.9 million in FY2018 to approximately HK\$991.6 million in FY2019 due to decrease in the sales volume of amino acids from approximately 303,000 MT in FY2018 to approximately 186,000 MT in FY2019, along with the 10.1% drop in the average selling price of amino acids. Besides, the revenue of corn sweeteners declined from approximately HK\$1,121.2 million in FY2018 to approximately HK\$918.4 million in FY2019, which was mainly attributable to drop in the sales volume of corn sweeteners as a result of poor market sentiment, followed by the suspension of downstream production in the Jinzhou site. The revenue of polyol chemicals dropped by 19.6% to approximately HK\$25.1 million in FY2019.

Meanwhile, the gross profit of the Group decreased by approximately HK\$56.2 million from approximately HK\$259.7 million for FY2018 to approximately HK\$203.5 million for FY2019, with a mild drop of gross profit margin from 4.6% for FY2018 to 4.5% for FY2019.

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## LETTER FROM OCTAL CAPITAL

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The loss after taxation slightly improved from approximately HK\$1,299.2 million for FY2018 to approximately HK\$1,116.3 million for FY2019, respectively, due to the significant increase in other income and gains by approximately HK\$362.7 million which was partly offset by the increase in other expense by approximately HK\$150.3 million. The increment in other income and gains was attributable to a one-off compensation of approximately HK\$428.4 million granted by the Changchun Municipal Government for the resumption of relevant properties in Luyuan District, Changchun unconditionally. The discussion of resumption of relevant properties in Luyuan District commenced since 2013. It was agreed among the parties that the resumption of the relevant properties in Luyuan District, Changchun, to be carried out by stages. To encourage the Company to speed up the relocation of production facilities in Luyuan District, the Changchun Municipal Government agreed to advance funding to facilitate the relocation of the Group's production facilities according to an agreed timetable and such advance payment in aggregate of RMB377.0 million was received by the Group in 2015 and 2018 from the Changchun Municipal Government. The amount was recorded as other payables and accruals in the consolidated financial statements of the Group in 2015 to 2018. The Group received a written confirmation from the Changchun Municipal Government in 2019 that the Changchun Municipal Government has satisfied with the relocation progress and confirmed that the advance payment of RMB377.0 million was part of the compensation for the resumption of the relevant properties in Luyuan District unconditionally. Such amount has been recognized as other income and gains in the income statement of FY2019. However, the auditor of the Company was unable to (i) obtain direct confirmation or sufficient appropriate audit evidence by performing alternative procedures to verify the balance of the relevant advances of RMB377.0 million (approximately HK\$428.4 million) as at 31 December 2018; and (ii) determine whether any adjustments to the one-off compensation of RMB377.0 million (approximately HK\$428.4 million) recognized during FY2019 should be made. If the one-off compensation of HK\$428.4 million is excluded, the loss for FY2019 will be further increased by HK\$428.4 million.

The increment in other expenses was mainly driven by the expenses in relation to the idle capacity (including labour cost, depreciation of machinery, etc.) increasing from approximately HK\$179.7 million for FY2018 to approximately HK\$342.7 million for FY2019 because the production facilities of the amino acids segment also suspended from August 2019. When the production is in normal operation, the direct operating expenses are capitalized as inventory and subsequently recognized as cost of sales when the inventories are sold. However, due to the suspension of production, these expenses are no longer capitalised as inventory but they are charged to the income statement directly when they are incurred.

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## LETTER FROM OCTAL CAPITAL

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The auditors of the Company, Mazars CPA Limited, issued disclaimer opinion for the financial statement of the Group for the two years ended 31 December 2019.

*Six months ended 30 June 2020 versus six months ended 30 June 2019*

The Group's revenue declined significantly by approximately 82.9% from approximately HK\$2,799.4 million for the six months ended 30 June 2019 to approximately HK\$479.1 million for the six months ended 30 June 2020, which was mainly attributable to (i) the continued suspension of operation of most of the subsidiaries in the PRC due to unfavorable market condition and the suspension of economic activities in the PRC as a result of the outbreak of coronavirus disease 2019 ("COVID-19"); (ii) decrease in the demand of the products of the Group following the outbreak of COVID-19 in the PRC; and (iii) the significant increase in corn price due to the temporary tightening supply of corn kernels caused by the disruption of transportation during the lockdown period from January 2020 to March 2020 in the PRC.

The revenue of upstream products decreased from approximately HK\$1,441.9 million for the six months ended 30 June 2019 to approximately HK\$239.6 million for the six months ended 30 June 2020 as most of the upstream operations has been suspended. The revenue of amino acids recorded a significant decrease from approximately HK\$888.0 million for the six months ended 30 June 2019 to approximately HK\$9.3 million for the six months ended 30 June 2020 due to decrease in sales volume of amino acids, which arose from inventory being exhausted. Moreover, the revenue of corn sweeteners declined from approximately HK\$465.6 million for the six months ended 30 June 2019 to approximately HK\$228.9 million for the six months ended 30 June 2020, which was mainly attributable to the drop in the sales volume of corn sweeteners as a result of the suspension of downstream production in Northeast China, as well as the keen competition in the market. The revenue of polyol chemicals dropped by 66.7% to approximately HK\$1.3 million for the six months ended 30 June 2020.

During the first half of 2020, the drastic drop in revenue leads to a significant decrease in gross profit by approximately 24.0% to approximately HK\$40.9 million as compared to the gross profit for the six months ended 30 June 2019. During the first half of 2019, the Group's gross profit margin was only approximately 1.9%. The low gross profit margin is mainly caused by the deteriorated performance of the amino acids segment which used to account for at least 50% of the Group's gross profit in the previous years. As discussed above, the amino acids segment was adversely affected by the ASF. The amino acids segment recorded a gross loss

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## LETTER FROM OCTAL CAPITAL

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of approximately HK\$34.7 million and gross loss margin of approximately 3.9% during the first six months of 2019. As compared to the gross profit margin of approximately 1.9% for the six months ended 30 June 2019, the gross profit margin surged to approximately 8.5% during the first half of 2020 because (i) a higher portion of expenses in relation to suspension of operation (for example, labour cost, depreciation of plants and machinery, etc.) amounting to approximately HK\$246.0 million (as compared to HK\$106.8 million for the six months ended 30 June 2019) has been allocated to other expenses, leading to a lower average cost of sales of the Group; and (ii) the improvement in the gross profit margin of upstream segment (that is the Group's corn refinery business which produces corn starch and other corn refined products) from 2.0% for the six months ended 30 June 2019 to 6.4% for the six months ended 30 June 2020 due to the reform of value-added tax ("VAT") in the PRC (including change of the calculation methodology of VAT since August 2019), leading to a higher deductible VAT and a reduction in cost of goods sold of the upstream products.

Due to significant drop in gross profit and higher finance cost of the Group of approximately HK\$360.3 million (HK\$301.2 million for the six months ended 30 June 2019), the Group recorded a net loss of approximately HK\$902.8 million for the six months ended 30 June 2020 as compared to a net loss of approximately HK\$838.2 million for the six months ended 30 June 2019.

### ***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 2018 and 2019 and the unaudited condensed consolidated statement of financial position as at 30 June 2020 extracted from the Annual Report and Interim Report, respectively:

## LETTER FROM OCTAL CAPITAL

	As at		
	31 December 2018	2019	30 June 2020
	(Audited)	(Audited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	7,140,242	6,782,016	6,484,317
Current assets	2,684,597	1,452,913	1,019,611
Total assets	9,824,839	8,234,929	7,503,928
Non-current liabilities	2,987,019	2,251,035	198,757
Current liabilities	10,408,354	10,329,885	12,376,029
Total liabilities	13,395,373	12,580,920	12,574,786
Net current liabilities	7,723,757	8,876,972	11,356,418
Net liabilities	3,570,534	4,345,991	5,070,858
Deficit attributable to owners of the Company	3,447,881	4,197,865	4,870,286
Cash and bank balances	135,033	79,509	86,812
Interest-bearing bank and other borrowings			
— Current portion	6,127,288	5,583,337	7,491,867
— Non-current portion	1,870,716	2,044,444	—
Total borrowings	7,998,004	7,627,781	7,491,867
Current ratio <sup>Note 1</sup>	0.3 time	0.1 time	0.1 time
Gearing ratio <sup>Note 2</sup>	180.6%	232.4%	309.5%

Source: Annual Report and Interim Report

Note 1: Current ratio represents total current assets divided by total 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)

As at 31 December 2019, the Group had current assets of approximately HK\$1,452.9 million (31 December 2018: approximately HK\$2,684.6 million), and current liabilities of approximately HK\$10,329.9 million (31 December 2018: approximately HK\$10,408.4 million), representing net current liabilities of approximately HK\$8,877.0 million (31 December 2018: net current liabilities of approximately HK\$7,723.8 million). As at 30 June 2020, the Group's current asset has dropped

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## LETTER FROM OCTAL CAPITAL

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to approximately HK\$1,019.6 million and the current liabilities has further increased to approximately HK\$12,376.0 million, leading to net current liabilities of approximately HK\$11,356.4 million. The Group's current ratio has been under 1.0 time as at 31 December 2018, 31 December 2019 and 30 June 2020, indicating that the Group's was under pressure on meeting its short-term repayment obligations.

As at 31 December 2019, the Group had cash and bank balances of approximately HK\$79.5 million (31 December 2018: approximately HK\$135.0 million). The cash and bank balance remained at a low level at approximately HK\$86.8 million as at 30 June 2020, indicating that the Company is facing a very challenging cash flow pressure in view of the increasing liabilities and the prolonged suspension of majority of production facilities.

The Group's total borrowings amounted to approximately HK\$7,627.8 million as at 31 December 2019 (31 December 2018: approximately HK\$7,998.0 million), and decreased slightly to approximately HK\$7,491.9 million as at 30 June 2020. The Group's gearing ratios as at 31 December 2019 were approximately 232.4% and further increased to approximately 309.5% as at 30 June 2020. Such increase in the gearing ratio of the Group was mainly due to the net loss recorded by the Group during the first half of 2020. The high gearing ratio of the Group represents that the Group relied heavily on debt to support its operations.

During FY2018 and FY2019, 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, due to the outbreak of COVID-19 in 2020, the lockdown situation has caused delay in transportation of corn kernels and delay in corn auctions in the PRC during the first six months of 2020. As a result, the performance of the Group's upstream product segment and corn sweetener segment were negatively impacted.

In light of the challenging operating environment, apart from the suspension of the Group's operations in Harbin, Dehui and Xinglongshan and the downstream operation of Jinzhou since second half of 2019, the Group has suspended its upstream operation in Jinzhou in the second quarter of 2020 to reduce operating cash outflow and reserve sufficient financial resources until the market conditions improve. The continued impact of the COVID-19 on the Group's business operation and the impact of the ASF in the PRC on the Group's amino acids segment may further negatively

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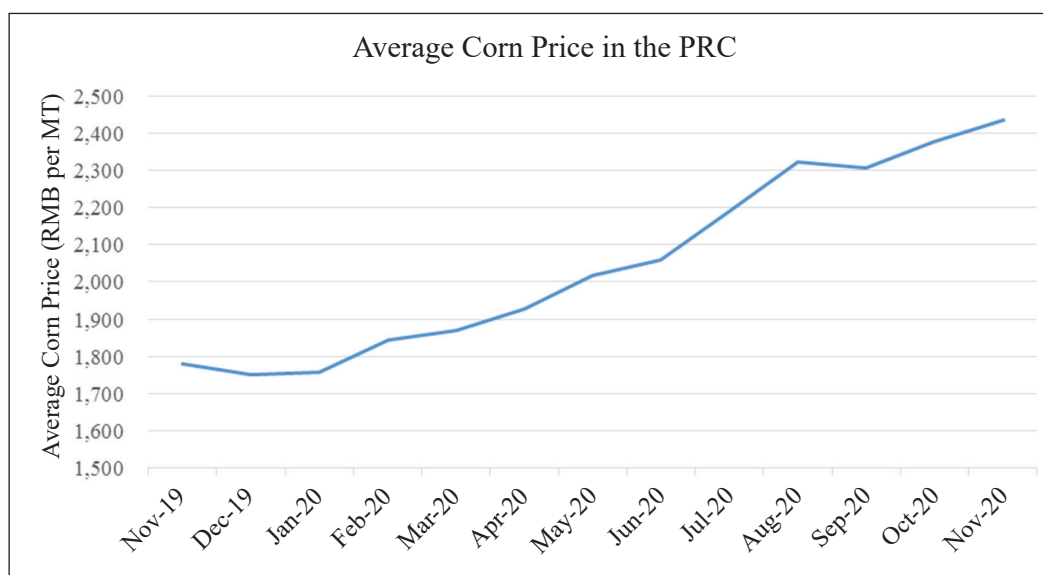
## LETTER FROM OCTAL CAPITAL

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affect the Group's overall operation. Moreover, the tension between the PRC and the United States of America (the "US") will also pose significant uncertainties in international trade and business environment which may affect the prices of corn kernels and other grains, as well as the competitiveness of the Group's products in overseas markets, such as Asia (such as Vietnam and Indonesia), America and other European regions. The total export sales to these overseas markets accounted for approximately 13.3% and 6.3% of the Group's total revenue for FY2019 and the six months ended 30 June 2020, respectively. The management of the Company will closely monitor market conditions and be cautious in making decisions on the Group's business strategies so as to resume and optimise the operation of the Group's production facilities and maintain relatively healthy cash flow.

### 3. Industry overview

The following graph shows the average corn price in the PRC for the last 12 months from November 2019 to November 2020.



Source: China Corn Network

From the above chart, we observed that the average corn price in the PRC was on an increasing trend from November 2019 to November 2020. At the beginning of 2020, the outbreak of the COVID-19 and trade war tension between the PRC and the US caused the PRC government to continue its stockpiling, contributing to temporary shortages of corn which pushed corn price up. In the first half of 2020, the average corn price increased from RMB1,759 per MT in January 2020 to RMB2,019 per MT in May 2020.



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## LETTER FROM OCTAL CAPITAL

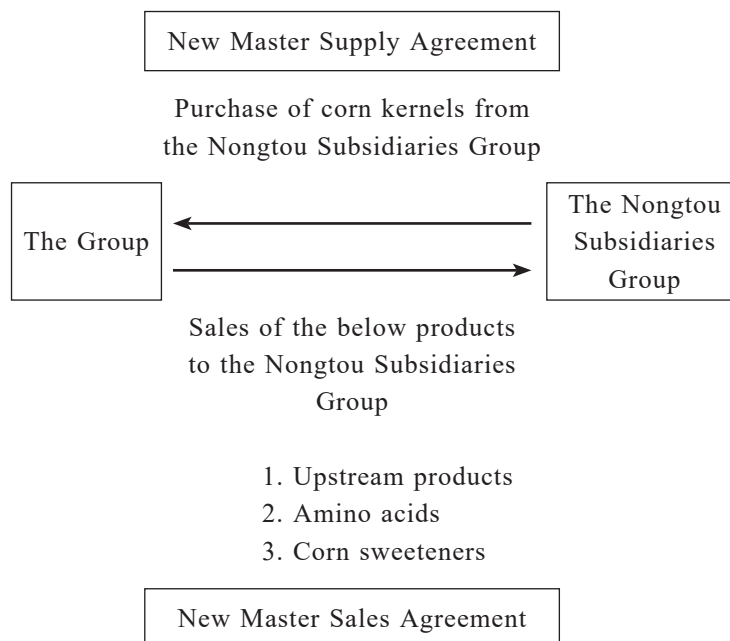
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Since the first corn auction took place on 28 May 2020, due to the tight supply of corn grain, the transaction volume remained high due to the domestic corn market sentiment, which further drove up the corn auction price. As a result, the domestic corn price in the PRC surged from RMB2,059 per MT in June 2020 to RMB2,323 per MT in August 2020. Moreover, the typhoon near the northeast part of the PRC in September 2020 destroyed part of the corn yield. The corn price in the PRC reached its peak level to RMB2,435 per MT in October 2020.

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

Corn kernel is a major raw material of the Group's products. The corn kernels will be broken down into corn starch, gluten meal, fiber and corn oil and these are the upstream products of the Group. The corn starch is further refined through a series of biochemical and/or chemical process into a wide range of high value-added downstream products such as amino acids, corn sweeteners and polyol chemicals. The total procurement of corn kernels of the Group accounted for approximately 73.5% and 60.9% of the Group's cost of sales during the two years ended 31 December 2019, respectively. Therefore, the price fluctuation of corn kernels has material impact on the profitability of the Group.

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



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## LETTER FROM OCTAL CAPITAL

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Under the Existing Master Supply Agreement with Nongtou, the Nongtou Group has been providing a stable supply of quality corn kernels to the Group as one of the suppliers of the Group. By entering into the New Master Supply Agreement with the Nongtou Subsidiaries, the Group will be able to continue purchasing corn kernels from other independent suppliers and the Nongtou Subsidiaries Group on a non-exclusive basis while the Group will have more alternative sources for its required quantity of corn kernels, especially during the months in non-harvest season (i.e. May to September) where the supply of high quality corn kernels is tight. We have reviewed and compared the purchase transactions of corn kernels between the Group and other independent suppliers on a sample basis and noted that the credit period provided by the Nongtou Group was more favorable than those provided by other independent suppliers.

Each of the Nongtou Subsidiaries is established in the PRC and directly wholly-owned by Nongtou. As Nongtou is ultimately controlled by SASAC of Jilin Province, given the state-owned background and the relationship with the Group, the Group will be able to obtain better credit terms from the Nongtou Subsidiaries Group as compared to direct purchase from local farmers which offer no credit period at all.

Moreover, as stated in the Letter from the Board, the production facilities and grain storage sites of the Nongtou Subsidiaries Group are located in various cities in Jilin Province with core storage capacity of at least 2,000,000 MT which are in close proximity to the Group's production sites. The storage capacity and close proximity allow the Group to procure corn kernels from the Nongtou Subsidiaries Group with higher flexibility by reducing the Group's lead time and cost of transportation and storage with stable supply as compared with procuring from other independent suppliers.

In addition, the New Master Supply Agreement will continue to be a non-exclusive supply agreement, which provide an alternative source for the Group in procuring corn kernels without obligation in procurement. We are advised by the management of the Company that given the Group has all along maintained a diversified list of suppliers in light of the abundance of suppliers of corn kernels in the relevant area, the Group has the flexibility to source corn kernels from other independent suppliers at anytime if the prices and terms offered by independent suppliers are more favorable than those offered by the Nongtou Subsidiaries Group. The Directors believe that the purchase arrangement with the Nongtou Subsidiaries Group not only provide an alternative source of corn kernels for the Group but also secure a relatively stable supply of corn kernels.

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## LETTER FROM OCTAL CAPITAL

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We have also looked into the Group's current operation situation and the indebtedness position. The Group's majority of production have been suspended and the Group's revenue for the six months ended 30 June 2020 have been dropped by approximately 82.9% as compared to the same period of last year. The Group's net liability position increased from HK\$4,346.0 million as at 31 December 2019 to HK\$5,070.9 million as at 30 June 2020 and the gearing ratio increased from 232.4% as at 31 December 2019 to 309.5% as at 30 June 2020, indicating that the Group is facing a challenging cash flow pressure.

We understand from the management of the Company that the Group is expecting to gradually resume its production in 2021 and the Group is facing very tight cash flow to purchase raw materials after the resumption of its production activities. Procuring raw materials from the Nongtou Subsidiaries Group will ease the financial pressure of the Group through better credit period and minimizing cash outflow of the Group.

Having considered (i) the strong and stable business relationship between Nongtou and the Group; (ii) a better credit period offered by the Nongtou Subsidiaries Group; (iii) the Nongtou Subsidiaries Group's production facilities and grain storage sites are in the vicinity of the production plants of the Group; (iv) the total corn storage capacity of the Nongtou Subsidiaries Group; and (v) the indebtedness position and cash flow pressure of the Group, we are of the view that the Group can obtain a stable supply of corn kernels at reasonable price by entering into the New Master Supply Agreement and we concur with the Directors that the New Master Supply Agreement is in the interests of the Company and the Shareholders as a whole.

### **5. Reasons for and benefits of the New Master Sales Agreement**

The upstream corn refinery segment serves as a feedstock which breaks down corn kernels into corn starch, gluten meal, fiber 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 Group has an established sales network and a diverse customer base from a variety of industries including feed manufacturing, husbandry, food and beverages, chemical, construction materials, etc.

The sale of Corn Starch and Other Products from the Group to the Nongtou Subsidiaries Group under the New Master Sales Agreement offers additional options for the Group to sell its products on top of its current list of customers. As advised by the management of the Company, Nongtou is tasked to consolidate the state-owned assets in the agricultural sector of the Jilin Province and it has approximately 60 entities in Jilin Province and these entities are mainly engaged in the agricultural-related businesses. Leveraging on the Nongtou Subsidiaries Group's sales network in the Jilin Province, the Group will sustain its market shares in the Jilin Province.

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## LETTER FROM OCTAL CAPITAL

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The New Master Sales Agreement is non-exclusive in nature, under which the Group will secure an additional sales channel of Corn Starch and Other Products and is not restricted to sell Corn Starch and Other Products to other customers. In addition, the Group is facing a heavy cash flow pressure while the Nongtou Subsidiaries Group is willing to accept a shorter credit term, compared to the credit period of 30 to 90 days given to the existing customers of the Group. The sale of Corn Starch and Other Products from the Group to the Nongtou Subsidiaries Group helps alleviating the Group's cash flow pressure.

We have reviewed the sales transactions of Corn Starch and Other Products entered into between the Group and independent customers on a sample basis and noted that the credit period granted to the independent customers were within the range of 30 to 90 days. The shorter credit period could improve the Group's trade receivable turnover days and enhance the Group's cash inflow. Given that Nongtou is controlled by SASAC of Jilin Province, the credit risk of the Nongtou Subsidiaries Group is comparatively lower than other independent customers.

Having considered (i) the addition sales channel for the Group to sell its products on top of its current list of customers; (ii) the non-exclusive nature of the New Master Sales Agreement which provide no sales obligation to the Group; (iii) the credit period of the Nongtou Subsidiaries Group is shorter than other independent customers; (iv) the credit risk of the Nongtou Subsidiaries Group is lower than other independent customers; and (v) the cash flow pressure of the Group; we are of the view that there is a strong commercial rationale for the Group to enter into the New Master Sales Agreement and we concur with the Directors that the New Master Sales Agreement is in the interests of the Company and the Shareholders as a whole.

### **6. Terms of the New Master Supply Agreement**

Pursuant to the New Master Supply Agreement, the Company appointed the Nongtou Subsidiaries Group as its suppliers for corn kernels and the Nongtou Subsidiaries Group agree to supply corn kernels to the Group. The New Master Supply Agreement shall become effective from the New Master Supply Agreement Effective Date and expiring on 31 December 2023 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the New Master Supply Agreement, members of the Group shall enter into purchase orders or sales contracts with the Nongtou Subsidiaries Group from time to time during the term of the New Master Supply Agreement for the purposes of confirming the purchase of corn kernels by the relevant members of

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## LETTER FROM OCTAL CAPITAL

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the Group. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including but not limited to the form of delivery, payment and remittance time and method, quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Supply Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Supply Agreement.

*(i) Pricing policy of corn kernels*

We noted that the Nongtou Subsidiaries Group shall supply corn kernels to the Group at market rates and such price (exclusive of transportation, storage costs, insurance cost, interest and/or other handling charges) shall not be higher than any of the prices below:

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

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

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## LETTER FROM OCTAL CAPITAL

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The information provided on China Corn Network reflected the prices of actual transactions in relation to corn kernels in the PRC and these information are good indicators of market trading price. The corn futures prices indicated on the website of Dalian Commodity Exchange reflect the market speculations on the corn price based on expectations on the future supply and demand situations. According to CommodityBasis.com, an independent commodity information provider, the corn contracts traded on the Dalian Commodity Exchange is the second largest corn contract in the world in terms of volume traded. The future price quoted on the Dalian Commodity Exchange is representing the prevailing future corn prices. The China Corn Network (www.yumi.com.cn) was established since 2001 and is now one of the major market information providers in the PRC which specialise in the provision of corn market information in the PRC to the grain suppliers, refinery, traders and commodity exchange in the PRC, including Dalian Commodity Exchange.

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

Furthermore, we have reviewed purchase transactions of corn kernels entered into between the Group and independent suppliers during the period from 1 January 2019 to 30 June 2020 on a sample basis and noted that the purchase prices were lower than the highest market prices quoted from the above-mentioned three sources. Among these selected samples, we noted that the credit periods offered by the Nongtou Group were better than the independent suppliers. We consider that it is justifiable to follow the same pricing policy under the Existing Master Supply Agreement.

**(ii) Annual caps of the New Master Supply Agreement**

The following table sets out the annual caps of the New Master Supply Agreement:

	Year ending 31 December		
	2021	2022	2023
	(HK\$ million)	(HK\$ million)	(HK\$ million)
Annual caps	798.0	1,092.0	1,793.0

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## LETTER FROM OCTAL CAPITAL

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We have obtained a list of estimated purchase of corn kernels by the Group and noted that their aggregate sum is roughly equivalent to the quantity used in determining the annual caps. We understand from the management of the Company that the annual caps are prepared on the basis of multiplying the estimated price of the corn kernels per MT by the estimated quantity to be purchased and after taking into account (i) the estimated demand of the Group for corn kernels based on the resumption plan of the Group's production facilities and the improvement in the liquidity of the Group after the completion of land resumption of the old production sites in Luyuan District of Changchun City; (ii) the recent purchase price of corn kernels between the Nongtou Group and the Group; and (iii) the historical purchase quantity between the Nongtou Group and the Group for the two years ended 31 December 2019 and the nine months ended 30 September 2020.

The aggregate quantity of corn kernels purchased from the Nongtou Group and 吉林吉糧資產供應鏈管理有限公司 (Jilin Jiliang Assets Supply Chain Management Co., Ltd.) ("**Jiliang**"), a company established in the PRC which is indirectly wholly-owned by Nongtou, by the Group under the Existing Master Supply Agreement (which became effective on 14 November 2018) and under a master agreement dated 15 May 2017 (the "**Jiliang Master Agreement**") entered into between the Company (for itself and on behalf of the Group) and Jiliang (which had been terminated upon the Existing Master Supply Agreement became effective on 14 November 2018) during the two years ended 31 December 2019 and the nine months ended 30 September 2020 were approximately 316,000 MT (amounted to approximately HK\$613,000,000), 408,000 MT (amounted to approximately HK\$774,000,000), and 11,000 MT (amounted to approximately HK\$20,000,000), respectively.

In order to assess the fairness and reasonableness of the estimated quantity of corn kernels to be purchased in the calculation of the proposed annual caps, we have performed the following analysis. The table below illustrates the quantity of corn kernels purchased by the Group during the two years ended 31 December 2019 and the nine months ended 30 September 2020.

## LETTER FROM OCTAL CAPITAL

	Year ended 31 December				Nine months ended 30 September	
	2018		2019		2020	
	MT	%	MT	%	MT	%
<b>Sourced from:</b>						
The Nongtou Group	316,000	15.7	408,000	30.0	11,000	15.3
	(Note)					
Independent suppliers	<u>1,693,000</u>	<u>84.3</u>	<u>954,000</u>	<u>70.0</u>	<u>61,000</u>	<u>84.7</u>
<b>Total quantity purchased by the Group</b>	<b><u>2,009,000</u></b>	<b><u>100.0</u></b>	<b><u>1,362,000</u></b>	<b><u>100.0</u></b>	<b><u>72,000</u></b>	<b><u>100.0</u></b>

*Note:* This includes amount purchased from Jiliang by members of the Group under the Jiliang Master Agreement.

The table below illustrates the estimated quantity of corn kernels to be purchased by the Group during three years ending 31 December 2023:

	Year ending 31 December					
	2021		2022		2023	
	MT	%	MT	%	MT	%
<b>Expected quantity to be purchased from:</b>						
The Nongtou						
Subsidiaries Group	385,000	30.0	514,000	30.0	822,000	40.0
Independent suppliers	<u>897,000</u>	<u>70.0</u>	<u>1,199,000</u>	<u>70.0</u>	<u>1,234,000</u>	<u>60.0</u>
<b>Total expected quantity to be purchased by the Group</b>	<b><u>1,282,000</u></b>	<b><u>100.0</u></b>	<b><u>1,713,000</u></b>	<b><u>100.0</u></b>	<b><u>2,056,000</u></b>	<b><u>100.0</u></b>



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## LETTER FROM OCTAL CAPITAL

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As set out in the above tables, historically, the total quantity of corn kernels purchased by the Group decreased from approximately 2,009,000 MT in 2018 to approximately 1,362,000 MT in 2019. During FY2019, the decrease in procurement of the corn kernels was attributable to decrease in sales volume as a result of the ASF outbreak. During the nine months ended 30 September 2020, the Group's upstream production have been substantially suspended and therefore the procurement of the corn kernels dropped to approximately 72,000 MT.

In estimating the total procurement of corn kernels by the Group for the three years ending 31 December 2023, the Directors have reviewed the historical purchase quantity and the estimated timeline for the resumption of the Group's production operations. As discussed in the Letter from the Board, in determining the utilization rate of production facilities, the Directors take into account (i) the gradual resumption plan of the Group's production facilities as stated in the Letter from the Board; (ii) the market is expected to move towards a slow recovery in 2021; and (iii) the availability of capital after completion of land and properties resumption of the Group's production site in Luyuan District. The Directors expect that the utilization rate of the Group's production facilities will reach around 40.0% to 85.0% by the end of 2021 while the Group's demand for corn kernels will gradually increase starting from 2021.

We understood that the Group has also considered the following factors in estimating the procurement quantity of 2021, including (i) the average procurement volume during the three years ended 31 December 2019, which is approximately 1,592,000 MT; and (ii) the production schedule of each production site in 2021. The estimated volume of corn kernels to be purchased by the Group is 1,282,000 MT, in which 30.0% will be purchased from the Nongtou Subsidiaries Group with reference to the maximum procurement volume from the Nongtou Group as a percentage to the total procurement volume, which amounted to approximately 30.0% in 2019.

During 2022 and 2023, the quantity of corn kernels to be purchased by the Group is estimated to grow year-on-year at a rate of 33.6% and 20.0% respectively, with reference to (i) the growth rate of procurement volume in 2018 of approximately 43.1% as compared to that of 2017; and (ii) the resumption plan of the Company where certain production site will resume its operation in the second half of 2021, and therefore the production capacity in 2021 is comparatively lower than that in 2022. Given the reduction in operation

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## LETTER FROM OCTAL CAPITAL

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scale due to suspension of the Group's production facilities in Harbin, Dehui and Xinglongshan and the downstream operation of Jinzhou since second half of 2019 until the end of 2020, the management of the Company expects that the production capacity will gradually return to its normal level in 2022. Based on the expectation that most of the production facilities of the Group will be substantially resumed and the liquidity of the Group has significantly improved, during 2022 and 2023, the procurement of corn kernels will reach the level of 1,713,000 MT and 2,056,000 MT respectively, among of which 30.0% and 40.0% of total estimated procurement volume will be purchased from the Nongtou Subsidiaries Group in 2022 and 2023, respectively. The management of the Company explained that the Group may purchase more raw materials from the Nongtou Subsidiaries Group in 2023 in order to secure the corn supply for the production of the Group with consideration of the credit terms offered by the Nongtou Subsidiaries Group that are better than that of the independent suppliers, which ease the Group's pressure of operating cash flow.

In calculating the proposed annual caps of the New Master Supply Agreement, the estimated purchase price of corn kernels per MT is determined with reference to the most recent historical purchase price of corn kernels. Based on the information provided by the Company, we noted that the estimated average purchase prices of corn kernels are RMB1,887.8 (equivalent to approximately HK\$2,074.6), RMB1,933.3 (equivalent to approximately HK\$2,124.5) and RMB1,984.6 (equivalent to approximately HK\$2,180.8) per MT for the three years ending 31 December 2023, respectively. Based on the information provided by the Company, we noted that the price of corn kernels purchased by the Group is between RMB1,577.1 (equivalent to approximately HK\$1,733.0) per MT and RMB2,153.2 (equivalent to approximately HK\$2,366.2) per MT during the period from 1 January 2019 to 30 June 2020. We have reviewed samples of purchase transactions between the Group and independent suppliers. We also noted that the average purchase price of corn kernels which was approximately RMB1,817.5 (equivalent to approximately HK\$1,997.2) per MT during the nine months ended 30 September 2020. We noted that the price of corn kernels adopted in calculating the annual cap for 2021 are comparable to the price of the sample transactions and within the above-mentioned price range.

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## LETTER FROM OCTAL CAPITAL

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As advised by the management of the Company, the unit prices for corn kernels are expected to increase at an annual rate of approximately 2.6% from 2021 to 2023, taking into account of the price inflation in the PRC. We noted from the research report issued by Macrotrends, a research platform which provides different regional and global economic data, that the inflation rates in the PRC are ranged between 1.4% and 3.3% from 2010 to 2019 with an average of approximately 2.6%. Having considered that (i) the estimated purchase price of 2021 is within the range of the most recent purchase price incurred by the Group and is slightly above the average purchase price for the nine months ended 30 September 2020; (ii) the recent increasing trend of corn price; and (iii) the growth rate of the purchase price makes reference to the historical inflation rate in the PRC, we are of the view that the estimated prices of corn kernels for the three years ending 31 December 2023 are justifiable.

Based on the above analysis, we consider that the bases for setting the related annual caps for the three years ending 31 December 2023 are fair and reasonable.

### *Internal control procedure on potential reliance on the Nongtou Subsidiaries Group*

With regard to the internal control policy and procedures on potential reliance on the Nongtou Subsidiaries Group, we have discussed with the management of the Company and understood that the Company has established certain internal control procedures to avoid any significant reliance on the Nongtou Subsidiaries Group for the supply of corn kernels, including (i) a maximum monthly purchase amount from the Nongtou Subsidiaries Group will be set; (ii) the procurement department of the Group will check the price of corn kernels from three public sources to ensure the purchase price of corn kernels from the Nongtou Subsidiaries Group will not be substantially lower or higher than market rates and report to the accounting department accordingly; (iii) the procurement department of the Group keeps monitoring and the accounting department will prepare the actual purchase amount with the Nongtou Subsidiaries Group to the management of the Company on a monthly basis to ensure that the purchase amount with the Nongtou Subsidiaries Group will not exceed the monthly purchase limit; (iv) the internal control department of the Group performs regular review on the purchase transactions conducted with the Nongtou Subsidiaries Group and reports any findings to the management of the Company and the independent non-executive Directors; (v) the accounting department of the Company prepares a monthly report of the actual purchase

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## LETTER FROM OCTAL CAPITAL

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transactions with the Nongtou Subsidiaries Group for the independent non-executive Directors' review; and (vi) the auditor of the Company will perform review of the Continuing Connected Transactions between the Group and the Nongtou Subsidiaries Group on an annual basis and the findings will be reported to the audit committee of the Company.

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

### **7. Terms of the New Master Sales Agreement**

Pursuant to the New Master Sales Agreement, the Nongtou Subsidiaries Group appointed the Company as one of its suppliers for Corn Starch and Other Products and the Group agrees to supply Corn Starch and Other Products to the Nongtou Subsidiaries Group. The New Master Sales Agreement shall become effective from the New Master Sales Agreement Effective Date and expiring on 31 December 2023 with the right of either party to effect an earlier termination by giving to the other not less than three months' written notice.

Pursuant to the New Master Sales Agreement, the Nongtou Subsidiaries Group shall enter into purchase orders or sales contracts with members of the Group from time to time during the term of the New Master Sales Agreement for the purposes of confirming the purchase of Corn Starch and Other Products by the Nongtou Subsidiaries. Such purchase orders or sales contracts shall specify the detailed terms of such purchase, including but not limited to the form of delivery, payment and remittance time and method (if there is any delay in payment by the a member of the Nongtou Subsidiaries Group, interest rate chargeable by the Group shall not be lower than (a) the payment overdue interest rate charged by the Group to independent third parties from time to time; and (b) the payment overdue interest rate charged by the Nongtou Subsidiaries Group to the Group in other transactions), quality warranties and inspection, and the respective rights and obligations of each party, provided that such separate purchase orders or sales contracts shall be for a fixed term and in any event not exceeding the term of the New Master Sales Agreement, at pricing terms and otherwise on terms in compliance with those set out in the New Master Sales Agreement.

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## LETTER FROM OCTAL CAPITAL

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(i) *Pricing policy of Corn Starch and Other Products*

The Corn Starch and Other Products mainly include upstream products, amino acids and corn sweeteners. We noted that the Group shall supply Corn Starch and Other Products to the Nongtou Subsidiaries Group at market rates and the unit price charged by the Group shall not be lower than the average unit price of Corn Starch and Other Products of the same or similar type sold by the Group to independent third parties in the most recent one-month period (price exclusive of transportation and storage costs, insurance costs, interest and/or other handling charges). In determining the market rates, the Group obtains price information from other industry players in different regions in the PRC from time to time in preparing the price quotations for its customers.

We are advised that the Group will consider the market environment, the cost of production and the volume of the purchase to ensure that the price of Corn Starch and Other Products will not be set at prices lower than market rates from time to time. Moreover, the Directors shall monitor the terms of the sales contracts to be entered between members of the Group and the Nongtou Subsidiaries Group from time to time to ensure that the price of Corn Starch and Other Products supplied by the Group to the Nongtou Subsidiaries Group will strictly adhere to the pricing mechanism as stated in the New Master Sale Agreement. The management of the Group will review comparable transactions of the same or similar type of products prior to determining the final price of Corn Starch and Other Products to be charged to the Nongtou Subsidiaries Group. Furthermore, the auditor of the Company and the independent non-executive Directors will carry out an annual review on the Continuing Connected Transactions to ensure the sale transactions between the Group and the Nongtou Subsidiaries Group are conducted on normal commercial terms and in accordance with the pricing policies of the New Master Sales Agreement.

We have obtained and reviewed selling transactions of each category of the Corn Starch and Other Products (namely upstream products, amino acids and corn sweeteners, if applicable) sold by the Group to the Nongtou Group on a sample basis and compared with transactions of same type of products between the Group and independent customers. We noted that the selling price offered to the Nongtou Group was comparable to those offered to the independent customers.

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## LETTER FROM OCTAL CAPITAL

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In view that (i) the price determination of Corn Starch and Other Products under the New Master Sales Agreement is benchmarked with the price charged to independent customers and such price shall not be lower than the average unit price of Corn Starch and Other Products charged by the Group to independent third parties within the relevant month; (ii) the Group obtain the latest pricing information from other industry players in different regions in the PRC, mainly in the north-eastern part of the PRC where most of the Group's customers are located there and the quoted price are more representative to the prevailing selling price in that area; and (iii) the Group has established internal control procedures to monitor the selling prices of Corn Starch and Other Products charged to the Nongtong Subsidiaries Group, we consider that the pricing policy under the New Master Sales Agreement is fair and reasonable to the Group.

**(ii) *Annual caps of the New Master Sales Agreement***

The annual caps for the New Master Sales Agreement for the three years ending 31 December 2023 are set out below:

	<b>Year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Annual caps	30.0	70.0	131.0

Under the Existing Master Sales Agreement, the annual caps for the two years ended 31 December 2019 and the year ending 31 December 2020 are HK\$447.0 million, HK\$2,052.0 million and HK\$2,642.0 million, respectively. The actual sale of Corn Starch and Other Products during the two years ended 31 December 2019 and the nine months ended 30 September 2020 were approximately nil, HK\$3.9 million and HK\$13.4 million, representing nil, approximately 0.2% and 0.5% of the respective annual caps.

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## LETTER FROM OCTAL CAPITAL

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We understood from the Company that the annual caps for the three years ending 31 December 2023 are determined by the Directors after taking into consideration of (i) the estimated sales of Corn Starch and Other Products by the Group during the three years ending 31 December 2023 with reference to the resumption plan of the Group's production facilities; (ii) historical amount of sales of Corn Starch and Other Products sold to the Nongtou Group as a percentage of total sales during the two years ended 31 December 2019 and the nine months ended 30 September 2020; (iii) the most recent selling price of Corn Starch and Other Products; and (iv) the inflation rate in the PRC.

In order to assess the fairness and reasonableness of the estimated quantity of Corn Starch and Other Products to be sold in the calculation of the proposed annual caps, we have performed the following analysis. The table below illustrates the quantity of Corn Starch and Other Products sold by the Group to the Nongtou Group during the two years ended 31 December 2019 and the nine months ended 30 September 2020:

	Year ended 31 December				Nine months ended	
	2018		2019		30 September	
	MT	%	MT	%	MT	%
<b>Sale contributed by:</b>						
The Nongtou Group	nil	nil	2,000	0.1	6,000	2.6
Independent						
customers	1,849,000	100.0	1,624,000	99.9	229,000	97.4
<b>Total quantity sold</b>						
by the Group	<u>1,849,000</u>	<u>100.0</u>	<u>1,626,000</u>	<u>100.0</u>	<u>235,000</u>	<u>100.0</u>

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## LETTER FROM OCTAL CAPITAL

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The table below illustrates the estimated quantity of Corn Starch and Other products expected to be sold by the Group during three years ending 31 December 2023:

	Year ending 31 December					
	2021		2022		2023	
	<i>MT</i>	<i>%</i>	<i>MT</i>	<i>%</i>	<i>MT</i>	<i>%</i>
<b>Expected quantity</b>						
<b>to be sold to:</b>						
The Nongtou						
Subsidiaries Group	10,000	0.7	22,000	1.5	42,000	2.5
Independent						
customers	<u>1,363,000</u>	<u>99.3</u>	<u>1,488,000</u>	<u>98.5</u>	<u>1,619,000</u>	<u>97.5</u>
<b>Total expected</b>						
<b>quantity to be</b>						
<b>sold by the Group</b>	<u><u>1,373,000</u></u>	<u><u>100.0</u></u>	<u><u>1,510,000</u></u>	<u><u>100.0</u></u>	<u><u>1,661,000</u></u>	<u><u>100.0</u></u>

We have obtained a list of estimated sales of Corn Starch and Other Products to Nongtou Subsidiaries Group and noted that their aggregate amount is equivalent to the annual caps. We understand from the Directors that the annual caps are prepared on the basis of multiplying the estimated price of the Corn Starch and Other Products per MT by the estimated quantity to be sold and after taking into account (i) the production capacity of the Group for Corn Starch and Other Products based on the resumption plan of the Group's production facilities and the improvement in the liquidity of the Group after the completion of land and properties resumption of the old production sites in Luyuan District of Changchun City; (ii) the recent purchase price and product mix of Corn Starch and Other Products; and (iii) the estimated sales volume of Corn Starch and Other Products based on historical sales quantity of the Group for the three years ended 31 December 2019.

As set out in the Letter from the Board, the management of the Group expects that the production will be gradually resumed in 2021 and the quantity of Corn Starch and Other Products to be sold by the Group in 2021 is expected to be approximately 1,373,000 MT.



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## LETTER FROM OCTAL CAPITAL

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Based on our review of the production plan and the expected resumption timeline for the production facilities, we noted that (i) the major operation of the Group's production facilities in Xinglongshan, Dehui and Jinzhou will resume at least 40.0% of their designed production capacity; and (ii) the production facilities in Shanghai will recover its utilization rate to approximately 80.0% to 95.0%. We understood that sales volume of approximately 1,373,000 MT was estimated with reference to (i) the average sales volume of Corn Starch and Other Products for the three years ended 31 December 2019 and (ii) an assumption that the operation of the Group will be resumed as scheduled given that the Group will have sufficient capital and the market sentiment is favorable. We have enquired into the management of the Company about the demand of Corn Starch and Other Products and are advised that such demand will increase based on the expectation that the market will move towards a slow recovery in 2021. According to the Ministry of Commerce of the PRC, the domestic swine population has reached approximately 370 million, marking the first increase since the third quarter of 2017. The management of the Company estimated that the demand-supply situation of pork in the PRC will return to the level before the outbreak of the ASF around the second half of 2021. The sales of Corn Starch and Other Products is expected to be driven by the increase in pork production along with the recovery of production capacity of the Group, in which the management of the Company expected the utilisation rate to reach around 40.0% to 85.0% by the end of 2021.

In calculating the proposed annual caps of the New Master Sales Agreement, the estimated sale price of Corn Starch and Other Products per MT is determined with reference to the most recent historical selling price of corn kernels. We have sample-checked the selling price of each category of the Corn Starch and Other Products (namely upstream products, amino acids and corn sweeteners) sold by the Group to independent customers during the period from 1 January 2019 to 30 June 2020 and noted that the quoted price was consistent with the figures used in calculation of the proposed caps.

The unit prices for Corn Starch and Other Products are expected to increase at an annual rate of approximately 2.6% from 2021 to 2023, taking into account of the price inflation in the PRC. With reference to research report issued by Macrotrends, the inflation rates in the PRC are ranged between 1.4% and 3.3% from 2010 to 2019 with an average of approximately 2.6%. In regard of the historical inflation rate in the PRC, we are of the view that the annual growth rate of unit price of approximately 2.6% is reasonably estimated.

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## LETTER FROM OCTAL CAPITAL

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In regard to the product mix of the Corn Starch and Other Products, we noted that the estimated sales of Corn Starch and Other Products, which include upstream products, amino acids and corn sweeteners, will account for approximately 71.5%, 24.1% and 4.4% of the total annual caps respectively for each of the three years ending 31 December 2023. We have checked the production mix for the year ended 31 December 2018 where the Company has not yet suspended its operation in production of amino acids. We observed that the production mix in the proposed annual caps is generally consistent with the actual product mix.

During 2022 and 2023, the quantity to be sold by the Group is estimated to grow at an annual rate of around 10.0% with reference to the compound annual growth rate on the sales volume of Corn Starch and Other Products from 2017 to 2019 of approximately 14.7%. During 2021, the management of the Group estimates that around 0.7% of Corn Starch and Other Products will be sold to the Nongtou Subsidiaries Group with reference to the average sales by the Group to the Nongtou Group in 2018 and 2019. The Nongtou Subsidiaries Group accepts a shorter credit terms, therefore the Group is planning to increase the sales transactions with the Nongtou Subsidiaries Group, which will amount to around 2.5% of the forecast sales volume in 2023. During the nine months ended 30 September 2020, the Group has sold around 6,000 MT of Corn Starch and Other Products to the Nongtou Group, representing around 2.6% of the total sales volume. With reference to the recent sales transactions with the Nongtou Group, we consider that the estimated sales volume with the Nongtou Subsidiaries Group in the coming three years is made under a prudent assumption.

Based on the above analysis, we consider that the bases for setting the annual caps for the New Master Sales Agreement for the three years ending 31 December 2023 are fair and reasonable.

**8. Internal control measures**

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

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## LETTER FROM OCTAL CAPITAL

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### RECOMMENDATION

Having considered the above principal factors and reasons, we concur with the Directors' view that (i) the Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Group; (ii) the terms of New Master Supply Agreement and New Master Sales Agreement are on normal commercial terms, and are fair and reasonable; (iii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the annual caps for the three years ending 31 December 2023 in respect of New Master Supply Agreement and New Master Sales Agreement are fair and reasonable. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend to the Independent Shareholders, to vote in favour of the ordinary resolutions of the Continuing Connected Transactions and the respective annual caps thereof at the EGM.

Yours faithfully,

For and on behalf of

**Octal Capital Limited**

**Alan Fung**

**Louis Chan**

*Managing Director*

*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 28 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 18 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.*

**1. RESPONSIBILITY STATEMENT**

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

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

As at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

**3. DISCLOSURE OF DIRECTORS' OTHER INTERESTS**

None of the Directors had any interest, direct or indirect, in any assets which have been since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

Mr. Yuan Weisen, an executive Director, is a director of certain members in the Nongtou Subsidiaries Group. Mr. Yuan Weisen is therefore considered to have material interests in the New Master Supply Agreement and the New Master Sales Agreement. As Mr. Yuan Weisen's administrative and executive duties as executive Director and the chairman of the Company have been suspended, Mr. Yuan was absent from the Board meeting held to approve the Transactions. Other than Mr. Yuan Weisen, none of the Directors have a material interest in the New Master Supply Agreement, the New Master Sales Agreement and the transactions contemplated thereunder.

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

## 4. SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Capacity/nature of interest	Number of Shares held (Note 1)	Percentage of the Company's issued share capital
Modern Agricultural	Beneficial owner (Note 2)	8,308,269,029 (L) (Note 3)	93.27
Modern Agricultural Industry Investment Holdings Limited (“Modern Agricultural Holdings”)	Interest of a controlled corporation (Note 2)	8,308,269,029 (L) (Note 3)	93.27
PRC LLP	Interest of a controlled corporation (Note 2)	8,308,269,029 (L) (Note 3)	93.27
吉林省現代農業產業基金有限公司 (Jilin Province Modern Agricultural Industry Fund Limited*) (“GP”)	Interest of a controlled corporation (Note 2)	8,308,269,029 (L) (Note 3)	93.27
Nongtou	Interest of a controlled corporation (Note 2)	8,308,269,029 (L) (Note 3)	93.27
SASAC of Jilin Province	Interest of a controlled corporation (Note 2)	8,308,269,029 (L) (Note 3)	93.27

Name of Shareholder	Capacity/nature of interest	Number of Shares held (Note 1)	Percentage of the Company's issued share capital
HK Bloom Investment Limited (“ <b>HK Bloom</b> ”)	Beneficial owner	2,508,407,357(L)	28.16
Li Zhenghao	Interest of a controlled corporation (Note 4)	2,508,407,357 (L)	28.16
Sun Zhen	Interest of a controlled corporation (Note 4)	2,508,407,357 (L)	28.16
Bank of Jilin Co., Ltd.	Person having a security interest in shares	1,279,799,672	14.37

## Notes:

1. The letter “L” denotes the Shareholders’ long position in the Shares.
2. The entire issued share 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, the investment capital of PRC LLP is owned as to 60% by Nongtou, which is in turn controlled by SASAC of Jilin Province, as to 26.7% by 銀華資本管理(珠海橫琴)有限公司 (Yinhua Capital Management (Zhuhai Hengqin) Co., Ltd.\*) and as to 13.3% by 長春市新興產業股權投資基金有限公司 (Changchun Emerging Industry Equity Investment Fund Co., Ltd.\*). Accordingly, each of Modern Agricultural, Modern Agricultural Holdings, PRC LLP, GP, Nongtou and SASAC of Jilin Province is deemed to be interested in the Shares held by Modern Agricultural in the Company under the SFO.
3. These interests represent 3,135,509,196 Shares and convertible bonds which may be converted into 5,172,759,833 Shares based on the adjusted conversion price of HK\$0.21 per Share upon full conversion.
4. Mr. Li Zhenghao and Ms. Sun Zhen are deemed to be interested in 28.16% of interest in the Company through their interest in 2,508,407,357 Shares as interest in controlled corporation, namely, HK Bloom.

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.

**5. SERVICE AGREEMENTS**

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

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirm that save as disclosed below, there is no material adverse change in the financial or trading position of the Group subsequent to 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date:

- (a) as disclosed in the interim report of the Company for the six months ended 30 June 2020, (i) the net current liabilities of the Group has increased from approximately HK\$8,877.0 million as at 31 December 2019 to approximately HK\$11,356.4 million as at 30 June 2020; (ii) the total assets less current liabilities of the Group has increased from approximately HK\$2,095.0 million as at 31 December 2019 to approximately HK\$4,872.1 million as at 30 June 2020; and (iii) the net liabilities of the Group have increased from approximately HK\$4,346.0 million as at 31 December 2019 to approximately HK\$5,070.9 million as at 30 June 2020;
- (b) as disclosed in the Company's announcement dated 29 May 2020 and the interim report of the Company for the period ended 30 June 2020, in light of the poor market sentiment in the PRC and the negative impact imposed by the COVID-19 pandemic, certain production facilities of the Group (except the operation in Shanghai) have been suspended. The revenue of the Group for the six months ended 30 June 2020 was approximately HK\$479.1 million, representing a decrease of approximately HK\$2,799.4 million or 82.9% as compared to the six months ended 30 June 2019;
- (c) as disclosed in the joint announcement of the Group and GSH together with its subsidiaries (the “**GSH Group**”) dated 25 February 2020, the Group has defaulted in the repayment of the certain loans and the aggregate outstanding principal amount under such loans (excluding loans of the GSH Group) was approximately RMB3.7 billion with outstanding interest amounting to approximately RMB326.6 million as at 31 October 2020. The maximum



liability guaranteed by the Group was approximately RMB3.9 billion, being the principal amount, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements, as at 31 October 2020. Certain subsidiaries of the GBT Group have also provided securities to secure the loans. Meanwhile, the GSH Group has also defaulted in the repayment of the certain loans and the aggregate outstanding principal amount under such loans is approximately RMB198.6 million with outstanding interest amounting to approximately RMB16.6 million as at 31 October 2020. The maximum liability guaranteed by the Company is RMB199.0 million, being the principal amount, together with all interests, liabilities, fees and penalty that may accrue under the loan agreements, as at 31 October 2020;

- (d) as disclosed in the joint announcement of the Group and GSH dated 4 May 2020, 錦州元成生化科技有限公司 (Jinzhou Yuancheng Biochem Technology Co., Ltd.\*), which is an indirect wholly-owned subsidiary of GSH, has failed to fulfilled certain financial covenants under various loan agreements entered into with 中國建設銀行股份有限公司錦州分行 (Jinzhou Branch of China Construction Bank\*) and 中國銀行股份有限公司錦州港支行 (Jinzhou Branch of Bank of China\*) and such breach entitles the lenders to, among others, declare the outstanding principal amount, accrued interest and all other sums payable under the loan agreements immediately due and payable. As at 31 October 2020, the aggregate outstanding principal amount under such loan agreements was RMB219.9 million with outstanding interest amounting to approximately RMB10.9 million; and
- (e) as disclosed in the Company's announcement dated 30 September 2020, the Group has entered into a compensation agreement with the Changchun Municipal Government, 長春市綠園區人民政府 (The People's Government of Luyuan District of Changchun City\*), pursuant to which the Group will receive a compensation of approximately RMB443.0 million (equivalent to approximately HK\$486.8 million) in relation to the resumption of land and properties owned by the Group.

## 7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates were 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 or her associates was a controlling Shareholder.

**8. 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 inclusion of its advice, its letter and summary of its opinion and reference to its name and logo in the form and context in which they respectively 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; or have any direct or indirect interest in any assets which since 31 December 2019, being the date to which the latest published audited financial statements of the Group were made up, had been acquired or disposed of by or lease, or was proposed to be acquired or disposed of by, or leased to any member of the Group.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:00 p.m. on any business day from the date of this circular up to and including the date of the EGM 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;

- (a) a copy of the Existing Master Supply Agreement;
- (b) a copy of the Existing Master Sales Agreement;
- (c) a copy of the New Master Supply Agreement; and
- (d) a copy of the New Master Sales Agreement.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, 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 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 (the “**Meeting**”) of Global Bio-chem Technology Group Company Limited (the “**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 Friday, 15 January 2021 to consider and, if thought fit, pass the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

1. “**THAT** the new master supply agreement (“**New Master Supply Agreement**”) (a copy of which has been produced to the Meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) dated 27 November 2020 entered into between (i) 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.\*) and 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.\*) (for themselves and on behalf of their respective subsidiaries from time to time) (collectively, the “**Nongtou Subsidiaries Group**”) as suppliers and (ii) the Company (for itself and on behalf of its subsidiaries from time to time) as purchaser in relation to the supply of corn kernels by the Nongtou Subsidiaries Group to the Group, the transactions contemplated thereunder and its expected annual caps of HK\$798,000,000, HK\$1,092,000,000 and HK\$1,793,000,000 for each of the three years ending 31 December 2023, respectively, be and are hereby approved and that any directors of the Company be and is hereby authorised to take any action and sign any document (under seal, if necessary) as he/she considers necessary, desirable or expedient in connection with the New Master Supply Agreement and/or the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interest of the Company provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the New Master Supply Agreement.”

\* for identification purposes only

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## NOTICE OF EGM

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2. “**THAT** the new master sales agreement (“**New Master Sales Agreement**”) (a copy of which has been produced to the Meeting marked “B” and signed by the chairman of the Meeting for the purpose of identification) dated 27 November 2020 entered into between (i) 吉林糧食資產管理有限公司 (Jilin Grain Asset Management Co., Ltd.\*) and 吉林農投糧食集團有限公司 (Jilin Nongtou Grain Group Co., Ltd.\*) (for themselves and on behalf of their respective subsidiaries from time to time) as purchasers (ii) and the Company (for itself and on behalf of its subsidiaries from time to time) as supplier in relation to the supply of corn starch and other corn-refined products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners, amino acids and enzymes products by the Group to the Nongtou Subsidiaries Group, the transactions contemplated thereunder and its expected annual caps of HK\$30,000,000, HK\$70,000,000 and HK\$131,000,000 for each of the three years ending 31 December 2023, respectively, be and are hereby approved and that any directors of the Company be and is hereby authorised to take any action and sign any document (under seal, if necessary) as he/she considers necessary, desirable or expedient in connection with the New Master Sales Agreement and/or the transactions contemplated thereunder and to agree to such variation, amendment or waiver as are, in the opinion of such director of the Company, in the interest of the Company provided that such variation, amendment or waiver shall not be fundamentally different from the terms as provided in the New Master Sales Agreement.”

By order of the Board of  
**Global Bio-chem Technology Group Company Limited**  
**Zhang Zihua**  
*Acting Chairman*

Hong Kong, 21 December 2020

*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

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## NOTICE OF EGM

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*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. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the above Meeting, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such Share shall alone be entitled to vote in respect thereof
3. To be valid, the form of proxy together with a power of attorney or other authority (under which it is signed or a notarially certified thereof), if any, 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 Wednesday, 13 January 2021 (Hong Kong time)) or any adjournment thereof.
4. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above Meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. The register of members of the Company will be closed from Tuesday, 12 January 2021 to Friday, 15 January 2021, 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 3 above no later than 4:30 p.m. on Monday, 11 January 2021 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 Mr. Gao Dongsheng and three independent non-executive Directors, namely, Ms. Dong Hongxia, Mr. Ng Kwok Pong and Mr. Yeung Kit Lam.*