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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 a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Beidahuang Industry Group Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, 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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China Beidahuang Industry Group Holdings Limited

中國北大荒產業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00039)

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders



BAOQIAO PARTNERS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders regarding the Framework Agreement is set out on page 16 to 17 of this circular. A letter from BaoQiao Partners containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Agreement is set out on pages 18 to 34 of this circular. A notice convening an extraordinary general meeting (the “EGM”) of China Beidahuang Industry Group Holdings Limited (the “Company”) to be held at Unit E, 30/F., Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 8 October 2019 at 11:00 a.m. is set out on pages 40 to 41 of this circular.

A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are advised to complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong as soon as practicable but in any event no less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

19 September 2019

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DEFINITIONS

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

“Annual Cap(s)”	the proposed annual caps of the Supply Transactions for the three years ending 31 December 2019, 2020 and 2021 of which the details are set out under the paragraph headed “Proposed annual caps” in the Letter from the Board in this circular
“associates”	has the meaning ascribed to it under the Listing Rules
“BaoQiao Partners”	BaoQiao Partners Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Framework Agreement, the proposed Annual Caps and the Ratification Matter
“Beidahuang Group”	黑龍江北大荒農墾集團總公司 (Heilongjiang Beidahuang Agribusiness Group Corporation*), a limited liability company incorporated in the PRC
“Beidahuang HK”	Beidahuang (HK) International Trade Co., Limited (北大荒(香港)國際貿易有限公司), a company incorporated in Hong Kong with limited liability, and a member of the Supplier Group
“Beidahuang Marketing Co.”	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*), a company established in the PRC with limited liability, and a member of the Supplier Group
“Board”	the board of Directors
“Company”	China Beidahuang Industry Group Holdings Limited (中國北大荒產業集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company from time to time
“EGM”	the extraordinary general meeting of the Company which will be held at Unit E, 30/F., Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 8 October 2019 at 11:00 a.m. at which a resolution will be proposed to approve, among others, the New Framework Agreement and Ratification Matter
“Former Framework Agreement”	the framework agreement dated 13 May 2015 between the Company and the Former Supplier in relation to the supply of the Products for the three years ended 31 December 2015, 2016 and 2017
“Former Supplier”	黑龍江農墾北大荒商貿集團有限責任公司 (Heilongjiang Nongken Beidahuang Business Trade Liability Group Co., Ltd*), a company established in the PRC with limited liability
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board, comprising Mr. Chong Cha Hwa, Mr. Ho Man Fai and Mr. Yang Yunguang, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the New Framework Agreement
“Independent Shareholders”	Shareholders other than the Supplier Group

DEFINITIONS

“Latest Practicable Date”	13 September 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Framework Agreement”	the conditional framework agreement dated 10 June 2019 between the Company and the Supplier in relation to the supply of the Products for the three years ending 31 December 2019, 2020 and 2021
“New Supplier”	通遼北大荒糧貿有限公司 (Tongliao Beidahuang Cereals Trading Co., Ltd*), a company established in the PRC with limited liability, and a member of the Supplier Group
“PRC”	the People’s Republic of China, which for the purposes of this circular shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Percentage Ratios”	has the meaning ascribed to it under Rule 14.09(4) of the Listing Rules
“Products”	green and organic food products including but not limited to corn, cooking oil, and cereals and oils
“Ratification Matter”	has the meaning ascribed to it in the paragraph headed “Non-compliance with the Listing Rules” in the Letter from the Board in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supply Transactions”	the supply of the Products from the Supplier Group to the Group
“Supplier Group”	Beidahuang Group and its subsidiaries (including without limitation the Former Supplier, the New Supplier and Beidahuang Marketing Co.)
“%”	per cent

* *English translations for the Chinese names of the PRC entities in this circular are for reference only*

LETTER FROM THE BOARD



China Beidahuang Industry Group Holdings Limited

中國北大荒產業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

Executive Directors:

Mr. Li Jiehong (*Chairman*)

Mr. Ke Xionghan

Mr. Huang Wuguang

Non-executive Director:

Ms. Ho Wing Yan

Independent Non-executive Directors:

Mr. Chong Cha Hwa

Mr. Ho Man Fai

Mr. Yang Yunguang

Registered Office:

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

Head office and principal place

of business in Hong Kong:

Room 225, 2/F

Mega Cube

8 Wang Kwong Road

Kowloon Bay

Kowloon, Hong Kong

19 September 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company dated 10 June 2019 and 18 July 2019, in relation to (a) the continuing connected transactions in respect of supply of Products for the three financial years ending 31 December 2019, 2020 and 2021, and (b) ratification of the Supply Transactions for the financial year ended 31 December 2018.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information regarding, among other things, (i) further information about the New Framework Agreement and the Annual Caps; (ii) further information about the Supply Transactions for the financial year ended 31 December 2018; (iii) the letter of advice from BaoQiao Partners to the Independent Board Committee and the Independent Shareholders; (iv) the recommendation from the Independent Board Committee; and (v) the notice of the EGM.

NEW FRAMEWORK AGREEMENT

On 10 June 2019, the Company entered into the New Framework Agreement with the New Supplier in relation to the supply of the Products.

The principal terms of the New Framework Agreement are set out below:

Date:	10 June 2019
Parties:	(1) The Company (for itself and on behalf of the Group); and (2) The New Supplier (for itself and on behalf of the Supplier Group).
Products:	Green and organic food products including but not limited to corn, cooking oil, and cereals and oils.
Condition:	The New Framework Agreement will take effect upon obtaining of the Independent Shareholders' approval of the New Framework Agreement at the EGM
Term:	From the date of approval of the Independent Shareholders as set out in the paragraph headed "Condition" above to 31 December 2021
Pricing:	The Company may purchase or procure other members of the Group to purchase, and the New Supplier may sell or procure other members of the Supplier Group to sell, the Products at prices determined on an arms' length basis, comparable to the prevailing market rates and on terms no less favourable to the Group than those available to any independent third party.
Payment Term:	The Group shall make payment to the Supplier Group within 2 months after the delivery of the Products.

LETTER FROM THE BOARD

In respect of the supply of the Products contemplated under the New Framework Agreement, any member of the Group and any member of the Supplier Group may, within the scope of the New Framework Agreement, enter into specific product supply agreement setting out, among others, quantity, specification, price and delivery terms, provided that the terms of the specific product supply agreement shall not contravene those of the New Framework Agreement.

PRICING MECHANISM

The procurement department of the Group and its designated persons are mainly responsible for ascertaining the prices offered by other independent third parties, generally by way of telephoning at least two independent third parties to determine the market price of the similar Products. The procurement department of the Group also conducts market search (if necessary) based on the transaction data of the Products extracted from the website of National Grain Trade Centre (<http://www.grainmarket.com.cn>) (“**NGTC Website**”) and reviews the comparable prices for similar Products to ensure there are sufficient comparable prices to which it could refer to and each transaction is conducted in accordance with the pricing policy set out above. If the prices offered by the Supplier Group are higher than other independent suppliers, the Group has the right to purchase the Products from other suppliers.

The above mechanism on pricing of the Products applies to the Supply Transactions in the financial year ended 31 December 2015, 2016, 2017 and 2018 and will continue to apply to the Supply Transactions under the New Framework Agreement. In order to improve internal controls over the pricing mechanism, there is plan for the finance department of the Group to perform a random checking to ensure the compliance with the above mechanism at least once in every six-month period after obtaining the Independent Shareholders’ approval of the New Framework Agreement at the EGM. In view of the above, the Directors are of the view that the pricing mechanism is fair and reasonable and the terms of the Supply Transactions in the years ended 31 December 2018 were no less favourable than those offered to independent third parties.

LETTER FROM THE BOARD

ANNUAL CAPS

Historical amounts and annual caps

The historical amounts and the annual caps for the four years ended 31 December 2015, 2016, 2017 and 2018 and the annual caps for each of the three years ended 31 December 2015, 2016 and 2017 under the Former Framework Agreement are set out below:

	For the year ended 31 December			
	2015	2016	2017	2018
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical amount	220	11	18	107
Annual caps	576	950	1,045	N/A

Annual Caps

The Annual Caps for transactions contemplated under the New Framework Agreement for each of the three years ending 31 December 2019, 2020 and 2021 are set out below:

	For the year ending 31 December		
	2019	2020	2021
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Annual Caps	150	150	150

LETTER FROM THE BOARD

The Annual Caps set out above are determined based on the following assumptions:

- (i) the internal projections of the maximum number of tonnes of the Products that may potentially be purchased by the Group from the Supplier Group in the years 2019, 2020 and 2021 are around 70,000 tonnes which is similar to the historical level recorded in the year ended 31 December 2018, representing about 60% of the expected volume of the Products to be purchased from all the parties. The management of the Group expects that approximately 100% will be corn in the three financial years ending 31 December 2019, 2020 and 2021 as the case of previous years based on the demand of the Group's customers;
- (ii) the estimated prices for the purchases of the corn, being the expected major Products in 2019, 2020 and 2021 are around RMB2,050/tonne which is close to the prevailing price of the commodity market of the corn (which is base on the recent corn trading price for June 2019 published on NGTC Website); and
- (iii) the inclusion of a buffer of 5% to accommodate any unexpected changes in market condition.

Base on above, the Directors consider the above assumptions are fair and reasonable.

The Group has not entered into any Supply Transactions in the period from 1 January 2019 to the Latest Practicable Date.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW FRAMEWORK AGREEMENT

The Group is principally engaged in the business of sale and distribution of wine and liquor, trading of food products, rental, money lending, construction and development and mineral products.

The Supplier Group is principally engaged in sale of agricultural products and machinery, and operation of organic green food chain stores. In addition, Beidahuang HK, a member of the Supplier Group, is the holder of 660,000,000 Shares, representing approximately 10.60% of the issued share capital of the Company as at the Latest Practicable Date.

LETTER FROM THE BOARD

The New Supplier is a subsidiary of Beidahuang Marketing Co., and principally engaged in trading of food products. Beidahuang Marketing Co. and the Former Supplier are subsidiaries of Beidahuang Group, which is the ultimate beneficial owner of the New Supplier and an investment holding company. Since the New Supplier is principally engaged in supply of Products and it is the major party to supply the Products to the Group under the Former Supply Agreement and the New Supply Agreement, it is considered more appropriate for the New Supplier to sign the New Framework Agreement. As both the New Supplier and the Former Supplier are subsidiaries of Beidahuang Group, the change of the party to sign the New Framework Agreement does not affect the members of the Supplier Group which will actually supply the Products to the Group.

Leveraging on the relationship with the Supplier Group, and the Supplier Group's leading position in agricultural business, the New Framework Agreement will continue to provide the Group with competitive advantage in pricing its Products as the Group will be able to secure stable supply, and have more flexibility to procure the Products from the Supplier Group on better terms than those offered to it by third parties.

The Directors are of the view that the entering into of the New Framework Agreement is in the ordinary and usual course of business of the Group and the terms of the New Framework Agreement (including its annual caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Gu Chunyang (a former Director) is the general manager of Beidahuang Maiye Co., Ltd. (北大荒麥業有限責任公司) which is a member of the Supplier Group and he is considered to have material interest in the transactions contemplated under the New Framework Agreement, and he has abstained from voting on the board resolution approving the New Framework Agreement.

NON-COMPLIANCE WITH THE LISTING RULES

Rule 14A.76(2) of the Listing Rules

Some of the Percentage Ratios (other than profits ratio) in respect of the amount of the Supply Transactions in the year ended 31 December 2018 have exceeded 5%, and the approval of Independent Shareholders has not been obtained as required under Rule 14A.76(2) of the Listing Rules due to oversight. As such, the Company will also seek to obtain the approval of the Independent Shareholders at the EGM to ratify such transactions (“**Ratification Matter**”).

LETTER FROM THE BOARD

Annual Review by Independent Non-executive Directors and Auditors

Under Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Supply Transactions for the financial year ended 31 December 2018 (“FY 2018”) and confirm in 2018 annual report of the Company whether the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Under Rule 14A.56 and 14A.57 of the Listing Rules, the Company is required to engage its auditors to report the Supply Transactions in FY 2018 and the Company is required to provide a copy of the letter of its auditors on the aforesaid matters to the Stock Exchange before bulk printing of 2018 annual report of the Company. The Company advised that it has not complied with the requirements of Rules 14A.55, 14A.56 and 14A.57 of the Listing Rules as the independent non-executive Directors did not provide the required confirmation in 2018 annual report of the Company and the auditors did not issue a letter to report on the matters set out under Rule 14A.56 of the Listing Rules for FY 2018.

Measures for Compliance with the Listing Rules

The Company has taken the following measures to ensure compliance with the requirements on continuing connected transactions under the Listing Rules:

- (i) The finance department of the Company is monitoring the amount of Supply Transaction regularly, at least on a monthly basis, to ensure the amounts will be within the annual caps as approved by the Independent Shareholders.
- (ii) The Company will engage professional to prepare compliance materials and deliver training course(s) to the relevant staff to strengthen the internal control on compliance with the requirements on continuing connected transactions.
- (iii) The finance department of the Company is reviewing the business activities between the members of the Group and each of the Directors (including their associates) and the substantial shareholders of the Company (including their associates), at least on a monthly basis.

LETTER FROM THE BOARD

- (iv) The finance department of the Company will arrange the independent non-executive Directors and the auditors of the Company to perform the review on continuing connected transaction during preparation of annual reports.

IMPLICATIONS UNDER THE LISTING RULES

As Beidahuang HK (being a member of the Supplier Group) owns 660,000,000 Shares (representing about 10.60% of the issued share capital of the Company) as at the Latest Practicable Date, it is a connected person of the Company under the Listing Rules. As the Supply Transactions involves provision of goods on a continuing or recurring business and in the ordinary and usual course of business of the Group, such transactions constitute continuing connected transactions of the Company under the Listing Rules.

As the proposed Annual Caps of Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Transactions (including the proposed Annual Caps) will be subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements pursuant to Chapter 14A of the Listing Rules. All members of the Supplier Group are required to abstain from voting in a general meeting in respect of resolution proposed for approval of the above continuing connected transactions.

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the New Framework Agreement and the Annual Caps and the Ratification Matter. BaoQiao Partners has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

LETTER FROM THE BOARD

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder, whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, there existed no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the EGM in respect of the resolution approving the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

EGM

Set out on pages 40 to 41 of this circular is a notice convening the EGM which will be held at Unit E, 30/F., Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong at 11:00 a.m. on Tuesday, 8 October 2019 at which a resolution will be proposed to approve the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

The New Framework Agreement, the proposed Annual Caps and Ratification Matter are subject to, among other things, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. Beidahuang HK and its associates shall abstain from voting for the resolution approving the New Framework Agreement, the proposed Annual Caps and the Ratification Matter at the EGM due to their interest in the concerned transactions. Other than the above, no other Shareholders have a material interest in the above transactions and will abstain from voting in respect of the resolution to approve the New Framework Agreement, the proposed Annual Caps and the Ratification Matter at the EGM. As at the Latest Practicable Date, Beidahuang HK (including its associates) is the holder of 660,000,000 Shares (representing about 10.60% of the issued share capital of the Company).

A form of proxy for the EGM is enclosed. Whether or not you wish to attend the EGM, you are requested to complete the form of proxy and return the same to the office of the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

The text of the letter from BaoQiao Partners containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 34 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 16 to 17 of this circular.

The Independent Board Committee, having taken into account the advice of BaoQiao Partners, is of the opinion that the New Framework Agreement, the proposed Annual Caps and the Ratification Matter are of normal commercial terms and in the ordinary and usual course of business of the Group, and they are fair and reasonable and in the interests of the Company and the Shareholders as whole and recommends the Independent Shareholders to vote in favour of the resolution to be proposed at EGM approving the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

The Board of the view that the New Framework Agreement, the proposed Annual Caps and the Ratification Matter are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM approving the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,

By Order of the Board

China Beidahuang Industry Group Holdings Limited

Li Jiehong

Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



China Beidahuang Industry Group Holdings Limited

中國北大荒產業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

19 September 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS

We refer to the circular dated 19 September 2019 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the New Framework Agreement, the proposed Annual Caps and the Ratification Matter to advise the Independent Shareholders as to the fairness and reasonableness of the aforesaid matters, and to recommend how the Independent Shareholders should vote at the EGM. BaoQiao Partners has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 15 of the Circular, and the letter from BaoQiao Partners to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter, as set out on pages 18 to 34 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account of the advice of BaoQiao Partners, we consider that the New Framework Agreement, the proposed Annual Caps and the Ratification Matter are of normal commercial terms and in the ordinary and usual course of business of the Group, and the New Framework Agreement, the proposed Annual Cap and the Ratification Matter are fair and reasonable and in the interests of the Company and the Shareholders as whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the New Framework Agreement, the proposed Annual Caps and the Ratification Matter.

Yours faithfully,
the Independent Board Committee

Mr. Chong Cha Hwa
Independent non-executive
Director

Mr. Ho Man Fai
Independent non-executive
Director

Mr. Yang Yunguang
Independent non-executive
Director

LETTER FROM BAOQIAO PARTNERS

The following is the text of a letter of advice from BaoQiao Partners to the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter, which has been prepared for the purpose of inclusion in this circular.



BAOQIAO PARTNERS CAPITAL LIMITED

Unit 601, 6/F, Tower 1, Admiralty Centre,
18 Harcourt Road, Admiralty, Hong Kong

19 September 2019

*To the Independent Board Committee and the Independent Shareholders of
China Beidahuang Industry Group Holdings Limited*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter (as defined below), details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 19 September 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

As disclosed in the announcement of the Company dated 10 June 2019 (the "**2019 Announcement**"), among other things, on 10 June 2019, the Company entered into the New Framework Agreement with the New Supplier in relation to the Supply Transactions (i.e. supply of the Products by the Supplier Group to the Group).

LETTER FROM BAOQIAO PARTNERS

As Beidahuang HK (being a member of the Supplier Group) owns 660,000,000 Shares (representing about 10.60% of the issued share capital of the Company) as at the Latest Practicable Date, it is a connected person of the Company under the Listing Rules. As the Supply Transactions involves provision of goods on a continuing or recurring business and in the ordinary and usual course of business of the Group, such transactions constitute continuing connected transactions of the Company under the Listing Rules.

As the proposed Annual Caps of the Supply Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Supply Transactions (including the proposed Annual Caps) will be subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements pursuant to Chapter 14A of the Listing Rules. Beidahuang HK, its ultimate beneficial owners and their respective associates are required to abstain from voting in a general meeting in respect of resolution proposed for approval of the above continuing connected transactions.

In addition, as disclosed in the Letter from the Board, some of the Percentage Ratios (other than profits ratio) in respect of the amount of the Supply Transactions in the year ended 31 December 2018 have exceeded 5%, and the approval of Independent Shareholders has not been obtained as required under Rule 14A.76(2) of the Listing Rules due to oversight. As such, the Company will also seek to obtain the approval of the Independent Shareholders at the EGM to ratify such transactions (“**Ratification Matter**”).

Mr. Gu Chunyang (a former Director who resigned as executive Director and vice chairman of the Board on 14 June 2019) is the general manager of a member of the Supplier Group, namely Beidahuang Maiye Co., Ltd. (北大荒麥業有限責任公司) and he is considered to have material interest in the transactions contemplated under the New Framework Agreement, and he has abstained from voting on the board resolution approving the New Framework Agreement.

The Independent Board Committee comprising the independent non-executive Directors, namely Mr. Chong Cha Hwa, Mr. Ho Man Fai and Mr. Yang Yunguang, has been formed to advise the Independent Shareholders as to whether the entering into of the New Framework Agreement is in the ordinary and usual course of business of the Group and the terms of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter are fair and reasonable and in the interests of the Company and its Shareholders as a whole. We, BaoQiao Partners Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such respect.

LETTER FROM BAOQIAO PARTNERS

OUR INDEPENDENCE

In the last two years, prior to the Latest Practicable Date, we have not acted in any capacity in relation to any transactions of the Company. As at the Latest Practicable Date, we do not have any relationship with, or have any interest in, the Company and its respective subsidiaries and associates that could reasonably be regarded as relevant to our independence. Apart from the normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence as defined under Rules 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were made and continue to be so as up to the date of the Circular. We have also assumed that all statements of belief, opinions, expectations, representations and intentions made by the Directors and the Management in the Circular and/or discussed with/provided to us were reasonably made after due enquiries and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management, which have been provided to us.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Group in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

LETTER FROM BAOQIAO PARTNERS

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial condition and future prospects of the Company, its subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the New Framework Agreement. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the facts, information, representations and opinions made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of approving the New Framework Agreement, the proposed Annual Caps and the Ratification Matter, and this letter, except for its inclusion in the Circular and for inspection as required under the Listing Rules, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the New Framework Agreement, the proposed Annual Caps and the Ratification Matter are in the interest of the Company and the Shareholders as a whole and fair and reasonable so far as the Independent Shareholders are concerned, we have taken into consideration the following principal factors and reasons:

1. Background and reasons for and benefits of entering into the New Framework Agreement

The Group is principally engaged in the business of sale and distribution of wine and liquor, trading of food products, rental, money lending, construction and development and mineral products. Among the different business segments of the Group, the trading of food products segment is the largest business segment of the Group which contributed approximately 61.0% of the Group's total revenue for the year ended 31 December 2018 and includes the wholesaling and retailing of the Products (i.e. green and organic food products including but not limited to corn, cooking oil and cereals and oils), alcohol and beverage, frozen and fresh food, and commodity hog. The Group sources the Products from independent suppliers or the Supplier Group and trade the Products to the clients of the Group to make a profit.

LETTER FROM BAOQIAO PARTNERS

As disclosed in the Letter from the Board, the Supplier Group is principally engaged in sale of agricultural products and machinery, and operation of organic green food chain stores. We have performed a background check on Beidahuang Group through the website of the National Enterprise Credit Information Publicity System (www.gsxt.gov.cn) operated by the State Administration for Market Regulation of the PRC and noted that it is a 100% state-owned company with registered capital of RMB10.2 billion. According to its annual report for the year ended 31 December 2018 published on the website of the Shanghai Clearing House (www.shclearing.com), Beidahuang Group reported revenue of approximately RMB116.0 billion for the year ended 31 December 2018. Additionally, China Daily, a national English-language newspaper of the PRC, described on its website (govt.chinadaily.com.cn) in late 2017 that Beidahuang Group is China's largest agricultural business enterprise.

As disclosed in the Letter from the Board and as advised by the Management, leveraging on the relationship with the Supplier Group and the Supplier Group's leading position in agricultural business, the New Framework Agreement will continue to provide the Group with competitive advantage in pricing its Products as the Group will be able to secure stable supply, and have more flexibility to procure the Products from the Supplier Group on better terms than those offered to it by third parties.

In view of the above factors, we concur with the Directors' view that the entering of the New Framework Agreement is in the ordinary and usual course of business of the Group.

2. Principal terms of the New Framework Agreement

The principal terms of the New Framework Agreement are set out below:

Date: 10 June 2019

Parties: (1) The Company (for itself and on behalf of the Group); and
(2) The New Supplier (for itself and on behalf of the Supplier Group).

Products: Green and organic food products including but not limited to corn, cooking oil, and cereals and oils.

LETTER FROM BAOQIAO PARTNERS

- Condition: The New Framework Agreement will take effect upon obtaining of the Independent Shareholders' approval at the EGM.
- Term: From the date of approval of the Independent Shareholders as set out in the paragraph headed "Condition" above to 31 December 2021.
- Pricing: The Company may purchase or procure other members of the Group to purchase, and the New Supplier may sell or procure other members of the Supplier Group to sell, the Products at prices determined on an arms' length basis, comparable to the prevailing market rates and on terms no less favourable to the Group than those available to any independent third party.
- Payment term: The Group shall make payment to the Supplier Group within 2 months after the delivery of the Products.

As disclosed in the Letter from the Board, in respect of the supply of the Products contemplated under the New Framework Agreement, any member of the Group and any member of the Supplier Group may, within the scope of the New Framework Agreement, enter into specific product supply agreement setting out, among others, quantity, specification, price and delivery terms, provided that the terms of the specific product supply agreement shall not contravene those of the New Framework Agreement.

We have reviewed and compared the principal terms of the New Framework Agreement with those of the Former Framework Agreement, and do not note any material difference.

As disclosed in the Letter from the Board, the procurement department of the Group and its designated persons are mainly responsible for ascertaining the prices offered by other independent third parties, generally by way of, telephoning at least two independent third parties to determine the market price of the similar Products. The procurement department of the Group also conducts market search (if necessary) based on the transaction data of the Products extracted from the website of National Grain Trade Center (<http://www.grainmarket.com.cn>) (the "NGTC Website"), and reviews the comparable prices for similar Products to ensure there are sufficient comparable prices to which it could refer to and each transaction is conducted in accordance with the pricing policy set out above. If the prices offered by the Supplier Group are higher than other independent suppliers, the Group will purchase the Products from other independent suppliers.

LETTER FROM BAOQIAO PARTNERS

As disclosed in the Letter from the Board, the above mechanism on pricing of the Products has been applied to the Supply Transactions in the financial year ended 31 December 2015 (“**FY2015**”), 2016 (“**FY2016**”), 2017 (“**FY2017**”) and 2018 (“**FY2018**”) and will continue to be applied to the Supply Transactions under the New Framework Agreement. In order to improve internal controls over the pricing mechanism, we have been given to understand that there is plan for the finance department of the Group to perform a random checking to ensure the compliance with the above mechanism at least once in every six-month period after obtaining the Independent Shareholders’ approval of the New Framework Agreement at the EGM.

Among the historical Supply Transactions for FY2015, FY2016, FY2017 and FY2018, we noted from the transaction summary provided by the Management that the Products purchased from the Supplier Group by the Group mostly consisted of corn, which represented approximately 97.4%, 100.0%, 100.0% and 100.0% of the historical Supply Transactions for each of FY2015, FY2016, FY2017 and FY2018 respectively and the remaining approximately 2.6% of the historical Supply Transactions for FY2015 consisted of rice only. As advised by the Management, since corn is widely consumed as food, animal feed and industrial raw materials, it is the most popularly traded agricultural commodity among the customers of the Group. For our due diligence purpose, we have obtained and reviewed (i) the sample transaction documents, including specific product supply agreements and sample invoices, for the Supply Transactions which represent more than 30% of the transaction amount of the historical Supply Transactions for each of FY2015, FY2016, FY2017 and FY2018 (the “**Sample Supply Transactions**”); and (ii) for comparison purposes, the sample transaction documents for the similar transactions between the Group and independent suppliers transacted within the same or adjacent month of the Sample Supply Transactions during the same year (collectively, the “**Sample Documents**”).

LETTER FROM BAOQIAO PARTNERS

As advised by the Management, the prices of the historical Supply Transactions were determined with reference to the prevailing market rates based on the Group's inhouse market search by making telephone calls to at least two independent suppliers to determine the market price of the similar Products. We have requested the Company to provide documentary evidence in relation to the market search on the prevailing market rates and are given to understand from the Management that no written record of the historical quotations was kept by the Group. Since (i) no written quotations were obtained for verification purposes; and (ii) the majority of the historical Supply Transactions were on corn and corn is a commonly traded agricultural commodity in China, in order to assess the fairness of the pricing of the historical Supply Transactions, we have independently compared the prices of the Sample Supply Transactions with the prices (the "**Quoted Prices**") of the corn commodity quoted on the Dalian Commodity Exchange, a futures exchange approved by the State Council and regulated by China Securities Regulatory Commission (Source: Bloomberg), and noted that the prices of the Sample Supply Transactions were lower or close to the Quoted Prices except for one particular transaction (the "**Particular Transaction**") whose price was higher than the Quoted Price. We were advised by the Management that the higher price in the Particular Transaction was resulted from the immediate demand of corn by a client of the Group and we note from the Sample Documents that the terms of the Particular Transaction are similar to those of the other historical Supply Transactions with the Supplier Group. We have also compared the Particular Transaction with similar transactions between the Group and independent suppliers during the similar period and note that the price and the major terms of the Particular Transaction were similar to those with the independent suppliers. As such, we are of the view that the pricing and the major terms of the Particular Transaction are acceptable. It was also noted from the Sample Documents that the payment terms of the Sample Supply Transactions were similar to those of similar transactions of the Group with the independent suppliers.

Based on our review of the Sample Supply Transactions for (i) FY2015, FY2016 and FY2017 under the Former Framework Agreement; and (ii) for FY2018, we are of the opinion that the historical Supply Transactions (including the Ratification Matter) were conducted in normal commercial terms, and the pricing and payment terms of the historical Supply Transactions (including the Ratification Matter) were fair and reasonable.

LETTER FROM BAOQIAO PARTNERS

3. Annual Caps

3.1 Historical amounts and annual caps

As disclosed in the Letter from the Board, the historical amounts for each of FY2015, FY2016, FY2017 and FY2018 and the annual caps for each of FY2015, FY2016 and FY2017 under the Former Framework Agreement are set out below:

	For the year ended 31 December			
	2015	2016	2017	2018
	RMB'million	RMB'million	RMB'million	RMB'million
Historical amount	220	11	18	107
Annual caps	576	950	1,045	N/A
Utilisation rate	38.2%	1.2%	1.7%	N/A

As shown in the table above, the Group utilised approximately 38.2%, 1.2% and 1.7% of the approved annual caps for FY2015, FY2016 and FY2017, respectively.

It is noted that the transaction volume under the Former Framework Agreement was low during FY2016 and FY2017 as compared to FY2015, while there had been a significant increase in the purchase of Products from the Supplier Group during FY2018 as compared to FY2016 and FY2017. We have discussed with the Management and were given to understand that as the transaction terms of the Supplier Group and the independent suppliers are similar, the selection of suppliers, in addition to comparison of transaction terms, highly depends on whether the suppliers can meet delivery timeline of the Products to the clients of the Group with a view to secure supply of Products to the Group's clients. As such, the Management are of the view that the proposed Annual Caps will enhance the flexibility for the Group to meet the customers' demands.

3.2 Proposed annual caps

Pursuant to the Letter from the Board, the proposed Annual Caps for transactions contemplated under the New Framework Agreement for each of the three years ending 31 December 2019, 2020 and 2021 are set out below:

	For the year ending 31 December		
	2019	2020	2021
	RMB'million	RMB'million	RMB'million
Proposed Annual Caps	150	150	150

LETTER FROM BAOQIAO PARTNERS

As stated in the Letter from the Board, the proposed Annual Caps set out above are determined based on (i) the internal projections of the maximum number of tonnes of the Products that may potentially be purchased by the Group from the Supplier Group in the years 2019, 2020 and 2021 of 70,000 tonnes (the “**Projected Volume**”); (ii) the estimated prices for the purchases of the Products in 2019, 2020 and 2021 of RMB2,050/tonne which is based on the recent corn trading price for June 2019 published on NGTC Website; and (iii) the inclusion of a buffer of 5% to accommodate any unexpected changes in market condition.

In order to assess the fairness and reasonableness of the proposed Annual Caps under the New Framework Agreement, we have discussed with the Management and reviewed the individual variables which may have an impact to the proposed Annual Caps:

(i) Maximum number of tonnes of the Products that may potentially be purchased

As projected by the Management, the estimated trading volume of the Products by the Group for the year ending 31 December 2019 is approximately 116,000 tonnes, approximately the same as 112,000 tonnes of Products for FY2018, among which the maximum number of approximately 70,000 tonnes (or 60%) of Products are expected to be purchased from the Supplier Group based on historical transaction amounts with the Supplier Group for FY2018. The Management estimates that such ratio will remain the same for each of the three years ending 31 December 2021.

LETTER FROM BAOQIAO PARTNERS

Set out below are the details of the Products purchased by the Group (i) from the Supplier Group; and (ii) from the independent third parties, for trading purpose for FY2015, FY2016, FY2017 and FY2018 respectively as provided by the Management.

	From the Supplier Group Transaction				From the independent third parties Transaction				Total Transaction			
	Volume	Percentage	Amount	Percentage	Volume	Percentage	Amount	Percentage	Volume	Percentage	Amount	Percentage
	<i>tonne '000</i>		<i>RMB' million</i>		<i>tonne '000</i>		<i>RMB' million</i>		<i>tonne '000</i>		<i>RMB' million</i>	
FY2015	111.4	100.0%	220.5	100.0%	192.4	100.0%	516.6	100.0%	303.8	100.0%	737.1	100.0%
- Corn	109.4	98.2%	214.7	97.4%	176.4	91.7%	455.7	88.2%	285.8	94.0%	670.4	90.9%
- Rice	2.0	1.8%	5.8	2.6%	15.2	7.9%	58.2	11.3%	17.2	5.7%	64.0	8.7%
- Soybean	-	0.0%	-	0.0%	0.8	0.4%	2.7	0.5%	0.8	0.3%	2.7	0.4%
FY2016	6.0	100.0%	10.8	100.0%	127.9	100.0%	275.2	100.0%	133.9	100.0%	286.0	100.0%
- Corn	6.0	100.0%	10.8	100.0%	124.1	97.0%	265.5	96.5%	130.1	97.2%	276.3	96.6%
- Rice	-	0.0%	-	0.0%	3.8	3.0%	9.7	3.5%	3.8	2.8%	9.7	3.4%
FY2017	12.3	100.0%	18.0	100.0%	144.0	100.0%	262.2	100.0%	156.3	100.0%	280.2	100.0%
- Corn	12.3	100.0%	18.0	100.0%	144.0	100.0%	262.2	100.0%	156.3	100.0%	280.2	100.0%
FY2018	70.0	100.0%	107.0	100.0%	46.3	100.0%	88.7	100.0%	116.3	100.0%	195.7	100.0%
- Corn	70.0	100.0%	107.0	100.0%	46.3	100.0%	88.7	100.0%	116.3	100.0%	195.7	100.0%

As illustrated from the above table, the Products purchased by the Group mostly consisted of corn, which represented (i) approximately 98.2%, 100.0%, 100.0% and 100.0% of the volume of the Products purchased by the Group from the Supplier Group (i.e. the Supply Transaction) for each of FY2015, FY2016, FY2017 and FY2018 respectively; and (ii) approximately 94.0%, 98.9%, 100.0% and 100.0% of the volume of the Products purchased by the Group from both the Supplier Group and the independent third parties for each of FY2015, FY2016, FY2017 and FY2018 respectively. As also illustrated from the above tables, the Group had purchased the Products (excluding corn) from both the Supplier Group and the independent third parties for FY2015 and FY2016, which consisted of rice and soybean and represented less than 6.0% of the total volume of the Products purchased.

LETTER FROM BAOQIAO PARTNERS

Based on (i) the transaction history of the recent two years, which consisted of corn only; and (ii) corn is widely consumed as animal feed while the customers of the Group are mainly engaged in animal feed/livestock farming business in the PRC, the Management expects that it is highly likely that all of the Projected Volume of the Products will be corn. Based on the representation given by the Management and our review of the Group's customers base for the last three years, we note that the Group's customers mainly consist of animal feed producers and trading companies as well as individuals who are engaged in livestock farming. In addition, according to the production statistics of grain published by National Bureau of Statistics of the PRC (stats.gov.cn), the production of corn ranked the top among the PRC national grain production with approximately 39.1% share for year 2018. Also, as estimated by China National Grain & Oils Information Center under the National Food and Strategic Reserves Administration of the PRC, approximately 58% of corn was consumed as animal feed for year 2017/2018. Having considered the above, we concur with the view of the Directors that the Projected Volume of the Products purchased from the Supplier Group will primarily be corn.

We have reviewed a summary of the historical sales and purchase of the Products for FY2018 provided by the Management, and note that the Group sold approximately 112,000 tonnes of Products (with 100% consisted of corn) to its clients for FY2018 and purchased approximately 116,000 tonnes of Products (with 100% consisted of corn), among which approximately 70,000 tonnes (or 60%) were purchased from the Supplier Group. In view of the historical trading volume of the Products and the Supplier Group's leading position in agricultural business, we are of the view that maximum percentage of the Products (i.e. 60%) to be purchased by the Group from the Supplier Group is reasonable. In addition, we also note from the summary of the historical sales of the Group that the sales of the Products for FY2016 and FY2017 also recorded approximately 118,000 tonnes and 130,000 tonnes respectively, which were also similar to that for FY2018 and the projected trading volumes of the Products by the Group for the three year ending 31 December 2021. As such, we are of the view that the Projected Volume per year is reasonable.

LETTER FROM BAOQIAO PARTNERS

As disclosed in the Letter from the Board, the Group has not entered into any Supply Transactions in the period from 1 January 2019 to the Latest Practicable Date. It is noted that even though there are only around four months left for the year ending 31 December 2019 as at the Latest Practicable Date, the proposed Annual Caps for the year ending 31 December 2019 is the same as that of each of the two full years ending 31 December 2021. As advised by the Management, since corn is harvested once a year during the second half of the year in the northern region of the PRC, the Management expects that most of the Supply Transactions will happen during the second half of each of the three years ending 31 December 2021. We have reviewed the summary of the historical Supply Transactions for FY2018 and noted that more than 85% of the transactions were conducted during the second half of FY2018. It is also noted from the summary of the historical Supply Transactions and similar transactions with independent third parties for FY2018 that, the total Products purchased by the Group during the second half of FY2018 was approximately 88,000 tonnes, which is higher than the Projected Volume. After considering the above factors, we are of the view that the Projected Volume is reasonable.

(ii) Estimated prices for the purchases of the Products in 2019, 2020 and 2021

As discussed above, since the Management expects that it is highly likely that all of the Projected Volume of the Products will be corn, the estimated price for the purchases of the Products in 2019, 2020 and 2021 is reference to the recent corn trading price of approximately RMB2,050/tonne for June 2019 (being the month when the Announcement was published) published on the NGTC Website. Given that (i) 98.2%, 100.0%, 100.0% and 100.0% of the volume of the historical Supply Transactions of the Products purchased from the Supplier Group by the Group for each of FY2015, FY2016, FY2017 and FY2018 were corn; and (ii) the Management expects that it is highly likely that all of the Projected Volume will continue to be corn, we are of the view that it is reasonable for the Management to use the price of corn to estimate the proposed Annual Caps. In addition, we have independently checked the future prices of corn commodity quoted on the Dalian Commodity Exchange (www.dce.com.cn). It is noted from Dalian Commodity Exchange that there are total 6 corn futures (with settlement months in September 2019, November 2019, January 2020, March 2020, May 2020 and July 2020 respectively) trading on the Dalian Commodity Exchange and their closing prices per tonne as at 12 September 2019 (being the last trading day prior to and up to the Latest Practicable Date) are RMB1,813, RMB1,849, RMB1,872, RMB1,892, RMB1,932 and RMB1,948 respectively. We have also reviewed the weekly acquisition price of corn at 9 September 2019 from the website of National Food and Strategic Reserves Administration (lswz.gov.cn) and noted that the market trading prices of corn were within the range from RMB1,520/tonne to RMB2,280/tonne. In view of that the estimated price used by the Management (i) is the recent market transaction price extracted from the NGTC Website; (ii) is in line with/similar to the corn future prices quoted on the Dalian Commodity Exchange; and (iii) is within the recent market trading price range of corn as disclosed on the website of National Food and Strategic Reserves Administration, we are of the view that the estimated price used is reasonable.

LETTER FROM BAOQIAO PARTNERS

(iii) Buffer

We noted that in calculating the proposed Annual Caps and understood from the Management that, the Management has added an approximate 5% buffer (the “**Buffer**”) on top of the estimated amounts of the Supply Transactions after considering unexpected changes in market condition including (i) possible demand of the Products (excluding corn) by the Group’s customers; (ii) increase in corn price; or (iii) reduction in supply by the independent suppliers. As advised by the Management, though it is highly likely that all of the Projected Volume of the Products will be corn, the Group’s customers can still demand from the Group other types of Products (excluding corn), which may consist of a number of different types of rice, soy beans, cooking oil, wheat, etc. In view of the historical Supply Transactions, the Management expects that any such unexpected demand of the Products (excluding corn) can be covered by the Buffer. As confirmed by the Management, (i) the Group will follow the terms of the New Framework Agreement, the pricing policies as stated in the Letter from the Board and the internal control policies adopted by the Group for any Supply Transactions involving Products (excluding corn) to ensure that all Supply Transactions are conducted in normal commercial terms and the terms of which are fair and reasonable; and (ii) the Company will follow the requirements of the Listing Rules and adjust the proposed Annual Caps should the demand for Products exceed the proposed Annual Caps. In view of the fact that the Buffer can better serve the needs of the Group’s customers and can secure the stable supply of the Products, we are of the view that the Buffer in the proposed Annual Caps is reasonable.

Having considered the above factors, we consider that the proposed Annual Caps are fair and reasonable.

4. Measures for Compliance with the Listing Rules

We have discussed with the management of the Company and reviewed the internal control measures in place of the continuing connected transactions contemplated under the New Framework Agreement (the “**Continuing Connected Transactions**”).

As disclosed in the Letter from the Board, the Company has taken the following measures to ensure compliance with the requirements on Continuing Connected Transactions under the Listing Rules:

- (i) the finance department of the Company is monitoring the amount of Supplier Transactions regularly, at least on a monthly basis, to ensure the amounts will be within the annual caps as approval by the Independent Shareholders;

LETTER FROM BAOQIAO PARTNERS

- (ii) the Company will engage professional to prepare compliance materials and deliver training course(s) to the relevant staff to strengthen the internal control on compliance with the requirements on Continuing Connected Transactions;
- (iii) the finance department of the Company is reviewing the business activities between the members of the Group and each of the Directors (including their associates) and the substantial shareholders (including their associates), at least on a monthly basis; and
- (iv) the finance department of the Company will arrange the independent non-executive Directors and the auditors of the Company to perform the review on continuing connected transaction during preparation of annual reports.

In view of the above internal control policies adopted by the Company, especially (i) the finance department of the Company is monitoring the amount of Supplier Transactions regularly, at least on a monthly basis, to ensure the amounts will be within the annual caps as approval by the Independent Shareholders; and (ii) the finance department of the Company is reviewing the business activities between the members of the Group and each of the Directors (including their associates) and the substantial shareholders (including their associates), at least on a monthly basis, we are of the view that internal control policies adopted by the Company are appropriate to ensure compliance with the requirements on Continuing Connected Transactions under the Listing Rules.

LISTING RULES IMPLICATION

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year, the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report whether the Continuing Connected Transactions have been entered into:
 - 1. in the ordinary and usual course of business of the Group;
 - 2. on normal commercial terms or better; and
 - 3. according to the agreement governing it on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole;

LETTER FROM BAOQIAO PARTNERS

- (b) each year, the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days before the bulk printing of the Company's annual report), confirming whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:
1. have not been approved by the Board;
 2. were not, in all material aspects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 3. were not entered into, in all material aspects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
 4. have exceeded the annual caps;
- (c) the Company must allow, and ensure that the counterparties to the Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions as set out in paragraph (B). The Board must state in the annual report whether the Company's auditors have confirmed the matters set out in Listing Rule 14A.56; and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements for the Continuing Connected Transactions, in particular, (i) the restriction of the values of the Continuing Connected Transactions by way of the annual caps; and (ii) the requirements under the Listing Rules for ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps, we are of the view that there exist appropriate measures to govern the conduct of the Continuing Connected Transactions and to safeguard the interests of the Independent Shareholders.

LETTER FROM BAOQIAO PARTNERS

RECOMMENDATION

Having taken into account the principal factors and reasons set out in our letter, we are of the opinion that (i) the historical Supply Transactions (including the Ratification Matter) were conducted in normal commercial terms, and the pricing and payment terms of the historical Supply Transactions (including the Ratification Matter) were fair and reasonable; (ii) the entering into of the New Framework Agreement is in the ordinary and usual course of business of the Group; and (iii) the terms of the New Framework Agreement (including the proposed Annual Caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the New Framework Agreement, the proposed Annual Caps and the Ratification Matter and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,

BaoQiao Partners Capital Limited

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 document misleading.

2. DISCLOSURE OF INTERESTS

Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) contained in the Listing Rules, were as follows:

Long positions in Shares of the Company

Name of Director	Number of Shares			Total	Percentage of interest
	Directly beneficially owned	Through spouse	Through controlled corporation		
Mr. Li Jiehong	224,000	44,592,000 ^(a)	13,752,000 ^(b)	58,568,000	0.94%
Mr. Huang Wuguang	5,300,000	–	–	5,300,000	0.09%
Mr. Ho Man Fai	2,000,000	–	–	2,000,000	0.03%
Mr. Ke Xionghan	1,000,000	–	–	1,000,000	0.02%

Notes:

- (a) These 44,592,000 Shares were held by Ms. Deng Xiaohu, the spouse of Mr. Li Jiehong.
- (b) These 13,752,000 Shares were held by Sino Insight Holdings Limited (“**Sino Insight**”). As Sino Insight was wholly owned by Mr. Li Jiehong, Mr. Li Jiehong was deemed to be interested in the 13,752,000 Shares held by Sino Insight by virtue of the SFO.

Long positions in share options of the Company

Name of Directors	Number of underlying Shares in respect of share options granted to the Directors
Mr. Ke Xionghan	10,000,000
Ms. Ho Wing Yan	1,000,000
Mr. Ho Man Fai	1,000,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. DIRECTORS' OTHER INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

Except for the matters emphasized in the Management Discussion and Analysis section of the interim results announcement of the Company dated 30 August 2019, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited financial statements of the Company were made up.

6. EXPERT

The following is the qualification of the expert who has provided its advice, which is contained in this circular:

Name	Qualification
BaoQiao Partners	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

BaoQiao Partners has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they appear.

As at the Latest Practicable Date, BaoQiao Partners was not beneficially interested in the share capital of any member of the Group nor did it 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 nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2018), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MISCELLANEOUS

- (a) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, and the head office and principal place of business in Hong Kong of which is at Room 225, 2/F, Mega Cube, 8 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (c) The company secretary of the Company is Mr. Chan Kwong Leung, Eric, who is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of Former Framework Agreement and New Framework Agreement are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM.

NOTICE OF THE EGM



China Beidahuang Industry Group Holdings Limited

中國北大荒產業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting (the “**EGM**”) of China Beidahuang Industry Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) will be held at Unit E, 30/F., Tower B, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong on Tuesday, 8 October 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

“THAT:

- (a) the framework agreement (“**New Framework Agreement**”) dated 10 June 2019 between and the Company and 通遼北大荒糧貿有限公司 (Tongliao Beidahuang Cereals Trading Co., Ltd*) (“**Supplier**”) in relation to the supply of green and organic food products including but not limited to corn, cooking oil, and cereals and oils (“**Products**”) for a term of three years from 1 January 2019 through 31 December 2021 and all the transactions contemplated in the New Framework Agreement be and are hereby approved, confirmed and ratified (details of the New Framework Agreement are set out in the Company’s circular dated 19 September 2019 (the “**Circular**”), copies of the New Framework Agreement and the Circular have been tabled at the meeting and marked “A” and “B” initialed by the chairman of the meeting for identification purpose);
- (b) the proposed Annual Caps (as defined and more particularly described in the Circular) be and are hereby approved and confirmed;
- (c) the supply of Products by the Supplier Group to our Group during the year ended 31 December 2018 be and is hereby approved, confirmed and ratified; and

NOTICE OF THE EGM

- (d) the directors of the Company, acting together, individually or by committee, be and are hereby authorised to take such actions, do such things and execute such further documents or deeds which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated under the New Framework Agreement.”

By Order of the Board
China Beidahuang Industry Group Holdings Limited
Li Jiehong
Chairman

Hong Kong, 19 September 2019

Notes:

1. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy 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. A form of proxy for use at the EGM is enclosed. In order to be valid, the form of proxy should be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notorially certified copy of that power of attorney or authority, at the office of the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time for holding the EGM or adjourned meeting. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.
3. In order to qualify for attending and voting at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Monday, 30 September 2019.

As at the date of this notice, the Executive Directors are Mr. Li Jiehong (Chairman), Mr. Ke Xionghan and Mr. Huang Wuguang; the Non-executive Director is Ms. Ho Wing Yan; and the Independent Non-executive Directors are Mr. Chong Cha Hwa, Mr. Ho Man Fai and Mr. Yang Yunguang.

* *for identification purpose only*