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BIO-DYNAMIC GROUP LIMITED

生物動力集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

ISSUE OF NEW SHARES IN CONNECTION WITH THE HARBIN SETTLEMENT AND NINGXIA SETTLEMENT

Harbin Settlement

On 7 December 2011, HCD and GZT entered into the Harbin Settlement Agreement, pursuant to which HCD and GZT agreed to a full and final settlement of the Harbin Payable Amount in consideration of the allotment and issue by the Company to CNE of the Harbin Settlement Shares based on the Harbin Settlement Amount. Pursuant to the terms of the Harbin Settlement Agreement, the Company entered into a conditional Harbin Subscription Agreement with HCD, CNE and GZT on 20 December 2011, pursuant to which the Company has agreed to allot and issue to CNE, and CNE has agreed to subscribe for, 9,537,797 Harbin Settlement Shares at a Subscription Price of HK\$0.722 per Harbin Settlement Share in an aggregate amount of HK\$6,886,290, which shall be satisfied by CNE by way of set-off against the Harbin Settlement Amount.

Ningxia Settlement

On 20 December 2011, the Company also entered into a conditional Ningxia Settlement Agreement with NWB, HCD, CNE and GZT pursuant to which, GZT has agreed to a full and final settlement of the Ningxia Payable Amount in consideration of the allotment and issue of the 1,788,337 Ningxia Settlement Shares by the Company to CNE at an Issue Price of HK\$0.722 per Ningxia Settlement Share in an aggregate amount of HK\$1,291,179, which shall be satisfied by CNE by way of set-off against the Ningxia Settlement Amount.

The aggregate of the Harbin Settlement Shares and the Ningxia Settlement Shares amounts to 11,326,134 new Shares with an aggregate nominal value of HK\$1,132,613, representing approximately 0.96% of the issued share capital of the Company as at the date of this announcement and approximately 0.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Harbin Settlement Shares and the Ningxia Settlement Shares. Both the Harbin Settlement Shares and the Ningxia Settlement Shares will be issued as fully paid under the General Mandate.

Each of the Subscription Price and Issue Price represents (i) a premium of approximately 0.28% to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) no premium or discount to the average closing price of approximately HK\$0.722 per Share as quoted on the Stock Exchange for the last five trading days of the Shares immediately prior to the date of the Harbin Subscription Agreement and the Ningxia Settlement Agreement.

Each of the Harbin Subscription Agreement and the Ningxia Settlement Agreement is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Harbin Settlement Shares and the Ningxia Settlement Shares, respectively, and such permission and listing not subsequently being revoked. However, the Harbin Subscription Agreement and the Ningxia Settlement Agreement are not inter-conditional and may be completed independently of each other.

As the completion of the Subscription and the Ningxia Settlement is subject to the fulfilment of certain condition and may or may not proceed, shareholders of the Company and prospective investors are advised to exercise caution when dealing in securities of the Company.

HARBIN SETTLEMENT

On 15 April 2007, HCD and GZT entered into the Harbin Installation Agreement. As at 1 November 2011, RMB7,061,452.17 (equivalent to approximately HK\$8,683,430), being the Harbin Payable Amount, was payable by HCD to GZT pursuant to the Harbin Installation Agreement. On 7 December 2011, HCD and GZT entered into the Harbin Settlement Agreement, pursuant to which HCD and GZT agreed to a full and final settlement of the Harbin Payable Amount in consideration of the allotment and issue by the Company to CNE of the Harbin Settlement Shares based on the Harbin Settlement Amount. Pursuant to the terms of the Harbin Settlement Agreement, the Company, HCD, CNE and GZT entered into the Harbin Subscription Agreement.

HARBIN SUBSCRIPTION AGREEMENT

Date 20 December 2011

Parties

- (a) the Company;
- (b) HCD;
- (c) CNE; and
- (d) GZT.

Information on CNE and GZT

GZT is a company established in the PRC and is principally engaged in process technology, engineering designs, plant manufacturing and operational services in connection with the production of, inter alia, fuel ethanol, edible ethanol, biobutanol, bioacetic acid and other chemicals from agricultural plant materials and waste in the PRC. GZT is wholly-owned by CNE, which is a company incorporated in Jersey with operations based in the PRC and a technology, process and engineering solutions provider for bioethanol and biobutanol projects with a focus on the bioenergy sector. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, CNE and GZT and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

The Harbin Settlement Shares

Pursuant to the Harbin Subscription Agreement, the Company has agreed to allot and issue to CNE, and CNE has agreed to subscribe for, 9,537,797 Harbin Settlement Shares at a Subscription Price of HK\$0.722 per Harbin Settlement Share in an aggregate amount of HK\$6,886,290, which shall be satisfied by CNE by way of set-off against the Harbin Settlement Amount.

The number of Harbin Settlement Shares is calculated by dividing the HK\$ Equivalent of the Harbin Settlement Amount by the Subscription Price.

The Harbin Settlement Shares represent approximately 0.81% of the issued share capital of the Company as at the date of this announcement, approximately 0.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Harbin Settlement Shares and approximately 0.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Harbin Settlement Shares and the Ningxia Settlement Shares.

Subscription Price

The Subscription Price of HK\$0.722 per Share was arrived at after arm's length negotiations between the Company, HCD, CNE and GZT with reference to the recent trading prices of the Shares. It represents (i) a premium of approximately 0.28% to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) no premium or discount to the average closing price of approximately HK\$0.722 per Share as quoted on the Stock Exchange for the last five trading days of the Shares immediately prior to the date of the Harbin Subscription Agreement.

Condition of the Subscription

The Subscription is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Harbin Settlement Shares, and such permission and listing not subsequently being revoked.

Completion of the Subscription

Completion of the Subscription is expected to take place on the third Business Day following the fulfilment of the condition set out above, or such later date as may be agreed by the parties to the Harbin Subscription Agreement in writing.

NINGXIA SETTLEMENT AGREEMENT

Date 20 December 2011

Parties

- (a) the Company;
- (b) NWB;
- (c) HCD;
- (d) CNE; and
- (e) GZT.

The Ningxia Payable Amount

In 2006, NWB and GZR entered into the Ningxia Installation Agreement. On 1 September 2006, GZR and GZT issued an assignment notice to NWB in relation to, among other things, the assignment by GZR of its rights and interests in the Ningxia Installation Agreement to GZT.

On 25 August 2008, HCD, GZT and NWB entered into the Ningxia Supplemental Agreement pursuant to which (i) GZT and NWB agreed to adjust the fees payable under the Ningxia Installation Agreement from RMB1,307,000 (equivalent to approximately HK\$1,607,211), being the Ningxia Payable Amount, to RMB1,100,000 (equivalent to approximately HK\$1,352,664), being the Ningxia Adjusted Amount, and (ii) HCD agreed to be jointly and severally liable with NWB for the Ningxia Adjusted Amount.

On 4 March 2010, HCD issued the Ningxia Repayment Proposal to GZT pursuant to which HCD proposed to repay the Ningxia Adjusted Amount to GZT in three instalments. As at the date of the Ningxia Settlement Agreement, an amount of RMB1,050,000 (equivalent to approximately HK\$1,291,179), being the Ningxia Settlement Amount, out of the Ningxia Adjusted Amount was payable by HCD and NWB to GZT pursuant to the Ningxia Installation Agreement and the Ningxia Supplemental Agreement.

The Ningxia Settlement Shares

Pursuant to the Ningxia Settlement Agreement, GZT agreed to a full and final settlement of the Ningxia Payable Amount in consideration of the allotment and issue of the 1,788,337 Ningxia Settlement Shares by the Company to CNE at an Issue Price of HK\$0.722 per Ningxia Settlement Share in an aggregate amount of HK\$1,291,179, which shall be satisfied by CNE by way of set-off against the Ningxia Settlement Amount.

The number of Ningxia Settlement Shares is calculated by dividing the HK\$ Equivalent of the Ningxia Settlement Amount by the Issue Price.

The Ningxia Settlement Shares represent approximately 0.15% of the issued share capital of the Company as at the date of this announcement, approximately 0.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Ningxia Settlement Shares and approximately 0.15% of the issued share capital of the Company as enlarged by the allotment and issue of the Harbin Settlement Shares and the Ningxia Settlement Shares.

Issue Price

The Issue Price of HK\$0.722 per Share was arrived at after arm's length negotiations between the Company, NWB, HCD, CNE and GZT with reference to the recent trading prices of the Shares. It represents (i) a premium of approximately 0.28% to the closing price of HK\$0.72 per Share as quoted on the Stock Exchange on the Last Trading Day; and (ii) no premium or discount to the average closing price of approximately HK\$0.722 per Share as quoted on the Stock Exchange for the last five trading days of the Shares immediately prior to the date of the Ningxia Settlement Agreement.

Condition of the Ningxia Settlement

The Ningxia Settlement is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Ningxia Settlement Shares, and such permission and listing not subsequently being revoked. However, the Harbin Subscription Agreement and the Ningxia Settlement Agreement are not inter-conditional and may be completed independently of each other.

Completion of the Ningxia Settlement

Completion of the Ningxia Settlement is expected to take place on the third Business Day following the fulfilment of the condition set out above, or such later date as may be agreed by the parties to the Ningxia Settlement Agreement in writing.

The Harbin Settlement Shares and the Ningxia Settlement Shares

The Harbin Settlement Shares and the Ningxia Settlement Shares will, when issued, be free from all Encumbrances and rank pari passu in all respects with other Shares in issue as at the date of completion of the Subscription and the Ningxia Settlement, together with all rights attaching thereto, including the rights to all dividends and other distributions declared, made or paid at anytime after the date of completion of the Subscription and Ningxia Settlement.

The aggregate of the Harbin Settlement Shares and the Ningxia Settlement Shares amounts to 11,326,134 new Shares with an aggregate nominal value of HK\$1,132,613, representing approximately 0.96% of the issued share capital of the Company as at the date of this announcement and approximately 0.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Harbin Settlement Shares and the Ningxia Settlement Shares. Both the Harbin Settlement Shares and the Ningxia Settlement Shares will be issued as fully paid under the General Mandate.

An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Harbin Settlement Shares and the Ningxia Settlement Shares.

As the Subscription and Ningxia Settlement are subject to the fulfilment of certain condition and may or may not proceed to completion, shareholders of the Company and prospective investors are advised to exercise caution when dealing in securities of the Company.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after completion of the Harbin Subscription Agreement (without taking into account completion of the Ningxia Settlement Agreement); (iii) immediately after completion of the Ningxia Settlement Agreement (without taking into account completion of the Harbin Subscription Agreement); and (iv) immediately after completion of the Harbin Subscription Agreement and the Ningxia Settlement Agreement:

Shareholder	Shareholding as at the date of this announcement		Shareholding immediately after completion of the Harbin Subscription Agreement (without taking into account completion of the Ningxia Settlement Agreement)		Shareholding immediately after completion of the Ningxia Settlement Agreement (without taking into account completion of the Harbin Subscription Agreement)		Shareholding immediately after completion of the Harbin Subscription Agreement and Ningxia Settlement Agreement	
	<i>Number of</i>		<i>Number of</i>		<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
Orientalite Investments Limited	195,000,000	16.54	195,000,000	16.40	195,000,000	16.51	195,000,000	16.38
CEC Agricapital Group Limited	128,960,000	10.93	128,960,000	10.85	128,960,000	10.92	128,960,000	10.83
China Food and Beverage Group Limited	78,556,263	6.66	78,556,263	6.61	78,556,263	6.65	78,556,263	6.60
Public shareholders (excluding CNE)	776,800,000	65.87	776,800,000	65.34	776,800,000	65.77	776,800,000	65.24
CNE	-	-	9,537,797	0.80	1,788,337	0.15	11,326,134	0.95
Total	1,179,316,263	100.00	1,188,854,060	100.00	1,181,104,600	100.00	1,190,642,397	100.00

INFORMATION ON THE COMPANY, HCD AND NWB

The Company is principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the PRC. The Company indirectly owns 75% equity interest in HCD and the entire issued share capital of NWB.

REASON FOR THE SUBSCRIPTION AND THE NINGXIA SETTLEMENT

After considering the existing cashflow and gearing position of the Group, the Company considers the Subscription and the Ningxia Settlement would enable the Group to reduce debts while limiting the cash outflow in the reduction of such debts. The Directors further consider that the terms and conditions of the Harbin Subscription Agreement and the Ningxia Settlement Agreement, including the Subscription Price and the Issue Price, are fair and reasonable and are in the interests of the Company and its shareholders as a whole are concerned.

CAPITAL RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has not raised funds by way of issue of Shares in the 12 months immediately preceding the date of this announcement.

DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules
“Business Day”	a day (excluding a Saturday and a Sunday) on which banks are generally open for business in Hong Kong
“CNE”	China New Energy Limited, a company incorporated in Jersey
“Company”	Bio-Dynamic Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	directors of the Company
“Encumbrances”	any interest or equity (including any retention of title, right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, claim or assignment or any other encumbrances, priority or security interest or arrangement of whatsoever nature
“General Mandate”	the general mandate granted by the shareholders of the Company to the Directors pursuant to the resolution of the shareholders of the Company passed at the annual general meeting held on 4 May 2011
“Group”	the Company and its subsidiaries
“GZR”	廣東中科天元再生資源工程有限公司 (Guangdong Zhongke Tianyuan Renewable Energy Projects Co., Ltd.*), a company established in the PRC
“GZT”	廣東中科天元新能源科技有限公司 (Guangdong Zhongke Tianyuan New Energy Science & Technology Co., Ltd.*), a company established in the PRC
“Harbin Installation Agreement”	裝置供貨合同書 (supply and installation agreement*) dated 15 April 2007 between GZT and HCD in relation to the supply and installation of ethanol production equipment with annual production capacity of 60,000 tonne at the production facility of HCD at Harbin, the PRC by GZT for HCD for a consideration of RMB28,000,000 (equivalent to approximately HK\$34,431,451)
“Harbin Payable Amount”	RMB7,061,452.17 (equivalent to approximately HK\$8,683,430), being fees under the Harbin Installation Agreement in the amount of RMB6,500,000 plus interest accrued thereon of RMB561,452.17, payable by HCD to GZT pursuant to the Harbin Installation Agreement

“Harbin Settlement”	the proposed settlement of the Harbin Payable Amount in consideration of the allotment and issue by the Company to CNE of the Harbin Settlement Shares based on the Harbin Settlement Amount
“Harbin Settlement Agreement”	和解協議 (settlement agreement*) dated 7 December 2011 between HCD and GZT
“Harbin Settlement Amount”	RMB5,600,000 (equivalent to approximately HK\$6,886,290), being the amount agreed under the Harbin Settlement Agreement which HCD shall pay to GZT in full and final settlement of the Harbin Payable Amount
“Harbin Settlement Shares”	9,537,797 new Shares to be subscribed by CNE pursuant to the Harbin Subscription Agreement
“Harbin Subscription Agreement”	the subscription agreement dated 20 December 2011 between the Company, HCD, CNE and GZT
“HCD”	哈爾濱中國釀酒有限公司 (Harbin China Distillery Co., Ltd.*), a company established in the PRC
“HK\$”	the lawful currency of Hong Kong
“HK\$ Equivalent”	the HK\$ equivalent of an amount denominated in RMB determined based on the mid-rate of the exchange rate between buying and selling rates between HK\$ and RMB as published by the People’s Bank of China on the Business Day immediately preceding the date of the Harbin Subscription Agreement or the Ningxia Settlement Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	HK\$0.722 per Share
“Last Trading Day”	19 December 2011, being the last trading day prior to the date of the Harbin Subscription Agreement and the Ningxia Settlement Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and any amendments thereto
“Ningxia Adjusted Amount”	RMB1,100,000 (equivalent to approximately HK\$1,352,664), being the amount as adjusted from the Ningxia Payable Amount pursuant to the Ningxia Supplemental Agreement and payable by NWB and HCD to GZT

“Ningxia Installation Agreement”	乙醇蒸餾裝置提供合同書 (ethanol distillation equipment supply and installation agreement*) dated 30 July 2006 entered into between GZR and NWB in relation to the supply and installation of ethanol distillation equipment with an annual production capacity of 10,000 tonne at the production facility of NWB by GZR for NWB for a consideration of RMB3,230,000 (equivalent to approximately HK\$3,971,914), as supplemented by 補充合同 (supplemental agreement*) dated 6 September 2006 between GZR and NWB in relation to the supply and installation of a carbon dioxide scrubber exhaust by GZR for NWB for a consideration of RMB15,000 (equivalent to approximately HK\$18,445)
“Ningxia Payable Amount”	RMB1,307,000 (equivalent to approximately HK\$1,607,211) payable by NWB to GZT under the Ningxia Installation Agreement as at the date of the Ningxia Supplemental Agreement
“Ningxia Repayment Proposal”	還款計劃 (repayment proposal*) issued by HCD to GZT on 4 March 2010 pursuant to which HCD proposed to repay the Ningxia Adjusted Amount to GZT in three instalments
“Ningxia Settlement”	the conditional subscription by CNE of the Ningxia Settlement Shares pursuant to the Ningxia Settlement Agreement
“Ningxia Settlement Agreement”	the settlement agreement dated 20 December 2011 between the Company, NWB, HCD, CNE and GZT
“Ningxia Settlement Amount”	RMB1,050,000 (equivalent to approximately HK\$1,291,179), being the amount out of the Ningxia Adjusted Amount which is payable by HCD and NWB to GZT pursuant to the Ningxia Settlement Agreement in full and final settlement of the Ningxia Payable Amount
“Ningxia Settlement Shares”	1,788,337 new Shares to be subscribed by CNE pursuant to the Ningxia Settlement Agreement
“Ningxia Supplemental Agreement”	關於中科天元應收款項的協議 (agreement in relation to the amounts payable under the Ningxia Installation Agreement*) dated 25 August 2008 between HCD, GZT and NWB pursuant to which (i) GZT and NWB agreed to adjust the fees payable under the Ningxia Installation Agreement from the Ningxia Payable Amount to RMB1,100,000 (equivalent to approximately HK\$1,352,664), the Ningxia Adjusted Amount, and (ii) HCD agreed to be jointly and severally liable for the Ningxia Adjusted Amount with NWB
“NWB”	寧夏西部光彩新能源高新技術有限公司 (Ningxia West Bright New Resource Technology Co., Ltd.*) , a company established in the PRC

“PRC”	the People’s Republic of China and for the purpose of this announcement shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the conditional subscription by CNE of the Harbin Settlement Shares pursuant to the Harbin Subscription Agreement
“Subscription Price”	HK\$0.722 per Share

In this announcement, translation from RMB to HK\$ are based on an exchange rate of HK\$1.00 to RMB0.81321 which is used for illustration purpose only.

By Order of the Board
BIO-DYNAMIC GROUP LIMITED
Peter Lo
Chairman

Hong Kong, 20 December 2011

As at the date hereof, the executive directors are Mr. Peter Lo, Mr. Han Dong, Mr. David Lee Sun, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Fu Hui; the non-executive director is Mr. Derek Emory Ting-Lap Yeung; and the independent non-executive directors are Mr. Sam Zuchowski, Dr. Loke Yu alias Loke Hoi Lam and Mr. Zhang Yonggen.

* *For identification purposes only*