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

NEW MASTER SUPPLY AGREEMENT

Reference is made to the announcement of the Company dated 15 May 2017, in relation to the Existing Master Supply Agreement entered into between the Company and Jiliang in relation to the supply of corn kernels by Jiliang to members of the Group on an ongoing basis.

On 12 September 2018, the Company entered into the New Master Supply Agreement with Nongtou in relation to the supply of corn kernels by members of the Nongtou Group to members of the Group on an ongoing basis.

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

MASTER SALES AGREEMENT

On 12 September 2018, the Company entered into the Master Sales Agreement with Nongtou in relation to the supply of Corn Starch and Other Products by members of the Group to members of the Nongtou Group on an ongoing basis.

* *for identification purpose only*

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Nongtou is interested in 49% of the entire issued share capital of the Company through its control in Jilin Province Modern Agricultural Industry Investment Fund, which indirectly holds the entire issued share capital of Modern Agricultural. As such, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the annual caps under the New Master Supply Agreement and the Master Sales Agreement for each of the three years ending 31 December 2020 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10 million each, the continuing connected transactions under the New Master Supply Agreement and the Master Sales Agreement and the respective annual caps therefore are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be held for the Independent Shareholders to consider, and if thought fit, approve the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps at the EGM.

The IBC comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. An IFA will be appointed by the Company to advise the IBC and the Independent Shareholders in this regard.

A circular including, among other information, (i) a letter from the Board containing further information on the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps; (ii) a letter from an IFA containing its advice in connection with the aforesaid; (iii) recommendations of the IBC to the Independent Shareholders; and (iv) a notice convening the EGM, will be despatched to the Shareholders on or before 3 October 2018.

NEW MASTER SUPPLY AGREEMENT

Date: 12 September 2018

Parties: (1) the Company as purchaser
(2) Nongtou as supplier

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

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

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

Pricing and other terms

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

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

- (3) the latest corn price in Liaoning Province, Jilin Province and Heilongjiang Province obtained from China Corn Network (www.yumi.com.cn), an independent third party price consulting platform on the date of making purchase order by any member of the Group.

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

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

ANNUAL CAPS

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

The above annual caps 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 business growth of the Group, the historical and current price of corn kernels; and (ii) the estimated production output of the Group in the coming years.

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

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

It is expected by the Directors that the quantity of corn kernels to be purchased by members of the Group for the six months ending 31 December 2018 and the two years ending 31 December 2020 shall be approximately 884,000 MT (amounting to approximately HK\$1,686,000,000), 2,080,000 MT (amounting to approximately HK\$4,088,000,000) and 2,600,000 MT (amounting to approximately HK\$5,263,000,000), which is based on the projection of corn price according to the recent market price of corn kernels and with reference to the market demand of the respective product lines of the Group.

The Directors (excluding the independent non-executive Directors whose views will, after receiving the advice from the IFA, be set out in the letter from the IBC in the circular to be despatched to the Shareholders) are of the opinion that the proposed annual caps as stated above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MASTER SUPPLY AGREEMENT

By entering into the New Master Supply Agreement, it is expected that the Group will be able to better source its required quantity of corn kernels with higher flexibility and in close proximity to the Group's production sites. It will also allow more flexibility for Nongtou to arrange its source of corn kernels internally through its list of subsidiaries so as to offer more competitive terms for the Group. In addition, as Nongtou is ultimately controlled by SASAC of Jilin Province, given its state-owned background and the relationship with the Group, Nongtou is able to offer better credit terms to the Group, as compared to direct purchase from local farmers which offers no credit period at all.

The Directors (excluding the independent non-executive Directors whose views will, after receiving the advice from the IFA, be set out in the letter from the IBC in the circular to be despatched to the Shareholders) are of the view that the terms of the New Master Supply Agreement are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

MASTER SALES AGREEMENT

Date: 12 September 2018

Parties: (1) Nongtou as purchaser
(2) the Company as supplier

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

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

Pricing and other terms

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

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

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

ANNUAL CAPS

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

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

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

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

It is expected by the Directors that the quantity of Corn Starch and Other Products to be sold by members of the Group for the six months ending 31 December 2018 and the two years ending 31 December 2020 shall be 821,000 MT (amounting to approximately HK\$2,556,000,000), 1,943,000 MT (amounting to approximately HK\$5,863,000,000) and 2,429,000 MT (amounting to approximately HK\$7,549,000,000), which is based on the projection of Corn Starch and Other Products price according to the recent Corn Starch and Other Products market price, the historical sales performance of the Group, expected market demand of Corn Starch and Other Products and the estimated production volume of the Group in the coming years.

The Directors (excluding the independent non-executive Directors whose views will, after receiving the advice from the IFA, be set out in the letter from the IBC in the circular to be despatched to the Shareholders) are of the opinion that the proposed annual caps as stated above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MASTER SALES AGREEMENT

The Master Sales Agreement offers the Group an additional outlet of its products. By entering into the Master Sales Agreement, the Group would be able to exploit the existing product markets leveraging on the sales network of Nongtou. In addition, Nongtou will accept shorter payment terms for the members of the Group for the sales of Corn Starch and Other Products, as compared to the existing credit terms of 30 to 90 days granted to the customers of the Group. Given that the Nongtou Group is controlled by SASAC of Jilin Province, the credit risk of Nongtou Group is comparatively lower than other commercial customers. Such arrangement will ease the pressure of the cash flow of the Group. From Nongtou's point of view, as a state-owned entity which is tasked to consolidate the agricultural sector of the Jilin Province, it has a wide range of agricultural-related businesses, including soft commodity trading. Since the Group can provide a stable supply of Corn Starch and Other Products, the sales of Corn Starch and Other Products to Nongtou would help Nongtou to hedge its risks in the commodity futures market. As such, the Master Sales Agreement creates synergies for both Nongtou and the Group's businesses.

The Directors (excluding the independent non-executive Directors whose views will, after receiving the advice from the IFA, be set out in the letter from the IBC in the circular to be despatched to the Shareholders) are of the view that the terms of the Master Sales Agreement are fair and reasonable, on normal commercial terms which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Nongtou is interested in 49% of the entire issued share capital of the Company through its control in Jilin Province Modern Agricultural Industry Investment Fund, which indirectly holds the entire issued share capital of Modern Agricultural. As such, Nongtou is a connected person of the Company. Accordingly, the transactions contemplated under each of the New Master Supply Agreement and the Master Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Since the annual caps under the New Master Supply Agreement and the Master Sales Agreement for each of the three years ending 31 December 2020 are expected to represent more than 5% for one or more of the applicable percentage ratios under the Listing Rules and are expected to exceed HK\$10 million each, the continuing connected transactions under the New Master Supply Agreement and the Master Sales Agreement and the respective annual caps therefor are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INFORMATION OF THE GROUP AND NONGTOU

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

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

GENERAL

An EGM will be held for the Independent Shareholders to consider, and if thought fit, approve the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps.

The IBC comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps are on normal commercial terms and in the ordinary and usual course of business of the Company, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. An IFA will be appointed by the Company to advise the IBC and the Independent Shareholders in this regard.

A circular including, among other information, (i) a letter from the Board containing further information on the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps; (ii) a letter from an IFA containing its advice in connection with the aforesaid; (iii) recommendations of the IBC to the Independent Shareholders; and (iv) a notice convening the EGM, will be despatched to the Shareholders on or before 3 October 2018.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“associate(s)”	have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Global Bio-chem Technology Group Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Corn Starch and Other Products”	Corn Starch and other corn-based products such as corn gluten meal, corn fibre, corn oil, corn germ meal, corn sweeteners and amino acid products
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps
“Existing Master Supply Agreement”	the agreement dated 15 May 2017 and entered into between the Company (for itself and on behalf of the Group) and Jiliang in relation to the supply of corn kernels by Jiliang to members of the Group
“Group”	the Company and its subsidiaries from time to time

“IBC”	the independent board committee of the Board comprising Mr. Ng Kwok Pong, Mr. Yeung Kit Lam and Ms. Chiu Lai Ling Shirley, being the independent non-executive Directors appointed by the Board for the purpose of advising the Independent Shareholders in relation to the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps
“IFA”	the independent financial advisers to be appointed by the Board and approved by the IBC for the purpose of advising the IBC and the Independent Shareholders in relation to the continuing connected transactions under the New Master Supply Agreement, the Master Sales Agreement and the respective related annual caps
“Independent Shareholders”	Shareholders other than Modern Agricultural and its associates, and all other Shareholders interested in the New Master Supply Agreement, the Master Sales Agreement and the transactions contemplated thereunder
“Jiliang”	Jilin Jiliang Assets Supply Chain Management Co., Ltd. (吉林吉糧資產供應鏈管理有限公司), a company established in the PRC which is indirectly wholly owned by Nongtou
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Sales Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of the Group) and Nongtou (for itself and on behalf of the Nongtou Group) in relation to the supply of Corn Starch and Other Products by the Group to the Nongtou Group
“Master Sales Agreement Effective Date”	the date on which the Master Sales Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM
“MT”	metric tonne
“Modern Agricultural”	Modern Agricultural Industry Investment Limited, a company incorporated in the British Virgin Islands which is the controlling shareholder of the Company holding 49% of the entire issued share capital of the Company as at the date of this announcement

“New Master Supply Agreement”	the agreement dated 12 September 2018 and entered into between the Company (for itself and on behalf of the Group) and Nongtou (for itself and on behalf of the Nongtou Group) in relation to the supply of corn kernels by the Nongtou Group to the Group
“New Master Supply Agreement Effective Date”	the date on which the New Master Supply Agreement shall become effective, i.e. the date upon the obtaining of the Independent Shareholders’ approval at the EGM
“Nongtou”	吉林省農業投資集團有限公司 (Jilin Agricultural Investment Group Co., Ltd.), a company established in the PRC which is controlled by SASAC of Jilin Province
“Nongtou Group”	Nongtou and its subsidiaries from time to time
“PRC”	the People’s Republic of China
“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)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

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

Hong Kong, 12 September 2018

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