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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

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.

LISTING RULES IMPLICATIONS

Since Beidahuang HK (which is a member of the Supplier Group) is a substantial shareholder of the Company, the supply of Products by the Supplier Group to the Group under the New Framework Agreement will constitute a continuing connected transaction of the Company. As one or more of the Percentage Ratios (other than profits ratio) in respect of the Annual Caps exceed 5%, the Supply Transactions are subject to the approval of the Independent Shareholders' approval at the EGM. In addition, 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 exceeded 5%, the Company will also seek to obtain the approval of the Independent Shareholders at the EGM to ratify such transactions.

A circular containing, among other things, further information about the New Framework Agreement, the letter from the independent financial adviser to the independent board committee and the Independent Shareholders and the recommendation from the independent board committee together with the notice of the EGM will be dispatched to the Shareholders on or before 2 July 2019.

BACKGROUND

Reference is made to the announcement of the Company dated 13 May 2015 (“**2015 Announcement**”) regarding the Supply Transactions. At the date of 2015 Announcement, Beidahuang Marketing Co. (which is a member of the Supplier Group) was a connected person of the Company at the subsidiary level. It has been recently discovered that Beidahuang HK (which is another member of the Supplier Group), has become a connected person in December 2015 when Beidahuang HK was interested in 330,000,000 Shares (representing approximately 14.22% of the issued share capital of the Company) in December 2015. As some of the Percentage Ratios in respect of the amount of Supply Transactions in the financial year ended 31 December 2018 exceeded 5% threshold under Rule 14A.76 of the Listing Rules, the Supply Transactions are required to be approved by Independent Shareholders and the Company will seek to obtain the approval of the Independent Shareholders at the EGM to ratify such transaction. In addition, the Company and the New Supplier have entered into the New Framework Agreement which is subject to the approval of the Independent Shareholders.

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; and
(2) The New Supplier.

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 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.

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.

The procurement department of the Company and its designated persons are mainly responsible for ascertaining the prices offered by other independent third parties, generally by way of, obtaining quotation from at least two independent third parties to determine the market price of the similar Products. The procurement department of the Company will also regularly conduct market research and update its comparable prices database from time to time, and will review the comparable prices for similar Products in each case 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.

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	252	13	21	135
Annual caps	576	950	1,045	N/A

Proposed annual caps (“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>
Proposed Annual Caps	150	150	150

The 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; (ii) the estimated prices for the purchases of the Products in 2019, 2020 and 2021; and (iii) the inclusion of a buffer to accommodate any unexpected changes in market condition.

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 date of this announcement.

The New Supplier is a subsidiary of Beidahuang Marketing Co.. Beidahuang Marketing Co. and the Former Supplier are subsidiaries of Beidahuang Group. 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, the Group can continue to procure the Products from the Supplier Group on better terms than those offered to it by third parties. Therefore, the Group could earn a profit margin when it resells such Products to its customers. In addition, the Company has the benefit of reducing the administrative burden and costs associated with compliance with laws and regulations to which the Company is subject.

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 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 and the transactions contemplated thereunder.

IMPLICATIONS OF THE LISTING RULES

Since Beidahuang HK is a substantial shareholder of the Company, the supply of Products by the Supplier Group to the Group under the New Framework Agreement will constitute a continuing connected transaction of the Company. As one or more of the Percentage Ratios (other than profits ratio) in respect of the Annual Caps exceed 5%, the Supply Transactions are subject to the approval of the Independent Shareholders' approval at the EGM. In addition, 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 exceeded 5%, the Company will also seek to obtain the approval of the Independent Shareholders at the EGM to ratify such transactions.

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.

GENERAL

The Company will seek the approval by the Independent Shareholders by way of a poll in the EGM of the New Framework Agreement and the Annual Caps in relation to the Supply Transactions for the three financial years ending 31 December 2019, 2020 and 2021 and the ratification of the Supply Transactions for the financial year ended 31 December 2018.

An independent board committee comprising the independent non-executive Directors will be formed to advise the Independent Shareholders on the terms of the Supplemental Agreement and an independent financial adviser will be appointed to advise the independent board committee in respect of the terms of the New Framework Agreement and the Annual Caps and the Supply Transactions in the financial year ended 31 December 2018.

A circular containing, among other things, further information about the New Framework Agreement, the letter from the independent financial adviser to the independent board committee and the Independent Shareholders and the recommendation from the independent board committee together with the notice of the EGM will be dispatched to the Shareholders on or before 2 July 2019.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meanings:

“2015 Announcement”	the announcement of the Company dated 13 May 2015 in relation to the Former Framework Agreement
“Annual Caps”	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 this announcement
“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, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning given to it under the Listing Rules
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened, among others, to approve the New Framework Agreement and to ratify Supply Transactions during the financial year ended 31 December 2018
“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

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than the Supplier Group
“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 New 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 announcement 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
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of Shares
“Shares”	ordinary shares 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 given 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.

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

Hong Kong, 10 June 2019

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

As at the date of this announcement, the Executive Directors are Mr. Li Jiehong (Chairman), Mr. Gu Chunyang (Vice Chairman), Mr. Jiang Jianjun, 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.