THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Sino Distillery Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

Sino Distillery Group Limited

中國釀酒集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

MAJOR TRANSACTION

POSSIBLE CONTINUING CONNECTED TRANSACTIONS

SUBSCRIPTION OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting of Sino Distillery Group Limited to be held at 10:30 a.m. on Tuesday, 17 February 2015 at Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong is set out on pages 181 to 183 of 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, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, 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.

28 January 2015

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

"Acquisition"	the acquisition of the Sale Capital by the Company from the Vendors pursuant to the Share Transfer Agreement
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beidahuang Business Group"	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 limited liability company incorporated in the PRC
"Beidahuang Green Food Products"	Beidahuang Green Food Products series of Beidahuang Group
"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 Marketing Co."	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*), a limited liability company incorporated in the PRC
"Beidahuang Marketing Co. Supply Agreement"	the products supply agreement dated 2 December 2014 entered into between the Target Company and Beidahuang Marketing Co.
"Board"	the board of Directors
"Business Day(s)"	any day(s) (excluding Saturday, Sunday and public holiday) on which banks are generally open for business in Hong Kong
"Capital Injection"	the Meiming Capital Injection and the capital contribution of RMB4,750,000 into the Target Company to be made by Beidahuang Marketing Co. pursuant to the Shenzhen Food Joint Venture Agreement

"Company"	Sino Distillery Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it in the Listing Rules, and "connected" shall be construed accordingly
"Consideration"	the consideration for the Acquisition in the aggregate sum of RMB2,500,000
"Convertible Bonds"	the 8% convertible bonds due 2016 in the aggregate principal amount of HK$89,600,000 issued by the Company entitling the holder to convert in whole or in part the principal amount of the bonds into Shares at the initial conversion price of HK$0.70 per Share (subject to adjustment)
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held at 10:30 a.m. on Tuesday, 17 February 2015 at Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong for the Shareholders to consider and, if thought fit, approve the Acquisition, the Meiming Capital Injection, the Subscription and the Specific Mandate and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Company
"Exclusive Distribution Agreement"	the agreement dated 2 December 2014 entered into between the Target Company and Beidahuang Marketing Co. in relation to the exclusive distribution of the Beidahuang Green Food Products in Pearl River Delta area
"Feng Wei"	黑龍江北大荒豐威食品有限公司 (Heilongjiang Beidahuang Feng Wei Food Company Limited*)
"Feng Wei Supply Agreement"	the products supply agreement to be entered into between the Target Company and Feng Wei

"First Announcement"	the announcement of the Company dated 11 July 2014 in respect of, amongst others, the Subscription
"Group"	the Company and its subsidiaries
"Harbin China Distillery"	哈爾濱中國釀酒有限公司 (Harbin China Distillery Company Limited*), a limited company established under the laws of the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hui Yu"	廣西惠禹糧油工業有限公司 (Guangxi Hui Yu Oil Industrial Company Limited*)
"Hui Yu Supply Agreement"	the products supply agreement to be entered into between the Target Company and Hui Yu
"Independent Third Party(ies)"	third party(ies) who is/are independent of, and not connected with, the Company and its connected persons
"Instrument"	the deed poll constituting the Warrants to be executed by the Company upon completion of the Subscription
"Issue Price"	HK$0.01 per unit of Warrant to be issued pursuant to the Subscription
"Latest Practicable Date"	means 23 January 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Meiming"	深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited*), a wholly foreign-owned enterprise registered under the laws of the PRC and a wholly-owned subsidiary of the Company

"Meiming Capital Injection"	the capital contribution of RMB4,750,000 into the Target Company to be made by Meiming pursuant to the Shenzhen Food Joint Venture Agreement
"Mr. Hu"	胡廣生 (Hu Guang Sheng), an Independent Third Party and one of the Vendors
"Possible CCTs"	the possible continuing connected transactions between the Target Company and connected persons of the Company upon completion of the Acquisition when the Target becomes a subsidiary of the Company in respect of (i) the transactions contemplated under the Products Supply Agreements and (ii) the transactions contemplated under the Exclusive Distribution Agreement
"PRC"	the People's Republic of China
"Products Supply Agreements"	collectively, the Beidahuang Marketing Co. Supply Agreement, the Feng Wei Supply Agreement and the Hui Yu Supply Agreement
"Sale Capital"	50% equity interest in the Target Company
"Shareholder(s)"	shareholder(s) of the Company
"Shares"	ordinary share(s) of the Company of HK$0.10 each
"Share Transfer Agreement"	the agreement dated 25 August 2014 (as supplemented by the supplemental agreements dated 24 November 2014 and 14 January 2015) entered into between Meiming and the Vendors in respect of the Acquisition
"Shenzhen Food Joint Venture Agreement"	the agreement to be entered into between Beidahuang Marketing Co. and Meiming upon completion of the Acquisition in relation to, amongst others, the Capital Injection
"Specific Mandate"	the specific mandate required to be granted to the Directors by the Shareholders at the EGM for the issue of the Subscription Shares

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	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
"Subscription"	the subscription of the Warrants by the Subscriber or its nominee as contemplated under the Subscription Agreement
"Subscription Agreement"	the agreement dated 7 July 2014 (as supplemented by the supplemental agreements dated 24 November 2014 and 14 January 2015) entered into between the Company and the Subscriber in respect of the Subscription
"Subscription Price"	the initial subscription price of HK $0.70 per Subscription Share (subject to adjustment)
"Subscription Rights"	subscription rights that are attached to the Warrants
"Subscription Share(s)"	the Share(s) which may fall to be allotted and issued upon exercise of the Subscription Rights
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Cap.571, Laws of Hong Kong)
"Target Company"	深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*), a limited company established under the laws of the PRC
"Transactions"	the Acquisition and the Meiming Capital Injection
"Valuation"	the valuation prepared by 深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*) on 20 August 2014 regarding the shareholders' equity value of the Target Company as at 31 July 2014
"Vendors"	Beidahuang Marketing Co. and Mr. Hu, being the vendors under the Share Transfer Agreement

"Warrant(s)"	an aggregate of 180,000,000 non-listed warrants entitling the holder to subscribe for up to an aggregate amount of HK$126 million for the Subscription Shares at an initial subscription price of HK$0.70 per Subscription Share, subject to the terms and conditions set out in the Instrument
"Warrantholder(s)"	holder(s) of the Warrants
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

* *For identification purpose only*

Sino Distillery Group Limited
中國釀酒集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

Executive Directors:
Mr. Jiang Jianjun *(Chairman)*
Mr. Li Jianqing *(Chief Executive Officer)*
Mr. Qu Shuncai
Mr. Jiang Jiancheng

Non-executive Director:
Mr. Huang Qingxi

Independent Non-executive Directors:
Dr. Loke Yu (alias Loke Hoi Lam)
Mr. Li Xiaofeng
Mr. Ho Man Fai

Registered Office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head office and principal place of business in Hong Kong:
Unit 1001E, 10/F
East Ocean Centre
98 Granville Road
Tsim Sha Tsui
Kowloon, Hong Kong

28 January 2015

To the Shareholders and, for information only,
the holders of the share options of the Company

Dear Sir/Madam,

MAJOR TRANSACTION

POSSIBLE CONTINUING CONNECTED TRANSACTIONS

SUBSCRIPTION OF UNLISTED WARRANTS UNDER SPECIFIC MANDATE

I. INTRODUCTION

Reference is made to the announcements issued by the Company dated 11 July 2014 and 25 August 2014 in relation to the Acquisition, the Meiming Capital Injection and the Subscription.

The purpose of this circular is to give you (i) further details of the Acquisition, the Meiming Capital Injection, the Possible CCTs and the Subscription; and (ii) notice of the EGM at which resolutions will be proposed to consider and, if thought fit, approve the Acquisition, the Meiming Capital Injection, the Subscription, the Specific Mandate and the transactions contemplated thereunder.

II. THE ACQUISITION

The Share Transfer Agreement (as supplemented by the supplemental agreements dated 24 November 2014 and 14 January 2015)

Date

25 August 2014

Parties

Purchaser:		Meiming, a wholly-owned subsidiary of the Company
Vendors:	(1)	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*); and
	(2)	Mr. Hu

Beidahuang Marketing Co. is a limited liability company incorporated in the PRC and is a subsidiary of Beidahuang Group. It is principally engaged in the marketing business and management of all the products of Beidahuang Group, including the setting up of distribution channel, promotion, advertisement and logistics. Beidahuang Group is a wholly state-owned agricultural enterprise group which owns land with a total area of 56.2 thousand square kilometers, 113 farms, 805 controlled subsidiaries and more than 1200 associates. The headquarter of the group is in Harbin and its GDP in 2012 was RMB114.34 billion. It has established trade and economic cooperation relationships with more than 60 countries and regions in the world. Beidahuang Agriculture Co. Ltd, a subsidiary of Beidahuang Group was listed in Shanghai Stock Exchange in 2002. The group has set up 10 pillar industries such as rich, flour, oil, dairy products, pork, pharmacy, etc, and has nurtured a number of well-known brands and trademarks such as “Beidahuang”, “Wondersun”, “Jiushan” and “Fengyuan”.

Mr. Hu is a businessman. Mr. Hu has worked in the Target Company since May 2010 and he is now acting as the general manager of the Target Company. He has extensive experience in project management, customer relationship management, marketing, recruiting and training of staff. Other than the position mentioned, he does not have any other role in Beidahuang Group. Mr. Hu will continue to be the general manager of the Target Company after completion of the Acquisition.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors and the ultimate beneficial owner(s) of Beidahuang Marketing Co. are Independent Third Parties. There is no shareholding relationship between the Company and Beidahuang Group and its subsidiaries. As for business relationship, (i) the Company entered into a strategic cooperation agreement with a subsidiary of Beidahuang Group on 14 January 2014 which was discontinued on 18 June 2014 and (ii) such subsidiary of Beidahuang Group was also one of the purchasers in the disposal of equity interests in Harbin China Distillery by Meiming which was completed on 18 June 2014. Harbin China Distillery is now a 60% subsidiary of Beidahuang Group and was previously a 75% subsidiary of the Company. There is no business or shareholding relationship between the Company and Mr. Hu.

Asset to be Acquired

Pursuant to the Share Transfer Agreement, (i) the Company has conditionally agreed to acquire and Beidahuang Marketing Co. has conditionally agreed to sell 10% equity interest in the Target Company and (ii) the Company has conditionally agreed to acquire and Mr. Hu has conditionally agreed to sell 40% equity interest in the Target Company.

Consideration and Payment Terms

The aggregate Consideration for the Acquisition is RMB2,500,000 and shall be payable by the Company as to (i) RMB500,000 to Beidahuang Marketing Co. and (ii) RMB2,000,000 to Mr. Hu by telegraphic transfer.

The Consideration has been determined after arm's length negotiations among the parties to the Share Transfer Agreement with reference to (i) the valuation report issued by an independent professional valuer, 深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*) showing that the shareholder's equity value of the Target Company was RMB4.39 million as at 31 July 2014 and (ii) the benefits of the Acquisition to the Group as detailed in the paragraph headed "Reasons for the Acquisition" below.

The Valuation is prepared using discounted cash flow method under the income approach. Therefore, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Details of the Valuation, including the assumptions upon which it is based are set out in Appendix IV to this circular. The Directors have reviewed and discussed the bases and assumptions upon which the cash flow projection of the Target Company has been made with Shenzhen Yunde Appraisal Firm. Assumptions upon which the financial projection adopted for valuation include basic assumptions, operational assumption and the assumptions for the profit forecast. For basic assumptions, the Valuation assumed that there will be no material change in the political, economical, legal, exchange rate, interest rate, taxation, commodity pricing and inflation during the return period. As such, the market return, market risk, interest rates and exchanges are assumed not to differ materially from those presently prevailing in the market and the economic conditions will not differ materially from those of present or forecasted. For operational assumptions, the Valuation assumed that the core business operations of the Target Company will not differ materially from those of present or expected. As a result, the supply and demand of the business to be carried out by the Target Company will not differ materially from those of present or expected. For the assumptions for the profit forecast on the Target Company, the income, cost and expenditure are with reference to the past three years' historical data with a steady growth in both income, cost and expenses and assumed that there are no significant change in the tax rate. A detailed cashflow projection commencing from 1 August 2014 to 31 December 2019 (the "**Forecast Period**") of around five years was adopted in arriving at the Valuation. According to "Asset Valuation Standard – Enterprise Value" ("資產評估准則－企業價值") issued by the China Appraisal Society ("中國資產評估協會") in 2011, it suggested that the usual practice for forecasting period adopted for valuation will be five years. China Appraisal Society was founded in 1993 and is the national self-regulatory organization in respect of asset valuation standard in the PRC. Based on the foregoing, adoption of around five years forecast period in the Valuation which is in line with industry practice is considered to be fair and reasonable. During the Forecast Period, no new bank loan was required to be raised and no additional capital expenditure was required. The weighted average cost of capital ("**WACC**") is adopted as the discount rate for the Valuation. WACC takes into account the cost of equity, cost of debt and relative weights of debt and equity. The cost of equity of the Target Company is determined according to the capital asset pricing model with reference to the average equity beta of the comparable listed companies in the food industry in Shanghai and Shenzhen stock markets in the PRC. A risk premium is then added to the cost of equity based on the specific circumstances of the Target Company after adjusting for (i) its capital fund raising risk; and (ii) operation risk related to scale of expansion and daily operation management. The Directors intend to have regular meetings with the management of the Target Company to review performance from time to time. Information in compliance with Rule 14.62 of the Listing Rules in respect of the profit forecast is contained in Appendix V to this circular.

In a discounted cash flow method, it is impossible to predict all cashflows of the future years as the life-cycle of an enterprise is infinite length in theory. Therefore, cash flow is projected for each year into the future for a certain number of years, after which unique annual cash flows cannot be forecasted with reasonable accuracy. In discounted cash flow method, it usually divides the prediction into two parts, being present value of the cash flows in the definite prediction period and present value of the cash flows after the definite prediction period. Present value of the cash flows after the definite prediction period represents the sustainable value. At that point, rather than attempting to forecast the varying cash flow for each individual year, a sustainable value is used to represent the discounted value of all subsequent cash flows. In arriving at the valuation of the Target Company, a sustainable value is determined for those cash flows after the explicit Forecast Period. The Exclusive Distribution Agreement and Beidahuang Marketing Co. Supply Agreement entered into by the Target Company have a duration of three years. Under the Exclusive Distribution Agreement, provided that the Target Company is able to meet the minimum annual purchase amount as stipulated therein, first priority will be granted to the Target Company for negotiating for renewal and extension of the Exclusive Distribution Agreement upon its expiry. From year 2011 to 2013, the historical purchase of Target Company from Beidahuang Marketing Company were approximately RMB1.19 million, RMB1.44 million and RMB1.69 million respectively, demonstrating a growth in annual purchase of approximately 21.0% in 2012 and approximately 17.4% in 2013. Total purchase in 2013 has already exceeded the minimum purchase target of RMB1.5 million for the first year as stipulated in the Exclusive Distribution Agreement. Given the previous purchasing history of Target Company, the Directors are confident that the Target Company will be able to meet the minimum purchase target from 2015 to 2017. Having considered that (i) use of sustainable value is commonly adopted in valuation using discounted cash flow method; (ii) life-cycle of a business enterprise is of infinite length; and (iii) it is assumed that the Target Company will continue its on-going business operation, it is reasonable to include sustainable value in the valuation.

The cashflow forecast adopted in the Valuation is determined with reference to historical performance assuming that the Target Company will continue to operate under its existing business model and operation (the "**Existing Model**"). The cashflow forecast adopted in the Valuation has yet taken into account the development potential of the Target Company as a result of the Capital Injection and proposed business development of the Target Company as disclosed under the paragraphs headed "Proposed franchised shops operation" and "Proposed direct-sale shops operations" (collectively, the "**Proposed Development**").

After completion of the Acquisition and the Capital Injection, the Target Company will expand its existing business. Under the Proposed Development, in 2015, the Target Company will setup four direct-sale shops and five to ten franchised shops. In addition, Target Company also plans to expand staple sales and its customers base. In view of both of the Target Company's development under its Existing Model and the Proposed Development, it is anticipated that turnover of the Target Company will increase by a combination of the aforesaid developments of the Target Company.

Therefore, the Directors are of the view that the cashflow forecast adopted in the Valuation which merely based on the Existing Model of the Target Company is a prudent estimate of the development potential of Target Company for valuation purpose.

The Possible CCTs will facilitate the Target Company in its future business development by allowing it to secure a stable supply of products and be granted exclusive distribution rights for Beidahuang Green Food Products in the Pearl River Delta region. With the development of the Target Company under its Existing Model and under the Proposed Development, it is anticipated that the business scale of the Target Company will be enhanced. Apart from the enhanced operation scale of the Target Company, there will not be any material difference in the scope of the Target Company's business under the Possible CCTs when compare with its existing business operation. After the Acquisition, sales of food products will remain as the principal business of the Target Company and there will not be material difference in the products portfolio of the Target Company. As such, level of competition and target customers will remain principally the same. The Target Company's development under the Existing Model and the Proposed Development will not alter the basis of determining the product pricing. Moreover, under the Possible CCTs, there is no obligation for the Target Company to purchase from Beidahuang Marketing Co., Hui Yu and Feng Wei, in the event that relevant products are available from other independent suppliers at comparable or more favourable terms to the Target Company. Therefore, competition among suppliers to the Target Company will also remain the same. As such, the Target Company's operation and business model will be principally same as before.

The valuation of the Target Company was only one of the factors considered by the Company when determining the Consideration. The benefits of the Acquisition to the Group and the fact that Meiming will have control over the board of the Target Company upon completion of the Acquisition were also factors that the Company has taken into account when agreeing to a Consideration which is at a premium over the valuation amount. Although the profit after taxation of the Target Company for 2013 was not substantial and it was in a net liabilities position as at 31 July 2014, the Target Company was able to achieve profits in the past 3 years ended 31 December 2013 and showed signs that it is capable of maintaining the profit making trend in the coming periods at least in the short term. The Consideration has been determined with regard to future profitability of the Target Company rather than its historical asset base for the following reasons: (i) the valuation report has taken into account the profitability and cash flow forecast of the Target Company for the coming years and (ii) the management's assessment on the potential of the Target Company as a result of the capital injection and the opening of the direct-sale shops and expansion of the Target Company's distribution channels. Furthermore, having discussed with the management of the Target Company during the negotiation stage, the Directors understood that there exists potential profitability growth opportunity in the business of the Target Company. The Target Company presently operates through other sales outlets not owned by it. After completion of the Acquisition, the Company will change the Target Company's operating model by setting up 4 new direct-sale shops (專賣店) as its own distribution channels within 6 to 9 months following the completion of the Acquisition. The Target Company will then have relatively stronger control over the pricing strategy for its products in the market, which will benefit its revenue and financial performance. Based on the above, the Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and on normal commercial terms.

Conditions Precedent

Completion of the Share Transfer Agreement is conditional upon satisfaction of the following conditions:

(i) the obtaining of all necessary approvals and consents in relation to the Share Transfer Agreement and the transactions contemplated thereunder by the Company; and

(ii) Meiming having satisfied with the results of the due diligence review on the Target Company.

In the event that the conditions to the Acquisition are not fulfilled or waived on or before 31 March 2015 (or such other date as may be agreed between Meiming and the Vendors), the Share Transfer Agreement shall lapse and shall cease to have any force and effect and the parties will be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof. Meiming may waive the condition set out in (ii) above and the Vendors may not waive any of the above conditions.

As at the Latest Practicable Date, condition (ii) has been fulfilled.

Completion

Completion of the Acquisition shall take place within 3 business days after the date on which the conditions precedent have been satisfied or such other date as agreed amongst the parties.

Capital Injection

Upon completion of the Acquisition, Beidahuang Marketing Co. and Meiming have agreed to execute the Shenzhen Food Joint Venture Agreement pursuant to which the registered capital of the Target Company will be increased from RMB500,000 to RMB10,000,000. The increased capital in the sum of RMB9,500,000 will be contributed by Beidahuang Marketing Co. and Meiming in equal shares in the sum of RMB4,750,000 each by cash. Upon completion of the Capital Injection, the shareholdings of Beidahuang Marketing Co. and Meiming in the enlarged registered capital of the Target Company will remain unchanged at 50% and 50% respectively.

Set out below is (i) the registered capital of and equity interest in the Target Company to be held by the respective parties after completion of the Acquisition and before the Capital Injection; and (ii) the registered capital of and equity interest in the Target Company to be held by the respective parties after completion of the Capital Injection:

	Immediately after completion of the Acquisition and before the Capital Injection		Immediately after completion of the Capital Injection	
Name of shareholder	**Registered capital of the Target Company** *(RMB)*	**Equity interest in the Target Company** *(%)*	**Registered capital of the Target Company** *(RMB)*	**Equity interest in the Target Company** *(%)*
Beidahuang Marketing Co.	250,000.00	50.00	5,000,000.00	50.00
Meiming	250,000.00	50.00	5,000,000.00	50.00
Total	500,000.00	100.00	10,000,000.00	100.00

Pursuant to the Shenzhen Food Joint Venture Agreement, both parties will settle the capital contribution within 30 business days from the date of execution of the Shenzhen Food Joint Venture Agreement by transferring their respective entire amount of the capital contribution to a specified bank account. The Meiming Capital Injection will be funded from the Company's internal resources.

Under the Shenzhen Food Joint Venture Agreement, if any party fails to make its contribution for more than 10 days from the payment due date, it will constitute a breach of the Shenzhen Food Joint Venture Agreement and the defaulting party will have to pay the non-defaulting party a penalty equivalent to 20% of the outstanding amount, in addition to other rights of the non-defaulting party under the Shenzhen Food Joint Venture Agreement.

The amount of the Capital Injection was determined after arm's length negotiations between Beidahuang Marketing Co. and Meiming with reference to, among other things, the financial condition and funding needs of the Target Company. The capital contribution will be utilized to open 4 direct-sale shops and as working capital of the Target Company. It is estimated that in pursuing further development of the Target Company, funding requirement will be required for (i) the initial cost of investment of approximately RMB2,000,000 for establishment of 4 direct-sale shops; (ii) initial investment and start-up cost of approximately RMB1,000,000 to launch its online shop terminal; and (iii) approximately RMB7,000,000 as additional working capital of the Target Company for supporting its operation at an enlarged scale. In respect of the investment costs for new direct-sale shops to be established by the Target Company, (i) approximately 40% will be applied for capital expenditure, such as interior renovation expenditure and acquisition of stock shelves and equipment; (ii) approximately 40% for inventory purchase; and (iii) approximately 20% for general working capital for its operational needs, such as rental payment, payroll costs and other administrative expenses. Based on the foregoing, the Directors (including the independent non-executive Directors) consider that the Capital Injection is fair and reasonable and on normal commercial terms.

Board of Directors of the Target Company

Upon completion of the Acquisition, the board of directors of the Target Company will consist of 5 directors. Meiming will have the right to nominate 3 directors and Beidahuang Marketing Co. will have the right to nominate 2 directors.

Information of the Target Company

The Target Company was established in the PRC with limited liability on 23 March 2009 with a registered and paid up capital of RMB500,000. The Target Company is principally engaged in wholesaling and retailing of staple food, cooking oil, alcohol and beverage, frozen and fresh food manufactured by Beidahuang Group which is the ultimate holding company of Beidahuang Marketing Co.. As at the Latest Practicable Date, each of Beidahuang Marketing Co. and Mr. Hu holds 60% and 40% equity interest in the Target Company respectively.

Beidahuang Marketing Co. is a wholly-owned subsidiary of Beidahuang Group engaged in the marketing of all the products of Beidahuang Group. Building up the distribution network nationally is its main target. It has established 945 direct-sale shops and franchised shops in 110 cities of 24 provinces by 2014. Direct-sale shops are wholly owned and run by Beidahuang Marketing Co. while franchised shops only sell products provided by Beidahuang Marketing Co.. Beidahuang Group is a state-owned enterprise in the PRC mandated by the Central Government to maintain stable supply of basic foods (i.e. rice, wheat and oil) to around one third of the PRC population. Given the corporate status of Beidahuang Group and its huge supply capacity, it is believed that the Target Company will benefit from Beidahuang Marketing Co.'s relationship with Beidahuang Group.

The Target Company was set up in 2009 to cover the South China market. At present, the Target Company is principally engaged in food distribution business (the "**Food Distribution Business**"), mainly the reputable green and organic food products of Beidahuang Group. In June 2014, the. "Beidahuang" brand ranked number 42 among the 2014 China's Top 500 Most Valuable Brand by World Brand Lab. In September 2014, the "Beidahuang" brand ranked number 166 among the 2014 Asia Top 500 Brand by World Brand Lab. In this connection, food products of Beidahuang Group received market recognition and popularity from the consumers.

Under the Food Distribution Business, food products are mainly sold by the Target Company on a wholesale basis for earning trading income primarily to (i) food wholesalers and trading companies who then resell the products to retail shops and supermarkets, etc.; (ii) retail operators; (iii) retail chain; (iv) corporate customers; and (v) franchised shops of Beidahuang Marketing Co.. Given the nature of wholesale distribution business of the Target Company, it only has few end customers.

In its operation, the Target Company entered into sales agreements with retail chain, certain food wholesalers, trading companies and retail operators. As for retail chain, the agreements were usually one year long and payment would be settled monthly. The agreements with food wholesalers, trading companies and retail operators were usually one year long, the payment terms vary from (i) monthly settlement, (ii) deposit before delivery and settle the balance payment upon delivery and (iii) full up-front payment. As at the Latest Practicable Date, the Target Company has entered into one sales agreement with trading company which will expire in November 2015. Target Company is currently negotiating sales agreements with tentative duration of around one year with (i) one retail chain; (ii) two food wholesales; and (iii) two retail operators.

For the corporate customers and franchised shops of Beidahuang Marketing Co., separate agreements are signed for each order and these agreements generally require full payment before delivery of products.

Capitalizing on the relationship of Beidahuang Marketing Co. with Beidahuang Group, one of the development strategies of the Target Company is to further develop the Food Distribution Business by developing franchised shops by the Target Company for earning both franchise fee and trading income.

In addition, the Target Company also endeavors to pursue vertical business development by tapping into retail business through establishment of direct-sale shops.

Due to capital and manpower limit, the Target Company has not set up any direct-sale shop in Shenzhen.

Proposed franchised shops operations

It is the Target Company's intention to strengthen its distribution network for its distribution business by establishing new franchised shops.

New franchised shops will be set up in residential area targeting at middle to high income individual and household. They will be owned and run by third parties. Under the franchised shops operations, the Target Company will receive one-off upfront franchise fee of fixed amount for each new franchised shop upon signing of the franchise agreement. In addition, under the franchise agreement, the Target Company will provide inventory to franchised shops upon receiving product requests made by them at pre-determined price. As such, the Target Company will earn trading income from the franchised shops. Products sold by the franchised shops will be mainly products of Beidahuang Group. A franchised shop may not sell products from other suppliers unless prior approval is obtained from the Target Company.

Beidahuang Marketing Co. will set out the guidance price for various products (the "**Price List**") to be sold to franchised shops. For those products which appear in the Price List, the Target Company will need to follow those prices set out in the Price List in its product sales to the franchised shops. For products which are not stated in the Price List, the Target Company can set the product selling price to franchised shops at its own discretion.

After Acquisition, Target Company proposes to develop five to ten franchised shops in the coming year in Guangzhou, Shenzhen, Dongguan and Foshan etc. As at Latest Practicable Date, no franchised shops had been established by the Target Company.

Since the franchised shops require lower startup costs, it will be an effective way to expand the reach of the Target Company's distribution network geographically without utilizing substantial amount of resources.

Proposed direct-sale shops operations

Direct-sale shops, being the Target Company's strategic move into the retail business, will be owned and operated by the Target Company.

Target Company is actively looking for suitable locations for setting up direct-sales shops. Target Company plans to set up these shops in high-end commercial area. The target customers will be white collars who will have higher disposable income, greater awareness of health related issues and therefore, it will be more likely for them to purchase the Target Company's organic and green products.

In general, for those products which appear on the Price List, their retail prices at direct-sale shops should not be less than the suggested retail price as stated in the Price List. For other products, the Target Company has the discretion to set their retail price.

Target Company endeavors to set up 4 direct-sales shop by 2015 in Guangzhou, Shenzhen and Zhuhai. Target Company is actively searching for appropriate locations for these shops targeting at middle to high income group. It is proposed that the average size of each direct-sales shop will be around 200 square metres. Preliminary investment will be approximately RMB2 million. As at Latest Practicable Date, no direct-sale shops had been established by the Target Company.

Target Company will be in a better position to understand consumers' taste and preference by reviewing and analyzing the ordering pattern of the franchised shops. Therefore, it will enable the Target Company to devise better products procurement plan for lowering inventory risks.

As the direct-sales shops will be self-operated by the Target Company, the Target Company does not need to pay any fee to Beidahuang Group for setting up direct-sales shops. Immediately after completion of the Acquisition, save for Beidahuang Group's indirect 50% equity interest in the Target Company, Beidahuang Group will not be involved in the management and operation of the direct-sales shops.

Competition

As both franchised shops and direct-sale shops can only cover certain areas of the market or customers, they are not likely to compete with each other as they are normally geographically located at a certain distance from each other. The direct-sale shops will be located in the central business districts with substantial pedestrian flow with large shopping malls nearby. Franchised shops will be located in residential area. Therefore, the aforesaid types of shops will be complementary to each other for covering different geographical region. Furthermore, pursuant to the Exclusive Distribution Agreement where the Target Company will be provided exclusive franchise development rights, franchised shops have to obtain approval from the Target Company before their establishment. As such, competition between these two types of establishment will be avoided.

With the presence of the Price List which provides suggested retail prices for Beidahuang products sold in franchised shops and direct-sales shops, substantial price competition between the direct-sales shops and the franchised shops will be unlikely.

The Target Company has entered into the Exclusive Distribution Agreement on 2 December 2014, pursuant to which, the Target Company will be the exclusive regional distributor for green products of Beidahuang Marketing Co. in the Pearl River Delta region. In this connection, Target Company's operation will be protected from competition of other distributors of Beidahuang Marketing Co. in the designated area.

Product procurement

Currently, majority of the products are acquired by the Target Company from members of the Beidahuang Group and most of which are from Beidahuang Marketing Co.. The Target Company has the right to seek sources more favorable to it within members of the Beidahuang Group, some of whom are manufacturer of the products while others are distributors of the products. The Target Company is only one of the distributors for the products of Beidahuang Group.

Having considered (i) the entering into of the Beidahuang Marketing Co. Supply Agreement by the Target Company on 2 December 2014, pursuant to which, Beidahuang Marketing Co. will supply products of Beidahuang Marketing Co. to the Target Company in a timely manner for a three-year term; and (ii) Beidahuang Marketing Co. still maintains 50% shareholding of the Target Company after completion of the Acquisition. Therefore, Beidahuang Marketing Co. has the incentive to ensure that the Target Company can secure sufficient goods supply, as such, the aforesaid factors shall enable the Target Company to secure stable products supply from Beidahuang Marketing Co. for its operations.

The costs of the Target Company for acquiring products are determined based on the purchasing/manufacturing costs and expenses in respect of those products incurred by the relevant member of Beidahuang Group. The arrangement between the parties is such that the products will always be sold to the Target Company on better terms than those provided to third parties who are not members of Beidahuang Group. The Target Company will source products from members of Beidahuang Group which can provide it with more favourable terms. The major costs of the business are purchasing costs, storage and transportation costs. As for the re-selling price, it is determined by the Target Company by reference to market price of comparable products. Such pricing basis will remain the same after completion of the Acquisition.

Regarding the risks of the products sourced from Beidahuang Group, according to Consumer Protection Law in the PRC, retailers (the Target Company and the direct sale shops of the Target Company as the sellers in this case) assume the same responsibilities for the products as producers to consumers. However, retailers are able to recover all their losses caused by product qualities, if there is any, from producers as long as the retailers purchased the goods from qualified producers. So far as the Company is aware, members of Beidahuang Group which manufacture the products acquired by the Target Company are qualified producers.

The Target Company requests payment term of either full payment in advance or cash on delivery for a majority of its customers. As such, the Target Company will not bear any inventory risk for those products sourced from Beidahuang Group which are based on the following operation model: (i) customers place orders to Target Company and make full payment prior delivery of products or make payment upon delivery (ii) Target Company place orders to members of Beidahuang Group (iii) members of Beidahuang Group deliver products to Target Company within 2-3 days and (iv) Target Company re-direct products to customers.

For those customers which have established business relationship with the Target Company and have good payment records, credit period will be granted to such customers after credit verification procedures and usually monthly settlement will be made. For some customers, the Target Company requires them to pay a deposit before placing the order. If those customers default on their payment, Target Company will confiscate the deposits and sell the products to other customers. Based on the aforesaid, the inventory risks of the Target Company is considered to be minimal.

For sales of the Target Company in 2013, (i) around 89% of sales required full payment in advance, (ii) around 9% of sales were on credit terms with up to one month credit period and (iii) the remaining balance of around 2% of sales were made on cash on delivery. As at the Latest Practicable Date, all accounts receivables as at 31 July 2014 were settled and no bad debts were recorded by the Target Company.

Financial information

The audited net liabilities of the Target Company as at 31 December 2013 was approximately RMB406,796.

A summary of the financial information of the Target Company for the two financial years ended 31 December 2012 and 31 December 2013 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") is set out below:

	For the year ended 31 December	
	2012	**2013**
	(audited)	**(audited)**
	RMB	*RMB*
Revenue	9,035,806	22,281,658
Profit before taxation and extraordinary items	151,929	53,644
Profit after taxation and extraordinary items	151,929	53,644

Following completion of the Acquisition, the Target Company will be held as to 50% by Meiming and 50% by Beidahuang Marketing Co. and the Company will have the right to appoint 3 directors on the board of directors of the Target Company which will comprise of 5 directors. Accordingly, upon completion of the Acquisition the Target Company will be a non-wholly owned subsidiary of the Company and the results of the Target Company will be consolidated into the financial statements of the Group.

Risk factors in relation to the Target Company's business and the Acquisition

- ***Reliance on a few major customers***

For the Food Distribution Business, no long term sales contract are entered into by the Target Company and the Target Company relies on the wholesaler and trading companies. There is no assurance that the customers will continue to do business with the Target Company. If the customers cease to buy products with the Target Company and the Target Company fails to expand the business with existing customers or attract new customers, the business, results of operations and financial condition of the Target Group may be adversely affected.

- ***Reliance on Beidahuang Group as a major supplier for products***

The Target Company relies on Beidahuang Group as a major supplier of products and a limited group of suppliers to supply certain other products. Among members of the Beidahuang Group, the Target Company entered into Beidahuang Marketing Co. Supply Agreement for three years and has entered into Hui Yu Supply Agreement and Feng Wei Supply Agreement for products supply of one year. In the event that the members of Beidanhuang Group who have entered into supplier agreements do not renew the agreements on favourable terms or at all, or if Beidahuang Group does not continue to supply products to the Target Company at favourable or similar prices or at all, the Target Company may not be able to find another suitable replacement suppliers in a timely manner or on terms acceptable to the Target Company or at all, and the Target Company's business, results of operations and financial condition could be adversely affected.

- ***Change in consumer preferences and/or purchasing power***

The performance of the proposed retail business of the Target Company depends primarily upon its customers' purchasing power, while the demand by the Target Company's wholesale customers depends primarily upon the purchasing power of their own retail consumers. There is no assurance that the Target Company's retail and wholesale customers will continue to purchase from the Target Company and source the products distributed by the Target Company in the future. If the purchasing habits of the Target Company's retail and wholesale customers change in the future, the Target Company's business and financial results may be adversely affected.

- ***Reliance on key management***

The Target Company's operation is, to a significant extent, dependent on the management, expertise and experience of its key management. If the Target Company is unable to retain these key personnel and key employees or if the Target Company is unable to find replacements of key personnel and key employees with comparable experience and expertise, the business operations of the Target Company may be adversely affected.

- ***Investment in new business sector for the Group***

The Acquisition constitutes an investment in a new business sector, being distribution and retail business in PRC, in which the Group has no previous involvement. The new business may pose significant challenges to the Company's administrative, financial and operational resources and expose the Group to a risk profile which may be different from that of its existing business. Since the Company does not have significant experience in the new business, the operation and future expansion will rely on the expertise of the existing staff of the Target Company.

- ***Competition in the PRC distribution and retail industry***

The distribution and retail industry in which the Target Company operates is subject to rapid change and competition from other competitors providing similar products. Some of the competitors may have longer operating histories, larger customer bases, larger teams of professional staff, greater brand recognition and greater financial, marketing and other resources than the Target Company. As such, if the Target Company is unable to compete effectively against the existing and potential competitors by maintaining the Target Company's competitive advantages, the Target Company's results of operations may be adversely affected. Any of these events could have a material adverse effect on the Target Company's financial condition, results of operations and future prospects.

- ***Reliance on the PRC market for the business and operations of the Target Company***

PRC is the major market of the Target Company, therefore, the demand for the Target Company's products is sensitive to the changes in the general economic conditions in the PRC. The Target Company's result of operation is dependent to the overall growth of the domestic market in the PRC. Should there be any significant adverse changes in the market conditions of the PRC, it will affect profitability and performance of the Target Company.

In addition, given that the Target Company is operating in the PRC, it will be subject to the economic, political and legal environment of the PRC. The existence of unfavourable government policy in relation to the conduct of business in general or in areas specific to the Target Company's business in the PRC or failure by the Target Company to comply with laws and regulations governing the Target Company's business in the PRC and to obtain the necessary licences, approvals and authorizations from relevant PRC government authorities may adversely affect the Target Company's intended development and future operation in the PRC.

- ***The business and operations of the Target Company may be adversely affected by the current global economic crisis***

The current global economic crisis is adversely affecting the global economy. As a result, demand for the products of the Target Company may decline and the prices of its products may need to be lowered in order to retain its existing customers or attract new customers, which would adversely affect its profit level. If any of its customers suffer financial difficulties as a result of the current global economic crisis, the demand for its products may be reduced and these existing orders may be cancelled. If any of its suppliers suffer financial difficulties as a result of the current global economic crisis, its ability to obtain supplies may also be affected. It cannot be assured that its customers or suppliers will not be affected by the current financial crisis. In such circumstances, its operations and financial performance may be adversely affected.

Management discussion and analysis of the Target Company

Accountants' report on the Target Company for the period from 1 January 2011 to 31 July 2014 was set out in Appendix II to this circular. Management discussion and analysis of the Target Company for the corresponding period was discussed below.

The following discussion should be read in conjunction with the accountant's report on Target Company as set out in Appendix II to this circular. The audited consolidated financial information on the Target Company included in the accountant's report was prepared in accordance with HKFRS. For illustration purpose, certain figures in this section have been subject to rounding adjustments.

(i) Total Assets and Net Liabilities

According to its audited consolidated financial statements prepared in accordance with HKFRS, as of December 31, 2011, 2012, 2013 and 31 July 2014, the Target Company had total assets of approximately RMB1.42 million, RMB3.82 million, RMB3.11 million and RMB2.27 million, and net liabilities of approximately RMB0.61 million, RMB0.46 million, RMB0.41 million and RMB0.32 million, respectively.

(ii) Operating Results

The Target Company derives its revenue mainly from the wholesaling and retailing of the products of Beidahuang Group. The management considers that there is only one business segment significant enough for disclosure.

Revenue increased by approximately 1.6% from approximately RMB8.89 million in 2011 to approximately RMB9.04 million in 2012 and increased by approximately 147% from approximately RMB9.04 million in 2012 to approximately RMB22.3 million in 2013, the increase in revenue in 2013 was mainly attributable to the increased sales of the staple products of Beidahuang Group which amounted to RMB9.8 million, the development of more franchised shops and the expansion of the distribution network of the Target Company and the growth in the market demand.

Cost of sales increased in line with the increase in the sales.

As a result of the foregoing, gross profit increased by approximately 46.2% from approximately RMB0.65 million in 2011 to approximately RMB0.95 million in 2012 and increased by approximately 41.1% from approximately RMB0.95 million in 2012 to approximately RMB1.34 million in 2013.

The gross profit margin for the year 2011, 2012 and 2013 were 7.3%, 10.5% and 6.02% respectively. The drop in the gross profit margin in 2013 was mainly due to the thin gross profit margin for the staple sales transactions which contributed 43.9% to the total gross profit of the Target Company in 2013. Staple sales transaction mainly related to bulk sales of grain crops at huge volume yet lower gross profit margin. Although the gross profit margin has dropped in 2013 due to the staple sales transactions, the gross profit has increased by approximately RMB0.39 million, representing an increase of approximately 29.5% in 2013 as a result of the staple sales transactions compare to 2012. Over the past three years, the contract value of each staple sales transaction was over RMB1 million. Given the huge sales value, despite lower profit margin, a sizeable profit will be generated from such transactions. If the staple sales transactions (which amounted to RMB9.8 million and represented approximately 43.9% of the total revenue of the Target Company in 2013) were excluded, the gross profit margin would reach 10.6% and remain stable when compared with 2012.

Profit attributable to owners for December 31, 2011, 2012, 2013 and 31 July 2014 are approximately RMB0.04 million, RMB0.15 million, RMB0.05 million and RMB0.09 million, respectively. Despite the increase in amount of gross profit in 2013 of approximately RMB0.39 million, given the aggregate increase in selling and distribution expenses and administrative expenses by approximately RMB0.46 million, the profit attributable to owners dropped in 2013.

(iii) Liquidity and Financial Resources

As of December 31, 2011, 2012, 2013 and 31 July 2014, the Target Company had cash and cash equivalents of approximately RMB0.004 million, RMB0.07 million, RMB0.31 million and RMB0.82 million, respectively. As of December 31, 2011, 2012, 2013 and 31 July 2014, the Target Company had no bank borrowings.

(iv) Capital Structure

At 31 December 2011, 2012, 2013 and 31 July 2014, the registered and paid up share capital of the Target Company are maintained at RMB500,000.

As of December 31, 2011, 2012, 2013 and 31 July 2014, the total net liabilities of the Target Company was approximately RMB0.61 million, RMB0.46 million, RMB0.41 million and RMB0.32 million, respectively.

As at December 31, 2011, 2012, 2013 and 31 July 2014, the gearing ratio (as calculated by net debt divided by the capital plus net debt) of the Target Company was 143%, 120%, 115% and 122% respectively.

The total liabilities in December 31, 2011, 2012, 2013 and 31 July 2014, are approximately RMB2.03 million, RMB2.86 million, RMB3.51 million and RMB2.58 million, respectively.

The Target Company treasury policy is to regularly monitor current and expected liquidity requirements and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

As of December 31, 2011, 2012, 2013 and 31 July 2014, there is no use of financial instruments for hedging purposes by the Target Company.

(v) Acquisition and Disposal of Subsidiaries

There was no acquisition or disposal of subsidiary and associated company during each of the three years ended December 31, 2011, 2012, 2013 and period ended 31 July 2014.

(vi) Employees and Remuneration Policy

As of December 31, 2011, 2012, 2013 and 31 July 2014, the Target Company employed a total of 5, 5, 10 and 8 employees, respectively and the employee benefits expenses amount to approximately RMB228,000, RMB278,000, RMB487,000 and RMB312,000, for the three years ended December 31, 2013 and period ended 31 July 2014 respectively. The Target Company recruits and promotes individuals based on merit and their development potentials for the positions offered. When formulating staff remuneration and benefit policies, primary considerations are given to their performance and prevailing salary levels in the market.

The roles and qualifications of the 8 employees of the Target Company are as follows:

	Role	**Qualifications**
1 General Manager	In charge of the operations of the Target Company	Has been in the retailing industry for 20 years with 4.5 years under the employment of the Target Company
2 Salespersons	Managing existing shops and developing business	Five to ten years' experience in retailing industry and franchise chain operation
2 Sales Assistants	Provide services to existing franchised shops	One to three years' experience in retailing industry and franchise chain operation
1 Accountant	Bookkeeping, preparing financial reports and dealing with tax matters	Qualified accountant
1 Cashier	Dealing with cash receiving and payment	Accounting background, no special skills are needed
1 Store Clerk	Managing stocks	No special skills are needed

(vii) Foreign Exchange Exposure

All the operations of the Target Company are located in the PRC and its assets, liabilities and transactions were mainly denominated in Renminbi. As such, the Target Company is not significantly exposed to foreign exchange risks exposure is minimum.

(viii) Significant Investments

The Target Company did not have any significant investment held and future plans for material investments or capital assets for the period from 2011 to 31 July 2014.

(ix) Contingent Liabilities and Obligations

As of December 31, 2011, 2012, 2013 and 31 July 2014, the Target Company had no borrowings.

As of December 31, 2011, 2012, 2013 and 31 July 2014, the operating lease commitment (within a term of 5 years) of the Target Company were approximately RMB Nil million, RMB Nil million, RMB0.18 million and RMB0.007 million, respectively.

(x) Pledge of Assets

As of December 31, 2011, 2012, 2013 and 31 July 2014, no assets were pledged.

(xi) Dividends

The Target Company did not declare any dividend for the year ended December 31, 2011, 2012, 2013 and period ended 31 July 2014.

(xii) Prospects and Future Plans of the Target Company

Upon completion of the Acquisition, the Target Company will set up 4 new direct-sale shops to sell its existing products and sell and distribute the wine and liquor of the Group in Shenzhen, thus creating a synergy effect on the Group's product distribution ability and market share. It is expected that the Target Company will benefit from the continued growth in the markets. As of the Latest Practicable Date, the Target Company does not have any specific future plans for material investments or capital assets.

The existing customer base of the Target Company includes wholesale operators whose distribution activities cover wine and liquors products. Furthermore, the business scope of the proposed franchised shops and direct-sale shops to be established by the Target Company allows sales of wine and liquors. Based on the above, it offers opportunities for the wine products of the Group to be introduced to the wine wholesale operators and the retail network of the Target Company, principally in Shenzhen where the Group has no business presence.

As a result of the PRC central government's anti-corruption scheme and low season of wine and liquor, the current prospect of the wine and liquor industry is unclear. The Board views this an opportunity to seek for increase in market share in Guangzhou and prepare market entry to Shenzhen through the Target Company.

Reasons for the Acquisition

The Group is principally engaged in sale and distribution of wine and liquor; and production and sale of forages. The Group also has its own distribution channel in Guangdong. By acquiring the Target Company, the Group can run the existing chain store business more effectively and efficiently by distributing the products currently sold by the Target Company in its wholesaling and retailing business. In the present market condition under the PRC Central Government's policy on restrictive spendings in luxury products such as wine, liquor and watches, the Directors consider that the segment performance of wine and liquor of the Group would be negatively affected.

Due to the slowdown in the wine and liquor industry, the Board have continued to review its existing businesses and strived to improve the business operations and financial position of the Company by proactively seeking potential investment opportunities that could diversify its existing business portfolio and broaden its source of income, and enhance value to its Shareholders. The Board believes the Acquisition is in line with development strategies of the Group.

In view of population growth, rising disposable income of the PRC residents and increase in health awareness by the general public, the Directors consider that there will be a growing demand for Beidahuang Green Food Products. As such, the Directors believe that the Acquisition will enable the Group to tap into Beidahuang Green Food Products sector which is anticipated to be the next trend in food industry.

Moreover, in view of (i) the Target Company's proposed business development in the existing Food Distribution Business via establishment of franchised shops; and (ii) the Target Company's vertical integration into the retail business via establishment of direct-sale shops, the two aforesaid proposed developments shall allow the Target Company to achieve economy of scale in products procurement, thus promoting cost efficiency. Moreover, direct-sale shops of the Target Company will also help to promote the brand recognition and market presence of the franchised shops of the Target Company and vice versa, thus creating synergy effect in driving up the sales revenue of the Target Company from Food Distribution Business, retail operation and franchised shops establishment.

In addition, as stipulated in the Exclusive Distribution Agreement which was entered into by the Target Company on 2 December 2014, Beidahuang Marketing Co. is granted the following rights to the Target Company, (i) exclusive distribution rights of Beidahuang Marketing Co's products in Pearl River Delta region for a term of three years commencing on 1 January 2015; and (ii) exclusive franchise development right in Pearl River Delta region for a term of three years commencing on 1 January 2015. Riding on the brand recognition of "Beidahuang" in the PRC, the Directors consider that the Acquisition represents a good investment opportunity to the Group in view of the development prospect of the Target Company.

Currently, the Group has 25 wine and liquor specialty stores (including 14 independent shops, 6 counters in supermarkets and 5 counters inside restaurants) and 19 franchised stores in Guangzhou. The Acquisition will enable the existing distribution channel of the Group in Guangdong to sell and distribute the products of the Target Company in Guangdong as they are also consumer goods similar to wine and liquor, and vice versa for the Target Company selling and distributing the wine and liquor of the Group in Shenzhen, thus creating a synergy effect on the Group's product distribution ability and market share. In addition, the Group has more than 70 regular customers such as hotels, restaurants, night clubs and airlines. Most of these customers are also potential consumers of the Target Company's products such as rice and cooking oil.

Immediately after completion of the Acquisition, the green products of the Target Company will be introduced to the Group's wine and liquor shops in Guangzhou. The Group will launch a series of promotion events in its wine and liquor shops in Guangzhou for green products of the Target Company. Promotion events will include but not limited to providing coupons for purchase of green products, free sample of green products and bundling sale of the Group's wine and liquor with green products, etc. In this connection, it will increase customers' recognition and awareness of Beidahuang brand and Beidahuang Group's green products. In the long-term, it will increase product variety of the Group and facilitate cross selling opportunities for green products and wine and liquor of the Group.

Moreover, the wholesaling and retailing of staple food, cooking oil, alcohol and beverage, frozen and fresh food do not require sophisticated market knowledge and experience. The Directors are confident that the Group is able to manage the wholesaling and retailing of the products of the Target Company together with its existing staff, who will stay on with the Target Company after completion of the Acquisition. Therefore, the Acquisition can diversify the Group's business model, reduce its risk and increase its market shares in Guangdong and Shenzhen.

Although members of the Beidahuang Group are currently the major suppliers to the Target Company, the Directors consider the business of the Target Company to be viable and sustainable. Beidahuang's products are normal consumer products which have no substantial difference from other similar products in the market and there should not pose any difficulty for the Target Company to purchase similar products from other suppliers. However, the Target Company may not obtain more favourable terms from other suppliers. In contrast, the Target Company is likely to obtain more favorable terms from Beidahuang Group as it gradually expands its sales network and increases its sales volume. Target Company is actively expanding its product range. In 2014, Target Company procures around 20% of its products from independent suppliers with the view to expand its product variety. The Target Company maintains good relationship with the independent suppliers and has over ten independent products suppliers which supply a wide range of products, such as peanut oil, corn oil, rice, milk, flour and various delicacies. Although the Target Company has not entered into any long term supply agreements with these independent suppliers, it has not experienced and do not envisage that it will experience any material difficulties in sourcing products from independent suppliers.

The following is a summary of the Target Company's audited turnover and gross profit contributed by the top 10 independent suppliers and Beidahuang Group in 2013:

	Top 10 Independent suppliers	**Beidahuang Group**
	RMB	*RMB*
Turnover	12,258,000	9,870,000
Cost of sales	(11,845,000)	(8,948,000)
Gross profit	413,000	922,000

Staple sales transactions were included in the top 10 independent suppliers which brought a lower gross profit margin. Details could be referred to the letter from the Board to this circular on page 26.

Target Company does not have to follow price list set out by Beidahuang Marketing Co. for products bought from independent suppliers. This enables Target Company to sell the products at a higher price to increase profit margin. The Target Company will review its business performance periodically and base on the review to adjust its sources of supplies. The Target Company has entered into Beidahuang Marketing Co. Supply Agreement and the Exclusive Distribution Agreement with Beidahuang Group on 2 December 2014. Furthermore, it has entered into the Feng Wei Supply Agreement and the Hui Yu Supply Agreement on 20 January 2015. Upon completion of the Acquisition, Beidahuang Group and Beidahuang Marketing Co. will not have control over how the Target Company will sell the products in direct-sale shops and to the franchised shops.

The Directors (including the independent non-executive Directors) consider that the terms of the Share Transfer Agreement and the Shenzhen Food Joint Venture Agreement are fair and reasonable and the entering into the Share Transfer Agreement and the Shenzhen Food Joint Venture Agreement are in the interests of the Company and the Shareholders as a whole.

Financial impact of the Acquisition on the Group

Upon completion of the Acquisition, the Target Company will become non-wholly owned subsidiary of the Company and all the financial results of the Target Company will be consolidated into the Group's financial statements. The unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular is prepared as if the completion of the Acquisition had taken place on 31 December 2013 to illustrate the effects of the Acquisition.

As set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, assuming the Acquisition took place on 31 December 2013, total assets of the Enlarged Group will be increased to approximately HK$489.35 million, total liabilities of the Group will be increased to approximately HK$229.55 million and the net assets will be increased to approximately HK$259.80 million.

The fair value of the Target Company based on the valuation report is RMB4.39 million. The Consideration for the Acquisition of 50% equity interest of the Target Company is RMB2.5 million which is at an RMB0.30 million premium over the valuation amount. However, the valuation is only one of the factors considered by the Company when determining the Consideration. The Company is willing to pay at a premium as they believe that the benefit and synergy attributable to the Group after the Acquisition is worth more than the single operation of the Target Company. When the auditors prepared the pro-forma financial statement, they did not object to the view of the Company, and after taking into account for the materiality, they concluded that no impairment on goodwill is required.

Financial and trading prospects of the Enlarged Group

The Group will continue to focus on fast-growing and high-margin segments of China's distribution channel, promotion, advertisement and logistics industry and strive to maintain as a leader in its current business segments. After the completion of the Acquisition, the Group's performance in the sector will be enhanced. The Group will consolidate the success of the Target Company as a market leader and will further deepen its sales coverage as well as expand its product portfolio. The Group will also focus on realizing the strong synergies between the Target Company and the Group's existing business. The Group does not currently have any plan to dispose or downsize any of its existing business.

The Directors are of the view that the Acquisition will likely contribute positively to the Enlarged Group. Nevertheless, the actual effect on earnings/losses of the Company will depend on the future financial performance of the Target Group.

Listing rules implications

As certain applicable percentage ratios for the Acquisition and the Meiming Capital Injection exceed 25% but are less than 100%, the Acquisition and the Meiming Capital Injection constitute a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

III. POSSIBLE CONTINUING CONNECTED TRANSACTIONS

Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company, any transactions between the Target Company and connected person(s) of the Company will become continuing connected transactions of the Company and will be subject to the requirements of the Listing Rules. In this connection, upon completion of the Acquisition, the Possible CCTs which shall comprise of the transactions contemplated under the Products Supply Agreements and the Exclusive Distribution Agreement, will constitute continuing connected transactions of the Company.

Products Supply Agreements and the Exclusive Distribution Agreement

As at the Latest Practicable Date, Target Company has entered into the Beidahuang Marketing Co. Supply Agreement and the Exclusive Distribution Agreement. The Target has also entered into the Fei Wei Supply Agreement and Hui Yu Supply Agreement on 20 January 2015.

Details of the proposed principal terms of the Products Supply Agreements and the Exclusive Distribution Agreement are set out as follows:

1. Products Supply Agreements

The Products Supply Agreements comprises of (i) the Beidahuang Marketing Co. Supply Agreement; (ii) the Feng Wei Supply Agreement; and (iii) the Hui Yu Supply Agreement.

The entering into of the Products Supply Agreements with members of the Beidahuang Group as suppliers and Target Company as the purchaser will ensure the Target Company to have stable and sufficient products supply that fits its future operational needs.

(a) Beidahuang Marketing Co. Supply Agreement

Date:	2 December 2014	
Parties:	(i)	Target Company as purchaser
	(ii)	Beidahuang Marketing Co. as seller

Term:	Three years commencing from 1 January 2015 to 31 December 2017
Products supply:	The Beidahuang Green Food Products and subsequent new products of Beidahuang Marketing Co.
Pricing:	For each type of products purchased by the Target Company under the Beidahuang Marketing Co. Supply Agreement, the Target Company shall pay to Beidahuang Marketing Co. according to master supply price list set out by Beidahuang Marketing Co. Prices are subject to revision every 6 months
Payment Term:	For each type of products purchase by the Target Company, Beidahuang Marketing Co. requests full payment before delivery of products

(b) Feng Wei Supply Agreement

Date:	20 January 2015
Parties:	(i) Target Company as purchaser (ii) Feng Wei, a member of the Beidahuang Group, as seller
Term:	One year commencing from 27 February 2015 to 26 February 2016
Products supply:	Green and organic food series products under "Beidahuang Feng Wei" brand and "Feng Yuan Group" brand (the "**Feng Wei Products**")
Pricing:	Feng Wei will supply the Feng Wei Products to the Target Company at distributor price as specified by Feng Wei
Payment term:	For each type of products purchase by the Target Company, Feng Wei requests full payment before delivery of products

(c) *Hui Yu Supply Agreement*

Date:	20 January 2015
Parties:	(i) Target Company as purchaser (ii) Hui Yu, a member of the Beidahuang Group, as seller
Term:	One year commencing from 1 February 2015 to 31 January 2016
Products supply:	Packaged oil
Pricing:	Supply of products shall be determined between the parties and agreed between the parties with reference to the prevailing market prices and on normal commercial terms
Payment term:	For each type of products purchase by the Target Company, Feng Wei. requests full payment before delivery of products

Proposed annual caps and basis of calculation for the Products Supply Agreements

The proposed aggregated annual caps for transactions contemplated under the Products Supply Agreements for each of the three years ending 31 December 2015, 2016 and 2017 are set out below:

	For year ending 31 December		
	2015	**2016**	**2017**
	RMB' million	*RMB' million*	*RMB' million*
Proposed annual caps	13.5	7.0	9.5

The proposed annual caps set out above are determined based on (i) the projected sales of the Beidahuang Group's products based on the annual sales targets; (ii) estimated cost to purchase products from Beidahuang Marketing Co., Fei Wei and Hui Yu; and (iii) inclusion of a buffer to accommodate any unexpected changes in market condition.

With the anticipated increase in operation scale of the Target Company under development under the Existing Model and the Proposed Development, the annual caps for the Possible CCTs exceed the historical supply amount. However, the basis of estimating the annual caps for the Beidahuang Marketing Co. Supply Agreement have been determined with reference to the ratio of total purchases from Beidahuang Marketing Co. when compared to the total purchases of the Target Company of approximately 15% during the period from 1 January 2011 to 31 July 2014. For prudence sake, a purchase ratio of 20% is adopted for estimating the annual caps for purchase from Beidahuang Marketing Co.

For the proposed annual cap in 2015, it comprises the annual caps for Beidahuang Marketing Co. Supply Agreement (RMB4.5 million), Feng Wei Supply Agreement (RMB3 million) and Hui Yu Supply Agreement (RMB6 million) which adds up to RMB13.5 million. As each of the Feng Wei Supply Agreement and Hui Yu Supply Agreement will only have a term of one year, each of the proposed annual cap in 2016 and 2017 only represents the annual cap of Beidahuang Marketing Co. Supply Agreement of RMB7 million and RMB9.5 million respectively.

2. Exclusive Distribution Agreement

Beidahuang Marketing Co. is responsible for management of all the products of Beidahuang Group, including setting up of the distribution channel. Beidahuang Marketing Co. is the sole supplier of Beidahuang Green Food Products in the PRC. Currently, there is no other distributor selling the Beidahuang Green Food Products in the Pearl River Delta region.

The primary purpose of the Exclusive Distribution Agreement will ensure that in the Exclusive Distribution Region (as defined below), the Target Company will be granted exclusive rights to (i) distribute Beidahuang Marketing Co.'s products and (ii) pursue franchise development.

In order to better facilitate the distribution arrangement, the Beidahuang Marketing Co. Supply Agreement is entered into with the primary purpose in securing the supply of Beidahuang Green Food Products and setting out further operational details of products purchase arrangement, such as procedure for placing order, return goods arrangement, payment arrangement, etc.

Beidahuang Marketing Co, Hui Yu and Feng Wei are all under Beidahuang Group. However, Hui Yu and Feng Wei are not subsidiary of Beidahuang Marketing Co. Therefore, under the Exclusive Distribution Agreement, exclusive distribution rights does not cover products of Hui Yu and Feng Wei. Furthermore, product purchase amount of Target Company is not substantial to Feng Wei and Hui Yu, therefore, no exclusive distribution rights is granted to the Target Company in the respective supply agreement with Feng Wei and Hui Yu.

Date:	2 December 2014
Parties:	(i) Target Company (ii) Beidahuang Marketing Co.
Term:	Three years commencing from 1 January 2015 to 31 December 2017
Nature of Transaction:	Pursuant to the Exclusive Distribution Agreement, Beidahuang Marketing Co. will grant Target Company exclusive distribution rights to distribute the Beidahuang Green Food Products in the Pearl River Delta (including Guangdong and Guangxi province) (the "**Exclusive Distribution Region**") during the term of the Exclusive Distribution Agreement The Target Company does not have to make any payment to Beidahuang Marketing Co. for the exclusive distribution rights

Pricing:	During the term of the Exclusive Distribution Agreement, Beidahuang Marketing Co. will supply products to the Target Company at the regional distributor price as stated in the price list of Beidahuang Marketing Co., being the best price offers by Beidahuang Marketing Co. amongst its customers Target Company has the discretion in determining the wholesale price to be charged to its wholesale customers in the Exclusive Distribution Region within 6% variance to the suggested wholesale price set by Beidahuang Marketing Co Target Company has the discretion in determining the suggested retail price in the Exclusive Distribution Region, in any event not lower than the suggested retail price set by Beidahuang Marketing Co
Performance target:	Annual performance target is set out in the Exclusive Distribution Agreement with 10% increment per annum. For the first year, the Target Company has to achieve a performance target in terms of minimum purchase amount by the Target Company from Beidahuang Marketing Co. of not less than RMB1,500,000 In the event that the Target Company cannot meet the performance target for two consecutive years, Beidahuang Marketing Co. will have the right to terminate the Exclusive Distribution Agreement and confiscate performance deposit of RMB50,000 paid by the Target Company
Payment Term:	Target Company's payments to Beidahuang Marketing Co. shall be based on the terms on the individual purchase contract when Target Company makes the order

Grant of exclusive franchise development right:	Beidahuang Marketing Co. grants the Target Company exclusive franchise development right in the Exclusive Distribution Region during the term of the Exclusive Distribution Agreement. The Target Company will be entitled to receive one-off upfront franchise fee from the franchisees upon signing of franchised agreements with franchisees. The one-off upfront franchise fee is determined after taking into account (i) provision of store design, staff training and operational guidance by the Target Company to franchise shops; (ii) franchise fee charged by Beidahuang Marketing Co. to franchised shops in other region of the PRC; and (iii) franchise fee charged by other enterprises to their franchisees.

Proposed annual caps and basis of calculation for the Exclusive Distribution Agreement

Having considered that the Target Company does not have to pay fee for the exclusive distribution right under the Exclusive Distribution Agreement, the proposed annual caps merely represent Target Company's estimated total annual purchases from the Beidahuang Marketing Co.

The proposed annual caps under the Exclusive Distribution Agreement for each of the three years ending 31 December 2015, 2016 and 2017 are set out below:

	For year ending 31 December		
	2015	**2016**	**2017**
	RMB' million	*RMB' million*	*RMB' million*
Proposed annual caps	4.5	7.0	9.5

The proposed annual caps set out above are determined based on (i) the projected sales of the Beidahuang Green Food Products based on the annual sales targets; (ii) estimated cost to purchase products from Beidahuang Marketing Co.; and (iii) inclusion of a buffer to accommodate any unexpected changes in market condition.

Under the Exclusive Distribution Agreement, no limit has been set in respect of the exclusive distribution right of the Target Company. The annual caps set out under the Exclusive Distribution Agreement refer to the capped amount for annual purchases by the Target Company. In the event that the actual annual purchase by the Target Company exceeds the corresponding annual caps, the Target Company is still entitled to such distribution right.

After considering the projected sales target and estimated purchase envisaged by the Target Company, setting of the annual caps under the Exclusive Distribution Agreement does not intend to limit purchase amount of the Target Company but to provide reference to Beidahuang Marketing Company in its yearly planning. If the Target Company's annual purchase exceeds the capped amount which is an indication of the Target Company's success in developing the Exclusive Distribution Region, the Target Company can negotiate with Beidahuang Marketing Company for upward adjustment of the annual capped amount subject to obtaining Shareholders' approval.

Reasons for and benefits of entering into the Products Supply Agreements and Exclusive Distribution Agreement

The Target Company has been purchasing Beidahuang Group's products from members of the Beidahuang Group for resale to its customers. In addition, leveraging on its relationship with Beidahuang Marketing Co., when the Target Company procures Beidahuang Group's products from members of the Beidahuang Group, better terms are offered to it than those provided to third parties who are not members of Beidahuang Group. As such, this enables the Target Company to earn a profit margin when it sells the products to its customers.

According to the Beidahuang Marketing Co. Supply Agreement, products sold to the Target Company will be charged according to the master supply price list of the Beidahuang Marketing Co. Those prices to be charged to the Target Company will be the best exclusive distribution prices. For similar products supplied by Beidahuang Marketing Co., the prices set by Beidahuang Marketing Co. cannot higher than other Beidahuang Group's suppliers. Target Company will check the prices on a regular basis to determine whether the prices that quoted by Beidahuang Marketing Co. are the best prices. If the prices charged by Beidahuang Marketing Co. are higher than other suppliers, the Target Company has the right to purchase from other suppliers.

Regarding prices charged by Hui Yu and Feng Wei to the Target Company under the corresponding Products Supply Agreements, where prices will be charged to the Target Company based on suppliers' price list or prevailing market prices, such prices will be arrived at either on arm's length basis, or on terms no less favourable to the Target Company than those available to/from independent third parties.

Target Company will cross reference to the prices of similar products available from the market to determine whether the prices are fair, reasonable and on normal commercial terms.

With the entering into of the Products Supply Agreements and Exclusive Distribution Agreement by the Target Company prior completion of the Acquisition, it will enable the Target Company to secure products supply from Beidahuang Group and to have exclusive distribution rights of Beidahuang Group's products in the Pearl River Delta area. As such, it will be beneficial to the business operations of the Target Company.

The Directors (including the independent non-executive Directors) are of the view that the entering into of each of the Products Supply Agreements and the Exclusive Distribution Agreement by the Target Company will be in the ordinary and usual course of business of the Group and the terms of each of the Products Supply Agreements and the Exclusive Distribution Agreement (including their respective annual caps) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Listing rules implications

As Beidahuang Marketing Co. will be a substantial shareholder of the Target Company (which will be a non-wholly owned subsidiary of the Company upon completion of the Acquisition). Beidahuang Marketing Co. will be a connected person of the Company upon completion of the Acquisition at the subsidiary level.

Beidahuang Group is the holding company of Beidahuang Marketing Co., therefore Beidahuang Group and members of Beidahuang Group are associates of Beidahuang Marketing Co. As such, upon completion of the Acquisition, Beidahuang Group and members of Beidahuang Group will become connected person of the Company.

Upon completion of the Acquisition, the Target Company will become a subsidiary of the Company, as such the entering into of the Products Supply Agreements between the Target Company and members of Beidahuang Group and the Exclusive Distribution Agreement between the Target Company and Beidahuang Marketing Co. will constitute continuing connected transactions of the Company.

By virtue of Rule 14A.101 of the Listing Rules, the Possible CCTs will only subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements. The Possible CCTs form material information for Shareholders to consider the Acquisition and the Meiming Capital Injection. Therefore, in the event that there is any material change to the terms of the Possible CCTs which might affect Shareholders' decision making on the Acquisition and the Meiming Capital Injection, the Company will seek Shareholders' approval for such changes.

IV. ISSUE OF UNLISTED WARRANTS

The Subscription Agreement (as supplemented by the supplemental agreements dated 24 November 2014 and 14 January 2015)

Date

7 July 2014

Parties

(1) the Company

(2) the Subscriber

The Subscriber is a limited liability company incorporated in Hong Kong and a subsidiary of Beidahuang Group. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are Independent Third Parties.

Conditions of the Subscription Agreement

Completion of the Subscription is conditional upon (i) the listing of and permission to deal in the Subscription Shares being granted by the Listing Committee of the Stock Exchange; (ii) the passing of resolution(s) by the Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder including the issue of the Warrants and the grant of the Specific Mandate; and (iii) the completion of the Acquisition.

In the event that the conditions to the Subscription are not fulfilled on or before 31 March 2015 (or such other date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement shall lapse and shall cease to have any force and effect and the parties will be released from all obligations thereunder, save for any liability arising out of any antecedent breaches thereof. None of the parties to the Subscription Agreement may waive any of the above conditions.

As at the Latest Practicable Date, none of the above conditions has been fulfilled. Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Completion of the Subscription

Completion of the Subscription will take place on the third Business Day (or such other date as the parties may agree in writing) after the conditions precedent have been fulfilled.

Principal terms of the Warrants

The principal terms of the Warrants were determined after arm's length negotiations between the parties and are summarized below:

Issuer:	The Company
Number of Warrants:	180,000,000 Warrants conferring the rights to the holders thereof to subscribe up to HK$126 million in aggregate for the Subscription Shares.
Issue Price of Warrants:	HK$0.01 per Warrant payable in cash.
Status:	The Warrants will be constituted by way of deed poll to be executed by the Company and the Warrants will rank pari passu in all respects among themselves.
Form:	The Warrants will be issued upon completion in registered form. Definitive certificates will be issued to the Warrantholders.

Subscription Price:	Each Warrant will carry the right to subscribe for one Subscription Share at an initial Subscription Price of HK$0.70 per Subscription Share, subject to adjustments upon occurrence of the events set out in the paragraph headed "Adjustments of Subscription Price" below. Based on the initial Subscription Price of HK$0.70 per Subscription Share and assuming there will not be any change in the issued share capital of the Company before the exercise of the Subscription Rights in full (other than the issue of the Subscription Shares), upon the exercise of the Subscription Rights in full, 180,000,000 Subscription Shares will be issued, representing approximately 11.07% of the existing issued share capital of the Company and approximately 9.96% of the Company's issued share capital as enlarged by the allotment and issue of the Subscription Shares. On such basis, the nominal value of the Subscription Shares under the Subscription will be HK$18,000,000.
Subscription Period:	The period of 2 years commencing from the date of issue of the Warrants.
Subscription Rights:	Any subscription for the Subscription Shares must be in integral multiples of 1,000,000 Warrants (or the whole but not part of the outstanding Warrants if the number of outstanding Warrants is less than 1,000,000 Warrants). The Warrantholders shall neither (i) dispose of, (ii) enter into any agreement to dispose of, nor (iii) otherwise create any encumbrances in respect of any direct or indirect interest in the Shares allotted and issued on exercise of the Subscription Rights at any time within the period of two (2) years from the date of allotment and issue of the Subscription Shares.
Ranking of Subscription Shares:	The Subscription Shares will rank pari passu in all respects with the Shares in issue.

Rights of Warrants:	The Warrantholders shall not have the right to participate in any distributions and/or offers of further securities made by the Company.
Transferability:	The Warrants may only be transferred to Independent Third Party(ies) with prior written consent of the Company.
Voting:	The Warrantholders will not be entitled to attend and vote at the general meetings of the Company by reason of only being a Warrantholder.
Liquidation of the Company:	If an effective resolution is passed for the voluntary winding up of the Company during the Subscription Period and if such winding up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by special resolution passed by the Warrantholders at their meetings, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders. In any other case, the Warrantholder shall be entitled at any time within six weeks after the passing of such resolution elect to be treated as if he has exercised the Subscription Rights immediately prior to the commencement of the winding-up and had on such date been the holder of the Subscription Shares by the surrender of the Warrant certificate together with payment of the exercise moneys in respect of such Subscription Rights. Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of passing of such resolution shall lapse and each Warrant certificate will cease to be valid for any purpose.

Adjustments of Subscription Price

The Subscription Price shall from time to time be adjusted in accordance with the following provisions (but shall however not be adjusted below the nominal value of the Shares, and in such case an adjustment shall be made to the effect that the Subscription Price will be reduced to the nominal value of a Share):

(a) Consolidation and Subdivision

If and whenever there shall be an alteration to the number of Shares in issue by reason of any consolidation or sub-division or reclassification, the Subscription Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the number of Shares in issue immediately after such alteration; and

B = the number of Shares in issue immediately before such alteration.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

(b) Capitalisation of Profits or Reserves

(i) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Subscription Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{D}$$

in each case, where:

C = the number of Shares in issue immediately before such issue; and

D = the number of Shares in issue immediately after such issue.

(ii) In the case of an issue of Shares in lieu of a cash dividend ("**Scrip Dividend**") where the market value of such Shares exceeds the amount of the cash dividend specifically declared by the Company or the relevant part thereof, the Subscription Price shall be adjusted by multiplying the Subscription Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{C_1 + D_1}{C_1 + D_2}$$

where:

C_1 = is the aggregate nominal amount of Shares in issue immediately before such issue;

D_1 = is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the cash dividend declared and (ii) the denominator is the market value of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of that cash dividend; and

D_2 = the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an approved investment bank shall certify to be is fair and reasonable.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the day next following the date of issue of such Shares.

(c) If and whenever the Company shall make any capital distribution to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Subscription Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price on the date on which the capital distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date immediately preceding the date of the capital distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the immediately preceding day of the capital distribution or, as the case may be, of the grant, as determined in good faith by an approved investment bank of the portion of the capital distribution or of such rights which is attributable to one Share,

provided that:

(i) if in the opinion of the relevant approved investment bank, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if F meant, the amount of the said market price that should properly be attributed to the value of the capital distribution or rights; and

(ii) the provisions of this sub-paragraph (c) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate, retroactively) from the commencement of the day next following the date the capital distribution or grant is made.

(d) Rights Issue of Shares or Options over Shares

If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price that is less than 80% of the market price at the date of the announcement of the terms of the offer or grant, the Subscription Price shall be adjusted by multiplying the Subscription Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + \dfrac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription;

I = the amount (if any) payable for the right, option or warrant to subscribe for each new Share, plus the subscription price payable for each new Share;

J = the market price of one Share on the trading day immediately prior to such announcement.

Such adjustment shall become effective on the date of issuance of such Shares or issue or grant of such options, warrants or other rights (as the case may be) (if appropriate retroactively).

(e) (i) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined in this paragraph (e) below) initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities, the Subscription Price shall be adjusted by multiplying the Subscription Price in force immediately prior to the issue by the following fraction.

$$\frac{A + B}{A + C}$$

where

A is the number of Shares in issue immediately before such issue (or grant);

B is the number of Shares which the total Effective Consideration receivable by the Company for the Shares to be issued upon conversion or subscription for or exchange of or upon exercise of the right of subscription attached to such securities would purchase at such market price; and

C is the maximum number of Shares to be issued upon conversion into or subscription for or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective (if appropriate retrospectively) on the date of issue (or grant) of such securities.

(ii) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (i) of this paragraph (e) are modified so that the total Effective Consideration per Share initially receivable for such securities shall be (1) reduced and (2) less than 80% of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Subscription Price shall be adjusted by multiplying the Subscription Price in force immediately prior to such modification by the following.

$$\frac{A + B}{A + C}$$

where:

A is the number of Shares in issue immediately before such modification;

B is the number of Shares which the total Effective Consideration receivable by the Company for the Shares to be issued upon conversion or exchange or upon exercise of the right of subscription attached to the securities so modified would purchase at such market price or, if lower, the existing conversion, exchange or subscription price; and

C is the maximum number of Shares to be issued upon conversion or exchange of such securities or upon the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate.

Such adjustment shall become effective (if appropriate retrospectively) on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purpose where it is adjusted to take account of rights or capitalisation issues and other events which have given rise to adjustment of the Subscription Price under the adjustment provisions, provided such corresponding adjustment has been made to the Subscription Price.

For the purpose of this paragraph (e), the "total Effective Consideration" receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the "total Effective Consideration per Share" initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion at the initial conversion rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(f) Issues at less than market price

If and whenever the Company shall issue wholly for cash any Shares (other than as mentioned in paragraph (d) above or pursuant to the exercise of any rights of conversion, or exchange into or subscription for, Shares as mentioned in paragraph (e) above) at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Subscription Price shall be adjusted by multiplying the Subscription Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.

(g) If and whenever the Company shall issue Shares for the acquisition of any asset at a total Effective Consideration per Share (as defined in this paragraph (g) below) which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Subscription Price shall be adjusted in such manner as may be determined by an approved investment bank. Such adjustment shall become effective on the date of issue. For the purpose of this paragraph (g) "total Effective Consideration" shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the "total Effective Consideration per Share" shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

The adjustment provisions in paragraphs (b), (c), (d), (e) and (f) shall not apply to:

(i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including the Subscription Right) to acquire Shares (except a rights issue), whether or not by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities, provided that an adjustment (if required) to the Subscription Price has been made under the adjustment provisions referred to above in respect of the issue of such securities or granting of such rights (as the case may be);

(ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, Shares pursuant to any share option scheme adopted by the Company in accordance with the Listing Rules;

(iii) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares is not more than 110 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash, for which purpose the "market value" of a Share shall mean the average of the closing prices for such trading days on which dealings in the Shares took place (being not less than twenty (20) such days) as are selected by the Directors for the purposes of the relevant scrip dividend and which fall within the period of one month ending on the last day on which holders of Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash; and

(iv) an issue by the Company or any subsidiary of securities convertible into or rights to acquire Shares in consideration in whole or in part of the acquisition of any other securities, assets or business.

Every adjustment to the Subscription Price shall be certified to be fair and appropriate by the auditors of the Company from time to time or an approved merchant bank and notice of each adjustment (giving the relevant particulars) shall be given to the Warrantholders. In giving any certificate or making any adjustment hereunder, the auditors or the approved merchant bank shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest error, the decision shall be conclusive and binding on the Company and the Warrantholders and all persons claiming through or under them respectively.

Basis of pricing of the Warrants

The initial Subscription Price of HK$0.70 per Subscription Share represents:

(i) a discount of approximately 9.09% to the closing price of HK$0.77 per Share as quoted on the Stock Exchange on 7 July 2014, being the last trading day of the Shares prior to the date of the First Announcement;

(ii) a discount of approximately 8.62% to the average closing price of HK$0.766 per Share as quoted on the Stock Exchange for the last five trading days up to and including 7 July 2014, being the last trading day of the Shares prior to the date of the First Announcement; and

(iii) a premium of approximately 40.00% over the closing price of HK$0.50 per Share as quoted on the Stock Exchange at the Latest Practicable Date.

The aggregate of the Issue Price of HK$0.01 per Warrant and the initial Subscription Price of HK$0.70 per Subscription Share is HK$0.71 and represents:

(i) a discount of approximately 7.79% to the closing price of HK$0.77 per Share as quoted on the Stock Exchange on 7 July 2014, being the last trading day of the Shares prior to the date of the First Announcement;

(ii) a discount of approximately 7.31% to the average closing price of HK$0.766 per Share as quoted on the Stock Exchange for the last five trading days up to and including 7 July 2014, being the last trading day of the Shares prior to the date of the First Announcement; and

(iii) a premium of approximately 42.00% over the closing price of HK$0.50 per Share as quoted on the Stock Exchange at the Latest Practicable Date.

Valuation models were not adopted in determining the initial Subscription Price and the Issue Price because utilising valuation models involve a lot of assumptions and limitations. In addition, highly subjective estimates and assumptions are required to be made in determining the parameters for applying the valuation models, including the estimates and assumptions of the risk-free interest rate and the expected stock price volatility of the underlying shares. Changes in these estimates and assumptions could have a material effect on the theoretical value of the Warrants. In particular, stock price volatility has a significant influence on the theoretical value of the Warrants. During negotiation, the Subscriber has indicated that it would not agree to subscribe the Warrants at any price over the Issue Price after considering (i) the Warrants are not listed and thus there is virtually no liquid market for the Subscriber to benefit from disposing the Warrants; and (ii) the downward price trend of the Shares since 24 February 2014. At any amount over the Issue Price, there will be no deal. Commercially, the Company is unable to offer the Subscriber any favourable terms such as board seats or a controlling stake in the Company to justify the Subscriber to pay the premium over the Issue Price. In addition, having considered (i) the Company has negotiated with various subscribers regarding subscription of the Warrants. However, no parties were interested except for the Subscriber; and (ii) the Subscriber is a member of Beidahuang Group, a highly reputable Group in the PRC. "Beidahuang" brand ranked number 42 among the 2014 China's Top 500 Most Valuable Brand by World Brand Lab. In September 2014, the "Beidahuang" brand ranked number 166 among the 2014 Asia Top 500 Brand by World Brand Lab, the Company views the issue of the Warrants to the Subscriber which will not only allow the Group to raise immediate funding without immediate dilution effect on the shareholding of the existing Shareholders but will also put the interest of the Subscriber in line with the future share price performance of the Company, hence motivating the Subscriber's contribution to the Group's development. The proceeds from the aggregate amount of the Issue Price were considered to be sufficient to cover the costs for the issuance of the Warrants and contribute somewhat to the working capital requirements of the Company. According to Bloomberg, based on the closing prices of the Shares on 7 July 2014 (date of the Subscription Agreement), 24 November 2014 (date of the supplemental agreement of the Subscription Agreement) and 12 December 2014 of HK$0.77 per Share, HK$0.55 per Share and HK$0.51 per Share respectively, the theoretical values of the Warrants are approximately HK$0.23 ("**Value 1**"), HK$0.1 ("**Value 2**") and HK$0.08 ("**Value 3**") respectively (collectively, the "**Values**"). The Issue Price of HK$0.01 represents a discount of approximately 95.7%, 90% and 87.5% to each of Value 1, Value 2 and Value 3 respectively. Despite the discounts of the Issue Price to the Values, with the continued decrease in the trading price of the Shares after the entering into of the Subscription Agreement, the level of discount also reduces. It should be noted that the Warrants will not be issued before obtaining Shareholders' approval at the EGM. As the Warrants are not yet issued, given (i) the recent downward price trend of the Shares; (ii) uncertainty in the pace of recovery of the business performance of wine and liquor business of the Group in light of the slowdown in the wine and liquor industry stemming from the PRC Central Government's policy on restrictive spending in luxury products such as wine, liquor and watches. This may have negative impact to trading price performance of the Shares; (iii) financial market may become volatile as a result of the uncertainties in economic outlook and fluctuating capital flow; and (iv) the Subscription Agreement was entered into more than five months ago from the Latest Practicable Date, the Directors consider that the theoretical value of the Warrants as estimated based on recent closing price of the Shares will be more informative than adopting the closing price as at 7 July 2014, being the date of Subscription Agreement. These were the factors considered by the Directors in setting the Issue Price. Given the circumstances, the Directors considered the Issue Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board consider that the aggregate of the Issue Price and the Subscription Price should be considered as a whole. Furthermore, in view of the continued downward price trend of the Shares, aggregate of the Issue Price and the Subscription Price of HK$0.71 represents a discount of approximately 5.3% to the average daily closing price of Shares in July 2014 of approximately HK$0.75 and a premium of approximately 10.9% over the average daily closing price of Shares in October 2014 of approximately HK$0.64.

One of the purpose of issue of the Warrants is to put the interest of the Subscriber in line with the future share price performance of the Company. Another important factor being considered in the issue of the Warrants is the background of the Subscriber and its connection with the Beidahuang Group. By aligning the interests of the Subscriber with the Group's future share price, it will motivate the Subscriber's contribution to the Group's development. Furthermore, subscription of Warrants by the Subscriber also signifies its confidence in the development potential of the Group. At the time of negotiating the terms of the Warrants, the Subscriber does not have any intention to transfer the Warrants. Furthermore, transfer of the Warrants will be subject to prior written consent of the Company. In this connection, the Warrants are not explicitly structured as non-transferable in order to provide flexibility regarding transfer of the Warrants.

The Subscription Price and the aggregate of it with the Issue Price were determined after arm's length negotiation between the Subscriber and the Company with reference to the then market sentiment, liquidity flow in the capital market, the historical downward trend of Share price, the Group's past loss-making financial results and the current financial position of the Group. Having considered the factors below, the Directors consider that each of the Subscription Price and the Issue Price are fair and reasonable under the current market conditions and are in the interests of the Company and the Shareholders as a whole:

(i) by comparing the total issued Shares upon full exercise of the Warrants, as approximately 180 million Shares, to the total trading volume of the Shares of approximately 652 million Shares between 8 July 2013 and 7 July 2014, it is fair and reasonable to infer that the liquidity is relatively low and thin;

(ii) the average daily traded price of the Shares was approximately HK$0.63 (for the period 8 July 2013 to 7 July 2014) and was approximately HK$0.77 (for the period 8 January 2014 and 7 July 2014) with the average of the two figures being HK$0.70. The price of each Subscription Share is HK$0.7083, which is approximate to the steady "base price" of the Shares, for the parties' comfortable reference. Closing price of the Shares was in a downward trend, which decreased from its peak of HK$0.96 on 24 February 2014 to HK$0.77 on 7 July 2014, representing a decrease of approximately 19.8%. For the past three months prior to the entering into of the Subscription Agreement, the average daily closing prices for April 2014, May 2014 and June 2014 were approximately HK$0.82, HK$0.79 and HK$0.77 respectively, representing a drop of approximately 6.1%. The downward price trend continued after entering into of the Subscription Agreement. The monthly average daily closing prices during August 2014 to October 2014 were all below the Subscription price and were in the range of approximately HK$0.64 to HK$0.66;

(iii) as a rational investor, the Subscriber has to be cautious about their investment. Certainly, the Subscriber shall want to see that they can maintain the "value" of their investments when it has to inject the sum of cash as high as HK$126 million into the Group upon full exercise of the Warrants, while what is being put before them is a solid track record of loss making for the past few years undergone by the Group. There is no guaranty whether the loss-making condition shall discontinue or not in the next financial years. The Directors submit that the Group needs the subscription money to finance its operation and so needs to balance the interests of the parties in the circumstance when they came to determine the Subscription Price. To this end, the issue price of two recent sizeable placements of Shares of HK$0.70 per Share was also taken as reference by the parties; and

(iv) therefore, it is fair and reasonable that a discount shall be allocated to the Subscription Price in comparing with the average trading price of the Shares as a strong incentive to encourage the Subscriber to exercise the Warrants.

Mandate to allot and issue the Subscription Shares

The Subscription Shares will be issued under the Specific Mandate to be sought at the EGM.

Application for listing

No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Reasons for the subscription and use of proceeds

The Group is principally engaged in the sale and distribution of wine and liquor; and production and sale of forages.

The Group has been suffering loss over the past few years. As at 31 December 2013, the Group recorded audited consolidated net current liabilities of approximately HK$86.6 million. The gearing ratio of the Group, calculated as net debt divided by equity attributable to owners of Company plus net debt increased from approximately 92.1% as at 30 June 2013 to approximately 139.2% as at 31 December 2013.

The Directors consider that the Subscription is an appropriate means of raising further capital for the Company because the Warrants are not interest bearing and it provides the Company with immediate funding without immediate dilution effect on the shareholding of the existing Shareholders. The Subscription, which will align the Subscriber's interest with the Company's future share price performance, it will not only motivate the Subscriber's contribution to the Group's development, but will also provide an excellent opportunity for the Group to raise further substantial funds in the event the Subscriber exercise their subscription rights attaching to the Warrants at any time during a period of two years commencing from the date of issue of the Warrants. The Subscription also represents an opportunity to strengthen the capital base and financial position for the Group's future business developments.

Gross proceeds and net proceeds derived from the issue of the Warrants will be HK$1,800,000 and approximately HK$1,500,000 respectively and are intended to be used as working capital.

The Company will receive an additional amount of HK$126 million upon exercise in full of the Subscription Rights at the initial Subscription Price. The Company intends to use such proceeds for the Group's settlement of loan, business development, investments and general working capital purposes. Given the sound reputation of Beidahuang Group in the PRC, the Directors consider that the Subscriber, as a member of Beidahuang Group, would have the financial ability to settle the Subscription Price upon exercise of the Warrants. If the Warrants are not partly or fully exercised, the Company will adjust its investment and business planning. The Company may also seek external financial resources to satisfy the needs of the Company as and when necessary.

The net price of each Subscription Share to be issued upon the exercise of the Warrants, taking into account the Issue Price after deducting the expenses and based on the full exercise of the Subscription Rights will be approximately HK$0.7083.

The Directors (including the independent non-executive Directors) consider the terms of the Subscription Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, are fair and reasonable, and the Subscription is in the interests of the Company and the Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the Company has 1,626,694,876 Shares in issue. Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the issue of the Subscription Shares, the shareholdings in the Company (i) as at the Latest Practicable Date and (ii) immediately after the exercise in full of the Subscription Rights are as follows:

Shareholders	**Shareholding as at the Latest Practicable Date**		**Shareholding immediately after the exercise in full of the Subscription Rights**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Directors:				
Mr. Jiang Jianjun	282,801,522 [(a)]	17.38	282,801,522 [(a)]	15.66
Mr. Huang Qingxi	13,334,000	0.82	13,334,000	0.74
Mr. Li Jianqing	7,470,000	0.46	7,470,000	0.41
Mr. Qu Shuncai	3,680,000	0.23	3,680,000	0.20
Mr. Ho Man Fai	500,000	0.03	500,000	0.03
	307,785,522	18.92	307,785,522	17.04
Substantial Shareholder:				
Mr. Li Xianggen	174,646,000 [(b)]	10.74	174,646,000 [(b)]	9.67
Public Shareholders:				
Subscriber	–	–	180,000,000	9.96
Other public	1,144,263,354	70.34	1,144,263,354	63.33
Total	1,626,694,876	100.00	1,806,694,876	100.00

Notes:

(a) The Shares are held by Mr. Jiang Jianjun ("**Mr. Jiang**") as to 106,652,000 Shares, Ms. Li Zhuoxun, the spouse of Mr. Jiang, as to 2,920,000 Shares, King Wei Group (China) Investment Development Limited ("**King Wei**") as to 126,629,522 Shares and China Silver Investments Development Limited ("**China Silver**") as to 46,600,000 Shares. As King Wei and China Silver are 100% owned by Mr. Jiang, Mr. Jiang is deemed to be interested in the 126,629,522 Shares held by King Wei and the 46,600,000 Shares held by China Silver respectively by virtue of the SFO.

(b) The Shares are held by Mr. Li Xianggen as to 1,332,000 Shares, Able Turbo Enterprises Limited ("**Able Turbo**") as to 100,585,737 Shares and China Food and Beverage Group Limited ("**China Food**") as to 72,728,263 Shares. As China Food is 100% owned by Able Turbo, Able Turbo is deemed to be interested in the 72,728,263 Shares held by China Food by virtue of the SFO. As Able Turbo is 60.31% owned by Mr. Chen Hua and 39.69% owned by Mr. Li Xianggen, each of Mr. Chen Hua and Mr. Li Xianggen is deemed to be interested in the Shares held by Able Turbo and China Food by virtue of SFO.

Taking into account the outstanding Convertible Bonds, the Company will have 1,754,694,876 Shares in issue upon full conversion of the Convertible Bonds at the initial conversion price. Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date up to the issue of the Subscription Shares (apart from the issue of the new Shares upon full conversion of the Convertible Bonds), the shareholdings in the Company (i) as at the Latest Practicable Date and (ii) immediately after the full conversion of the Convertible Bonds and the exercise in full of the Subscription Rights are as follows:

Shareholders	**Shareholding as at the Latest Practicable Date**		**Shareholding immediately after the full conversion of the Convertible Bonds and the exercise in full of the Subscription Rights**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Directors:				
Mr. Jiang Jianjun	282,801,522 [(a)]	17.38	282,801,522 [(a)]	14.61
Mr. Huang Qingxi	13,334,000	0.82	13,334,000	0.69
Mr. Li Jianqing	7,470,000	0.46	7,470,000	0.39
Mr. Qu Shuncai	3,680,000	0.23	3,680,000	0.19
Mr. Ho Man Fai	500,000	0.03	500,000	0.03
	307,785,522	18.92	307,785,522	15.91
Substantial Shareholder:				
Mr. Li Xianggen	174,646,000 [(b)]	10.74	174,646,000 [(b)]	9.03
Public Shareholders:				
Subscriber of the Convertible Bonds	–	–	128,000,000	6.62
Subscriber	–	–	180,000,000	9.30
Other public	1,144,263,354	70.34	1,144,263,354	59.14
Total	1,626,694,876	100.00	1,934,694,876	100.00

Notes:

(a) The Shares are held by Mr. Jiang Jianjun ("**Mr. Jiang**") as to 106,652,000 Shares, Ms. Li Zhuoxun, the spouse of Mr. Jiang, as to 2,920,000 Shares, King Wei Group (China) Investment Development Limited ("**King Wei**") as to 126,629,522 Shares and China Silver Investments Development Limited ("**China Silver**") as to 46,600,000 Shares. As King Wei and China Silver are 100% owned by Mr. Jiang, Mr. Jiang is deemed to be interested in the 126,629,522 Shares held by King Wei and the 46,600,000 Shares held by China Silver respectively by virtue of the SFO.

(b) The Shares are held by Mr. Li Xianggen as to 1,332,000 Shares, Able Turbo Enterprises Limited ("**Able Turbo**") as to 100,585,737 Shares and China Food and Beverage Group Limited ("**China Food**") as to 72,728,263 Shares. As China Food is 100% owned by Able Turbo, Able Turbo is deemed to be interested in the 72,728,263 Shares held by China Food by virtue of the SFO. As Able Turbo is 60.31% owned by Mr. Chen Hua and 39.69% owned by Mr. Li Xianggen, each of Mr. Chen Hua and Mr. Li Xianggen is deemed to be interested in the Shares held by Able Turbo and China Food by virtue of SFO.

Pursuant to Rule 15.02(1) of the Listing Rules, the securities to be issued on exercise of the Warrants must not, when aggregated with all other equity securities which remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued equity capital of the Company at the time the Warrants are issued. Options granted under employee or executive share schemes which comply with Chapter 17 of the Listing Rules are excluded for the purpose of this limit.

As at the Latest Practicable Date, apart from (i) 90,200,000 outstanding options granted under the share option scheme of the Company adopted on 23 May 2007 and (ii) the outstanding Convertible Bonds in the principal amount of HK$89,600,000, the Company did not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares. Assuming at the time the Warrants are issued, (i) the full principal amount of the Convertible Bonds are outstanding and (ii) the Company has 1,626,694,876 Shares in issue, a maximum of 308,000,000 Shares will be issued upon full conversion of the Convertible Bonds and exercise in full of the Subscription Rights, representing approximately 18.93% of the then existing issued share capital of the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below are the equity fund raising activities conducted by the Company in the past 12 months immediately preceding the Latest Practicable Date:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
21 January 2014	Subscription of 239,032,479 new Shares at a price of HK$0.405 per subscription share	Approximately HK$96.5 million	To finance business development and general working capital of the Group	Approximately RMB35 million was applied as refundable earnest deposit for potential business development and remaining balance was applied as working capital of the Group.
29 April 2014	Subscription of 80,000,000 new Shares at a price of HK$0.7 per subscription share	Approximately HK$55.97 million	To settle loans, finance business development, investments and general working capital of the Group	Approximately RMB10 million was applied as refundable earnest deposit for potential business development in Dongguan area and the remaining was applied to settle the bank loan and general working capital of the Group.
24 June 2014	Subscription of 82,000,000 new Shares at a price of HK$0.7 per subscription share	Approximately HK$57.1 million	For the Group's settlement of loans, business developments, investments and general working capital	Approximately RMB28 million was applied as refundable deposit for business development in Shenzhen area and the remaining was applied to general working capital of the Group.
24 June 2014	Subscription of convertible bonds in an aggregate principal amount of HK$89,600,000	Approximately HK$89.3 million	For the Group's settlement of loans, business developments, investments and general working capital	Approximately RMB15 million was applied to settle bank loan and approximately RMB4 million was applied as working capital of the Group, the remaining being deposited in the bank.

EGM

The EGM will be held for considering and, if thought fit, passing the ordinary resolutions to approve the Acquisition, the Meiming Capital Injection, the Subscription, the Specific Mandate and the transactions contemplated thereunder. A notice convening the EGM to be held at 10:30 a.m. on Tuesday, 17 February 2015 at Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong is set out on pages 181 to 183 of this circular.

A form of proxy for use at 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, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, 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.

Article 80 of the Articles of Association of the Company provides that at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. However, under Rule 13.39(4) of the Listing Rules, any vote of the shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the Directors intend that the Chairman of the EGM shall demand voting of the resolution put forward at the EGM by way of poll.

An announcement of the results of the EGM will be published on the date of the EGM or not later than 30 minutes before the earlier of either the commencement of the morning trading session or any pre-opening session on the business day following the EGM as prescribed under Rule 13.39(5) of the Listing Rules.

As at the date of this circular, to the best knowledge, information and belief of the Directors having made all readiness enquiries, no Shareholder has a material interest in the Acquisition or the Subscription. Accordingly, no Shareholder is required to abstain from voting on the resolutions to approve the Acquisition, the Subscription and the grant of the Specific Mandate at the EGM.

RECOMMENDATION

The Board considers that the terms and conditions of the Share Transfer Agreement, the Shenzhen Food Joint Venture Agreement, the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and the Acquisition, the Meiming Capital Injection and the Subscription are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM.

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

As completion of the Acquisition, the Meiming Capital Injection and the Subscription are subject to the fulfillment of conditions precedent which are detailed in this circular, the Acquisition, the Meiming Capital Injection and the Subscription may or may not be completed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any other securities of the Company.

Yours faithfully
For and on behalf of the Board
Sino Distillery Group Limited
Jiang Jianjun
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements and the independent auditors' report of the Group (i) for the year ended 31 December 2011 is disclosed on pages 37 to 132 of the annual report of the Company for the year ended 31 December 2011 published on 26 March 2012; (ii) for the year ended 31 December 2012 is disclosed on pages 38 to 136 of the annual report of the Company for the year ended 31 December 2012 published on 26 March 2013; and (iii) for the year ended 31 December 2013 is disclosed on pages 45 to 160 of the annual report of the Company for the year ended 31 December 2013 published on 28 April 2014. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 have been reviewed by the audit committee of the Company and are disclosed in the interim report of the Company for the six months ended 30 June 2014, from pages 4 to 43.

The above annual reports and the interim report of the Company have been published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/sinodistill/index.htm).

2. STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 30 November 2014, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this Circular, the Group had outstanding secured bank loans of approximately RMB52,000,000, unsecured other loans of approximately RMB3,110,000 and unsecured amount due to a related party of approximately RMB8,777,000.

Securities and guarantees

At the close of busniess on 30 November 2014, the Group's bank loan amounted to RMB3,000,000 was secured by a property held by a related party and another bank loan amounted to RMB49,000,000 was secured by a related party, a director of the Company, an Independent Third Party and Harbin China Distillery.

Disclaimer

Save as aforesaid or otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 30 November 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, in the absence of unforeseen circumstances, and taking into consideration of (i) the financial resources available to the Group including its internally generated funds and banking facilities and (ii) the settlement of the Consideration payable in cash and the Meiming Capital Injection, the Group will have sufficient working capital for its present requirements for the next twelve months from the date of this circular.

The following is the text of the accountant's report on the Target Company, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Target Company, Cheng & Cheng Limited, Certified Public Accountants, Hong Kong:

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

28 January 2015

The Directors
Sino Distillery Group Limited
Dear Sirs,

We report on the financial information (the "Financial information") of Shenzhen Beidahuang Green Food Distribution Limited (the "Target Company"), which comprises the statements of financial position of the Target Company as at 31 December 2011, 2012 and 2013 and 31 July 2014, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2014 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Sino Distillery Group Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 28 January 2015 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

The Target Company was established in the PRC with limited liability on 23 March 2009 with a registered and paid up capital of RMB500,000.

The financial statements of the Target Company for each of the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2014 respectively were audited by us pursuant to separate terms of engagement with the Target Company.

The management of the Target Company during the Relevant Periods are responsible for the preparation of the financial statements of the Target Company that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The financial information has been prepared based on the audited financial statements of the Target Company after making such adjustments as are appropriate.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and using accounting policies which are materially consistent with those adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 December 2013.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 31 December 2011, 2012 and 2013 and 31 July 2014 and of the Target Company's results and cash flows for the Relevant Periods then ended.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information set out in Sections I and II below included in Appendix II to the Circular which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows of the Target Company for the seven months ended 31 July 2013 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below and using accounting policies which are materially consistent with those adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2013.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I. FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of the Target Company prepared by the directors of the Company and the Target Company as at 31 December 2011, 2012 and 2013 and 31 July 2014 and for each of the years ended 31 December 2011, 2012 and 2013 and for the seven months ended 31 July 2013 and 2014 (the "Financial Information").

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 July
		2011	**2012**	**2013**	**2014**
	Notes	*RMB*	*RMB*	*RMB*	*RMB*
ASSETS					
Non-current assets					
Property, plant and equipment	*3*	121,896	88,426	67,535	47,333
Current assets					
Inventories	*4*	446,677	836,699	1,974,595	658,481
Trade receivables	*5*	–	140	–	317,841
Deposits and other receivables	*6*	847,033	1,402,673	756,853	425,446
Cash and cash equivalents	*7*	4,137	69,741	309,102	817,341
		1,297,847	2,309,253	3,040,550	2,219,109
LIABILITIES					
Current Liabilities					
Trade payables	*8*	–	4,988	345,668	43,208
Other payables and accruals	*9*	752,671	224,174	877,138	192,297
Due to the holding company	*19*	841,081	2,492,467	2,292,075	2,349,456
Due to a shareholder	*19*	438,360	136,490	–	–
		2,032,112	2,858,119	3,514,881	2,584,961
Net current liabilities		(743,265)	(548,866)	(474,331)	(365,852)
Total assets less total liabilities		(612,369)	(460,440)	(406,796)	(318,519)
EQUITY					
Capital and reserve attributable to the Target Company's equity holders					
Paid-up capital	*10*	500,000	500,000	500,000	500,000
Reserve	*11*	(1,112,369)	(960,440)	(906,796)	(818,519)
Total equities		(612,369)	(460,440)	(406,796)	(318,519)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		As at 31 December			Seven months ended 31 July	
		2011	**2012**	**2013**	**2013**	**2014**
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
					(Unaudited)	
Revenue	*12*	8,892,321	9,035,806	22,281,658	7,005,207	5,789,397
Cost of sales		(8,246,804)	(8,089,266)	(20,941,275)	(6,390,325)	(5,005,136)
Gross profit		645,517	946,540	1,340,383	614,882	784,261
Other revenue and net income	*12*	28,396	378	15,820	309	714
Selling and distribution expenses		(196,739)	(370,494)	(515,663)	(139,875)	(348,624)
Administrative expenses		(377,715)	(390,957)	(700,855)	(395,012)	(300,865)
Other expenses	*13*	–	(1,710)	(2,016)	–	–
Finance costs	*15*	(55,111)	(31,828)	(84,025)	(19,936)	(47,209)
Profit before taxation	*13*	44,348	151,929	53,644	60,368	88,277
Income tax expenses	*16*	–	–	–	–	–
Profit and total comprehensive income for the year/period attributable to equity holders of the Target Company		44,348	151,929	53,644	60,368	88,277

STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Accumulated losses	Total equity
	RMB	*RMB*	*RMB*
Balance as at 1 January 2011	500,000	(1,156,717)	(656,717)
Profit for the year	–	44,348	44,348
Balance as at 31 December 2011 and at 1 January 2012	500,000	(1,112,369)	(612,369)
Profit for the year	–	151,929	151,929
Balance as at 31 December 2012 and at 1 January 2013	500,000	(960,440)	(460,440)
Profit for the year	–	53,644	53,644
Balance as at 31 December 2013	500,000	(906,796)	(406,796)
Balance as at 1 January 2014	500,000	(906,796)	(406,796)
Profit for the period	–	88,277	88,277
Balance as at 31 July 2014	500,000	(818,519)	(318,519)
(Unaudited)			
Balance as at 1 January 2013	500,000	(960,440)	(460,440)
Profit for the period	–	60,368	60,368
Balance as at 31 July 2013	500,000	(900,072)	(400,072)

STATEMENTS OF CASH FLOWS

		As at 31 December			Seven months ended 31 July	
		2011	2012	2013	2013	2014
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
					(Unaudited)	
Cash flows from operating activities						
Profit before income tax		44,348	151,929	53,644	60,368	88,277
Adjustments for:						
– Gain on disposal of property, plant and equipment		(280)	–	–	–	–
– Reversal of provision for trade receivables		(305)	–	–	–	–
– (Reversal of provision)/ provision for other receivable		(1,845)	1,710	2,016	–	–
– Interest income	*12*	(315)	(378)	(920)	(309)	(714)
– Finance costs	*15*	55,111	31,828	84,025	19,936	47,209
– Depreciation of property, plant and equipment		34,484	33,470	35,424	20,257	20,202
		131,198	218,559	174,189	100,252	154,974
Changes in working capital						
– Inventories		(1,076,412)	(822,712)	(445,463)	1,224,876	1,764,203
– Trade and other receivables		(98,235)	(124,800)	(48,489)	(693,248)	(434,523)
– Trade and other payables		539,373	(523,509)	993,644	556,798	(987,301)
Cash (used in)/generated from operations and net cash (used in)/generated from operating activities		(504,076)	(1,252,462)	673,881	1,188,678	497,353
Cash flows from investing activities						
Purchase of property, plant and equipment		(4,900)	–	(14,533)	(14,533)	–
Proceeds from disposal of property, plant and equipment		11,453	–			–
Interest received		315	378	920	309	714
Cash generated from/(used in) investing activities		6,868	378	(13,613)	(14,224)	714

		As at 31 December			Seven months ended 31 July	
		2011	2012	2013	2013	2014
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
					(Unaudited)	
Cash flows from financing activities						
Increase/(decrease) in amounts due to the holding company		71,699	1,639,893	(264,379)	(1,000,075)	(10,172)
Increase/(decrease) in amounts due to a shareholder		438,360	(301,870)	(136,490)	(6,490)	–
Interest paid		(14,536)	(20,335)	(20,038)	(10,081)	–
Cash generated from/(used in) financing activities		495,523	1,317,688	(420,907)	(1,016,646)	10,172
Net (decrease)/increase in cash and cash equivalents		(1,685)	65,604	239,361	157,808	508,239
Cash and cash equivalents at beginning of the year/period		5,822	4,137	69,741	69,741	309,102
Cash and cash equivalents at end of the year/period	7	4,137	69,741	309,102	227,549	817,341

II. NOTES TO FINANCIAL STATEMENTS

1. Corporate information

Shenzhen Beidahuang Green Food Distribution Limited (深圳北大荒綠色食品配送有限公司) is principally engaged in the wholesaling and retailing of staple food, cooking oil, alcohol and beverage, frozen and fresh food in the PRC.

The Target Company is a limited liability company incorporated in the PRC on 23 March 2009. The address of its registered office is Room 126, 1/F, No. 3 Building, Center Industrial City, Chuangye Road, Nanshan District, Shenzhen, PRC.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi and all values are rounded to the nearest Yuan except when otherwise indicated.

2.2 New or amended standards that have been issued but are not yet effective for the financial year beginning 1 January 2014 and have not been adopted by the Target Company

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortization[4]
Amendments to HKAS 19	Defined benefit plans: employee contributions[2]
HKFRS 9	Financial instruments[3]
HKFRS 14	Regulatory deferral accounts[5]
HKFRS 15	Revenue from contracts with customers[5]

1 *Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.*

2 *Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalized.*

3 *Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.*

4 *Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.*

5 *Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.*

Management is in the process of making an assessment of the impact of these new standards and amendments to standards and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

2.3 Going concern basis

As at 31 December 2011, 2012 and 2013 and 31 July 2014, the Target Company's net liabilities amounted to RMB612,639, RMB460,440, RMB406,796 and RMB318,519 respectively. The Target Group's current liabilities mainly included trade payables, other payables and accruals and amounts due to the holding company and a shareholder.

In order to strengthen the capital base of the Target Company and to improve the Target Company's financial position, immediate liquidity and cash flows, and otherwise to sustain the Target Company as a going concern, Beidahuang Marketing Company Limited, the holding company of the Target Company, has agreed to provide continuous financial support to the Target Company. The management of the Target Company considers that there are sufficient resources available to the Target Company to meet the liabilities as and when they fall due to and carry on its business in the foreseeable future. Accordingly, the management of the Target Company has prepared the Financial Information on a going concern basis.

2.4 Summary of significant accounting policies

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery	20%
Furniture and equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in financial costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills and other payables, amounts due to related parties, an amount due to a non-controlling shareholder of a subsidiary and interest-bearing bank loans and other borrowings.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

(c) other income not stated above is recognised whenever received or receivable.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of Target Company are measured using the currency of the primary economic environment in which the Target Company operates (the "functional currency"). The Financial Information is presented in Renminbi ("RMB"), which is the Target's functional currency and presentation currency.

3. Property, plant and equipment

	Furniture and equipment *RMB*	Motor vehicle *RMB*	Machinery *RMB*	Total *RMB*
At 1 January 2011				
Cost	57,083	126,075	4,151	187,309
Accumulated depreciation	(13,784)	(9,981)	(890)	(24,655)
Net carrying amount	43,299	116,094	3,261	162,654
At 1 January 2011, net of accumulated depreciation	43,299	116,094	3,261	162,654
Additions	4,900	–	–	4,900
Disposal	(9,118)	–	(2,056)	(11,174)
Depreciation for the year	(9,596)	(24,398)	(490)	(34,484)
At 31 December 2011, net of accumulated depreciation	29,485	91,696	715	121,896
At 1 January 2012				
Cost	46,652	126,075	1,200	173,927
Accumulated depreciation	(17,167)	(34,379)	(485)	(52,031)
Net carrying amount	29,485	91,696	715	121,896
At 1 January 2012, net of accumulated depreciation	29,485	91,696	715	121,896
Depreciation for the year	(8,826)	(24,398)	(246)	(33,470)
At 31 December 2012, net of accumulated depreciation	20,659	67,298	469	88,426
At 1 January 2013				
Cost	46,652	126,075	1,200	173,927
Accumulated depreciation	(25,993)	(58,777)	(731)	(85,501)
Net carrying amount	20,659	67,298	469	88,426

	Furniture and equipment *RMB*	Motor vehicle *RMB*	Machinery *RMB*	Total *RMB*
At 1 January 2013, net of accumulated depreciation	20,659	67,298	469	88,426
Additions	14,533	–	–	14,533
Depreciation for the year	(10,780)	(24,398)	(246)	(35,424)
At 31 December 2013, net of accumulated depreciation	24,412	42,900	223	67,535
At 1 January 2014				
Cost	61,186	126,075	1,200	188,461
Accumulated depreciation	(36,774)	(83,175)	(977)	(120,926)
Net carrying amount	24,412	42,900	223	67,535
At 1 January 2014, net of accumulated depreciation	24,412	42,900	223	67,535
Depreciation for the year	(5,827)	(14,232)	(143)	(20,202)
At 31 July 2014, net of accumulated depreciation	18,585	28,668	80	47,333

4. Inventories

	As at 31 December			As at 31 July
	2011	2012	2013	2014
	RMB	*RMB*	*RMB*	*RMB*
Raw materials	2,946	5,965	20,762	19,594
Finished goods	443,731	830,734	1,953,833	638,887
Net carrying amount	446,677	836,699	1,974,595	658,481

The cost of inventories recognized as an expense and included in "cost of sales" amounted to RMB8,246,804, RMB8,089,266, RMB20,941,275, RMB6,930,325 (Unaudited) and RMB5,005,136 for the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2013 and 2014 respectively.

The Target Company places purchase order to suppliers based on sales orders and no extra inventory will be ordered. Inventory as at year end are those inventory ordered by customers but not yet packed or delivered, therefore the Target Company is entitled to the ownership of the inventory. The raw materials are the packing materials for finished goods. In view of the above, it is considered that the risk of keeping extra inventories does not exist.

5. Trade receivables

Trade receivables occur when inventory are delivered to the customer but not yet settled. The Target Company allows a credit period which is generally one month to three months for major customers. Each customer has a maximum credit limit. The Target Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables is non-interest bearing.

	As at 31 December			As at 31 July
	2011	2012	2013	2014
	RMB	*RMB*	*RMB*	*RMB*
Within 1 months	–	140	–	79,938
1 to 2 months	–	–	–	206,254
2 to 3 months	–	–	–	20,760
Over 3 months	–	–	–	10,889
	–	140	–	317,841

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December			As at 31 July
	2011	2012	2013	2014
	RMB	*RMB*	*RMB*	*RMB*
Neither past due nor impaired	–	140	–	306,952
Less than 1 month past due	–	–	–	10,889
	–	140	–	317,841

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Target Company. Based on past experience, the directors of the Target Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Up to the date of this report, all the balances were fully settled.

All the trade receivables are denominated in Renminbi.

6. Deposits and other receivables

	As at 31 December			As at 31 July
	2011	2012	2013	2014
	RMB	*RMB*	*RMB*	*RMB*
Trade deposits	707,832	1,140,522	448,090	335,412
Other deposits	10,380	80,380	105,680	84,592
Other receivables	129,035	183,695	207,023	9,382
	847,247	1,404,597	760,793	429,386
Impairment of other receivables	(214)	(1,924)	(3,940)	(3,940)
	847,033	1,402,673	756,853	425,446

Included in the above provision for other receivables is a provision for individually impaired other receivables as at 31 December 2011, 2012 and 2013 and as at 31 July 2014 of HK$214, HK$1,924, HK$3,940, HK$3,940 respectively which equal to the carrying amount before provision.

Save as disclosed above, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

All the deposits and other receivables are denominated in Renminbi.

7. Cash and cash equivalents

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*
Cash and bank balances	4,137	69,741	309,102	817,341
Cash and cash equivalents in the statements of cash flows	4,137	69,741	309,102	817,341

Cash in bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of defaults.

The carrying amounts of the cash and cash equivalents were denominate in Renminbi.

8. Trade payables

An aged analysis of the trade payables as at the end of the reporting periods, based on the invoice date, is as follows:

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*
Within 1 months	–	4,988	345,660	–
Over 3 months	–	–	8	43,208
	–	4,988	345,668	43,208

All the trade payables are denominated in Renminbi.

9. Other payables and accruals

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*
Receipt in advance	624,843	181,493	817,449	104,029
Accruals	95,265	42,681	57,189	88,268
Other payables	32,563	–	2,500	–
	752,671	224,174	877,138	192,297

All the other payables and accruals are denominated in Renminbi.

10. Capital

	RMB
Registered and paid up capital	
At 1 December 2011, 31 December 2012, 31 December 2013 and 31 July 2014	500,000

11. Reserve

Reserve

Details of movements in reserve during the year/periods are referred to in the statements of changes in equity. The nature and purpose of reserve within equity are as follows:–

Accumulated losses

Accumulated losses are the cumulative net losses of the Target Company sustained in the business.

12. Revenue, other income and gains

	As at 31 December			Seven months ended 31 July	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Revenue					
Sale of goods	8,892,321	9,035,806	22,281,658	7,005,207	5,789,397
Other income and gains					
Interest income	315	378	920	309	714
Gain on disposal of property, plant and equipment	280	–	–	–	–
Reversal of provision of trade receivables	305	–	–	–	–
Reversal of provision of other receivables	1,845	–	–	–	–
Others	25,651	–	14,900	–	–
	28,396	378	15,820	309	714

The Target Company recognizes revenue on a gross basis. The Directors consider that the Target Company is not an agent, but an operator as the logistics are arranged by the Target Company. Such arrangement includes the grouping of sales orders and arranging delivery from suppliers. Complaints from customers, if any, are also handled by the Target Company.

13. Profit before tax

		As at 31 December			Seven months ended 31 July	
		2011	2012	2013	2013	2014
	Notes	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost of inventories sold		8,246,804	8,089,266	20,941,275	6,390,325	5,005,136
Depreciation		34,484	33,470	35,424	20,257	20,202
Minimum lease payments under operating leases in respect of land and buildings		119,158	113,362	306,073	156,422	149,837
Employee benefit expense						
Wages and salaries		205,550	246,563	437,430	231,392	288,235
Pension scheme contributions		22,187	31,122	49,220	27,460	23,493
		227,737	277,685	486,650	248,852	311,728
Other expenses:						
Provision for other receivables		–	1,710	2,016	–	–

14. Five highest-paid employees

The aggregate of the emoluments in respect of the five highest-paid individuals for the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2013 and 2014 are as follows:

	As at 31 December			Seven months ended 31 July	
	2011	2012	2013	2013	2014
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Salaries, allowances and other benefits	205,550	226,793	290,451	163,557	190,691
Pension scheme contributions	22,187	29,680	40,984	22,713	19,243
	227,737	256,473	331,435	186,270	209,934

Their emoluments were all within the RMB0 – RMB1,000,000 band.

During the Relevant Periods, no emoluments or incentive payments were paid to the five highest paid individuals as an inducement to join or upon joining the Target Company, or as compensation for loss of office.

15. Finance costs

	As at 31 December			Seven months ended 31 July	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Interest on amounts due to the holding company	40,575	11,493	63,987	9,855	47,209
Interest on amounts due to a shareholder	14,536	20,335	9,477	5,933	–
Interest on other payables	–	–	10,561	4,148	–
	55,111	31,828	84,025	19,936	47,209

16. Income tax

During the Relevant Periods, no PRC enterprise income tax ("EIT") has been provided as the assessable income has been set-off by previous years' loss. The EIT is calculated based on the statutory income tax rate of 25%. The applicable income tax rate in the Relevant Periods is 25% of the assessable income of the Target Company, determined in accordance with the relevant PRC income tax rules and regulations.

The income tax expense can be reconciled to the profit before tax per the statements of profit or loss and other comprehensive income as follows:

	As at 31 December			Seven months ended 31 July	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Profit before tax	44,348	151,929	53,644	60,368	88,277
Tax at statutory rate	11,087	37,982	13,411	15,092	22,069
Tax effect of prior years' tax losses utillized in the year/period	(11,087)	(37,982)	(13,411)	(15,092)	(22,069)
Income tax expense	–	–	–	–	–

17. Operating lease commitment

The Target Company leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

The future aggregated minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			Seven months ended 31 July
	2011	2012	2013	2014
	RMB	*RMB*	*RMB*	*RMB*
Within one year	–	–	168,475	7,325
In the second to fifth years	–	–	7,325	–
	–	–	175,800	7,325

18. Segment reporting

The Target Company is principally engaged in wholesaling and retailing of staple food, cooking oil, alcohol and beverage, frozen and fresh food in the PRC. The management considers that there is only one business segment significant enough for disclosure.

19. Related party transactions and balances

(a) In addition to the transactions detailed elsewhere in these financial statements, the Target Company had the following transactions with related parties during the Relevant Periods:

		As at 31 December			Seven months ended 31 July	
		2011	2012	2013	2013	2014
	Note	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Interest on amounts due to the holding company	*(i)*	40,575	11,493	63,987	9,855	47,209
Interest on amounts due to a shareholder	*(ii)*	14,537	20,336	9,477	5,933	–
		55,111	31,828	73,463	15,788	47,209

(i) The interest expense arose from amounts due to the holding company, Beidahuang Marketing Company Limited, which was unsecured and bore interest ranged from 6% – 7.5% per annum during the Relevant Periods.

(ii) The interest expense arose from amounts due to a shareholder, which was unsecured and bore interest ranged from 6% – 7.5% per annum during the Relevant Periods.

(b) Outstanding balances with related parties:

	As at 31 December			Seven months ended 31 July
	2011	**2012**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*
Due to related parties				
Beidahuang Marketing Co.	841,081	2,492,467	2,292,075	2,349,456
Mr. Hu Guangsheng	438,360	136,490	–	–
	1,279,441	2,628,957	2,292,075	2,349,456

Notes:

(i) The holding company of the Target Company

The interest expense arose from amounts due to the holding company, Beidahuang Marketing Company Limited, which was unsecured and bore interest ranged from 6% – 7.5% per annum during the Relevant Periods.

Beidahuang Marketing Company Limited would become the non-controlling shareholders of the Target Company after the Acquisition. On 14 January 2015, the Target Company entered into an agreement with Beidahuang Marketing Company Limited and mutually agreed that Beidahuang Marketing Company Limited would not call for repayment before 31 December 2016 and no interest would be charged during this period. The Target Company did not make any repayment to Beidahuang Marketing Company Limited from the period end date of the Relevant Periods up to the date of agreement.

(ii) A non-controlling shareholder of the Target Company

The interest expense arose from amounts due to a shareholder, which was unsecured and bore interest ranged from 6% – 7.5% per annum during the Relevant Periods.

20. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	As at 31 December			As at 31 July
	2011 Loan and receivables *RMB*	2012 Loan and receivables *RMB*	2013 Loan and receivables *RMB*	2014 Loan and receivables *RMB*
Trade receivables	–	140	–	317,841
Financial assets included in deposits and other receivables	847,033	1,402,673	756,854	425,446
Cash and cash equivalents	4,137	69,741	309,102	817,341
	851,170	1,472,554	1,065,956	1,560,628

	As at 31 December			As at 31 July
	2011 Financial liabilities at amortised cost *RMB*	2012 Financial liabilities at amortised cost *RMB*	2013 Financial liabilities at amortised cost *RMB*	2014 Financial liabilities at amortised cost *RMB*
Trade payables	–	4,988	345,668	43,208
Financial liabilities included in other payables and accruals	752,671	224,174	877,138	192,297
Due to the holding company	841,081	2,492,467	2,292,075	2,349,456
Due to a shareholder	438,360	136,490	–	–
	2,032,112	2,858,119	3,514,881	2,584,961

21. Financial risk management objective and policies

The Target Company's principal financial instruments comprise amounts due to the holding company, amounts due to a shareholder and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interset rate risk

The Target Company exposure to the risk of changes in market interest rates relates primarily to the amounts due to the holding company, a shareholder and other payables which calculate at bank interest rate. Management considers the interest rate risk exposure arising from amounts is not significant to the Target Company.

Foreign currency risk

The Target Company has no significant exposure to foreign currency risk as substantially all of the Target Company's transactions are denominated in its functional currency, Renminbi.

Credit risk

The Target Company trades only with recognised and creditworthy third parties. It is the Target Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are not significant and monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

The credit risk of the Target Company's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Since the Target Company trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Target Company as the customer bases of the Target Company's trade receivables are widely dispersed.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade receivables and other receivables are disclosed in notes 8 and 9 to the financial statements, respectively.

Liquidity risk

The Target Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Target Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	On demand *RMB*	**With 1 year** *RMB*
As at 31 December 2011		
Financial liabilities included in other payables and accruals	–	752,761
Due to the holding company	841,081	–
Due to a shareholder	438,360	–
	1,279,441	752,761
As at 31 December 2012		
Trade payables	–	4,988
Financial liabilities included in other payables and accruals	–	224,174
Due to the holding company	2,492,467	–
Due to a shareholder	136,490	–
	2,628,957	229,162
As at 31 December 2013		
Trade payables	–	345,668
Financial liabilities included in other payables and accruals	–	877,138
Due to the holding company	2,292,075	–
	2,292,075	1,222,806
As at 31 July 2014		
Trade payables	–	43,208
Financial liabilities included in other payables and accruals	–	192,297
Due to the holding company	2,349,456	–
	2,349,456	235,505

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Target Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2014.

The Target Company monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Target Company's policy is to maintain an optimal capital structure which reduces cost of capital. Net debt includes trade payables, other payables and accruals, amounts due to the holding company and amounts due to a shareholder and less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	RMB	*RMB*	*RMB*	*RMB*
Due to the holding company	841,081	2,492,467	2,292,075	2,349,456
Trade payables	–	4,988	345,668	43,208
Other payables and accruals	752,761	224,174	877,138	192,297
Due to a shareholder	438,360	136,490	–	–
Less: Cash and cash equivalents	(4,137)	(69,741)	(309,102)	(817,341)
Net debt	2,028,065	2,788,378	3,205,779	1,767,620
Capital	(612,369)	(460,440)	(406,796)	(318,519)
Capital and net debt	1,415,696	2,327,938	2,798,983	1,449,101
Gearing ratio	143%	120%	115%	122%

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 July 2014 up to the date of this report. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 31 July 2014.

Yours faithfully,

Cheng & Cheng Limited
Certified Public Accountants
Hong Kong

1. INTRODUCTION OF THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect on the assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 30 June 2014.

The Unaudited Pro Forma Financial Information of the Enlarged Group as at 30 June 2014 has been prepared based on the information as set out in:

(a) the unaudited consolidated statement of financial position of the Group as at 30 June 2014 which has been extracted from the published interim report of the Company for the six months ended 30 June 2014;

(b) the audited statement of financial position of the Target Company as at 31 July 2014 derived from the Accountant's Report as set out in Appendix II to this Circular; and

(c) after taking into account of the unaudited pro forma adjustments, which are directly attributable to the Acquisition and factually supportable, as described in the notes thereto to demonstrate how the Acquisition might have affected the historical financial information in respect of the Group as if the Acquisition had been completed on 30 June 2014.

The unaudited pro forma financial information should be read in conjunction with the "Financial Information of the Group" set forth in Appendix I to this Circular, the "Accountants' Report on the Target Company" set forth in Appendix II to this Circular, and other financial information included elsewhere of this Circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the consolidated financial position of the Enlarged Group as at 30 June 2014 or at any future date.

Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group

	The Group As at 30 June 2014 (Unaudited) HK$'000 Note 1	The Target Company As at 31 July 2014 (Audited) HK$'000 Note 2	Sub-total HK$'000	Pro Forma Adjustments (Unaudited) HK$'000 Note 3	Pro Forma Adjustments (Unaudited) HK$'000 Note 4	Pro Forma Adjustments Total (Unaudited) HK$'000	Pro Forma Enlarged Group (Unaudited) HK$'000
Non-current assets							
Property, plant and equipment	18,258	59	18,317				18,317
Goodwill	468	–	468		3,341	3,341	3,809
Other intangible assets	2,615	–	2,615				2,615
Investment in an associate	4,619	–	4,619				4,619
Total non-current assets	25,960	59	26,019				29,360
Inventories	50,346	827	51,173				51,173
Trade and bills receivables	8,366	399	8,765				8,765
Prepayment, deposits and other receivables	198,500	535	199,035				199,035
Due from related parties	92,890	–	92,890				92,890
Pledged deposits	7,717	–	7,717				7,717
Cash and cash equivalents	65,303	1,027	66,330		(3,141)	9,171	63,189
	423,122	2,788	425,910				422,769
Assets of disposal groups classified as held for sale	24,904	–	24,904				24,904
Total current assets	448,026	2,788	450,814				447,673
Current liabilities							
Trade and other payables	25,786	54	25,840				25,840
Other payables and accruals	74,152	241	74,393				74,393
Interest-bearing bank and other borrowings	61,681	–	61,681				61,681
Due to related parties	31,834	–	31,834				31,834
Due to holding company	–	2,952	2,952	(2,952)		(2,952)	–
Due to a non-controlling shareholder of a subsidiary	–		–	2,952		2,952	2,952
Tax payable	6,666	–	6,666				6,666
	200,119	3,247	203,366				203,366
Liabilities directly associated with the assets classified as held for sale	26,080	–	26,080				26,080
Total current liabilities	226,199	3,247	229,446				229,446
Net current liabilities	221,827	(459)	221,368				218,227
Total assets less current liabilities	247,787	(400)	247,387				247,587
Non-current liabilities							
Deferred tax liabilities	98	–	98				98
Net assets/(liabilities)	247,689	(400)	247,289				247,489

Notes to the Unaudited Pro Forma Financial Information of the Enlarge Group

(1) The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2014 as set out in the Company's published interim report for the six months ended 30 June 2014.

(2) The balances were extracted from the audited consolidated statement of financial position of the Target Company as at 31 July 2014 as set out in Appendix II to this Circular. The values were converted from Renminbi ("RMB") to Hong Kong Dollars ("HKD") at the rate RMB1 to HKD1.2563 and are rounded to the nearest thousand to conform with the presentation of the Group.

(3) The adjustment represents the reclassification of the Target Company account balances to conform with the presentation of the Group.

(4) Acquisition

Pursuant to the Agreement, the total consideration of the Acquisition is HK$3,141,000 (RMB2,500,000), which is to be satisfied fully by cash.

For the purpose of preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Acquisition is analysed as follows:

	HK$'000
Consideration	3,141
Fair value of the identifiable net liabilities to be acquired as at 31 July 2014	(400)
Less: Non-controlling interests of 50% in the Target Company	(200)
	200
Goodwill	3,341

Upon completion of the Acquisition, the Target Company will be non-wholly owned subsidiaries of the Company and the result of the Target Company will be consolidated into the consolidated financial statements of the Group. Details of the Acquisition are set out in the letter from the Board to this circular.

The Group prepared this Unaudited Pro Forma Financial Information in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" and assumed that the carrying amounts of the identifiable assets and liabilities of the Target Company as at 31 July 2014 approximated the fair values of the Target Company. The Group has elected to measure the non-controlling interests in the Target Company at the non-controlling interests' proportionate share of the Target Company's identifiable net assets. According to HKFRS 3 "Business Combination", it suggests that, at the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other HKFRSs subsequently.

HKAS 38 "Intangible Assets" requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Any intangible item acquired in a business combination is recognised as an asset separately from goodwill when it is identifiable and could be measured reliably. If the amount cannot be recognised as an intangible asset, it forms part of the amount recognised as goodwill at the acquisition date. Based on currently available information, the management has not identified any intangible assets to be separated from goodwill.

The Acquisition giving rise to goodwill of approximately HK$3,341,000 was measured at cost at initial recognition and would be subsequently tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group's accounting policies for goodwill is in accordance with the applicable accounting standards. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information is consistent with the accounting policies of the Group. The Group will adopt consistent accounting policies for goodwill as disclosed in its annual report for the year ended 31 December 2013, save for compliance to any new or revised HKFRS that would be issued by the HKICPA, to perform impairment assessment of the Enlarged Group's goodwill during the future annual audit of the Enlarged Group. The Directors consider that the Company's accounting treatment and principal assumptions used to assess the impairment of such goodwill will be the same as other acquisitions of similar nature. To the best knowledge of the Directors, the Group's independent auditors will conduct the audit in accordance with the Hong Kong Standards on Auditing issued by the HKICPA to perform the impairment assessment of the Enlarged Group's goodwill during the future annual audit of the Enlarged Group.

Even though the impairment assessment will be carried out in the accounting periods in the future, in view of the date of the Circular, the Directors consider that the amount of goodwill as a result of the difference between the consideration, the synergy attributable to the Group after the Acquisition and the fair value of the assets and liabilities of the Target Company is a reflection of the expected future economic benefits, i.e. the net cash flows and earnings of the Target Company.

Upon completion of the Acquisition, the actual goodwill and intangible assets, if any, of the Enlarged Group, for accounting purposes, will need to be recalculated based on the fair value of the net identifiable assets and liabilities of the Target Company at the date of Completion. The actual financial effects are expected to be different from the amounts presented above.

(5) No adjustment has been made to reflect the transaction costs of the Acquisition since the Directors considered the amount involved will not be significant.

(6) Apart from the Acquisition, no other adjustments have been made to the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2014.

2. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of the report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, Cheng & Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭 鄭 會 計 師 事 務 所 有 限 公 司
10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

28 January 2015

TO THE DIRECTORS OF SINO DISTILLERY GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Sino Distillery Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company for illustrative purpose only. The pro forma financial information consists of the unaudited pro forma statements of assets and liabilities of the Group, and Shenzhen Beidahuang Green Food Distribution Limited (the "Target Company") as at 30 June 2014 and 31 July 2014, respectively, and related notes as set out on pages 109 to 114 of the circular (the "Circular") issued by the Company. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are described on pages 109 to 114 of the Circular.

The pro forma financial information has been compiled by the directors to illustrate the impact of the acquisition of an 50% interest in the Target Company (the "Acquisition") on the Group's financial position as at 30 June 2014 as if the Acquisition had taken place at 30 June 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014, on which no audit or review report has been issued, and the information about the Target Company's financial position has been extracted by the directors from the Target Company's financial statements for the seven months ended 31 July 2014, which are set out in Appendix II to this Circular.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 ("AG 7") "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Cheng & Cheng Limited
Certified Public Accountants
Hong Kong

STATEMENT OF ASSET VALUATION REPORT

1. We have complied with the relevant laws and regulations and asset valuation standards, and adhered to the principles of independence, objectivity and impartiality in performing this asset valuation. According to the information collected by us during the valuation process, we are of the opinion that the contents of the valuation report are objective and we will assume the corresponding legal liabilities for the reasonableness of our conclusion of valuation.

2. The list of assets and liabilities in relation to the subject of valuation has been provided and signed/sealed for confirmation by the entrusting party and subject entity (or the property right holder). The entrusting party and the relevant parties are responsible for the truthfulness, legality and completeness of the materials provided by them as well as the proper use of the valuation report.

3. We have no existing or potential interest in the subject of valuation as set out in the valuation report, nor do we have any existing or potential interest in or any bias against the relevant parties.

4. We have conducted on-site inspections of the subject of valuation and its related assets as set out in the valuation report. We have paid due attention to the legal titles of the subject of valuation and its related assets, verified the materials relating to such legal titles on the subject of valuation and its related assets, made truthful disclosures of the issues we have identified and requested the entrusting party and the relevant parties to perfect the titles to meet the requirements for the issuance of the valuation report.

5. The analyses, judgments and conclusions made in the valuation report are subject to the assumptions and limiting conditions as set out in the valuation report. Users of the valuation report are advised to take into full consideration of the assumptions, limiting conditions and explanatory notes on specific matters as set out in the valuation report as well as their impact on our conclusion of valuation.

SHENZHEN BEIDAHUANG GREEN FOOD DISTRIBUTION LIMITED* PROPOSED EQUITY INTERESTS TRANSFER INVOLVING THE ENTIRE EQUITY VALUE OF THE SHAREHOLDERS OF THE COMPANY SUMMARY OF ASSET VALUATION REPORT

Shen Xuan Ping Zi [2014] No. 075

Readers and users of this report are hereby reminded that

the content of this summary is extracted from the text of the valuation report. If you wish to know more about the details of this valuation project and have a reasonable understanding of the conclusion of valuation, you should read the text of the valuation report.

深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) (General Partnership) (hereinafter referred to as "Yunde Appraisal Firm") was entrusted by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) (hereinafter referred to as "Beidahuang") to assess the entire equity value of the shareholders of the Beidahuang Company as at 31 July 2014, the purpose of which was solely as a reference in understanding the market value of Beidahuang Company when transferring its equity interests. According to the conditions stipulated in the "Asset Valuation Engagement Letter" entered into between 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) and 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*), 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) has carried out necessary valuation procedures that are within the scope of valuation including site inspection, market investigation and inquiry on relevant assets. The valuation of 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) is established based on the data provided by the entrusting party and the subject entity that are necessary for the purpose of valuation. The entrusting party and the subject entity are responsible for the accuracy, legality, completeness and validity of such data. On this basis, 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) has expressed its valuation opinion in accordance with the "Assets Valuation Standards" and relevant professional regulating documents.

The subject of valuation is the entire equity value of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*). The corresponding scope of valuation is all the assets and respective liabilities as at 31 July 2014 as reported by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*). Such assets and liabilities are audited by accountant firms.

* *For identification purpose only*

The type of value subject to this valuation is the market value. Market value refers to the estimated value of the subject of valuation in a normal and fair transaction made on valuation date between a willing buyer and a willing seller wherein both parties act knowledgeably and without compulsion.

According to the relevant conditions including the subject of valuation, type of value and information collection, this valuation mainly adopts the income approach (also named as asset summation method of the assets-based approach) to assess the entire equity value of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

Through performing the necessary valuation procedures, save for the explanation notes on specific matters as set out in this report, under the premise that 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) continues to operate, and the purpose of valuation, definition of value, assumptions and limiting conditions as stipulated in this report, the market value on the valuation date (being 31 July 2014) is reflected as follows:

By adopting the income approach, the carrying value of the entire equity value of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) was amounted to RMB-335,600 with an appraised value of RMB4,393,500, representing a valuation appreciation of RMB4,729,100.

The following matters may affect the conclusion of valuation, but under the current circumstances, we are unable to estimate the extent of its impact on the valuation results. Users and readers of this report are hereby reminded that:

1. The conclusion of valuation does not take into account the matters such as the possible guarantee that may need to undertake, pledge of the appraised assets nor the taxation charges that should be have been borne if such assets are being disposed of, as well as the impact on the conclusion of valuation because of the possible increase (or decrease) in payment consideration by specific transaction party, nor has it considered the impact of the change in national macroeconomic policy and the events with natural force and other force majeure on the conclusion of valuation. In the event that there are changes in the aforementioned conditions and the on-going operation principle adhered to during the valuation, the valuation results will become invalid.

2. For the defect matters that may affect the conclusion of valuation, without the specific explanations from 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*), and under the circumstances that the appraisal personnel are unable to obtain or collect the information based on their professional experience, the appraisal firm and the certified asset valuer that signed the report shall not undertake any responsibilities.

3. All the information that are provided by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) and are relevant to the valuation form the basis of preparing this report. 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) should be responsible for the truthfulness, legality and validity of the information provided. Any inconsistencies between the information and the facts provided will lead to misleading valuation results.

4. 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) undertakes that the reported assets are not subject to mortgage, guarantee, litigation, etc. as at the valuation date.

The conclusion of valuation are only valid on the valuation date as stipulated in the valuation report. The validity period of the valuation report is within one year from the valuation date (i.e. from 31 July 2014 to 30 July 2015).

This report can only be used by the users of the valuation report specified herein. No extraction, quotation and disclosure of all or any part of this valuation report to public media are allowed without the consent of the appraisal firm unless required by laws, regulations or otherwise agreed by the parties involved.

SHENZHEN BEIDAHUANG GREEN FOOD DISTRIBUTION LIMITED* PROPOSED EQUITY INTEREST TRANSFER INVOLVING THE ENTIRE EQUITY VALUE OF THE SHAREHOLDERS OF THE COMPANY

Shen Xuan Ping Zi [2014] No. 075

I. INTRODUCTION

深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*) (General Partnership) is entrusted by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) (hereinafter referred to as "Beidahuang") to assess the market value of the entire equity interest value of the shareholders in 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) as at 31 July 2014 under the proposed equity transfer by Beidahuang Company by adopting and in accordance with the relevant laws, regulations, asset valuation standards and asset valuation principles and according to necessary valuation procedures of the income approach. The conditions of the asset valuation are hereby reported as follows:

II. ENTRUSTING PARTY, PROPERTY RIGHT HOLDER AND OTHER USERS OF THE VALUATION REPORT

(1) Both the entrusting party and the subject entity are 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*)

Name of Enterprise:	深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*)
Address:	Room 126, 1/F, No. 3 Building, Center Industrial City, Chuangye Road, Nanshan District, Shenzhen
Registration Number:	440301103908568
Legal Representative:	Hu Guang Sheng（胡廣生）
Registered Capital:	RMB500,000
Paid-up Capital:	RMB500,000
Type of Entity:	Limited liability company
Term of Business Operation:	From 23 March 2009 to 23 March 2019

General operating items: domestic trading, engage in import and export trading, investment in newly setup companies; wholesale and retail of primary agricultural products; wholesale of alcoholic beverages, food and food ingredients.

Permitted operating items: wholesale of pre-packaged food (excluding reheated food); wholesale of dairy products (including infant formula milk) (Food Circulation Permit SP4403001010047287, with the validity period up to 14 March 2016).

深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) was established in March 2009 under the approval of Shenzhen Administration for Industry and Commerce. Its initial investment was RMB500,000, of which RMB100,000, RMB100,000, RMB300,000 were contributed by Li Yongshun (李永順), Zhang Dong (張東) and 北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) respectively and each of them holds 20%, 20%, 60% equity interest of the company.

On 23 October 2009, the change of shareholders and shareholdings are as follows:

Shareholders before change:	Li Yongshun (李永順) RMB100,000 20% Zhang Dong (張東) RMB100,000 20% 北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB300,000 60%
Shareholders after change:	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB400,000 80% Li Yongshun (李永順) RMB100,000 20%

On 17 December 2009, the further change of shareholders and shareholdings are as follows:

Type of entity before change:	Limited liability company
Type of entity after change:	Limited liability company (wholly owned by legal representative)
Shareholders before change:	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB400,000 80% Li Yongshun（李永順）RMB100,000 20%
Shareholder after change:	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB500,000 100%

On 8 October 2011, the further change of shareholders and shareholdings are as follows:

Legal representative before change:	Zhang Xiancai（張顯才）
Legal representative after change:	Hu Guangsheng（胡廣生）
Type of entity before change:	Limited liability company (wholly-owned by legal representative)
Type of entity after change:	Limited liability company
Shareholder before change:	北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB500,000 100%
Shareholders after change:	Hu Guangsheng（胡廣生）RMB200,000 40% 北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) RMB300,000 60%

Relationship between the entrusting party and the subject entity: the subject entity and the entrusting party are the same company.

(II) Other users of the report other than the entrusting party

This valuation report shall only be used as a reference by the entrusting party and other users of the valuation report as prescribed in the Asset Valuation Engagement Letter for the purpose of such valuation and shall be submitted to the competent assets valuation authorities for their examination.

III. PURPOSE OF VALUATION

深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) proposed the equity interests transfer involving the entire equity value of the shareholders. This valuation assesses the market value of the entire equity value of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) as at 31 July 2014, and is solely for the purpose as a reference in understanding the market value of the proposed equity transfer of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

The corresponding economic activities for the purpose of this valuation had been approved by a resolution of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) at a general meeting.

IV. SUBJECT AND SCOPE OF VALUATION

1. The subject of this valuation is: the entire equity value of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

2. The scope of valuation is all of assets and liabilities as at 31 July 2014 as reported by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

Such assets and liabilities have already been audited. The types of specific assets include: current assets, non-current assets, current liabilities, non-current liabilities as shown in the following table:

Balance Sheet *(Unit: Yuan)*

Items	**Carrying value of the company**	**Audited carrying value**
Current assets	2,189,345.89	2,189,345.89
Non-current assets	47,332.88	47,332.88
Of which: Financial assets available for sale		
Held-to-maturity investments		
Long-term equity investments		
Investment in real estate		
Fixed assets	47,332.88	47,332.88
Construction in progress		
Intangible assets		
Long-term amortised expenses		
Deferred income tax assets		
Total assets	2,236,678.77	2,236,678.77
Current liabilities	2,572,315.15	2,572,315.15
Non-current liabilities		
Total liabilities	2,572,315.15	2,572,315.15
Net assets	-335,636.38	-335,636.38

3. The conditions of the major assets of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) were as follows:

The monetary funds were mainly cash in hand placed at the company's treasury department and the amounts placed at the local branches of Bank of China, Ping An Bank etc.; accounts receivables, prepayments and other receivables were mainly accounts receivables generated from operation, purchase and sale activities of the company; inventories mainly included packaging materials, goods in stock, low-value consumables etc.; fixed assets were mainly transportation equipment, electronic and office equipment; current liabilities mainly included accounts payables, receipts in advance, tax payables, salaries and wages payables and other payables.

The inventories reported for valuation purposes were primarily classified into three main categories, namely raw materials, goods in stock and low-value consumables. Of which: goods in stock mainly included rice, oil, beans, vegetables, dry goods and others. They were placed at the operating outlets of the registered locations and No. 8 warehouse of Line 1 at Xili Railway Station respectively.

Beidahuang obtained the "Food Circulation Permit (No. SP4403001010047287)" issued by Market Supervision Administration of Shenzhen Municipality (Nanshan Branch), and the validity period is from 23 April 2013 to 14 March 2016.

The electronic and office equipment reported for valuation purpose mainly represents computers, air-conditioners, office furniture and copiers, which were mainly purchased between 2009 and 2013, and are mainly placed at the operating outlets, warehouse and offices of the company.

The transportation equipment reported for valuation purpose represents a Jianghuai passenger car which is currently used normally. It is owned by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*), as evidenced by the vehicle driving licence and the equipment purchase invoice provided by the company.

The subject and scope of valuation entrusted are consistent with those in respect of the economic activities, and confirmed by the entrusting party and the subject entity. The specific scope is subject to the detailed list of valuation reported by Beidahuang.

The assets and liabilities incorporated in the scope of valuation were audited by 北京德爾會計師事務所(普通合夥) (Beijing De'er Certified Public Accountants (General Partnership)*) with an unqualified auditing report 德爾審字[2014]第1024-3號 (De Er Shen Zi [2014] No. 1024-3)* issued.

V. TYPE OF VALUATION AND ITS DEFINITION

The type of valuation for this project is the market value.

Market value refers to the estimated value of the subject of valuation in a normal and fair transaction made on valuation date between a willing buyer and a willing seller wherein both parties act knowledgeably and without compulsion. According to the definition of market value, market value shall fulfill the following conditions:

A willing buyer.

A willing seller.

Valuation date. Market value is a point-of-time value at a particular date. It only reflects the true market situation and condition as at valuation date, and not the market situation and condition before or after the valuation date.

Expressed in a monetary unit.

Equitable transaction. It represents the transaction between the parties without specific or special relationship, i.e. assuming the transaction between the parties has no relationship on each other and are acting independently.

The assets have adequate time to show in the market.

Each of the parties is acted astutely and reasonably.

Estimated amount. The estimated amount represents an estimated value of assets, and is not a pre-determined value or actual selling price. It is a price that can most possibly be realised for such asset on valuation date when a transaction is made with the conditions of other factors, as defined by market value, being satisfied. The estimated amount in the market value refers to the price of assets represented in monetary form in an equitable transaction.

VI. VALUATION DATE

The valuation date for this project is 31 July 2014. All the price standards in the report shall be the value standards that are valid as at valuation date.

The valuation date for this asset valuation is determined based on the arrangements of the economic activities of the equity transfer by the entrusting party, with the purpose of ensuring that the valuation results can effectively serve the purpose of valuation and reduce and avoid any adjustments subsequent to the valuation date.

The valuation date is one of the important conditions to justify the conclusion of valuation and it will change if the valuation date is changing.

VII. BASIS OF VALUATION

The laws and regulations of the state, local governments and the relevant departments that we adhere to this assets valuation work, as well as the document materials we refer to in the valuation mainly include:

(I) Basis of action

The subject was resolved to proceed at the general meeting of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

(II) Bases of law

1. The Company Law of the People's Republic of China;

2. Accounting Standard for Business Enterprises.

(III) Bases of standards

1. Asset Valuation Professional Ethics Standard – Basic Standard;

2. Asset Valuation Standard – Basic Standard;

3. Asset Valuation Standard – Engagement Letter;

4. Asset Valuation Standard – Valuation Report;

5. Asset Valuation Standard – Valuation Procedures;

6. Asset Valuation Standard – Intangible Assets;

7. Asset Valuation Standard – Working Papers;

8. Asset Valuation Standard – Machinery and Equipment;

9. Notice on Certain Provisions of Adjustments to the Vehicle Scrap Standard (Guo Jing Mao Zi Yuan [2000] No. 1212) issued by State Economic and Trade Commission, State Development Planning Commission, Ministry of Internal Trade, Ministry of Machine Building, Ministry of Public Security and State Administration of Environmental Protection on 18 December 2000;

10. Notice of Printing and Issuing the Guiding Opinions on Certified Asset Valuers on Legal Ownership of the Subject of Valuation (Hui Xie (2003) No. 18) issued by the Chinese Institute of Certified Public Accountants;

11. Guiding Opinions on Valuation of Enterprise Value (Trial);

12. Other relevant regulations.

(IV) Bases of ownership

1. Vehicle licences, purchase invoices and contracts for goods and equipments;

2. Relevant statements and undertakings provided by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

(V) Bases of pricing and reference materials

1. Commonly Used Methodology and Coefficient Handbook in Asset Valuation;

2. Asset valuation reporting breakdown provided by property rights holders;

3. Relevant financial information provided by the entrusting party and relevant parties such as accounting books and accounting proof;

4. Audit reports (De Er Shen Zi [2014] No. 1024-1, 1024-2, 1024-3);

5. Hithink RoyalFlush Information（同花順資訊）;

6. Market price information collected by the valuer on the Internet;

7. Information from the valuer's on-site inspection and market survey;

8. Other information relevant to the valuation.

VIII. METHODOLOGY OF VALUATION

Pursuant to the Guiding Opinions on Valuation of Enterprise Value (Trial), a certified asset valuer, when carrying out the valuation of enterprise value, shall properly select one or more basic asset valuation approaches by analyzing the applicability of the three basic asset valuation approaches, namely income approach, market approach and cost approach, in accordance with relevant conditions such as the subject of valuation, valuation type and information collection conditions.

Market approach: The market approach in the valuation of enterprise value is a valuation methodology to determine the value of the subject of valuation by comparing with comparable enterprises, enterprises with comparable market transactions and equity assets such as shareholder interests and securities. The market approach is applicable to the valuation of enterprise value under the conditions of sufficient market data and there are comparable enterprises and comparable transactions. The comparable enterprises and comparable transactions should normally be in the same industry, engaged in the same or similar business or affected by the same economic factors as the subject of valuation.

Income approach: The income approach in the valuation of enterprise value is a valuation methodology to determine the value of the subject of valuation through capitalizing or discounting the expected income of the subject entity. The income approach is applicable to the valuation of enterprises with profitability. In using the income approach to carry out the valuation of enterprise value, necessary analyses and adjustments should be made to the financial statements of the subject entity and the reference enterprises to reasonably reflect the financial conditions and profitability of the enterprises.

Cost approach: The cost approach in the valuation of enterprise value, i.e. the asset summation method in the asset-based method, refers to the valuation methodology to determine the value of the subject of valuation on the basis of reasonably assessing the value of every asset and liability of the subject entity. In applying the asset-based method in the valuation of enterprise value, it should consider all the tangible assets, intangible assets and liabilities to be assumed of the subject entity. When the valuation of enterprise is conducted on a going concern basis, the asset-based method is usually not the only valuation method to be adopted.

The selection of valuation approach:

Due to the fact that the existing standard of marketization and informatization in China is not high and is relatively lack of market public information, it is extremely difficult to select reference subjects (cases). In particular, as 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) is an unlisted company, the valuers are unable to obtain the equity transaction cases of enterprises with similar production scale and business categories to 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*). Therefore, it is not suitable to adopt the market approach to value all the equity interest of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*).

Theoretically speaking, both the income approach and asset-based method could reasonably reflect the market value of the subject of valuation as at valuation date. The cost approach (asset-based method) is a kind of basic method to estimate the value of an enterprise from an investment perspective. Although the cost approach (asset-based method) could visually reflect the values of all kinds of assets of the subject entity, objectively it is difficult to reasonably reflect the overall value of the intangible assets owned by the subject entity which includes off-book goodwill, brands, market resources, human resources and special management methods. The income approach is a kind of method to measure the equity interest value of the subject entity from its future profitability perspective, and is therefore more suitable for the purpose of this valuation.

According to the purpose of this valuation, the income approach is adopted to conduct the valuation.

Introduction to income approach valuation

The income approach is a kind of valuation method to arrive at the value of the subject assets by calculating the sum of all the present values of income during the income period through estimating the expected income of the subject asset in the future periods and then discounting these income into the present values as at valuation date using a certain discount rate. Although the income approach does not directly adopt the references in the real markets to illustrate the present market value of the subject of valuation, however, it conforms to the basic definition of asset as it values the asset from the perspective of the fundamental basis to determine the present market value of the asset, namely the expected profitability of the asset.

(1) Basic valuation methodology

In this valuation, we adopt the discount cash flow model under the income approach to value all the equity interest of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*). That is, we arrive at the value of entire equity interest of the shareholders by adding all the present values of discounting the free net cash flow of the enterprise in next few years at an appropriate discount rate to calculate the operating asset value of the enterprise, then add the value of the surplus assets, value of non-operating assets and value of long-term investment, and then minus interest-bearing debts.

(2) Valuation model

Value of entire equity interest of the shareholders = Overall enterprise value – Interest-bearing debts

Overall enterprise value = Value of operating assets + Value of surplus assets + Value of non-operating assets – Non-operating liabilities + Value of long-term equity investment

The formula of the value of operating assets is as follows:

$$PV = \sum_{i=1}^{n} \frac{Ri}{(1+r)^i} + \frac{Rn}{r(1+r)^n}$$

Where:

PV	–	Value of operating assets;
Ri	–	Expected corporate net cash flow in Year i;
r	–	discount rate;
n	–	the period of income;
Rn	–	Expected corporate net cash flow in sustainable operation period after n years.

(3) Illustration of forecast period

n refers to the first stage of the operation period of corporate development period. After the enterprise has entered into a stable operation period, and assuming it operates on a going concern basis, the second stage of operation period will be indefinite.

For the illustration of Ri (i.e. corporate net cash flow in Year i): Ri is the forecasted corporate net free cash flow from operating activities in Year i at the first stage.

(4) Determination of net cash flow

Net cash flow adopts the corporate net free cash flow from operating activities and the fundamental formula is:

Net cash flow = Net profits + Interest expenses after taxation + Depreciation and amortization – Capital expenditures – Net increase in working capital

The expected future free cash flow is estimated according to the operation history and future market development of the subject of valuation. Assuming that they can still operate a longer on-going period after the estimate period and the expected equivalent income of the subject of valuation within the on-going period is the income in the final year of the estimate period, then the free cash flow within the future operation period are discounted and summated to calculate the operating asset value of enterprise.

(5) Discount Rate

According to the principle of consistency for the income amount and the discount rate, after taking into account of the basis of the income amount for this valuation is the corporate net cash flow, the weighted average capital cost (WACC) is selected as the discount rate. The fundamental formula is:

$$WACC = Ke \times E/(D + E) \times Kd \times D/(D + E) \times (1 - T)$$

Where:

WACC	–	weighted average capital cost;
Ke	–	equity capital cost;
Kd	–	debt capital cost;
T	–	enterprise income tax rate;
E	–	market value of equity;
D	–	market value of interest-bearing debts.

For equity capital cost Ke, the capital asset model pricing（CAMP）is adopted to determine the equity capital cost. The calculating formula is:

$$Ke = Rf + \beta (Rm - Rf) + Rs$$

Where:

Rf	–	Risk-free return rate, the average rate of long-term government bonds is generally used as risk-free return rate;
β	–	the coefficient that measures the enterprise system risk, which is being used to measure the risk of the income of an enterprise when compare with the extensive market enterprises;
Rm – Rf	–	market risk premium, i.e. at equilibrium, it is the additional income that is needed by investors to compensate for bearing the average risk exceeding risk-free return rate;
Rs	–	Enterprise specific risk adjustment coefficient.

(6) Determination of the Value of Surplus Assets

Surplus assets refer to the excessive assets that do not directly relate to the income of an enterprise and go beyond the operational needs of the enterprise. They mainly include surplus cash and assets not included in the valuation under the income approach. The value of surplus assets is determined by using the valuation method of each category of assets in the above-mentioned cost method (assets-based method) according to the type of assets.

(7) Determination of the Value of Non-operating Assets and Non-operating Liabilities

Non-operating assets and non-operating liabilities refer to the assets and liabilities that do not directly relate to the normal operating income of the enterprise, including unproductive assets as well as the assets and liabilities not relating to the forecasted income in this valuation. The valuation of non-operational assets and non-operating liabilities are determined by adopting the cost approach (assets-based method).

(8) Determination of Interest-bearing Debts

Interest-bearing debts refer to the debts that an enterprise is required to pay interests on valuation date, which include short-term borrowings, interest-bearing notes payables, long-term borrowings due within one year and long-term borrowings. Interest-bearing debts are determined according to the carrying amount of each interest-bearing debt after verification.

Case For Evaluation:

1. Income Forecast of Principal Business

After analyzing the recent three years' historical data of the company, the income of the principal business shows a stage-increasing trend in recent three years, with a three-year average increase of 25%. According to the recent performance of the company and based on its strategic plan, the company will focus on expanding its market shares in future, and the plan and development objective of the company in its principal business in the next 3.5 years will be a 10% growth per annum. The company will spend three years or more to increase its sales terminals with sales increase reaching 15% thereafter. After analyzing the current operating condition and operating environment of Beidahuang Company, the business income forecast in future term are as follows:

Unit: Yuan

		Forecasting Years						
Product Name	**Year/Item**	**2014-8-12**	**2015**	**2016**	**2017**	**2018**	**2019**	**Sustainable**
Rice	Unit Sales Volume	4,598	11,264	12,390	13,629	15,673	18,024	18,024
	Unit Selling Price (RMB/)	80	80	80	80	80	80	80
	Sales Income (RMB)	367,840	901,120	991,200	1,090,320	1,253,840	1,441,920	1,441,920
Noodle Flour	Unit Sales Volume	115,500	282,975	311,273	342,400	393,760	452,824	452,824
	Unit Selling Price (RMB/)	7	7	7	7	7	7	7
	Sales Income (RMB)	808,500	1,980,825	2,178,911	2,396,800	2,756,320	3,169,768	3,169,768
Oil	Unit Sales Volume	52,478	128,570	141,427	155,570	178,906	205,742	205,742
	Unit Selling Price (RMB/)	47	47	47	47	47	47	47
	Sales Income (RMB)	2,466,466	6,042,790	6,647,069	7,311,790	8,408,582	9,669,874	9,669,874
Whole Grain	Unit Sales Volume	24,750	60,638	66,702	73,372	84,378	97,035	97,035
	Unit Selling Price (RMB/)	11	11	11	11	11	11	11
	Sales Income (RMB)	272,250	667,018	733,722	807,092	928,158	1,067,385	1,067,385
Delicacies	Unit Sales Volume	7,474	18,311	20,142	22,156	25,479	29,301	29,301
	Unit Selling Price (RMB/)	18	18	18	18	18	18	18
	Sales Income (RMB)	134,532	329,598	362,556	398,808	458,622	527,418	527,418
	Others	292,460	1,223,239	1,345,591	1,480,144	1,702,175	1,957,487	1,957,487
	Total	4,342,048	11,144,590	12,259,049	13,484,954	15,507,697	17,833,852	17,833,852

In 2013, based on Target Company's statistics, the sales of packaged oil was approximately RMB6.43 million, it represented 51.5% of the total sales when excluding the staple sales transactions. For the first 7 months of 2014, the sales of packaged oil amounted to approximately RMB3.29 million and it represented 56.8% of the total sales for the period. Historically, the Target Company placed purchase order for procurement of oil and did not entered into any long term supply contract for oil. Despite this fact, the Target Company is able to gain access to source of oil supply. In the past, the Target Company did not experience any material disruption to its operation as a result of difficulties in sourcing oil in a timely manner. The Target Company has already established three years of business relationship with Hui Yu. In view of the Target Company's past co-operation with Hui Yu where no long term supply agreement has been entered into and established business relationship with Hui Yu, the Hui Yu Supply Agreement further allows the Target Company to secure a stable source of oil supply from Hui Yu, despite that the duration is only of one year. In addition, apart from Hui Yu, Target Company has been and will continue to source oil from other oil suppliers both from members of Beidahuang Group and other independent suppliers with the view of diversifying the source of oil supply. Moreover, as Target Company has good payment track records with its oil suppliers, the Directors are confident that oil supply from suppliers will continue in the future. On the other hand, in view of strong historical demand for packaged oil, it is estimated that demand of packaged oil will remain strong. Target Company foresees the major sales of the Target Company will come from the packaged oil and the Directors consider the projection to be fair and reasonable.

2. Costs of Principal Business

The costs of the principal business of Beidahuang Company mainly comprised cost of goods purchased and related expenses. After analyzing the historical cost data, costs of goods purchased and related expenses represent approximately 90% of the total costs. With the increase in goods purchased, the related expenses will be shared and reduced. In estimating the costs of principal business, the personnel of the company estimates all kinds of goods purchased and other expenses respectively based on their cost characteristics and predicts that in future, with the increase in sales volume, the unit cost of each merchandise will gradually decrease and become stable. The forecast is based on a cost ratio of 86.15% in the first half of 2014 and will remain unchanged, keeping its growth in line with its principal business income. Details of the cost estimate of the principal business in future periods are as follows:

Unit: Yuan

		Forecasting Years						
Product Name	**Contents**	**2014-8-12**	**2015**	**2016**	**2017**	**2018**	**2019**	**Sustainable**
Paddy rice	Unit cost	–	–	–	–	–	–	–
Rice	Total costs	307,178.36	788,424.45	867,266.90	953,993.59	1,097,092.63	1,261,656.52	1,261,656.52
	Sales volume	4,598.00	11,264.00	12,390.00	13,629.00	15,673.00	18,024.00	18,024.00
	Unit cost	66.81	70.00	70.00	70.00	70.00	70.00	70.00
Noodle Flour	Total costs	516,469.72	1,325,605.61	1,458,166.17	1,603,982.79	1,844,580.21	2,121,267.24	2,121,267.24
	Sales volume	115,500.00	282,975.00	311,273.00	342,400.00	393,760.00	452,824.00	452,824.00
	Unit cost	4.47	4.68	4.68	4.68	4.68	4.68	4.68
Oil	Total costs	2,351,419.49	6,035,310.03	6,638,841.03	7,302,725.13	8,398,133.90	9,657,853.99	9,657,853.99
	Sales volume	52,478.00	128,570.00	141,427.00	155,570.00	178,906.00	205,742.00	205,742.00
	Unit cost	44.81	46.94	46.94	46.94	46.94	46.94	46.94
Whole Grain	Total costs	235,003.97	603,176.85	663,494.54	729,843.99	839,320.59	965,218.68	965,218.68
	Sales volume	24,750.00	60,638.00	66,702.00	73,372.00	84,378.00	97,035.00	97,035.00
	Unit cost	9.50	9.95	9.95	9.95	9.95	9.95	9.95
Delicacies	Total costs	109,404.95	280,806.04	308,886.64	339,775.30	390,741.60	449,352.84	449,352.84
	Sales volume	7,474.00	18,311.00	20,142.00	22,156.00	25,479.00	29,301.00	29,301.00
	Unit cost	14.64	15.34	15.34	15.34	15.34	15.34	15.34
	Others	221,105.15	567,503.22	624,253.54	686,678.90	789,680.73	908,132.84	908,132.84
	Total	3,740,581.64	9,600,826.20	10,560,908.82	11,616,999.70	13,359,549.66	15,363,482.11	15,363,482.11

3. Business Tax and Surcharge

The business tax and surcharge of the company are mainly urban construction tax, education surcharge and local education surcharge, representing respectively 7%, 3% and 2% payable based on value-added tax. Details of the estimate are as follows:

Unit: Yuan

Tax Basis	Applicable tax rate	2014-8-12	Forecasting Years 2015	2016	2017	2018	2019	Sustainable
Value-added tax	13-17%	18,392	45,056	49,560	54,516	62,692	72,096	72,096
Urban construction tax	7.0%	1,287	3,154	3,469	3,816	4,388	5,047	5,047
Education surcharge	3.0%	552	1,352	1,487	1,635	1,881	2,163	2,163
Local education surcharge	2.0%	368	901	991	1,090	1,254	1,442	1,442
Total		20,599	50,463	55,507	61,057	70,215	80,748	80,748

4. Operating expenses

The operating expenses of the company mainly comprised wages of sales personnel, travelling expenses, marketing expenses, freight charges and storage and security charges etc. After analyzing the historical data and nature of the expenses, the proportion of operating expenses of the company to its sales revenue in recent three years was, on average, 3.65%. After taking into consideration of the future development trend of the business of the company, with the expansion of business volume of the company, the wages and marketing expenses will show a rising trend. The personnel of the company forecasted the operating expenses in future years, excluding extraordinary expenses, as follows:

Unit: Yuan

Item No.	Item	2014-8-12	Forecasting Years 2015	2016	2017	2018	2019	Sustainable
1	Wages	94,172	237,314	249,180	261,639	287,803	316,583	316,583
2	Travelling expenses	5,211	13,131	13,788	14,477	15,925	17,518	17,518
3	Sales service expenses	48,356	121,857	127,950	134,348	147,783	162,561	162,561
4	Freight charges	1,341	3,380	3,549	3,726	4,099	4,509	4,509
5	Storage and security charges	97,026	244,506	256,731	269,568	296,525	326,178	326,178
6	Others	2,809	7,078	7,677	8,087	8,894	9,783	9,783
	Total	249,017	627,512	658,900	691,845	761,029	837,132	837,132

5. Administrative expenses

The administrative expenses of the company comprised fixed expenses and variable expenses. Fixed expenses are depreciation whereas variable expenses mainly include wages and benefits of management staff, social security charges, office expenses, transportation and travelling expenses, entertainment expenses etc.

After analyzing the administrative expenses data of the company in previous years, the proportion of administrative expenses (excluding extraordinary expenses) to its principal business income in recent three years maintained at the range of 3.1%-5.5% of the main business income.

In forecasting the administrative expenses of the company in future years, we estimated and computed the fixed expenses and variable expenses respectively. Fixed expenses computation is based on actual depreciation of fixed assets of the company in future years. As the number of depreciation years is shorter than the number of years of actual use, with the vehicles and office equipment continuing to be used after the depreciation term expires, there will be no depreciation before any new equipment is added. The analysis of variable expenses is based on the historical data in previous years and nature of expenses and the estimate is conducted excluding extraordinary expenses. For expense items that have affirmative requirements such as different kinds of insurance provident funds and labor union expenditures, we forecast according to the requirements. For other expense items, we mainly adopt the trend forecast analytical method. With the gradual completion of the business expansion of the company at its preliminary stage, it enters into a stable operation period. The business expansion projects will decrease at the later stage and the administrative expenses will show a downward trend. The administrative expenses forecast in future years are as follows:

Unit: Yuan

Item No.	Item	2014-8-12	2015	2016	2017	2018	2019	Sustainable
				Forecasting Years				
I	Fixed portion	14,328	22,433	1,047	0	0	0	
1	Depreciation	14,328	22,433	1,047				
II	Variable portion	211,748	547,278	597,149	628,106	690,917	760,008	760,008
1	Wages	107,133	117,846	129,631	142,594	156,853	172,538	172,538
2	Benefit charges	1,214	1,335	1,469	1,616	1,778	1,956	1,956
3	Labour union expenses	1,907	2,098	2,308	2,539	2,793	3,072	3,072
4	Educational expenses	2,384	2,622	2,884	3,172	3,489	3,838	3,838
5	Social insurance expenses	15,852	17,437	19,181	21,099	23,209	25,530	25,530
6	Office expenses	8,164	8,980	9,878	10,866	11,953	13,148	13,148
7	Travelling expenses	8,946	9,841	10,825	11,908	13,099	14,409	14,409
8	Entertainment expenses	11,617	12,779	14,057	15,463	17,009	18,710	18,710
9	Director Fees	5,000	8,000	8,000	10,000	10,000	10,000	
10	Taxation expenses	927	1,020	1,122	1,234	1,357	1,493	1,493
11	Rental expenses	10,000	11,000	12,100	13,310	14,641	16,105	16,105
12	Transportation expenses	31,376	34,514	37,965	41,762	45,938	50,532	50,532
13	Others	12,228	322,806	347,729	354,543	388,798	428,677	428,677
	Total	226,076	569,711	598,196	628,106	690,917	760,008	760,008

6. Financial expenses

The financial expenses of the company are mainly handling charges. In estimating the financial expenses of the company, we take into account of the balance of fund of the company at the end of the period, and under the scenario of without any loan, only the handling charges are estimated.

Unit: Yuan

Item No.	Year/Item	2014-8-12	2015	2016	2017	2018	2019	Sustainable
				Forecasting Years				
1	Other financial expenses	34,265	86,349	90,666	95,200	104,720	115,191	115,191
	Total	34,265	86,349	90,666	95,200	104,720	115,191	115,191

7. Income tax

Income tax rate is 25%, and income tax is estimated in the following table:

Unit: Yuan

Item No.	Item	2014-8-12	Forecasting Years 2015	2016	2017	2018	2019
1	Total profit	71,509	209,729	294,871	391,746	521,266	677,291
2	Amount of taxable income	71,509	209,729	294,871	391,746	521,266	677,291
3	Income tax	17,877	52,432	73,718	97,937	130,317	169,323
4	Income tax rate applicable to enterprise	25%	25%	25%	25%	25%	25%
5	Net profit	53,632	157,297	221,153	293,809	390,949	507,968

8. Depreciation

Fixed assets are depreciated on straight-line method during its useful life with a depreciation term of 5 years. The depreciation forecast of the company is shown in the following table:

Unit: Yuan

Item No.	Class of Assets	Original book value	Net book value as at valuation date	2014-8-12	Forecast of depreciation provision in future years 2015	2016	2017	2018	2019
1	Transportation equipment	126,075	28,669	10,166	12,199	0	0	0	0
2	Electronic equipment and other equipment	62,386	18,664	4,264	10,234	1,047	0	0	0
	Total	188,461	47,333	14,430	22,433	1,047	0	0	0

9. Capital expenditure

The vehicles and office equipment purchased by the company in prior periods are able to meet its needs, and as the term of depreciation in accounting for vehicles and office equipment is shorter than its term of actual use, they can continue to be used when the depreciation term expires, and accordingly, no investment is required under its current sales size.

10. Working capital

The additional working capital of Beidahuang Company mainly takes into account the liquidity that is required to supplement its future operating process, which represents the costs and the amounts advanced for labour capital that need to be increased as a result of the increase in sales income. Such amount will become cash expenditure as a result of the funds required in operation during the purchase, sales and storage process of the company, and other cash expenditures advanced that are non-operation related are not taken into account. This forecast on the additional working capital of the company is made based on the estimate of the indicators including accounts receivables turnover, prepayments turnover, inventory turnover, accounts payables turnover and receivables in advance turnover. The specific estimation methods are as follows:

(1) Trade receivables, prepayments, inventory, trade payables and receivables in advance: as the operating revenue and operating costs are expected to increase year by year, the indicators reflecting the operation capacity of the Company, being trade receivables turnover, prepayments turnover, inventory turnover, trade payables turnover and receivables in advance turnover, will also change accordingly. By analyzing the above indicators of the company between 2011 and the first half year of 2014, although the above indicators had changed between 2011 and the first half year of 2014, such indicators remained stable generally. Therefore, such indicators are mainly forecasted and computed based on the following approach: the indicator value for the second half year of 2014 is estimated based on the indicator value of the company from January to July 2014, and then use the average value from 2011 to 2014 as the indicator value for future five years.

(2) Monetary funds: The average value of the number of cash payments for the three years from 2011 to 2014 is used to estimate the number of cash payments in next 5 years, and the costs of the principal business, taxation and surcharge of the principal business, administration expenses and operating expenses for future periods are summated, then minus the non-cash payments of depreciation and amortization charges, and divide the quotient by the number of cash payments for future periods to arrive at the average monetary fund attributable amounts for future years.

(3) Additional amount to working capital: the summation of trade receivables, prepayments, inventory and monetary funds for each year in the future period minus the summation of trade payables and receivables in advance for each year in the future period to arrive at the total working capital for each year in future, and then the amount of working capital for each year (or period) minus the amount of working capital for previous year (or period) to arrive at the additional amount of working capital for each year (or period) in future.

Upon computation, the forecast of working capital of Beidahuang Company in the future period is as follows:

Item	2014-8-12	2015	2016	2017	2018	2019	Sustainable
Current assets as at the end of period							
Of which: Trade receivables	271,378	348,268	383,095	421,405	484,616	484,616	557,308
Prepayments	249,372	320,028	352,030	387,233	445,318	445,318	512,116
Inventory	935,146	1,200,103	1,320,114	1,452,125	1,669,944	1,669,944	1,920,435
Monetary funds	5,177	6,638	7,279	7,969	9,124	9,124	10,448
Total current assets as at the end of period	1,461,073	1,875,037	2,062,518	2,268,732	2,609,002	2,609,002	3,000,307
Current liabilities as at the end of period							
Of which: Trade payables	680,106	872,802	960,083	1,056,091	1,214,505	1,214,505	1,396,680
Receivables in advance	321,633	412,763	454,039	499,443	574,359	574,359	660,513
Total current liabilities as at the end of period	1,001,739	1,285,565	1,414,122	1,555,534	1,788,864	1,788,864	2,057,193
Working capital	459,334	589,472	648,396	713,198	820,138	820,138	943,114
Additional amount of working capital	-1,565,925	130,138	58,924	64,802	106,940	106,940	122,976

11. Discount rate

According to the principle of consistency for the income amount and the discount rate, after taking into account that the basis of the income amount for this valuation is the corporate net cash flow, the weighted average capital cost (WACC) is selected as the discount rate. The fundamental formula is:

$$WACC = Ke \times E/(D+E) + Kd \times D/(D+E) \times (1 - T)$$

Of which: Equity capital cost is $Ke = Rf + \beta\ (Rm - Rf) + Rs$

(1) Risk-free return rate (Rf)

We adopted the average rate of medium and long-term treasury bonds issued by the Ministry of Finance as the risk-free return rate. The specific computation is as follows:

Name of bonds	**Term of issuance**	**Total issuing amount**	**Coupon rate (current)**	**Number of annual interest payments**	**Effective interest rate**
	Unit Year	*Unit in RMB10,000*			
13 interest-bearing government bonds 01	5	2,600,000.00	3.15	1	3.15%
13 interest-bearing government bonds 01 (reopened)	5	2,200,000.00	3.15	1	3.15%
13 interest-bearing government bonds 03	7	3,000,000.00	3.42	1	3.42%
13 interest-bearing government bonds 03 (reopened)	7	3,000,000.00	3.42	1	3.42%
13 interest-bearing government bonds 03 (reopened 2)	7	2,200,000.00	3.42	1	3.42%
13 interest-bearing government bonds 05	10	2,600,000.00	3.52	2	3.55%
13 interest-bearing government bonds 05 (reopened)	10	2,200,000.00	3.52	2	3.55%
13 interest-bearing government bonds 05 (reopened 2)	10	3,079,000.00	3.52	2	3.55%
13 interest-bearing government bonds 08	7	3,032,000.00	3.29	1	3.29%
13 interest-bearing government bonds 08 (reopened)	7	3,000,000.00	3.29	1	3.29%
13 interest-bearing government bonds 08 (reopened 2)	7	3,140,000.00	3.29	1	3.29%

Name of bonds	Term of issuance *Unit Year*	Total issuing amount *Unit in RMB10,000*	Coupon rate (current)	Number of annual interest payments	Effective interest rate
13 interest-bearing government bonds 11	10	3,000,000.00	3.38	2	3.41%
13 interest-bearing government bonds 11 (reopened)	10	3,000,000.00	3.38	2	3.41%
13 interest-bearing government bonds 11 (reopened 2)	10	3,000,000.00	3.38	2	3.41%
13 interest-bearing government bonds 13	5	3,000,000.00	3.09	1	3.09%
13 interest-bearing government bonds 13 (reopened)	5	3,000,000.00	3.09	1	3.09%
13 interest-bearing government bonds 15	7	3,000,000.00	3.46	1	3.46%
13 interest-bearing government bonds 15 (reopened)	7	3,000,000.00	3.46	1	3.46%
13 interest-bearing government bonds 15 (reopened 2)	7	3,015,000.00	3.46	1	3.46%
13 interest-bearing government bonds 16	20	2,600,000.00	4.32	2	4.35%
13 interest-bearing government bonds 18	10	3,173,000.00	4.08	2	4.11%
13 interest-bearing government bonds 18 (reopened)	10	2,800,000.00	4.08	2	4.11%
13 interest-bearing government bonds 18 (reopened 2)	10	2,815,000.00	4.08	2	4.11%
13 interest-bearing government bonds 18 (reopened 3)	10	2,400,000.00	4.08	2	4.11%
13 interest-bearing government bonds 20	7	3,155,000.00	4.07	1	4.07%
13 interest-bearing government bonds 20 (reopened)	7	2,806,000.00	4.07	1	4.07%
13 interest-bearing government bonds 20 (reopened 2)	7	2,928,000.00	4.07	1	4.07%
13 interest-bearing government bonds 23	5	2,900,000.00	4.13	1	4.13%
13 interest-bearing government bonds 23 (reopened)	5	2,821,000.00	4.13	1	4.13%
14 interest-bearing government bonds 01	5	1,000,000.00	4.47	1	4.47%
14 interest-bearing government bonds 01 (reopened)	5	2,800,000.00	4.47	1	4.47%
14 interest-bearing government bonds 03	7	1,000,000.00	4.44	1	4.44%
14 interest-bearing government bonds 03 (reopened)	7	2,800,000.00	4.44	1	4.44%
14 interest-bearing government bonds 03 (reopened 2)	7	2,800,000.00	4.44	1	4.44%
14 interest-bearing government bonds 05	10	2,800,000.00	4.42	2	4.45%
14 interest-bearing government bonds 05 (reopened)	10	2,897,000.00	4.42	2	4.45%

Name of bonds	Term of issuance *Unit Year*	Total issuing amount *Unit in RMB10,000*	Coupon rate (current)	Number of annual interest payments	Effective interest rate
14 interest-bearing government bonds 05 (reopened 2)	10	2,800,000.00	4.42	2	4.45%
14 interest-bearing government bonds 06	7	2,800,000.00	4.33	1	4.33%
14 interest-bearing government bonds 06 (reopened)	7	2,805,000.00	4.33	1	4.33%
14 interest-bearing government bonds 06 (reopened 2)	7	2,803,000.00	4.33	1	4.33%
14 interest-bearing government bonds 08	5	2,900,000.00	4.04	1	4.04%
14 interest-bearing government bonds 08 (reopened)	5	2,800,000.00	4.04	1	4.04%
14 interest-bearing government bonds 12	10	2,801,000.00	4.00	2	4.03%
14 interest-bearing government bonds 12 (reopened)	10	2,800,000.00	4.00	2	4.03%
14 interest-bearing government bonds 12 (reopened 2)	10	2,800,000.00	4.00	2	4.03%
14 interest-bearing government bonds 13	7	2,800,000.00	4.02	1	4.02%
14 interest-bearing government bonds 13 (reopened)	7	2,802,000.00	4.02	1	4.02%
14 interest-bearing government bonds 13 (reopened 2)	7	2,801,000.00	4.02	1	4.02%
Geometric average					3.58%

Accordingly, the risk-free return rate is 3.58%

(2) Risk premium (Rm – Rf)

The market risk premium is the expected market return rate required by investors for a well-diversified market investment portfolio, in which it exceeds the risk-free discount rate. According to the analysis of iFinD Information on the statistical analysis for the average net assets return rate of listed companies in food industry in Shanghai and Shenzhen stock markets in the PRC over the last three years, the net assets return rate in stock markets that exceeds the risk-free discount rate is estimated as follows:

Market risk premium = Rm – Rf

= 12.55% – 3.58%

= 8.97%

The statistical data of the average net assets return rate of listed companies in food industry in Shenzhen stock market over the last three years are as follows:

Stock Code	Stock Name	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2011 Annual Report	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2012 Annual Report	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2013 Annual Report	Return on Net Assets ROE (Average, iFinD Computation) 3 Years
		Unit%	*Unit%*	*Unit%*	*Unit%*
600059.SH	GU YUE LONG SHAN	7.8646	8.1941	5.8791	7.3126
600073.SH	SHANGHAI MALING	11.6705	7.6057	8.0488	9.1083
600084.SH	CITIC GUOAN WINE	-18.0268	1.0678	1.6649	-5.0980
600090.SH	LUPULUS	14.9631	3.3498	21.9480	13.4203
600132.SH	CHONGQING BEERS	10.7981	10.9359	10.5111	10.7484
600186.SH	LOTUS FLOWER	-42.1308	4.1403	-43.7473	-27.2459
600197.SH	YILITE	18.9095	19.3151	19.6612	19.2953
600199.SH	GOLDEN SEED WINERY	23.5771	28.4713	6.0977	19.3820
600238.SH	HAI NAN YEDAO	-6.7005	21.9863	16.0451	10.4436
600300.SH	WEIWEI SHARES	6.3124	3.1563	3.2850	4.2512
600305.SH	HENGSHUN VINGEGAR-INSDUSTRY	2.3747	-7.9562	7.4180	0.6122
600332.SH	BAIYUNSHAN	7.8549	10.0347	17.9358	11.9418
600365.SH	TONGPU SHARES	2.8941	9.1421	2.3710	4.8024
600419.SH	TIANRUN DAIRY	2.6813	-31.0303	19.4901	-2.9530
600429.SH	TERNARY SHARES	2.5697	1.8345	-13.3967	-2.9975
600519.SH	GUIZHOU MAOTAI	40.3925	45.0047	39.4328	41.6100
600543.SH	MOGAO SHARES	4.4690	4.4978	-7.5454	0.4738
600559.SH	LAOBAIGAN WINE	19.7006	19.8591	10.5073	16.6890
600573.SH	HUIQUAN BREWERY	2.8367	-6.5996	1.9326	-0.6101
600597.SH	BRIGHT DAIRY	9.9498	9.6299	9.7936	9.7911
600600.SH	TSINGTAO BREWERY	16.7806	14.9193	14.8998	15.5332
600616.SH	JINGFENG WINE	12.3618	8.5198	9.0917	9.9911
600702.SH	TUOPAI SHEDE	10.0534	16.9367	0.5145	9.1682
600779.SH	SHUIJING FANG	20.5214	18.9985	-8.7386	10.2604
600809.SH	SHANXI FEN WINE	35.3403	43.9291	26.0238	35.0977
600866.SH	STAR LAKE BIOSCIENCE	5.3976	-12.6342	1.3622	-1.9581
600873.SH	MEIHUA BIO-TECH	14.2855	11.4409	5.9770	10.5678
600887.SH	ERIE SHARES	35.3281	25.7091	27.1717	29.4030
603288.SH	HAITIAN FLAVOUR INDUSTRY	34.0415	35.8089	42.4228	37.4244

Stock Code	Stock Name	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2011 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2012 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2013 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) 3 Years *Unit%*
603369.SH	JINSHIYUAN	41.4742	43.6683	33.2206	39.4544
000019.SZ	SHENSHEN BAO A	1.1490	8.0395	4.5370	4.5752
000529.SZ	GUANG HONG HOLDINGS	9.1941	7.6767	9.2519	8.7076
000557.SZ	*ST GUANGXIA	–	–	2.6032	0.8677
000568.SZ	LU ZHOU LAO JIAO	45.7979	52.0411	33.9179	43.9190
000596.SZ	GUJING TRIBUTE WINE	29.7272	23.6479	17.4764	23.6172
000716.SZ	NEM FOOD CORPORATION	4.1396	5.7092	6.9845	5.6111
000729.SZ	YANJING BEER	9.6555	6.6597	6.3335	7.5496
000752.SZ	TIBET DEVELOPMENT	6.2116	3.5619	18.5323	9.4353
000796.SZ	E-FOOD SHARES	3.6378	2.7366	9.4841	5.2862
000799.SZ	JIUGUIJIU	18.1039	30.5913	-2.0195	15.5586
000848.SZ	CHENGDE LULU	25.7228	28.6136	36.9371	30.4245
000858.SZ	WULIANGYE	29.8756	36.6085	23.7112	30.0651
000869.SZ	ZHANGYU A	43.0845	31.1333	17.2948	30.5042
000895.SZ	SHUANGHUI DEVELOPMENT	15.9028	37.4258	29.5828	27.6371
000929.SZ	LNZHANEA	-2.6625	3.8315	4.2211	1.7967
000995.SZ	WONG TOI WINES	2.7833	5.5952	-17.0826	-2.9014
002143.SZ	HIGH KING FOOD	13.6531	2.0726	-5.0220	3.5679
002216.SZ	SANQUAN FOOD	10.4402	8.4343	6.7368	8.5371
002304.SZ	YANGHE SHARES	47.8404	50.0647	31.1812	43.0288
002329.SZ	ROYAL DAIRY	7.6589	4.1027	4.5608	5.4408
002330.SZ	DELICIOUS	3.6272	3.7811	3.2474	3.5519
002387.SZ	DARK CROWN FOOD	8.0909	4.1268	1.0690	4.4289
002461.SZ	ZHUJIANG BEER	1.5782	1.5859	1.2664	1.4768
002481.SZ	SHUANGTA FOOD	9.0540	11.0518	11.9741	10.6933
002495.SZ	JIALONG SHARES	5.6140	4.5346	3.2832	4.4773
002507.SZ	FULING PICKLE	10.2911	13.8035	14.1298	12.7415
002515.SZ	JINZI HAM	6.1294	4.2764	2.6685	4.3581
002557.SZ	QIAQIA FOOD	14.1395	11.1682	9.8361	11.7146
002570.SZ	BEINGMATE	20.3723	15.4804	19.7293	18.5273
002582.SZ	HAOXIANGNI	15.2586	8.1324	7.7429	10.3780
002646.SZ	QINGQING KEJIU青青稞酒	20.9187	17.9946	19.5346	19.4826

Stock Code	Stock Name	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2011 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2012 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) Report Period 2013 Annual Report *Unit%*	Return on Net Assets ROE (Average, iFinD Computation) 3 Years *Unit%*
002650.SZ	JIAJIA FOOD	16.0458	10.5973	9.3979	12.0137
002661.SZ	KEMEN NOODLE	34.0331	18.0216	12.6427	21.5658
002695.SZ	HUANGSHANGHUANG	24.3544	11.5256	8.9171	14.9324
002696.SZ	BAIYANG SHARES	22.6808	14.1004	6.3262	14.3691
002702.SZ	HAIXIN FOOD	23.4226	12.7286	4.2710	13.4741
002719.SZ	MAIQUE	31.7140	25.5907	19.6607	25.6551
002726.SZ	LONGDA ROUSHI龍大肉食	16.0291	13.2920	13.5661	14.2957
200019.SZ	SHENSHEN BAO B	1.1490	8.0395	4.5370	4.5752
200596.SZ	GUJINGGONG B	29.7272	23.6479	17.4764	23.6172
200869.SZ	ZHANGYU B	43.0845	31.1333	17.2948	30.5042
300138.SZ	CHENGUANG BIOTECH	8.0662	6.0405	1.0588	5.0552
300143.SZ	STARWAY BIO-TECH	7.7800	0.8387	-23.9489	-5.1101
Average					12.5469

(3) Beta Coefficient (β)

The determination of Beta value computation is based on the iFinD Information Enquiry on the listed companies of the enterprise-like Shanghai-Shenzhen A-shares for 100-weeks, details of which are as follows:

Firstly, according to the published Beta of similar listed companies, the Beta (βU), without financial leverage, of each company (or industry) is calculated, then, to determine the capital structure (D/E) as at the valuation base date according to the circumstances of the business operation with interest-bearing liability, and combine with the income tax rate assumed by the enterprises, the Beta (βL) with financial leverage of an enterprise can be calculated accordingly.

The calculating formula is as follows:

$$\beta L = (1 + (1 - T) \times D/E) \times \beta U$$

In which:

βL	:	Beta with financial leverage;
D/E	:	Capital structure of an enterprise;
βU	:	Beta without financial leverage;
T	:	Income tax rate;

On which, the D/E of an enterprise is calculated by the following formula:

D	=	Interest-bearing liabilities
E	=	Entire equity value of shareholders

For this valuation, by referencing to the iFinD Information Enquiry in relation to the Beta (βU), adjusted by weighted average of excluding financial leverage, of the listed companies in the domestic food industry categories for recent 100-weeks, the arithmetic mean value is 0.9075, and we take βU as 0.9075.

According to the scenario of interest-bearing liability and net asset value as at the valuation base date, the current D/E of the enterprise is determined as 6.43%. The income tax rate applicable to the company is 25%, and the Beta（βL）of the enterprise, including financial leverage, that is applicable in future is:

Enterprise βL	=	$(1 + (1 – T) \times D/E) \times \beta U$
	=	(1 + (1 – 25%)*6.43%) *0.9075
	=	0.95121

(4) Determination of enterprise-specific risk adjustment coefficient Rc

According to the analysis of Beidahuang Company, the evaluator is in the opinion that when comparing with listed companies of similar industry, currently Beidahuang Company is not a listed company and its approach of capital fund raising is fairly homogeneous. The funding requirement of Beidahuang Company in the past has been supported by shareholders of Beidahuang Company and new source of fund (such as bank loan) may be required in the future. Based on the aforesaid specific capital financing circumstances of Beidahuang Company as perceived by the evaluator, and after integrating all analyses, the individual risk factor of capital fund raising is 0.48%. Meanwhile, as an enterprise with rapid growth in the long-term, Beidahuang Company has revealed certain shortcomings because the consumer network of 北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*), one of the shareholders of Beidahuang Company, has established network in the Northern part of China, however, it is still developing its network in the Southern part of China (being the principal business area of Beidahuang Company). This may affect Beidahuang Company in its scale expansion and operation management in recent years, the company is facing the risk of strengthening its management in the future business, therefore, the operation risk is 0.5%; and enterprise-specific risk adjustment coefficient is 0.98% by adding up the capital fund raising risk and the operation risk.

In assessing the capital fund raising risk of Beidahuang Company, it should be noted that funding will be required by Beidahuang Company to purchase inventory for generating sales. However, such funding will not be borrowed for whole year. As such, the valuer has taken into account the inventory turnover rate in its assessment. The valuer has made reference to one-year deposit interest rate announced by People's Bank of China of 3.25% divided by the forecasted annual average inventory turnover rate of Beidahuang Company of approximately 6.75 times and concluded risk factor of capital fund raising at 0.48%.

In assessing the operation risk of Beidahuang Company, based on professional judgement of the valuer, in general, operation risk comes up from sales risk, production risk and product risk. Usually, operation risk will be less than 3%. Having considered that Beidahuang Company does not have production and the products are daily necessities, the valuer considers each of the production risk and product risk of Beidahuang Company will be zero. For sales risk, having considered the products sold by the Target Company are daily necessities which minimise the risk and its network in Southern China, valuer concluded that the rate of 0.5% is fair.

The valuer concluded that the basis of estimating the capital fund raising risk and the operation risk as discussed above is in line with the normal valuation practice.

According to the parameters determined above, the equity capital cost is computed as follows;

$$\begin{aligned} Ke &= Rf + \beta\,(Rm - Rf) + RC \\ &= 3.58\% + 0.9512 \times 8.97\% + 0.98\% \\ &= 13.09\% \end{aligned}$$

(5) Determination of Discount Rate

Stock code	Stock short name	Total share capital closing date: 20140630 *Unit: In 10,000*	Closing Price Trading date 20140630 Ways of restoring right: No *Unit: Yuan*	Total market capitalisation (In 10,000) *(E)*	Beta	Beta (Excluding financial leverage)	Total assets Reporting period: interim report for the year Type of statement: Statement of parent company *Unit: In 10,000*	Total liabilities Reporting period: interim report for the year Type of statement: statement of parent company *Unit: In 10,000*	Total equity of owners Reporting period: interim report for the year Type of statement: statement of parent company *Unit: In 10,000*	Short-term borrowings Reporting period: 2014 interim report Type of statement: statement of parent company *Unit: In 10,000*	Non-current liabilities due within one year Reporting period: 2014 interim report Type of statement: statement of parent company *Unit: In 10,000*	Total Interest-bearing debts *(D)*	Interest-bearing debts/ Equity Value *(D/E)*	Income tax rate (Year: 2013)	Price/ book value ratio(Market value/net assets)
600059.SH	GU YUE LONG SHAN	80,852.4165	7.9700	644,393.76	1.0452	1.0452	362,889.6162	25,026.0391	337,863.5771	–	–	0.00	0.00%	25	1.91
600073.SH	SHANGHAI MALING	82,273.5141	7.2700	598,128.45	1.8508	1.6277	345,652.8799	160,876.8724	184,776.0075	109,300.0000	–	109,300.00	18.27%	25	3.24
600238.SH	HAI NAN YEDAO	44,820.0000	6.3100	282,814.20	1.1555	1.1272	142,357.4599	27,827.2741	114,530.1858	1,000.0000	6,900.0000	7,900.00	2.79%	25	2.47
600305.SH	HENGSHUN VINGEGARINSDUSTRY	30,136.9000	14.9500	450,546.66	0.8867	0.8098	219,037.6216	96,209.3194	122,828.3021	47,550.0000	–	47,550.00	10.55%	15	3.67
600559.SH	LAOBAIGAN WINE	14,000.0000	20.9700	293,580.00	0.7636	0.6839	210,491.0750	143,195.8639	67,295.2111	38,000.0000	–	38,000.00	12.94%	25	4.36
600573.SH	HUIQUAN BREWERY	25,000.0000	6.8300	170,750.00	1.0383	1.0383	115,320.1697	7,954.9693	107,365.2004	–	–	0.00	0.00%	25	1.59
600702.SH	TUOPAI SHEDE	33,730.0000	10.4700	353,153.10	0.9114	0.8477	329,141.5610	122,144.5428	206,997.0182	29,500.0000	–	29,500.00	8.35%	25	1.71
600809.SH	SHANXI FEN WINE	86,584.8266	13.2800	1,149,846.50	0.9606	0.9606	481,129.1309	104,860.9805	376,268.1505	–	–	0.00	0.00%	25	3.06
603288.SH	HAITIAN FLAVOUR INDUSTRY	149,700.0000	33.8400	5,065,848.00	–	0.0000	516,904.1579	69,399.1883	447,504.9696	–	–	0.00	0.00%	25	11.32
603369.SH	JINSHIYUAN	45,000.0000	–	–	0.0000	–	337,263.8238	37,204.3846	300,059.4392	–	2,809.0800	2,809.08		25	–
000019.SZ	SHENSHEN BAO A	30,108.0184	6.6200	199,315.08	0.8171	0.7955	158,557.5657	51,895.9483	106,661.6175	6,000.0000	–	6,000.00	3.01%	25	1.87
000568.SZ	LU ZHOU LAO JIAO	140,225.2476	16.3800	2,296,889.56	0.8400	0.8400	1,231,454.3320	230,535.6232	1,000,918.7088	–	–	0.00	0.00%	25	2.29
000596.SZ	GUJING TRIBUTE WINE	50,360.0000	19.0700	960,365.20	0.9784	0.9784	558,115.2602	206,166.3201	351,948.9400	–	–	0.00	0.00%	25	2.73
000716.SZ	NEM FOOD CORPORATION	24,600.0000	11.7400	288,804.00	0.6430	0.6430	103,546.5161	20,169.0276	83,377.4885	–	–	0.00	0.00%	25	3.46
000729.SZ	YANJING BEER	280,861.9214	6.5000	1,825,602.49	0.8480	0.7937	1,691,552.3114	402,262.7821	1,289,289.5293	123,000.0000	15,700.0000	138,700.00	7.60%	15	1.42
000752.SZ	TIBET DEVELOPMENT	26,375.8491	9.9100	261,384.66	1.1188	1.0673	81,447.1533	23,705.6157	57,741.5375	14,000.0000	–	14,000.00	5.36%	15	4.53
000796.SZ	E-FOOD SHARES	24,654.2015	5.5700	137,323.90	0.7285	0.6837	91,873.1748	50,937.2705	40,935.9042	10,000.0000	–	10,000.00	7.28%	25	3.35
000848.SZ	CHENGDE LULU	50,182.7040	19.8700	997,130.33	1.0078	1.0078	137,059.7325	37,386.3488	99,673.3837	–	–	0.00	0.00%	25	10.00

Stock code	Stock short name	Total share capital closing date: 20140630 *Unit: In 10,000*	Closing Price Trading date 20140630 Ways of restoring right: No *Unit: Yuan*	Total market capitalisation (In 10,000) *(E)*	Beta	Beta (Excluding financial leverage)	Total assets Reporting period: interim report for the year Type of statement: Statement of parent company *Unit: In 10,000*	Total liabilities Reporting period: interim report for the year Type of statement: statement of parent company *Unit: In 10,000*	Total equity of owners Reporting period: interim report for the year Type of statement: statement of parent company *Unit: In 10,000*	Short-term borrowings Reporting period: 2014 interim report Type of statement: statement of parent company *Unit: In 10,000*	Non-current liabilities due within one year Reporting period: 2014 interim report Type of statement: statement of parent company *Unit: In 10,000*	Total Interest-bearing debts *(D)*	Interest-bearing debts/ Equity Value *(D/E)*	Income tax rate (Year: 2013)	Price/ book value ratio(Market value/net assets)
000895.SZ	SHUANGHUI DEVELOPMENT	220,057.8448	35.7900	7,875,870.27	0.8074	0.8074	1,534,230.7210	259,765.7542	1,274,464.9669	–	30.3210	30.32	0.00%	25	6.18
000929.SZ	LNZHANEA	18,576.6000	7.8300	145,454.78	1.1582	1.1582	44,169.6743	1,219.8191	42,949.8551	–	–	0.00	0.00%	0	3.39
002143.SZ	HIGH KING FOOD	20,865.0000	18.5100	386,211.15	1.2894	1.1342	154,030.4455	117,321.9942	36,708.4513	58,708.2948	–	58,708.29	15.20%	0	10.52
002481.SZ	SHUANGTA FOOD	43,200.0000	13.4000	578,880.00	1.0125	0.9652	174,337.0619	70,645.4349	103,691.6271	31,488.0097	–	31,488.01	5.44%	15	5.58
002495.SZ	JIALONG SHARES	28,212.8400	8.1900	231,063.16	0.8450	0.8450	112,180.2893	5,245.0712	106,935.2181	–	–	0.00	0.00%	15	2.16
002507.SZ	FULING PICKLE	15,500.0000	31.0900	481,895.00	1.3705	1.3705	137,166.6987	27,213.0257	109,953.6730	–	–	0.00	0.00%	15	4.38
002557.SZ	QIAQIA FOOD	33,800.0000	16.5800	560,404.00	1.0453	0.9822	363,833.6299	120,513.5540	243,320.0759	40,000.0000	–	40,000.00	7.14%	25	2.30
002582.SZ	HAOXIANGNI	14,760.0000	18.2200	268,927.20	1.6276	1.6276	213,326.7794	66,746.0906	146,580.6888	–	–	0.00	0.00%	25	1.83
002646.SZ	QINGQING KEJIU 青青稞酒	45,000.0000	15.4900	697,050.00	1.2152	1.2152	207,540.4510	50,819.1387	156,721.3124	–	–	0.00	0.00%	25	4.45
002650.SZ	JIAJIA FOOD	46,080.0000	8.5900	395,827.20	0.7862	0.7474	246,777.4431	82,248.2202	164,529.2229	22,830.4185	–	22,830.42	5.77%	25	2.41
002695.SZ	HUANGSHANGHUANG	12,665.8422	27.9700	354,263.61	1.2635	1.2635	144,809.0048	9,603.8746	135,205.1301	–	–	0.00	0.00%	15	2.62
002696.SZ	BAIYANG SHARES	17,600.0000	10.6800	187,968.00	1.2102	1.1886	111,218.7517	30,942.3757	80,276.3760	3,800.0000	–	3,800.00	2.02%	15	2.34
002702.SZ	HAIXIN FOOD	14,140.0000	14.5500	205,737.00	1.1520	1.1520	89,302.0870	10,973.0995	78,328.9875	–	–	0.00	0.00%	15	2.63
002726.SZ	LONGDA ROUSHI 龍大肉食	21,824.0000	17.0600	372,317.44	–		137,519.8998	16,667.2224	120,852.6774	6,000.0000	–	6,000.00	1.61%	25	3.08
200019.SZ	SHENSHEN BAO B	30,108.0184	7.0900	213,465.85	0.6735	0.6569	158,557.5657	51,895.9483	106,661.6175	6,000.0000	–	6,000.00	2.81%	25	2.00
200596.SZ	GUJINGGONG B	50,360.0000	16.0600	808,781.60	0.7356	0.7356	558,115.2602	206,166.3201	351,948.9400	–	–	0.00	0.00%	25	2.30
300138.SZ	CHENGUANG BIOTECH	17,957.0872	8.8000	158,022.37	0.7968	0.7189	148,982.8082	47,626.9569	101,355.8513	19,028.5851	–	19,028.59	12.04%	15	1.56
			–	91,915,379.10	0.9492	0.9075	11,649,892.11	2,993,372.27	8,656,519.84	566,205.31	25,439.40	591,644.71	1.78%	–	3.61

WACC = Ke × E/(D+E) + Kd × D/(D+E) × (1 – T)

= 13.09%*0.9396 + 5.4%*0.0604* (1 – 25%)

= 12.55%

(6) Sequential term

For the Valuation Date of 31 July 2017, then August-December 2014 represents i1=0.42, 2015 represents i2=1.42, 2016 represents i3=2.42……. and on the analogy of this.

(7) Assessed value of the subject assets

According to the aforementioned valuation model under the income approach with the selected technology parameters, the value of the subject assets of the integrated computation is shown in the following table:

Unit: In RMB10,000 Yuan

Item/Year	**2014-7-12**	**2015**	**2016**	**2017**	**2018**	**2019**	**Sustainable**
Net cash flow	165.17	4.97	16.32	22.91	28.41	38.51	50.80
Discount rate (Income tax 25%)	*12.55%*						
Discount term	0.42	1.42	2.42	3.42	4.42	5.42	
Discount coefficient	0.9516	0.8455	0.7512	0.6674	0.5930	0.5269	
Net present value	157.18	4.20	12.26	15.29	16.85	20.29	213.28
Total	439.35						

Value of shareholders' entire equity interest = Overall enterprise value – Interest-bearing debts

= RMB4.3935 million – 0 = RMB4.3935 million.

IX. IMPLEMENTATION PROCESS AND STATUS OF THE VALUATION PROCESS

After accepting the asset valuation engagement, we have immediately selected asset valuers to form several asset valuation teams according to the distribution conditions of the assets. We have assigned the valuers to visit the locations in advance to assist the enterprise to conduct preliminary preparation works of asset valuation, formulate the preliminary working plan of asset valuation. Thereafter, the asset valuation teams officially entered the sites to conduct asset valuation works.

This valuation has been implemented through various stages of work, including preliminary preparation works, on-site inspection, and price valuation summary. The official asset valuation report was finally issued on 20 August 2014. The specific implementation processes are as follows:

Valuation preliminary preparation works stage

The major works in this stage are as follows:

1. put forward an asset valuation working plan according to the requirements of the asset valuation works;

2. determine the persons in charge of the valuation project and the valuers;

3. initially determine the valuation method of the principal asset, formulate asset valuation operating plans, and at the same time collect documentation information required for asset valuation;

4. discuss the valuation proposal in details with the entrusting party and make appropriate modifications and execute the asset valuation engagement letter on the basis of obtaining consensus agreement between both parties.

On-site valuation stage

According to the relevant principles and requirements, the assets within the scope of valuation have been verified and assessed in relation to their ownership. The specific procedures are as follows:

1. Asset-based method

(1) Conduct on-site verification according to the information of the asset valuation declaration forms, and inspect and record the conditions of the assets. Discussed with the personnel managing and using the assets to understand the operation and management conditions of the assets;

(2) Determine the specific valuation method of each type of asset in light of the actual conditions and specific features of the subject asset;

(3) Inspect the information such as the evident documents of property rights, purchase contracts, documents exchange and invoices in relation to the subject assets;

(4) Conduct market survey and price inquiry works;

(5) Conduct valuation of the physical assets as well as its claims and debts and estimate their valuation value.

Stage of valuation summary

Summarize and analyse the valuation according to the preliminary valuation results for each type of asset from each professional group, confirm that there is no repetition or omission in the valuation works, analyze the preliminary conclusion of valuation formed by the asset-based method, and arrive at a reasonable conclusion of valuation on the basis of taking into account the reasonableness of the valuation approach and the preliminary conclusion of valuation and the quality and quantity of the data used in a comprehensive manner.

Stage of submission of the report

Draft the asset valuation report according to the valuation works, finalize the asset valuation report through the internal three-tier checking and review and submit the official asset valuation report to the entrusting party.

X. VALUATION ASSUMPTIONS

(I) Pre-requsities

1. Open market assumption and going concern assumption

The information in relation to this valuation provided by the entrusting party and the subject entity is true, complete, legal and valid.

The property rights of all the assets reported for valuation are proper, can be legally transacted at will and without any restriction or setting of other rights or other defects that will affect the transaction.

(II) Basic assumptions

1. Assuming that subsequent to the valuation date, there is no material change in the macro environment (political and/or economical) that will affect the operation of the property right holders;

2. Assuming that apart from for the laws and regulations that have already been promulgated and those that have promulgated but not yet implemented by the government in which they will affect the operation of the property right holders as at valuation date, there is no material change in the laws and regulations relating to the operation of the property right holders during the return period,;

3. Assuming that subsequent to the valuation date, changes in the factors such as exchange rate, interest rate, taxation, commodity pricing and inflation will have no material impact on the operation of the property right holder during the return period;

4. Assuming that subsequent to the valuation date, no occurrence of force majeure or occasional event that will affect the operation of the property right holder;

(III) Operational Assumptions

1. Assuming that the assets will continue to be used. That is, this valuation assumes that subsequent to the valuation date, the subject assets will continue to be used under the existing purpose, usage methods, size, frequency and environment.

2. Public market assumption. That is, it is assumed that the subject assets will be traded in a relatively matured public market and that the basis of determining the consideration and the conclusion of valuation will be available and substantiated in the public market.

3. Transaction assumption. That is, it is assumed that the subject assets are already in trading process and the valuer is assessing the valuation of the subject assets based on the trading conditions of a simulating market.

4. There will be no material change in government macroeconomic policies as well as the social and economic environment of the region where the subject assets are located, nor there will be any material change in industrial policies, laws and regulations, administration system, taxation policies and credit interest rates.

5. The property right holder possesses full rights in relation to the ownership, management, disposition and returns on the subject assets reported.

6. The information provided by the entrusting party and property right holder is true, legal, complete and valid.

7. The valuation report shall only be used for the valuation purposes stated therein.

The valuers identified that these pre-requisites were established on the valuation date according to the asset evaluation requirements. The valuers will not undertake any responsibility of unreasonable conclusion of valuation caused by the change in pre-requisites as a result of the change in the future economic environment.

XI. CONCLUSION OF VALUATION

In our opinion, save for the explanatory notes on specific matters stated in this report, on the basis that 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) will continue to operate, under the purpose of valuation, and definition of value, assumptions and restrictive conditions as stated in this report:

On the basis of continued operation, the carrying value, the appraised value and the valuation appreciation of the entire equity interest of the shareholders of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) are RMB-335,600, RMB4,393,500 and RMB4,729,100 respectively as at valuation date (i.e. 31 July 2014).

The conclusion of valuation only serves as the value reference for the corresponding economic activities of the entrusting party for the purpose of achieving the valuation purpose and it should not be regarded as a price guarantee to achieve the transaction.

XII. EXPLANATORY NOTES ON SPECIAL MATTERS

The valuation results set out in this report only reflect the market value determined for the subject of valuation according to the relevant economic principles under this purpose of valuation, definition of valuation, valuation assumptions and limitation conditions. 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) considered that the following matters may affect the conclusion of valuation. However, under the current conditions, 深圳市玄德資產評估事務所 (Shenzhen Yunde Assets Appraisal Firm*) is unable to estimate the extent of its impact on the valuation results. Users and readers of this report are reminded that:

(I) According to relevant requirements of the Guiding Opinions On Certified Assets Valuers On the Legal Ownership of Subject of Valuation (1 March 2003) of China Institute of Certified Public Accountants, an appraisal firm does not undertake the liability of the truthfulness, legality and completeness of the information in relation to the legal ownership and title of the subject of valuation, and the truthfulness, legality and completeness of the information provided is under the responsibility of the entrusting party and property right holders.

(II) The conclusion of valuation does not take into account the matters such as the possible guarantee that may need to undertake, pledge of the appraised assets nor the taxation charges that should be have been borne if such assets are being disposed of, as well as the impact on the conclusion of valuation because of the possible increase (or decrease) in payment consideration by specific transaction party, nor has it considered the impact of the change in national macroeconomic policy and the events with natural force and other force majeure on the conclusion of valuation. In the event that there are changes in the aforementioned conditions and the on-going operation principle adhered to during the valuation, the valuation results will become invalid.

(III) For the defect matters that may affect the conclusion of valuation, without the specific explanations from 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*), and under the circumstances that the appraisal personnel are unable to obtain or collect the information based on their professional experience, the appraisal firm and the certified asset valuer that signed the report shall undertake no responsibilities.

(IV) All the information that are provided by 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) and relevant to the valuation form the basis of preparing this report. 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) should be responsible for the truthfulness, legality and validity of the information provided. Any inconsistencies between the information and the facts provided will lead to misleading valuation results.

(V) Apart from the accounts receivables and the 4 sets of real estate housings and the two new patents, 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) undertakes that the reported assets are not subject to mortgage, guarantee, litigation, etc. as at valuation date.

(VI) The existing offices and warehouses of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) are leasing properties, one of the lessors is 深圳市山海創業投資管理有限公司 (Shenzhen City Shanhai Venture Capital Management Co., Ltd.*). The leasing property is located at Unit 126, Block 3, Center Industrial City, Chuangye Road, Nanshan District, Shenzhen City（深圳市南山區創業路中心工業城3棟126室）, with a gross floor area of 400 square metres and at a monthly rental of RMB28,000.00. The other lessor is 深圳市利生源倉儲貿易有限公司 (Shenzhen City Lishengyuan Warehousing Trade Co., Ltd.*). The leasing property is located at No. 8 Warehouse of Line 1, Xili Railway Station, Shenzhen City（深圳市西麗火車站一線8號倉庫）, with a gross floor area of 1,000 square metres and at a monthly rental of RMB29,000.00. The term of the lease is from 20 August 2013 to 19 August 2014. This valuation does not take into account the impact of such leases on the assessed value of the subject assets.

Users of the valuation report should pay attention to the impact of the specific matters on conclusion of valuation.

XIII. LIMITATION OF THE VALUATION REPORT

This report can only be used for the purpose and the usage as stated in the valuation report.

The valuation report can only be used by the users of the valuation report specified herein.

No extract, quotation and disclosure of all or any part of this valuation report shall be allowed without the consent of the appraisal firm issuing the valuation report unless required by laws, regulations or otherwise agreed by the parties involved.

The validity period of the asset valuation report is within one year from the valuation date (i.e. from 31 July 2014 to 30 July 2015).

The entrusting party is entitled to the right to use this report. The entrusting party or others users of this asset valuation report as agreed by the entrusting party should carefully read and understand each component of this report. The separate use of each component of this report (including summary, statement, appendices of the assets valuation report) or any combined use of the components but not the whole report may lead to a misunderstanding of the conclusion of valuation contained herein. Users should also pay special attention to the definition of value, valuation assumptions, basis of valuation, explanatory notes on specific matters and letter of undertakings from the subject entity contained in this report.

Apart from the property appraisal authorities as required by laws and regulations or the departments authorized by other laws and regulations to review and use this report, without the consent or agreement of the entrusting party in writing, we are not allowed to provide or disclose in public all or any part of this report to any other parties. Apart from the property appraisal authorities as required by laws and regulations or the departments authorized by other laws and regulations to review and use this report, we also do not have the obligations to explain this valuation report to any other third parties.

This report is not an evidence of value of the subject of valuation, but is a consultancy opinion of the value under certain basis of valuation and assumption conditions.

Certain appendices attached to the report form the integral parts of this report and have the same legal effect.

XIV. VALUATION REPORT DATE

The date of this valuation report is 20 August 2014.

Legal representative of the Appraisal Firm:

Certified Asset Valuer:

Certified Asset Valuer:

深圳市玄德資產評估事務所 (Shenzhen Yunde Asset Appraisal Firm*) (General Partnership)

20 August 2014

* *For identification purposes only*

ATTACHMENTS TO THE VALUATION REPORT

I. Photocopies of business licences of the entrusting party and the subject entity

II. Audit report on Asset Valuation Date

III. Major ownership title documentation proof relevant to the subject of valuation

IV. Letter of undertakings from the entrusting party and the relevant parties

V. Photocopies of Enterprise Legal Person Business Licence and valuation qualification certificate of appraiser firm

VI. Photocopies of the signed qualification certificate of certified asset valuer

The following is the text of a letter from the Board prepared for the purpose of incorporation in this circular in connection with the profit forecast.

28 January 2015

The Stock Exchange of Hong Kong Limited
11th Floor,
One International Finance Centre,
1 Harbour View Street,
Hong Kong

Dear Sir/Madam,

We refer to the circular of the Company dated 28 January 2015 ("Circular") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We, hereby confirm that, in compliance with the Listing Rules, we have reviewed the calculations for discounted cash flow forecast ("Profit Forecast") in the valuation report issued by 深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*) regarding the shareholder's equity value of the Target Company as at 31 July 2014 ("Valuation Report"). Pursuant to Rule 14.62 of the Listing Rules, the Auditor of the Company have examined the accounting policies and the calculation of the Profit Forecast in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institution of Certified Public Accountants.

We hereby confirm that the Profit Forecast made pursuant to the Valuation Report is made after due and careful enquiry.

Yours faithfully,
For and on behalf of the board of directors of
Sino Distillery Group Limited
Jiang Jianjun
Chairman

The following is the text of the letter received by the Directors from the Auditor of our Company, Cheng & Cheng Limited, prepared for the purpose of incorporation in this circular in connection with the profit forecast.

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司
10/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong

28 January 2015

The Board of Directors
Sino Distillery Group Limited
Unit 1001E, 10/F
East Ocean Centre
98 Granville Road
Tsim Sha Tsui
Kowloon
Hong Kong

Dear Sirs,

Profit forecast in connection with the major transaction of Sino Distillery Group Limited (the "Company")

We have been engaged to review the accounting policies adopted and calculations of the underlying profit forecast (the "Profit Forecast") to the valuation dated 20 August 2014 (the "Valuation") prepared by 深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*) in respect of the shareholders' equity value of 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*) (the "Target Company") as at 31 July 2014 in connection with the proposed acquisition of 50% equity interests in the Target Company, as published in the Company's announcement dated 25 August 2014.

The Valuation, which is determined based on the discounted cash flows, is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Responsibilities

The Company's and Target Company's directors (the "Directors") are solely responsible for the preparation of the Profit Forecast, including the assumptions, based on discounted cash flow method. The Profit Forecast has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Profit Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the assumptions.

It is our responsibility to form an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures solely to you, as a body, solely for the purpose of reporting under Rule 14.62(2) of the Listing Rules.

Basis of opinion

We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institution of Certified Public Accountants ("HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Forecast in accordance with the assumptions made by the directors and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company.

Yours faithfully,
Cheng & Cheng Limited
Certified Public Accountants

Hong Kong

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporation(s) (within the meaning of Part XV of the SFO) which were required (i) 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 in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

(i) Long positions in the Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding *(%)*
Mr. Jiang Jianjun	Beneficial owner	106,652,000	6.56
	Interest of spouse	2,920,000 [(a)]	0.18
	Interest of controlled corporation	173,229,522 [(b)]	10.65
Mr. Huang Qingxi	Beneficial owner	13,334,000	0.82
Mr. Li Jianqing	Beneficial owner	7,470,000	0.46
Mr. Qu Shuncai	Beneficial owner	3,680,000	0.23
Mr. Ho Man Fai	Beneficial owner	500,000	0.03

Notes:

(a) The Shares are held by Ms. Li Zhuoxun, the spouse of Mr. Jiang Jianjun.

(b) The Shares are held by King Wei Group (China) Investment Development Limited ("**King Wei**") as to 126,629,522 Shares and China Silver Investments Development Limited ("**China Silver**") as to 46,600,000 Shares. As King Wei and China Silver are 100% owned by Mr. Jiang Jianjun, Mr. Jiang Jianjun is deemed to be interested in the 126,629,522 Shares held by King Wei and the 46,600,000 Shares held by China Silver respectively by virtue of the SFO.

(ii) Interest in share options

Name of Director	No. of options outstanding	Approximate percentage of shareholding *(%)*	Date of grant	Exercise period	Exercise price per Share *(HK$)*
Jiang Jianjun	50,000	0.00307%	23-Jul-14	23/7/2014-22/7/2016	0.754
	50,000	0.00307%	23-Jul-14	23/7/2015-22/7/2017	0.754
Li Jianqing	5,000,000	0.30737%	23-Jul-14	23/7/2014-22/7/2016	0.754
	5,000,000	0.30737%	23-Jul-14	23/7/2015-22/7/2017	0.754
Qu Shuncai	2,250,000	0.13832%	13-Sep-10	13/9/2012-12/9/2015	0.830
	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754
Jiang Jiancheng	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754
Huang Qingxi	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754
Loke Yu	50,000	0.00307%	26-Apr-10	26/4/2012-25/4/2015	0.730
	50,000	0.00307%	13-Sep-10	13/9/2012-12/9/2015	0.830
	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754
Li Xiaofeng	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754
Ho Man Fai	250,000	0.01537%	23-Jul-14	23/7/2014-22/7/2016	0.754
	250,000	0.01537%	23-Jul-14	23/7/2015-22/7/2017	0.754

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, none of the Directors is a director or employee of a company, which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial Shareholder's interests

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the Shares

Name	**Capacity**	**Number of Shares**	**Approximate percentage of shareholding** *(%)*
Li Zhuoxun	Beneficial owner	2,920,000	0.18
	Interest of spouse	279,981,522 [a]	17.21
Li Xianggen	Beneficial owner	1,332,000	0.08
	Interest of controlled corporations	173,314,000 [b]	10.65
Chen Hua	Interest of controlled corporations	173,314,000 [b]	10.65
Able Turbo Enterprises Limited	Beneficial owner	100,585,737	6.18
	Interest of controlled corporation	72,728,263 [c]	4.47

Notes:

(a) The Shares are held by Mr. Jiang Jianjun ("**Mr. Jiang**"), the spouse of Ms. Li Zhuoxun, as to 106,652,000 Shares and 100,000 share options, King Wei Group (China) Investment Development Limited ("**King Wei**") as to 126,629,522 Shares and China Silver Investments Development Limited ("**China Silver**") as to 46,600,000 Shares. As King Wei and China Silver are 100% owned by Mr. Jiang, Mr. Jiang is deemed to be interested in the 126,629,522 Shares held by King Wei and the 46,600,000 Shares held by China Silver respectively by virtue of the SFO. Accordingly, Ms. Li Zhuoxun is deemed to be interested in the Shares held by Mr. Jiang, King Wei and China Silver by virtue of SFO.

(b) The Shares are held by Able Turbo Enterprises Limited ("**Able Turbo**") as to 100,585,737 Shares and China Food and Beverage Group Limited ("**China Food**") as to 72,728,263 Shares. As China Food is 100% owned by Able Turbo, Able Turbo is deemed to be interested in the 72,728,263 Shares held by China Food by virtue of the SFO. As Able Turbo is 60.31% owned by Mr. Chen Hua and 39.69% owned by Mr. Li Xianggen, each of Mr. Chen Hua and Mr. Li Xianggen is deemed to be interested in the Shares held by Able Turbo and China Food by virtue of SFO.

(c) The Shares are held by China Food, which is 100% owned by Able Turbo. Accordingly, Able Turbo is deemed to be interested in the 72,728,263 Shares held by China Food by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director or chief executive of the Company) had any interests or short positions in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and his respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses to which the Directors and his associates were appointed to represent the interests of the Company and/or the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2013, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the issue of this circular and are or may be material:

(i) the Share Transfer Agreement and the supplemental agreements dated 24 November 2014 and 14 January 2015 entered into between Meiming and the Vendors in respect of the Acquisition;

(ii) the agreement dated 7 July 2014 entered into amongst the Company, 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*) and 黑龍江農墾北大荒物流集團有限公司 (Heilongjiang Nongken Beidahuang Logistics Group Limited*) in respect of the acquisition of 51% equity interest in 北大荒食品產業園有限公司 (Beidahuang Food Industry Park Co. Ltd.*) at an aggregate consideration of RMB300 million ("**Industry Park Acquisition Agreement**") and the termination agreement dated 25 August 2014 entered into amongst the aforesaid parties in respect of the termination of the Industry Park Acquisition Agreement;

(iii) the agreement dated 7 July 2014 entered into between Meiming and Harbin China Distillery in respect of the formation of a joint venture company ("**JV Agreement**") and the termination agreement dated 24 November 2014 entered into between the aforesaid parties in respect of the termination of the JV Agreement;

(iv) the Subscription Agreement and the supplemental agreements dated 24 November 2014 and 14 January 2015 entered into between the Company and the Subscriber in respect of the Subscription;

(v) the subscription agreement entered into between the Company and Mr. Chen Zhiming (陳志明) dated 24 June 2014 in relation to the subscription of 14,285,714 Shares by Mr. Chen Zhiming (陳志明) at a consideration of HK$0.70 per Share;

(vi) the subscription agreement entered into between the Company and Mr. Chen Canqiu (陳燦球) dated 24 June 2014 in relation to the subscription of 35,714,286 Shares by Mr. Chen Canqiu (陳燦球) at a consideration of HK$0.70 per Share;

(vii) the subscription agreement entered into between the Company and Ms. Wu Shaobing (吳少冰) dated 24 June 2014 in relation to the subscription of 892,857 Shares by Ms. Wu Shaobing (吳少冰) at a consideration of HK$0.70 per Share;

(viii) the subscription agreement entered into between the Company and Mr. Deng Lilin (鄧立林) dated 24 June 2014 in relation to the subscription of 17,000,000 Shares by Mr. Deng Lilin (鄧立林) at a consideration of HK$0.70 per Share;

(ix) the subscription agreement entered into between the Company and Mr. Li Gaoping (李高平) dated 24 June 2014 in relation to the subscription of 5,000,000 Shares by Mr. Li Gaoping (李高平) at a consideration of HK$0.70 per Share;

(x) the subscription agreement entered into between the Company and Ms. Gu Mei Ling (古梅玲) dated 24 June 2014 in relation to the subscription of 7,107,143 Shares by Ms. Gu Mei Ling (古梅玲) at a consideration of HK$0.70 per Share;

(xi) the subscription agreement entered into between the Company and Mr. Dong Wen Jie (董文杰) dated 24 June 2014 in relation to the subscription of 250,000 Shares by Mr. Dong Wen Jie (董文杰) at a consideration of HK$0.70 per Share;

(xii) the subscription agreement entered into between the Company and Ms. Leung On Lee (梁安莉) dated 24 June 2014 in relation to the subscription of 1,750,000 Shares by Ms. Leung On Lee (梁安莉) at a consideration of HK$0.70 per Share;

(xiii) the subscription agreement entered into between the Company and Baibao Investments Limited dated 24 June 2014 in relation to the subscription of 8% convertible bonds due 2016 in the aggregate principal amount of HK$89,600,000 to be issued by the Company;

(xiv) the subscription agreement entered into between the Company and Ms. Zeng Xiao Xian dated 29 April 2014 in relation to the subscription of 10,000,000 Shares by Ms. Zeng Xiao Xian at a consideration of HK$0.70 per Share;

(xv) the subscription agreement entered into between the Company and Mr. Chen Chang Jun dated 29 April 2014 in relation to the subscription of 64,000,000 Shares by Mr. Chen Chang Jun at a consideration of HK$0.70 per Share;

(xvi) the subscription agreement entered into between the Company and Ms. Chen Rui Juan dated 29 April 2014 in relation to the subscription of 1,000,000 Shares by Ms. Chen Rui Juan at a consideration of HK$0.70 per Share;

(xvii) the subscription agreement entered into between the Company and Ms. Ding Hai Yan dated 29 April 2014 in relation to the subscription of 5,000,000 Shares by Ms. Ding Hai Yan at a consideration of HK$0.70 per Share;

(xviii) the share transfer agreement dated 26 March 2014 entered into between BAPP Ethanol Holdings Limited, a wholly-owned subsidiary of the Company, and Mr. Cen Delin in relation to the disposal of the entire issued share capital of BAPP (Northwest) Limited at a consideration of RMB40,000,000;

(xix) the sale and purchase agreement dated 24 February 2014 and the supplemental agreement dated 26 February 2014 entered into amongst Meiming, a wholly-owned subsidiary of the Company as the vendor, and 肇東北大荒生物科技有限公司 (Zhaodong Beidahuang Biotechnology Limited*) and 臨湘市華銀長江中小企業擔保有限公司 (Linxiang Huayin Changjiang Small and Medium Enterprises Guarantee Limited*) as the purchasers in relation to the disposal of 75% equity interest in Harbin China Distillery at a consideration of RMB40,000,000;

(xx) the subscription agreement entered into between the Company and Sino Insight Holdings Limited dated 21 January 2014 in relation to the subscription of 100,593,220 Shares by Sino Insight Holdings Limited at a consideration of HK$0.405 per Share;

(xxi) the subscription agreement entered into between the Company and King Wei Group (China) Investment Development Limited dated 21 January 2014 in relation to the subscription of 73,439,259 Shares by King Wei Group (China) Investment Development Limited at a consideration of HK$0.405 per Share;

(xxii) the subscription agreement entered into between the Company and Ms. Zhang Hai Xiu dated 21 January 2014 in relation to the subscription of 13,000,000 Shares by Ms. Zhang Hai Xiu at a consideration of HK$0.405 per Share;

(xxiii) the subscription agreement entered into between the Company and Mr. Mo Chao Wen dated 21 January 2014 in relation to the subscription of 13,000,000 Shares by Mr. Mo Chao Wen at a consideration of HK$0.405 per Share;

(xxiv) the subscription agreement entered into between the Company and Ms. Pan Hui Zhen dated 21 January 2014 in relation to the subscription of 13,000,000 Shares by Ms. Pan Hui Zhen at a consideration of HK$0.405 per Share;

(xxv) the subscription agreement entered into between the Company and Mr. Li Xiang Gen dated 21 January 2014 in relation to the subscription of 13,000,000 Shares by Mr. Li Xiang Gen at a consideration of HK$0.405 per Share;

(xxvi) the subscription agreement entered into between the Company and Mr. Deng Wei Quan dated 21 January 2014 in relation to the subscription of 13,000,000 Shares by Mr. Deng Wei Quan at a consideration of HK$0.405 per Share; and

(xxvii) the equity transfer agreement entered into between Meiming as the purchaser and Ms. Zhou Xiaojian as the vendor dated 5 July 2013 in relation to the acquisition of 51% equity interest in 寧夏科隆實業有限公司 (Ningxia Kelong Industrial Co. Limited*) at a consideration of RMB5,100,000.

9. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Cheng & Cheng Limited	Certified Public Accountants
深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*)	Independent Professional Valuer

The above experts had given and had not withdrawn their written consent to the issue of this circular with the inclusion of their advice, report and the reference to their name in the form and context in which they appear.

As at the Latest Practicable Date, the above experts did not have any shareholding, direct or indirect, in any member of the Group or the 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 they have any direct or indirect interest in any assets which had been, since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

(i) The registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(ii) The head office and principal place of business of the Company is Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong.

(iii) 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.

(iv) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(v) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong, up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the material contracts referred to in the paragraph headed "8. Material Contracts" in this Appendix;

(iii) the Company's annual reports for the two years ended 31 December 2012 and 31 December 2013, respectively;

(iv) the accountants' report on the Target Company, the text of which is set out in Appendix II to this circular;

(v) the report from Cheng & Cheng Limited regarding the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(vi) the valuation report regarding the shareholders' equity value of the Target Company, the text of which is set out in Appendix IV to this circular;

(vii) the letter from Cheng & Cheng Limited regarding the profit forecast underlying the valuation of the Target Company, the text of which is set out in Appendix V to this circular;

(viii) the letter from the Board regarding the profit forecast underlying the valuation of the Target Company, the text of which is set out in Appendix V to this circular;

(ix) a copy of each circular issued by the Company pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2013, being the date of the latest published audited accounts of the Company;

(x) the written consents referred to in the paragraph headed "9. Experts' Qualifications and Consents" in this Appendix;

(xi) a written statement from Cheng & Cheng Limited setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefor; and

(xii) this circular.

* *For identification purpose only*

Sino Distillery Group Limited
中 國 釀 酒 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Sino Distillery Group Limited (the "**Company**") will be held at 10:30 a.m. on Tuesday, 17 February 2015 at Unit 1001E, 10/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**:–

(A) the share transfer agreement dated 25 August 2014 and the supplemental agreements dated 24 November 2014 and 14 January 2015 (together, the "**Share Transfer Agreement**") entered into amongst (i)深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited*) ("**Meiming**"), a wholly-owned subsidiary of the Company as purchaser and (ii)北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*) ("**Beidahuang Marketing Co.**") and Hu Guang Sheng as vendors in connection with the sale and purchase of 50% equity interest ("**Acquisition**") in 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited *) ("**Target Company**") (copies of which have been produced to the meeting marked "A", "B" and "C" and initialled by the chairman of the meeting for identification purpose), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(B) the joint venture agreement ("**Shenzhen Food Joint Venture Agreement**") to be entered into between Meiming and Beidahuang Marketing Co. upon completion of the Acquisition in connection with, amongst others, the increase in registered capital of the Target Company (a draft copy of which has been produced to the meeting marked "D" and initialled by the chairman of the meeting for identification purpose), and the transactions contemplated thereunder be and are hereby approved and confirmed; and

(C) the directors of the Company be and are hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and to take such steps as they may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Share Transfer Agreement, the Shenzhen Food Joint Venture Agreement and the transactions contemplated thereunder."

2. "**THAT**:–

(A) the subscription agreement dated 7 July 2014 and the supplemental agreements dated 24 November 2014 and 14 January 2015 (together, the "**Subscription Agreement**") entered into between the Company and Beidahuang (HK) International Trade Co., Limited (北大荒(香港)國際貿易有限公司) in connection with the subscription of an aggregate of 180,000,000 non-listed warrants (the "**Warrants**") constituted by way of a deed poll (the "**Instrument**"), entitling the holder(s) to subscribe for up to an aggregate amount of HK$126,000,000 for shares of HK$0.10 each in the Company (the "**Subscription Shares**") at an initial subscription price of HK$0.70 per Subscription Share (a copy of the subscription agreement, the supplemental agreements and the execution copy of the Instrument have been produced to the meeting marked "E", "F", "G" and "H" respectively and initialled by the chairman of the meeting for identification purpose), the Instrument and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(B) conditional upon The Stock Exchange of Hong Kong Limited granting or agreeing to grant the approval for the listing of, and permission to deal in all the Subscription Shares, the issue of the Warrants and the allotment and issue of the Subscription Shares upon the exercise of the subscription rights attached to the Warrants in accordance with the terms and conditions of the Instrument be and are hereby approved; and

(C) the directors of the Company be and are hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and to take such steps as they may in their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement and the transactions contemplated thereunder."

By order of the Board
Sino Distillery Group Limited
Jiang Jianjun
Chairman

Hong Kong, 28 January 2015

Notes:

1. Any member of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such person may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders by present at the meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

3. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be delivered at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. The Register of Members of the Company will be closed from Monday, 16 February 2015 to Tuesday, 17 February 2015 (both days inclusive) during which period no transfer of shares of the Company will be registered and effected. In order to qualify for attending and voting at this meeting, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 13 February 2015.

* *For identification purpose only*