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

If you have sold or transferred all your shares in Bio-Dynamic Group Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS IN RELATION TO A) THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF RIGHTSOUTH LIMITED AND B) THE ENTERING INTO OF THE OPTION AGREEMENT AND THE EXERCISE OF THE OPTION AND SPECIFIC MANDATE TO ISSUE SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Shenyin Wanguo Capital (H.K.) Limited

A notice convening an extraordinary general meeting of Bio-Dynamic Group Limited to be held at Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 11 January 2010 at 11:00 a.m. is set out on pages 177 to 180 of this circular. Whether or not you intend to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting or any adjourned meeting if they so wish.

24 December 2009

CONTENTS

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

"Acquisition"	means the acquisition of the Sale Shares by the Company pursuant to the Sale and Purchase Agreement;
"Affiliate"	(1) in relation to any individual means any family member (being a parent, sibling or spouse) of such individual, and (2) in relation to any person other than an individual means any other person which (a) controls the first-mentioned person, (b) is controlled by the first-mentioned person, or (c) is under common control with the first-mentioned person;
"Announcement"	means the announcement of the Company dated 1 December 2009 in relation to the Acquisition, the Option Agreement and the exercise of the Option;
"Articles"	means the articles of association of the Company dated 29 December 2000 and amended from time to time;
"associate"	has the meaning ascribed to it under the Listing Rules;
"Board"	means the board of Directors;
"Business Day"	means a day (not being a Saturday) on which banks are open for general banking business in Hong Kong;
"BVI"	means the British Virgin Islands;
"CEC"	means China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, the ultimate holding company of the Vendor and the ultimate controlling shareholder of the Company;
"CEC Agricapital"	means CEC Agricapital Group Limited, an indirect wholly-owned subsidiary of CEC and a holder of approximately 21.02% of the issued share capital of the Company as at the Latest Practicable Date;
"CEC F&B"	means CEC F&B Limited, a company incorporated in the British Virgin Islands and the holding company of the Vendor;
"Code"	means the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong;
"Company"	means Bio-Dynamic Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange;
"Completion"	means completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Sale and Purchase Agreement;

"connected person"	has the meaning ascribed to it under the Listing Rules;
"Consideration Shares"	means 78,556,263 Shares to be allotted and issued to the Vendor as consideration for the Acquisition;
"control"	in relation to the definition of "Affiliate" only, means, with respect to a person, the right to exercise, directly or indirectly, more than 50 per cent. of the voting rights exercisable in general meetings of such person and, with respect to any person other than a corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person;
"Control Deed"	means the deed of assignment and control in relation to the JV Co. dated 25 November 2009 entered into between the Vendor and Rightsouth in relation to the assignment of the Economic Benefits and the grant of the Control Rights by the Vendor to Rightsouth;
"Control Rights"	means all of the control rights which the Vendor has in relation to the management of the JV Co. as are attributable to its Equity Interests, including the right to nominate and appoint directors to the JV Co.;
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules;
"Directors"	means the directors of the Company;
"Economic Benefits"	means all of the beneficial interests which the Vendor has in the economic rights as are attributable to its Equity Interests, including the rights to receive dividends and income from the JV Co. and the right to receive such portion of the JV Co.'s assets distributable in the event of a winding up, reduction of capital or other distributions of the JV Co.;
"EGM"	means the extraordinary general meeting of the Company to be convened to approve, among other things, the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of General mandate, and the Repurchase Mandate;
"Enlarged Group"	means the Company and its subsidiaries after completion of the Acquisition;
"Equity Interests"	means all the equity interests in the JV Co. held by the Vendor from time to time;
"Equity Interests Completion Date"	means the date of completion of the acquisition by the Company of the Option Equity Interests from the Vendor pursuant to the Option Agreement;

"Exercise Price"	means an amount in Hong Kong dollars equal to the Net Asset Value attributable to the Relevant Option Equity Interests as at the Equity Interests Completion Date, but which such amount shall not exceed HK$15,298,500;
"General Mandate"	means the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 3 June 2009 to issue up to 114,601,400 Shares, representing 20% of the then issued capital of the Company;
"Gold Star"	means Gold Star International (HK) Limited, a company incorporated in Hong Kong on 4 July 2008 and a wholly-owned subsidiary of Rightsouth;
"Group"	means the Company and its subsidiaries;
"HK$"	means the lawful currency of Hong Kong;
"HKFRS"	means Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	means the independent committee of the Board, comprising all the independent non-executive Directors;
"Independent Financial Adviser"	means Shenyin Wanguo Capital (H.K.) Limited;
"Independent Shareholders"	means (i) Shareholders other than CEC, OIL and CEC Agricapital and their respective associates in relation to the Acquisition, the Option Agreement, the exercise of the Option (if exercised), and the Specific Mandate, and (ii) Shareholders other than CEC, OIL and their respective associates (including CEC Agricapital) in relation to the General Mandate (as the case may be);
"Issue Price"	means the issue price of HK$0.471 per Consideration Share;
"JV Agreement"	means a joint venture agreement dated 2 December 2004 between the Vendor and 廣州副食品批發有限公司 (Guangzhou Food Wholesale Co Ltd), as amended by a supplemental agreement dated 29 August 2008 between the Vendor and the JV Partner, in respect of the JV Co.;
"JV Co."	means Guangzhou Wine & Liquor Franchised Stores Ltd. (廣州酒類專賣店連鎖有限公司), a limited liability company established in the PRC on 6 August 1999 and owned as to 70% and 30% by the Vendor and the JV Partner, respectively, as at the Latest Practicable Date;

"JV Partner"	means 廣州羊城食品有限公司 (Guangzhou Yangcheng Food Co., Ltd.), an independent third party not connected with the Group;
"Latest Practicable Date"	means 18 December 2009, being the latest practicable date for ascertaining certain information contained in this circular;
"Listing Committee"	has the meaning ascribed to it under the Listing Rules;
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange;
"Net Asset Value"	means the value of the net assets of the JV Co. based on the latest audited financial statements of the JV Co. available as at the exercise date of the Option under the Option Agreement;
"OIL"	means Orientelite Investments Limited, a company incorporated in the British Virgin Islands, a direct wholly-owned subsidiary of CEC and a controlling shareholder of the Company holding directly approximately 31.78% of the issued share capital of the Company as at the Latest Practicable Date;
"Option"	means the option granted by the Vendor to the Company to purchase the Option Equity Interests pursuant to the Option Agreement;
"Option Agreement"	means an option agreement dated 25 November 2009 entered into between the Vendor and the Company in relation to the Option;
"Option Equity Interests"	means all Equity Interests legally and beneficially held by the Vendor in the JV Co. as at the Equity Interests Completion Date;
"Option Period"	means the period commencing on the date of the Option Agreement and ending on 29 April 2025 (both dates inclusive) or such date as the term of the JV Agreement may be extended to pursuant to the terms of the JV Agreement;
"Placing"	means the placing of 36,000,000 Shares pursuant to the Placing and Subscription Agreement;
"Placing and Subscription Agreement"	means the placing and subscription agreement dated 2 December 2009 entered into between the Company, OIL and First Shanghai Securities Limited;
"PRC"	means The People's Republic of China;
"Relevant Option Equity Interests"	means such of the Option Equity Interests other than the equity interests in the JV Co. which is held by the Vendor as nominee or on trust for the Company, if any, as at the Equity Interests Completion Date;

"Repurchase Mandate"	means the general mandate to repurchase Shares proposed to be granted to the Directors as described in "Letter from the Board – Specific Mandate to issue new Shares and renewal of General Mandate to issue Shares and General Mandate to repurchase Shares";
"Rightsouth"	means Rightsouth Limited, a company incorporated in the British Virgin Islands on 25 November 2008 and a wholly-owned subsidiary of the Vendor;
"Rightsouth Group"	means Rightsouth and entities accounted for as its subsidiaries, including but not limited to the JV Co.;
"Rightsouth Shares"	means ordinary share(s) of US$1.00 each in the capital of Rightsouth;
"RMB"	means the lawful currency of the PRC;
"Sale and Purchase Agreement"	means the agreement for the sale and purchase of the entire issued share capital of Rightsouth dated 25 November 2009 entered into between the Vendor and the Company;
"Sale Shares"	means 4,694,001 Rightsouth Shares, representing the entire issued share capital of Rightsouth as at the date of the Sale and Purchase Agreement, to be sold by the Vendor to the Company;
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	means ordinary share(s) of HK$0.10 each in the capital of the Company;
"Shareholder(s)"	means holder(s) of the Shares;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"Specific Mandate"	means the specific mandate proposed to be granted by Shareholders at the EGM to the Directors in relation to the allotment and issue of the Consideration Shares;
"Subscription"	means the subscription of 36,000,000 Shares by OIL pursuant to the Placing and Subscription Agreement;
"US$"	means the lawful currency of the United States; and
"Vendor"	means China Food and Beverage Group Limited, a company incorporated in the British Virgin Islands and an indirect subsidiary of CEC.

For the purposes of this circular, translations of RMB to HK$ have been calculated using the exchange rate RMB1.00 = HK$1.135 and translations of US$ to HK$ have been calculated using the exchange rate US$1.00 = HK$7.75.

BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

Executive Directors:
Mr. Lo Peter *(Chairman)*
Mr. Li Wentao *(Chief Executive Officer)*
Mr. Sun David Lee
Mr. Zhao Difei
Mr. Li Jian Quan
Mr. Lu Gui Pin

Non-executive Director:
Mr. Yeung Ting-Lap Derek Emory

Independent non-executive Directors:
Dr. Loke Yu
Dr. Leung Kwan-Kwok
Mr. Zuchowski Sam

Registered office:
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Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong:
2116 Hutchison House
10 Harcourt Road
Hong Kong

24 December 2009

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS IN RELATION TO A) THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF RIGHTSOUTH LIMITED AND B) THE ENTERING INTO OF THE OPTION AGREEMENT AND THE EXERCISE OF THE OPTION AND SPECIFIC MANDATE TO ISSUE SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

1. INTRODUCTION

Reference is made to the Announcement.

On 25 November 2009, the Company and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Vendor conditionally agreed to sell the Sale Shares, representing the entire issued share capital of Rightsouth, to the Company for a consideration of HK$37,000,000, subject to adjustment. The consideration for the Acquisition is to be satisfied by the Company by allotting and issuing to the Vendor the Consideration Shares at the Issue Price. Upon Completion, the JV Co. will be accounted for by the Company as its subsidiary and the accounts of the JV Co. will be consolidated with those of the Company.

On 25 November 2009, the Vendor and the Company entered into the Option Agreement pursuant to which the Vendor agreed conditionally to grant to the Company the Option for a consideration of HK$1.00. Upon exercise of the Option, the Company will be entitled to acquire all the Option Equity Interests from the Vendor at the Exercise Price. Under the Option Agreement, the Exercise Price will not exceed HK$15,298,500. The Option Agreement is conditional upon, among other things, Completion and the approval thereof by the Shareholders in general meeting in accordance with the Listing Rules.

Prior to the entering into of the Sale and Purchase Agreement by the Vendor and the Company, the Vendor and Rightsouth had entered into and completed the Control Deed in relation to the JV Co., pursuant to which the Vendor has assigned to Rightsouth the Economic Benefits and granted to Rightsouth the Control Rights in relation to the JV Co.. The Control Deed has an initial term of three years with automatic renewal for further periods of three years upon expiry of the initial term or any subsequent term (as the case may be), subject to approval by the respective shareholders of either party to the Control Deed or their respective Affiliates if such approval is required under the Listing Rules or otherwise by the Stock Exchange. Subject as aforesaid, the Control Deed was completed on 25 November 2009 and will continue in force until the earlier of 29 April 2025, being the expiry date of the JV Agreement or the Equity Interests Completion Date.

The main purposes of this circular are:

(a) to provide you with further information relating to, among other things, the Sale and Purchase Agreement, the Option Agreement as well as the Control Deed;

(b) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the recommendation and opinion of the Independent Board Committee as advised by the Independent Financial Adviser in relation to, among other things, the Acquisition, the Option Agreement and the exercise of the Option; and

(c) to give you notice of the EGM to consider and, if thought fit, to approve, among other things, the Acquisition, the Option Agreement, and the exercise of the Option.

2. SALE AND PURCHASE AGREEMENT

The principal terms and conditions of the Sale and Purchase Agreement are as follows:

Date

25 November 2009

Parties

Seller: The Vendor

Purchaser: The Company

Subject of the Acquisition

The Company has agreed to acquire from the Vendor the Sale Shares, representing the entire issued share capital in Rightsouth. For further information on Rightsouth, please refer to "Information on the Rightsouth Group" below.

Consideration

The consideration for the Acquisition is HK$37,000,000, which will be satisfied by the Company by the allotment and issue of the Consideration Shares at the Issue Price to the Vendor, credited as fully paid.

Based on the closing price of the Shares of HK$0.485 per Share as at 25 November 2009, being the last trading day of the Shares immediately prior to the suspension of trading pending the release of the Announcement, the market value of the Consideration Shares amounts to approximately HK$38,100,000.

Consideration Adjustment

In the event that the Company (or its nominee, as the case may be) exercises the Option pursuant to the Option Agreement and completes the acquisition of the Option Equity Interests from the Vendor, the consideration for the Acquisition shall be reduced by an amount equal to the Exercise Price, and the Vendor shall pay such amount in cash to the Company within five Business Days after the Equity Interests Completion Date. In the event that the Option is not exercised by the Company, the maximum amount of consideration for the Acquisition will be HK$37,000,000.

The consideration for the Acquisition was determined after arm's length negotiation between the Company and the Vendor with reference to, among other things, the favourable business prospects of the JV Co. in the wine and liquor market in the PRC and the net asset value of Rightsouth, Gold Star and the JV Co. based on their respective unaudited balance sheet as at 31 October 2009 of approximately HK$21,185,000, HK$21,672,000 and RMB12,463,000, respectively.

Consideration Shares

The Consideration Shares will be issued at Completion, will rank pari passu with all other Shares in issue, and will not result in any change in the control (as defined in the Code) of the Company. There is no restriction on subsequent sales of the Consideration Shares. The Consideration Shares represent (i) approximately 12.80% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 11.35% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be allotted and issued on the date of Completion pursuant to the Specific Mandate to be sought at the EGM.

The Issue Price of HK$0.471 per Consideration Share was arrived at after arm's length negotiation between the Vendor and the Company and represents:

(a) a discount of approximately 2.88% to the price per Share quoted on the Stock Exchange of HK$0.485 as at 25 November 2009, being the last trading day of the Shares immediately prior to the suspension of trading pending the release of the Announcement; and

(b) a premium of approximately 17.51% to the average price per Share quoted on the Stock Exchange of approximately HK$0.40 for the last 30 trading days up to and including 25 November 2009, being the last trading day of the Shares immediately prior to the suspension of trading pending the release of the Announcement.

Conditions precedent

Completion is conditional upon each of the following conditions being satisfied:

(a) the execution and delivery of the Option Agreement by the Vendor and the Company;

(b) the approval by the Shareholders of the Sale and Purchase Agreement, the Option Agreement and the exercise of the Option in accordance with the Listing Rules; and

(c) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of definitive share certificate(s) representing the Consideration Shares to the Vendor),

and if any of those conditions have not been fulfilled by 31 March 2010 or such other date as may be agreed by the Vendor and the Company, the provisions of the Sale and Purchase Agreement shall from such date have no effect and no party to the Sale and Purchase Agreement shall have any liability under them (without prejudice to the rights of any of the parties in respect of antecedent breaches).

Neither the Vendor nor the Company is entitled to waive any of the above conditions unilaterally.

As at the Latest Practicable Date, the condition set out under paragraph (a) above has been satisfied.

Completion

Completion shall take place on the third Business Day following the due fulfilment of all of the conditions precedent of the Sale and Purchase Agreement or at such other time as the Vendor and the Company may agree.

3. OPTION AGREEMENT

The principal terms and conditions of the Option Agreement are as follows:

Date

25 November 2009

Parties

Grantor: The Vendor

Grantee: The Company

The Option

The Vendor has agreed to grant to the Company an irrevocable and unconditional right to purchase all the Option Equity Interests at the Exercise Price.

Under the JV Agreement, a transfer by any party to the JV Agreement of any equity interests in the JV Co. held by that party is subject to the consent of the other party. At the Equity Interests Completion Date, the Option Equity Interests to be acquired by the Company may be more or less than 70% of the total equity interests of the JV Co. depending on whether additional capital contributions is made by Rightsouth to the JV Co. (if any) pursuant to the Control Deed (as described in the subsection headed "Additional Capital Contribution" under the section headed "Control Deed" below).

Consideration

The total consideration for the grant of the Option is HK$1.00.

Exercise of the Option

The Option is exercisable by the Company (or its nominee, as the case may be) at any time during the option period commencing on the date of the Option Agreement and ending on 29 April 2025, being the expiry date of the JV Agreement (both dates inclusive), or such date as the term of the JV Agreement may be extended to pursuant to the terms of the JV Agreement, by giving an exercise notice to the Vendor.

The Option is exercisable only in respect of all (and not part of) the Option Equity Interests, and the exercise of the Option by the Company (or its nominee, as the case may be) is subject to PRC regulatory approvals.

Exercise Price

The Exercise Price payable by the Company to the Vendor upon exercise of the Option is an amount equal to the Net Asset Value attributable to the Relevant Option Equity Interests as at the Equity Interests Completion Date, but such amount shall not exceed HK$15,298,500.

The Exercise Price was determined after arm's length negotiation between the Company and the Vendor with reference to, among other things, the net asset value of the JV Co. based on its unaudited balance sheet as at 31 October 2009 and the establishment costs of the JV Co. incurred by the Vendor.

Conditions Precedent

The Option Agreement is conditional upon each of the following conditions being satisfied:

(a) the approval by the Shareholders of the Option Agreement and the exercise of the Option in accordance with the Listing Rules; and

(b) Completion of the Sale and Purchase Agreement.

Completion

Upon the exercise of the Option by the Company (or its nominee, as the case may be), completion shall take place on the third Business Day from the satisfaction or waiver in writing by the Company of the closing conditions set forth in the equity transfer agreement to be entered into between the Vendor and the Company pursuant to the Option Agreement. Completion of the Option is conditional on, amongst others, the issuance by the Guangdong Provincial Commission of Foreign Trade and Economic Cooperation of an amended "Certificate of Approval for Establishment of Enterprise with Foreign Investment in the PRC" in respect of the transfer of the Option Equity Interests under the Option Agreement.

4. CONTROL DEED

The principal terms and conditions of the Control Deed are as follows:

Date

25 November 2009

Parties

Assignor: The Vendor

Assignee: Rightsouth

Subject matter

The Vendor has agreed to assign to Rightsouth all of the beneficial interests in the Economic Benefits and to grant to Rightsouth all of the Control Rights in relation to the management of the JV Co. attributable to the Vendor's Equity Interests.

Additional capital contribution

In the event of any proposed increase in the registered capital of the JV Co., Rightsouth will be liable for any capital contributions in respect of the Vendor's proportion of Equity Interests, whereupon Rightsouth will have the option, at its sole discretion, to (i) require the Vendor to procure that Rightsouth becomes the legal and beneficial owner of such additional Equity Interests in the JV Co.; or (ii) require the Vendor to contribute the additional registered capital (to be funded by Rightsouth) and hold such Equity Interests on behalf of Rightsouth as nominee, subject to and in accordance with the applicable law.

Consideration

The total consideration for the assignment of the Economic Benefits and grant of the Control Rights in relation to JV Co. is HK$15,298,500, which was satisfied by Rightsouth by allotting and issuing to the Vendor 1,974,000 Rightsouth Shares.

Reimbursement

Rightsouth shall reimburse to the Vendor annually all costs reasonably and properly expended by it in connection with holding the legal interests in the Equity Interests, provided that such reimbursements shall in total not exceed HK$200,000 annually.

Term

The Control Deed has an initial term of three years with automatic renewal for further periods of three years upon expiry of the initial term or any subsequent term (as the case may be), subject to approval by the respective shareholders of either party to the Control Deed or their respective Affiliates if such approval is required under the Listing Rules or otherwise by the Stock Exchange.

The Control Deed was completed on 25 November 2009 and, subject as stated in the preceding paragraph, will continue in force until the earlier of 29 April 2025, being the expiry date of the JV Agreement, or the Equity Interests Completion Date.

5. CHANGES IN SHAREHOLDING STRUCTURE

The allotment and issue of the Consideration Shares pursuant to the Acquisition will not change the control (as defined in the Code) of the Company.

The following table illustrates the Company's shareholding structure, assuming no other changes to the share capital of the Company other than as contemplated under the Sale and Purchase Agreement: (i) as at the Latest Practicable Date, and (ii) immediately after the allotment and issue of the Consideration Shares upon Completion:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares	
	No. of Shares	*%*	*No. of Shares*	*%*
The Vendor	–	–	78,556,263	11.35
OIL	195,000,000	31.78	195,000,000	28.18
CEC Agricapital	128,960,000	21.02	128,960,000	18.63
Subtotal	323,960,000	52.80	402,516,263	58.16
Directors	19,288,000	3.14	19,288,000	2.79
Existing public Shareholders	270,259,000	44.06	270,259,000	39.05
Total	613,507,000	100.00	692,063,263	100.00

The composition of the Board will not change as a result of the Acquisition.

The Company will seek the approval of the Independent Shareholders at the EGM for, amongst others, the allotment and issue of the Consideration Shares to the Vendor pursuant to the Sale and Purchase Agreement. The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be issued pursuant to the Sale and Purchase Agreement.

6. INFORMATION ON THE COMPANY

The Company is principally engaged in the production of consumable ethanol, industrial ethanol and other food and feed ingredients in the PRC. The Group operates a production facility in Harbin, PRC, which is at the final stage of its trial-run period. The Group also has a production facility in Yinchuan which has remained idle and the Group has no definite plan for utilisation of this facility in the near future.

7. INFORMATION ON THE VENDOR

The Vendor was incorporated in the British Virgin Islands with limited liability and is an indirect 88.6% owned subsidiary of CEC. CEC, the ultimate beneficial owner of the Vendor, is an investment holding company incorporated in the British Virgin Islands. CEC currently holds interests in the (i) retail sales of optical wear; (ii) retail and franchised sales of menswear; (iii) wholesale and retail distribution of food and beverages; and (iv) coal mining. The remaining 11.4% shareholding in the Vendor is owned by directors of the Vendor and independent third parties. The assets of the Vendor as at the Latest Practicable Date include the entire issued capital of Rightsouth, a 70% equity interest in the JV Co. and a 70% equity interest in a joint venture in the food and beverages wholesale and retail distribution sector in the PRC.

As CEC is the ultimate controlling shareholder of the Company and, through OIL and CEC Agricapital, in aggregate holds approximately 52.80% of the Company's issued share capital as at the Latest Practicable Date, the Vendor is a connected person of the Company.

8. INFORMATION ON THE RIGHTSOUTH GROUP

Rightsouth was incorporated in the British Virgin Islands with limited liability and is wholly owned by the Vendor. As at the Latest Practicable Date, the Vendor had invested a total amount of HK$21,216,008 in Rightsouth, which in turn invested an amount of HK$21,216,001 in Gold Star. The sole asset of Rightsouth is the entire issued capital of Gold Star, which holds a cash deposit of approximately HK$21,028,000 as at the Latest Practicable Date. Rightsouth was assigned the Economic Benefits and Control Rights of the JV Co. under the Control Deed. Since completion of the Control Deed on 25 November 2009, the JV Co. has been accounted as a subsidiary of Rightsouth.

General information on the JV Co.

The JV Co. was established as a limited liability company in the PRC on 6 August 1999 and became a sino-foreign equity joint venture pursuant to an equity joint venture agreement dated 2 December 2004. As at the Latest Practicable Date, the Vendor had invested RMB 8,750,000 into the JV Co. by way of contribution to its registered capital. The JV Co. is owned as to 70% by the Vendor and 30% by the JV Partner. The JV Co. is principally engaged in the sale and distribution of wine and liquor in the PRC.

The JV Co. operates a chain of wine and liquor specialty stores with a sales network of 18 retail stores and 23 franchised stores in Guangzhou, PRC and an effective distribution network which includes restaurants, hotels and enterprises. The brands of wine and liquor being sold by the JV Co. include 茅台 (Maotai), 五糧液 (Wuliangye), 劍南春 (Jiannanchun), 瀘州老窖 (Luzhoulaojiao), 人頭馬 (VSOP), 馬爹利 (Martell) and 軒尼詩 (Hennessy).

The major customers of the JV Co. are retail customers, restaurants, hotels, enterprises and sub-distributors. The major suppliers of the JV Co. are liquor manufacturers and distributors for wine and liquor. The major competitors of the JV Co. include liquor and tobacco companies, grocery stores and supermarkets.

The JV Co. is a participant of the "放心酒" ("Drink Without Worry") program initiated by the Guangzhou City Government, which is a project designed to identify and crackdown on the distribution of counterfeit wine and liquor products.

Financial information on the Rightsouth Group

The following table shows certain audited consolidated financial information on the Rightsouth Group (which includes the JV Co. for accounting purposes) for (i) the year ended 31 December 2008, and (ii) the eight months ended 31 August 2009, prepared in accordance with HKFRS, as extracted from Appendix II to this circular:

	Year ended 31 December 2008 *HK$'000*	**Eight months ended 31 August 2009** *HK$'000*
Net profit/(loss) before tax	(4,852)	1,499
Net profit/(loss) after tax	(4,852)	1,499
Net asset value attributable to equity holders of Rightsouth	7,333	8,455
Revenue	108,706	67,279
Total assets	65,188	56,026

For the year ended 31 December 2008, the Rightsouth Group incurred a net loss of approximately HK$4,852,000 which was mainly due to the one-off impairment of goodwill of approximately HK$4,688,000. For the eight months ended 31 August 2009, the Rightsouth Group incurred a net profit of approximately HK$1,499,000.

As at 31 December 2008, the Rightsouth Group had assets of approximately HK$65,188,000 representing property, plant and equipment of approximately HK$2,691,000, loan receivable from a related company of approximately HK$3,855,000, inventories of approximately HK$22,417,000, trade receivables of approximately HK$6,204,000, prepayments, deposits and other receivables of approximately HK$3,133,000, amounts due from related companies of approximately HK$1,545,000, pledged deposits of approximately HK$21,155,000 and bank and cash balances of approximately HK$4,188,000.

As at 31 December 2008, the Rightsouth Group had liabilities of approximately HK$55,432,000, consisting of trade and other payables of approximately HK$16,520,000, tax payable of approximately HK$1,370,000, amounts due to a related company of approximately HK$16,184,000, deferred income of approximately HK$142,000 and loan payable to a related company of approximately HK$21,216,000.

As at 31 August 2009, the Rightsouth Group had assets of approximately HK$56,026,000 representing property, plant and equipment of approximately HK$1,803,000, inventories of approximately HK$20,870,000, trade receivables of approximately HK$3,861,000, prepayments, deposits and other receivables of approximately HK$3,917,000, amounts due from related companies of approximately HK$1,678,000, pledged deposits of approximately HK$20,776,000 and bank and cash balances of approximately HK$3,121,000.

As at 31 August 2009, the Rightsouth Group had liabilities of approximately HK$44,772,000, consisting of trade and other payables of approximately HK$9,417,000, interest-bearing bank borrowings of approximately HK$3,404,000, tax payable of approximately HK$1,273,000, amounts due to a related company of approximately HK$9,462,000 and loan payable to a related company of approximately HK$21,216,000.

9. REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE OPTION

Entry into the wine and liquor market in the PRC

The Acquisition and the Option will enable the Group to gain entry into the wine and liquor market in the PRC. It is intended that, following Completion, the Group will sell and distribute wine and liquor in the PRC through Rightsouth's control over the JV Co.

The Directors believe that the operations of the JV Co. will contribute to the income of the Group upon Completion. Further, the Company will not incur any significant or continuous capital investment in relation to the Rightsouth Group, as the Rightsouth Group has an existing retail business which is fully operational and is not expected to require additional funding from the Company.

Integration of the business of the JV Co.

The Acquisition and Option will provide opportunities for vertical integration of the business of the JV Co. with the existing business of the Group. The Group will continue to engage in its core business of production, sales and distribution of consumable ethanol following Completion. As the downstream products of ethanol include liquor products, the Group will be able to utilise the sales and distribution network of the JV Co. to sell and distribute its wine and liquor products in the PRC.

As set out in the Company's interim report for the six months ended 30 June 2009, a trial run of the Group's Harbin production facility had started in late August 2009 and was expected to be completed by December 2009. The trial run of the Harbin production facility is ongoing and remains on track to be completed by the end of December 2009, and the Company plans to commence production in the facility in early to mid 2010.

The Group plans to produce premium consumable ethanol at its Harbin production facility once it commences production, and arrange for a portion of its ethanol products to be processed into liquor by third party sub-contractors for onward sales and distribution by the Group.

Synergy of businesses of the Group and the Rightsouth Group

The Acquisition and the Option will enable the integration of the business of the JV Co. with the Group, and will allow the Group to capitalise on the existing sales and distribution network of the JV Co. in the PRC, in particular in Guangzhou where the wine and liquor industry has experienced rapid growth and development in recent years. The JV Co. will be able to benefit from the existing management infrastructure and other resources of the Group, which will help to strengthen its business.

In October 2009, the Group obtained the licenses to use the 不倒翁 (Budaoweng) and 北國春 (Beiguochun) liquor brands for the production and sales of Chinese liquor in certain regions in the PRC, including but not limited to Heilongjiang, Liaoning, Jilin and Guangdong provinces. Building on the Group's ability to produce consumable ethanol and its licensed rights to use two premium grade liquor brands in the PRC, the Group plans to sell and distribute its Chinese liquor products through the sales and distribution network of the JV Co. in the PRC.

The Group is presently also developing a multi-brand strategy to target different segments of the market, which includes the acquisition of existing brands, the development of new brands and the licensing of additional brands. For example, the Group plans to focus on the middle to high end segments of the market with the use of its "Ice Land Brand"（冰城牌）.

The Group plans to establish a regional sales and distribution network for the sale and distribution of wine and liquor in the Northeast region of the PRC, such as Harbin and Suihua. The Group intends to leverage on its sales and distribution networks in the Northeast regions of the PRC and in Guangzhou when negotiating with licensors of wine and liquor products, suppliers and other business partners.

The Group plans to leverage on the JV Co's exposure to international wine brands to build up a wine retail and distribution sector in the PRC, by entering into partnerships and joint ventures with wine distributors and wineries.

The Group also plans to build up a specialised team to distribute and manage owned or licensed brands of wine and liquor products. The Group is also considering the implementation of a training program, which will be conducted by the new brand management team of the Group, to improve the standard of customer service and media exposure of the JV Co. so as to increase the quality of its retail services.

The Acquisition and the Option enables the Group to obtain immediate access to the wine and liquor market in the PRC

The Directors had considered that the Acquisition would allow the Company to diversify its business and reduce the Company's reliance on the ethanol production business. At the same time, the Acquisition provides an opportunity to improve the Group's earnings base. The Acquisition should enable the Group to benefit from the continuing growth in the PRC wine and liquor market, providing the Group with an additional avenue for growth.

The Directors had considered the possibility of a direct acquisition of the Equity Interests from the Vendor by the Company at this stage but concluded that implementation of the Group's plan to enter into the PRC wine and liquor market would be delayed due to the time required to obtain the requisite PRC regulatory approvals and the consent of the JV Partner required pursuant to the JV Agreement for any transfer of Equity Interests. By acquiring the Economic Benefits and the Control Rights over the JV Co. through Rightsouth and the Option, the Group can expedite the process for acquiring the business operation of the JV Co. and commence operation for sales and distribution of liquor products under the two licensed brands immediately after Completion. The Company intends to exercise the Option and obtain the legal interests to the Option Equity Interests at an appropriate time.

The Directors believe that the terms of the Sale and Purchase Agreement, the Option Agreement and the Control Deed, including the consideration for the Acquisition and the Exercise Price, are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Directors consider that the issue of the Consideration Shares as consideration for the Acquisition is fair and reasonable and in the best interest of the Shareholders as a whole as it is the best financing method for the Company in the current circumstances given that the Company will not need to use substantial amounts of its existing cash resources to fund the Acquisition. The Directors intend to finance the payment for the consideration for the Option and the Exercise Price by internal resources of the Company.

The Directors had considered the potential disadvantages of the Acquisition and risks involved as set out below, and believe that they can be adequately managed and/or are offset by the potential benefits of the Acquisition as described above.

10. POTENTIAL DISADVANTAGES OF THE ACQUISITION AND THE RISKS INVOLVED

The JV Co. has a relatively short track record in selling and distributing wine and liquor in the PRC

At the time the JV Agreement was entered into in December 2004, the JV Co. had a sales network of three retail stores and a limited distribution network to corporate customers. Although the JV Co. has since increased its sales network to the present 18 retail stores and 23 franchised stores and expanded its distribution network to corporate customers, its track record for selling and distributing wine and liquor products in the PRC is relatively short.

The Group has limited experience in operating in the wine and liquor industry in the PRC

The Directors and the senior management of the Group have limited experience operating in the wine and liquor industry in the PRC. While the Directors and the senior management of the Group have experience in operating in the brewery industry in the PRC (see Appendix VI for the biographies of the Directors and senior management of the Group), and the brewery industry in the PRC is similar to the liquor industry in the PRC in certain respects, these two industries are ultimately separate and there are many differences between the two industries. The Group may not have sufficient experience or resources to manage the sales and distribution model for wine and liquor products in the PRC, which differs from the sales and distribution model for brewery products in the PRC.

The Group's success is dependent on, among other things, consumer preference

The Directors believe that maintaining the brand awareness and good reputation of the products the Group distributes is critical to promoting consumer preference for its products and, thereby, attracting additional customers and expanding its customer base. Enhancement of the brand awareness and good reputation of the products the Group distributes depends largely on the success of the marketing and promotional campaign conducted by the Group's suppliers or by the Group. Nevertheless, even if the brand awareness and good reputation are maintained or enhanced, there is no assurance that consumer preference for the products the Group distributes will remain unchanged. Any decline in consumer preference for the products the Group distributes could have a material adverse effect on the Group's business prospects and end results of operations.

The Group may not have adequate control over the pricing and distribution policies within the distribution network

The Group's continued expansion is dependent on, among other things, the operations of sub-distributors and franchisees within its distribution network, over which the Group has no direct control. The Group may not have adequate control over the pricing and distribution policies for the PRC market and there is no assurance that all the sub-distributors within the distribution network (particularly onward sub-distributors with whom the Group does not have a direct contractual relationship) will strictly adhere to the Group's pricing and distribution policies. The failure of the Group's sub-distributors and franchisees to adhere to the Group's pricing and distribution policies may adversely affect sales of the products the Group distributes and consequently, the Group may not be able to develop its PRC distribution network as it plans.

11. FINANCIAL EFFECTS OF THE ACQUISITION AND THE OPTION ON THE GROUP

Set out below is a summary of the unaudited pro forma financial information of the Enlarged Group before and after Completion, as extracted from Appendix III to this circular in relation to "Unaudited pro forma financial information of the Enlarged Group", and prepared on the basis set out in page 146 of Appendix III to this circular. The unaudited pro forma financial information is prepared to provide information as to how the Acquisition would affect the relevant financial information of the Enlarged Group as at 30 June 2009 and for the year ended 31 December 2008. As it is for illustrative purposes only and because of its nature, it may not give a true picture of the results and financial position of the Enlarged Group for any future financial periods or dates.

	Before Completion *HK$'000*	**After Completion** *HK$'000*
Total assets	472,419	528,445
Total liabilities	213,671	238,997
Net assets	258,748	289,448
Gearing ratio	47%	46%
Revenue	3,780	112,486
Loss for the year	(117,555)	(124,177)

Based on the above, upon Completion, the total assets, total liabilities and net assets of the Enlarged Group will all increase by 11.9%. The increase in net assets is mainly attributable to the cash deposits held by the Rightsouth Group. The gearing ratio of the Enlarged group, calculated as net debt divided by total adjusted equity plus net debt, will decrease slightly from 47% to 46% after Completion.

Upon Completion, the revenue of the Enlarged Group will increase by 2875.8% and loss for the year will increase by 5.6%. The increase in loss is mainly due to the one-off impairment of goodwill made by the Rightsouth Group in the year 2008.

The Directors consider that the Acquisition will enhance the assets base of the Group, create new business opportunities for the Group and will broaden its revenue base.

The exercise of the Option has no material financial impact on the Group.

12. SPECIFIC MANDATE TO ISSUE NEW SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

At the Company's annual general meeting held on 3 June 2009, the resolution proposed to grant to the Directors the General Mandate was duly approved by the Shareholders. As at the Latest Practicable Date, the Company has allotted and issued 36,000,000 new Shares under the General Mandate for the Placing and Subscription, which were completed on 9 December 2009 and 15 December 2009 respectively. The Company raised net proceeds of approximately HK$15.02 million from the Placing and Subscription, which the Company has utilised and will continue to utilise as general working capital. Details of the Placing and Subscription are set out in the announcements of the Company dated 2 December 2009 and 15 December 2009. Since the annual general meeting held on 3 June 2009, the Company has not renewed the General Mandate.

The Directors consider it is reasonable and would be in the interests of the Company and the Shareholders as a whole to put forward a resolution to the EGM to approve the Specific Mandate to allot and issue the Consideration Shares. Such Specific Mandate is proposed to be granted to the Directors by the Shareholders to issue not more than 78,556,263 new Shares, representing approximately 12.80% of the issued share capital of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 11.35% of the issued share capital of the Company as enlarged by the issue of Consideration Shares. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Board proposes to renew the General Mandate so as to expand and replace the existing General Mandate. Based on the existing issued share capital of the Company of 613,507,000 Shares as at the date of the EGM, the Company will be permitted under the new general mandate to allot, issue or deal with up to 20% of the existing issued share capital of the Company as at the date of the EGM (or up to 122,701,400 Shares).

The Directors have no immediate plans to issue any new Shares providing for the allotment and issue of Shares in lieu of whole or part of a dividend in accordance with the Articles or any scrip dividend scheme which may be approved by the Shareholders. The Directors consider that an exercise of the general mandate to allot and issue new Shares will enable the Company to take advantage of market conditions to raise additional capital of the Company.

The Directors will also seek the approval of the Shareholders to add to such general mandate the number of any Shares repurchased by the Company representing up to 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the grant of such mandate.

An explanatory statement explaining the Repurchase Mandate is set out in Appendix V to this circular as required by the Listing Rules.

Subject to the passing of the proposed resolutions regarding the renewal of the General Mandate and the Repurchase Mandate, an ordinary resolution will be proposed at the EGM to approve the extension of the 20% renewed General Mandate so that the Directors shall be given a general mandate to issue further shares equal to the shares repurchased under the Repurchase Mandate.

The Specific Mandate and the renewal of the General Mandate are each conditional upon the approval by the Independent Shareholders by way of an ordinary resolution at the EGM. The votes will be taken on a poll.

Pursuant to Rule 13.36(4) of the Listing Rules, any controlling shareholders and their associates or, where there are no controlling shareholders, directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the renewal of the General Mandate. Accordingly, CEC, OIL and their respective associates (including CEC Agricapital) are required to abstain from voting in favour for the ordinary resolution proposed in connection with the renewal of the General Mandate. In any event, the Company will ensure compliance with Rules 13.40 to 13.42 of the Listing Rules.

The Company has established the Independent Board Committee to advise the Independent Shareholders as to whether the proposed grant of the Specific Mandate and the renewal of the General Mandate is fair and reasonable and is in the interest of the Company and the Independent Shareholders as a whole. The Company has also appointed the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Independent Shareholders as to whether the proposed grant of the Specific Mandate and the renewal of the General Mandate is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole. The Independent Board Committee and Independent Financial Adviser are of the opinion that the proposed grant of the Specific Mandate and the renewal of the General Mandate is fair and reasonable.

13. IMPLICATIONS UNDER THE LISTING RULES

Connected Transactions

CEC indirectly holds approximately 88.6% of the issued share capital of the Vendor. As CEC is also the ultimate controlling shareholder of the Company and, through OIL and CEC Agricapital, in aggregate holds approximately 52.80% of the Company's issued share capital as at the Latest Practicable Date, the Vendor is a connected person of the Company. OIL holds 100% of CEC Agricapital. Therefore, each of the Acquisition, the Option Agreement, the exercise of the Option (if exercised) and the Specific Mandate constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to Independent Shareholders' approval under Rule 14A.18 of the Listing Rules. Each of CEC, OIL and CEC Agricapital are substantial shareholders, and hence connected persons, of the Company. Accordingly, CEC, OIL and CEC Agricapital and their respective associates are required to abstain from voting in respect of the resolutions approving the Acquisition, the Option Agreement, the exercise of the Option (if exercised) and the Specific Mandate respectively. As at the Latest Practicable Date:

(i) CEC Agricapital holds 128,960,000 Shares amounting to approximately 21.02% of the issued share capital of the Company;

(ii) OIL is interested in 323,960,000 Shares amounting to approximately 52.80% of the issued share capital of the Company through (a) the 195,000,000 Shares amounting to approximately 31.78% of the issued share capital of the Company which it holds, and (b) its subsidiary, CEC Agricapital, which holds approximately 21.02% of the issued share capital of the Company; and

(iii) CEC is interested in 323,960,000 Shares amounting to approximately 52.80% of the issued share capital of the Company through its subsidiaries, OIL and CEC Agricapital, which hold approximately 31.78% and 21.02% of the issued share capital of the Company respectively.

As at the Latest Practicable Date, so far as the Company is aware, having made all reasonable enquires, CEC, OIL and CEC Agricapital, and their respective associates controlled or were entitled to exercise control over the voting rights in respect of the Shares held by themselves respectively as set out in (i) to (iii) above.

At the time of exercise of the Option, the Company will re-comply with all applicable requirements under Chapter 14A (including Rule 14A.70(2)) of the Listing Rules, including the Shareholders' approval requirement, if necessary.

Very Substantial Acquisition

As at least one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of each of the Acquisition and the exercise of the Option exceeds 100%, each of these transactions also constitutes a very substantial acquisition under Rule 14.06 of the Listing Rules. Accordingly, the Sale and Purchase Agreement and the Option Agreement will be conditional upon, amongst other things, the approval by the Shareholders at the EGM.

Exempted Continuing Connected Transaction arising from the Control Deed

Pursuant to the Control Deed, Rightsouth will reimburse the Vendor annually for expenses incurred in relation to holding the legal interests in the Equity Interests. The Vendor is a connected person of the Company and, upon Completion (and the subsequent exercise of the Option at an appropriate time), Rightsouth will become a wholly-owned subsidiary of the Company. Therefore, the reimbursement of the expenses by Rightsouth to the Vendor will become a continuing connected transaction of the Company. The terms of the Control Deed provide that the amount of reimbursement of such expenses shall be capped at HK$200,000 per annum and therefore the transactions under the Control Deed will fall within the de minimis provision of Rule 14A.33(3) of the Listing Rules. Hence, the Control Deed is exempt from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, the Company will comply with the Listing Rules and make announcement and seek its Independent Shareholders' approval, if required, should the reimbursement of expenses by Rightsouth to the Vendor in any year exceeds or is expected to exceed the threshold prescribed by the de minimis provision of Rule 14A.33(3) of the Listing Rules.

14. EGM

Set out on pages 177 to 180 in this circular is a notice convening the EGM which will be held at Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 11 January 2010 at 11:00 a.m., Hong Kong, at which resolutions will be proposed to approve, among other things, the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of the General Mandate and the Repurchase Mandate.

Enclosed is a form of proxy for use at the EGM. Whether or not you will attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon, and return and deposit the same at the Company's share register in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event, not less than 48 hours before the holding of the EGM. Completion and return of proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish. Any Shareholder and his/her associates with a material interest in the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of the General Mandate and the Repurchase Mandate shall abstain from voting for the approval in respect thereof at the EGM.

The Company has established an Independent Board Committee comprising all the independent non-executive Directors to consider and advise the Independent Shareholders with respect to the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate. The Company has appointed Shenyin Wanguo Capital (H.K.) Limited as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders with respect to the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate.

Pursuant to the Article 80 of the Articles of the Company, at any general meeting a resolution put to the vote the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

(i) the Chairman of the meeting; or

(ii) at least five members present in person or by proxy and entitled to vote; or

(iii) any member or members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(iv) any member or members present in person (or in the case of a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

In compliance with the Listing Rules, the votes taken at the EGM to seek approval of the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of the General Mandate and the Repurchase Mandate will be taken by poll.

15. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular which contains its advice to the Independent Shareholders regarding to the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate and to the letter from the Independent Financial Adviser set out on pages 26 to 48 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate as well as the principal factors and reasons taken into consideration in arriving at its advice.

Taking into account the reasons set out above, the Directors consider that the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of the General Mandate and the Repurchase Mandate are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and therefore recommend that the Independent Shareholders vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate, the renewal of the General Mandate and the Repurchase Mandate. You are advised to read the Letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding as to how to vote at the EGM.

16. FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
Bio-Dynamic Group Limited
Peter Lo
Chairman

BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

To the Independent Shareholders

24 December 2009

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS IN RELATION TO A) THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF RIGHTSOUTH LIMITED AND B) THE ENTERING INTO OF THE OPTION AGREEMENT AND THE EXERCISE OF THE OPTION AND SPECIFIC MANDATE TO ISSUE SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate, details of which are set out in the Letter from the Board in the circular of the Company dated 24 December 2009 (the "**Circular**"). Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

Your attention is drawn to the Letter from the Independent Financial Adviser in the Circular containing the advice of the Independent Financial Adviser in respect of the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate.

RECOMMENDATION

We have considered the principal factors taken into account by the Independent Financial Adviser in arriving at its opinion in respect of the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate. We concur with the views of the Independent Financial Adviser that the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in respect of the Acquisition, the Option Agreement, the exercise of the Option, the Specific Mandate and the renewal of the General Mandate at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam
Independent non-executive Directors

The following is the full text of the letter of independent advice from the Independent Financial Adviser for the purpose of inclusion in this circular:

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Hong Kong

24 December 2009

To The Independent Board Committee and
the Independent Shareholders of
BIO-DYNAMIC GROUP LIMITED

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS IN RELATION TO THE ACQUISITION OF A WINE AND LIQUOR BUSINESS AND SPECIFIC MANDATE TO ALLOT AND ISSUE CONSIDERATION SHARES AND RENEWAL OF GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

INTRODUCTION

We refer to the circular of BIO-DYNAMIC GROUP LIMITED dated 24 December 2009 (the "**Circular**"), of which this letter forms part, regarding, *inter alia*, (i) the acquisition of the entire issued share capital of Rightsouth (including the Economic Benefits assigned to and the Control Rights granted to Rightsouth by the Vendor in relation to the JV Co.) by the Company from the Vendor; (ii) the grant of the Option by the Vendor to the Company which entitles the Company or its nominee to purchase all (but not part of) the Option Equity Interests in the JV Co.; (iii) the exercise of the Option by the Company or its nominee, upon which all of the Option Equity Interests will be transferred by the Vendor to the Company or its nominee (as the case may be) ((i), (ii) and (iii) collectively referred to as the "**Transactions**" in this letter); (iv) the specific mandate sought to be granted to the Directors in relation to the allotment and issue of the Consideration Shares (the "**Specific Mandate**"); and (v) the renewal of the general mandate granted to the Directors to allot, issue and deal with new Shares and the extension thereof (the "**Mandate Renewal**"). Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

Each of the Acquisition and the exercise of the Option (if exercised) constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Given CEC is the ultimate holding company of the Vendor as well as the ultimate controlling shareholder of the Company and the Vendor is therefore a connected person of the Company, the Transactions also constitute connected transactions for the Company under Chapter 14A of the Listing Rules. The Transactions and the Specific Mandate are subject to the approval of the Independent Shareholders at the EGM. Pursuant to Rule 13.36(4) of the Listing Rules, any controlling shareholders of the Company and their associates shall abstain from voting in favour of the Mandate Renewal at the EGM. Details regarding the EGM are set out in the Circular.

We, Shenyin Wanguo Capital (H.K.) Limited, have been appointed by the Company as the independent financial adviser to advise you on the Transactions, the Specific Mandate and the Mandate Renewal, details of which are set out in the Circular. In this letter, we will make recommendations to you as to whether the Transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, whether the terms of the Transactions, the Specific Mandate and the Mandate Renewal are fair and reasonable and whether the Transactions, the Specific Mandate and the Mandate Renewal are in the interests of the Company and the Shareholders as a whole as well as we will advise the Independent Shareholders on how to vote at the EGM in respect of the Transactions, the Specific Mandate and the Mandate Renewal.

The Independent Board Committee, comprising all of the three independent non-executive Directors, namely Dr. Leung Kwan-Kwok, Mr. Sam Zuchowski and Dr. Loke Yu *alias* Loke Hoi Lam, has been established to advise the Independent Shareholders, taking into account our recommendations set out in this letter, as to whether the terms of the Transactions, the Specific Mandate and the Mandate Renewal are fair and reasonable and whether the Transactions, the Specific Mandate and the Mandate Renewal are in the interests of the Company and the Shareholders as a whole as well as to advise the Independent Shareholders on how to vote at the EGM in respect of the Transactions, the Specific Mandate and the Mandate Renewal. The advice of the Independent Board Committee as regards the Transactions, the Specific Mandate and the Mandate Renewal is contained in its letter included in the Circular.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and statements supplied, opinions and representations expressed by the Company and the Directors and have assumed that all such information and statements supplied, opinions and representations expressed to us were true, accurate and complete in all material aspects at the time they were provided and continue to be true up to the date of the EGM. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information and statements supplied as well as opinions and representations expressed to us.

We consider that we have been provided with sufficient information to enable us to reach our advice and recommendations as set out in this letter and to justify our reliance on the accuracy of such information. We have no reason to suspect that any material facts or information (which are known to the Company) have been omitted or withheld from the information or statements supplied, or opinions or representations expressed to us nor to doubt the truth and accuracy of the information and statements supplied, or the reasonableness of the opinions and representations expressed to us. We have not, however, carried out any independent verification on the information provided to us by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business or affairs or future prospects of the Enlarged Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into account the following principal factors and reasons in arriving at our recommendations with regard to the Transactions, the Specific Mandate and the Mandate Renewal:

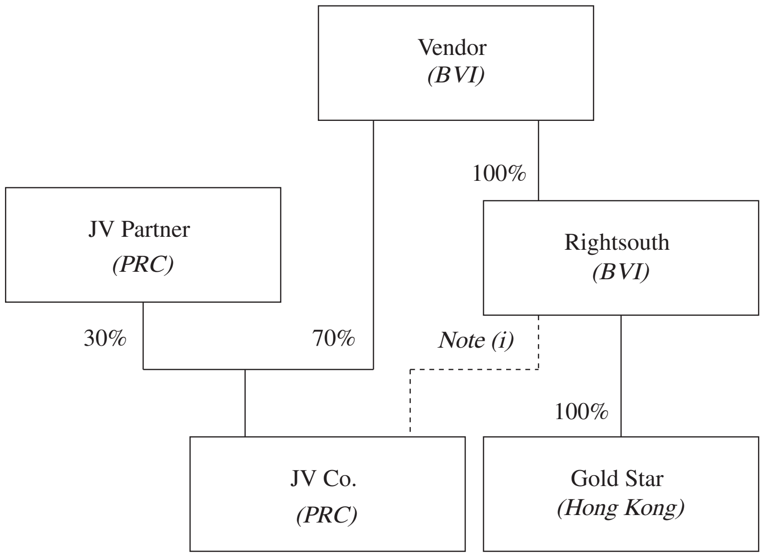
Principal terms of the Transactions

On 1 December 2009, the Board announced that on 25 November 2009, the Company and the Vendor entered into the Sale and Purchase Agreement and the Option Agreement.

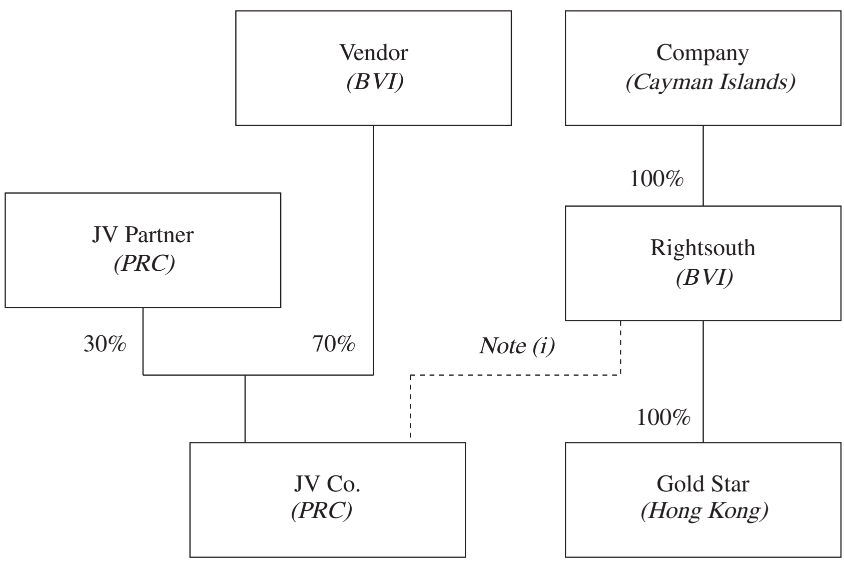
The principal terms of the Sale and Purchase Agreement are summarised as follows:

(i)	Assets involved:	The Company has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued share capital of Rightsouth (including (a) the Economic Benefits assigned to and the Control Rights granted to Rightsouth by the Vendor in relation to the JV Co. pursuant to the Control Deed; and (b) Gold Star, which is a wholly-owned subsidiary of Rightsouth).
(ii)	Consideration for the Acquisition:	HK$37,000,000, which shall be satisfied by the Company allotting and issuing 78,556,263 Consideration Shares at the Issue Price of HK$0.471 each to the Vendor at Completion.
(iii)	Conditions precedent:	• the execution and delivery of the Option Agreement by the Vendor and the Company, which has been satisfied as at the Latest Practicable Date; • the approval by the Shareholders of the Sale and Purchase Agreement, the Option Agreement and the exercise of the Option in accordance with the Listing Rules; and • the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of definitive share certificate(s) representing the Consideration Shares to the Vendor).
(iv)	Completion:	Completion shall take place on the third Business Day following the due fulfilment of all of the conditions precedent (neither the Company nor the Vendor is entitled to waive any of such conditions precedent unilaterally) or at such other time as the Company and the Vendor may agree.

Immediately prior to Completion, the simplified structure of the Vendor group is expected as follows:



Upon Completion, the Company is expected to hold the Rightsouth Group as follows:



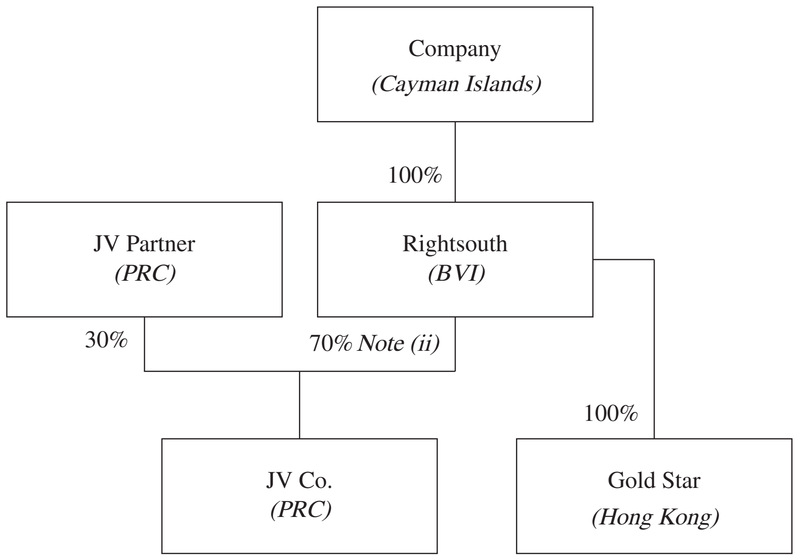
Note (i): Pursuant to the Control Deed, the Vendor has assigned the Economic Benefits and granted the Control Rights to Rightsouth in relation to the JV Co. for HK$15,298,500 which was satisfied by Rightsouth allotting and issuing to the Vendor 1,974,000 Rightsouth Shares. The Control Deed has an initial term of three years with automatic renewal for further periods of three years upon expiry of the initial term or any subsequent term (as the case may be). The Control Deed will continue in force until the earlier of the expiry date of the JV Agreement or the Equity Interests Completion Date.

The Directors had considered the possibility of a direct acquisition of the Equity Interests from the Vendor by the Company but concluded that implementation of the Group's plan to enter the wine and liquor market in the PRC would be delayed due to the time required to obtain, *inter alia*, the requisite PRC regulatory approvals for the transfer of the Equity Interests. We concur with the Directors' view that the Group can expedite the process of acquiring the business operations of the JV Co. by acquiring the Economic Benefits and the Control Rights over the JV Co. through Rightsouth and the Option, which we consider is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The principal terms of the Option Agreement are summarised as follows:

(i)	The Option to be granted:	The Vendor has conditionally agreed to grant to the Company an irrevocable and unconditional right to purchase all (but not part of) the Option Equity Interests at the Exercise Price.
(ii)	Consideration for the grant of the Option:	HK$1.00
(iii)	Exercise Price:	Net Asset Value attributable to the Relevant Option Equity Interests as at the Equity Interests Completion Date which shall not exceed HK$15,298,500.
(iv)	Exercise of the Option:	The Option is exercisable by the Company or its nominee on or before 29 April 2025, being the expiry date of the JV Agreement, or such date as the term of the JV Agreement may be extended to pursuant to the terms of the JV Agreement.
(v)	Conditions precedent:	• the approval by the Shareholders of the Option Agreement and the exercise of the Option in accordance with the Listing Rules; and • completion of the Sale and Purchase Agreement.

Upon exercise of the Option, the Company is expected to hold the Rightsouth Group as follows:



Note (ii): At the Equity Interests Completion Date, the Option Equity Interests to be acquired by the Company or its nominee may be more or less than 70% of the total equity interests of the JV Co. depending on, *inter alia*, whether additional capital contribution is made by Rightsouth to the JV Co., if any, pursuant to the Control Deed.

In the event that the Option is exercised, the Company or its nominee shall pay to the Vendor the Exercise Price as consideration for the transfer of all (but not part of) the Option Equity Interests from the Vendor to the Company pursuant to the Option Agreement, and then the consideration for the Acquisition shall be deemed to be reduced by the same amount and the Vendor shall pay such amount in cash to the Company pursuant to the Sale and Purchase Agreement. Effectively, there will be no impact on the cash flow of the Enlarged Group in such event. As a result, regardless of whether or not the Option will be exercised by the Company, the total consideration for the Transactions will be HK$37,000,001 (inclusive of the HK$1.00 paid by the Company to the Vendor as consideration for the grant of the Option under the Option Agreement).

Information on the Group

The Group is an ethanol producer and has completed the construction of an ethanol production facility in Harbin, PRC, which enables the Group to produce consumable ethanol, industrial ethanol and other food and feed ingredients such as fusel oil and distiller's dried grains with solubles in the PRC. Consumable ethanol is used as a major ingredient for producing "白酒" (Chinese white spirit or liquor, referred to as "**Chinese baijiu**" in this letter) and industrial ethanol is for the chemical and medicinal sector. The Harbin production facility is located in 哈爾濱利民經濟技術開發區 (Harbin LiMin Economic and Technological Development Zone) and has two production lines with an annual production capacity of approximately 60,000 tonnes. In Yinchuan, PRC, the Group has another 15,000 tonne production plant, which has been idle since the first half of 2008. In preparation for the Group's entry into the wine and liquor market as its downstream business, the Group obtained licences in October 2009 which allow the Group to use the brands of 不倒翁 (Budaoweng) and 北國春 (Beiguochun) for the production and sales of liquor under such brands in certain regions in the PRC.

Financial performance and position of the Group

Set out below is the financial information of the Group extracted from the Company's interim and annual reports:

(i) Consolidated income statement

	Six months ended 30 June		Year ended 31 December				
	2009	**2008**	**2008**	**2007**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(restated)	(restated)	(restated)
Revenue	–	3,975	3,780	164,456	167,420	115,786	235,719
Net loss	16,583	25,815	117,555	39,338	31,933	27,932	104,553

The Shares were first listed on the Main Board of the Stock Exchange on 16 January 2001. The Group has been suffering from losses since 2004. In April 2005, the CEC group acquired the control of the Company. In July 2007, the Group disposed of its handbag and dairy businesses. Since then, the Group recorded some revenue from the sales of ethanol processed by 哈爾濱中國釀酒廠 (Harbin China Distillery Factory), being an associate of the substantial shareholder of a subsidiary of the Company, and the sales of a small amount of ethanol produced by the Group's production plant in Yinchuan, PRC. Due to the small scale of production and the high energy cost involved for production in the zone where the plant is located, the Group has suspended its production in Yinchuan since the first half of 2008. Since then, there have been no sales of ethanol recorded by the Group.

The significant increase in loss for the year ended 31 December 2008 was mainly attributable to (a) the impairment of goodwill arisen from the acquisition of the ethanol business in July 2007; (b) the amortisation and impairment of other intangible assets regarding the Group's technology, trademark and customer base; and (c) the impairment of property, plant and equipment due to the suspension of production at the Group's Yinchuan plant.

(ii) Consolidated balance sheet

	30 June	31 December	
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)
Non-current assets			
Property, plant and equipment	353,092	355,440	149,702
Prepaid land lease payments	32,831	33,173	32,172
Goodwill	–	–	2,328
Other intangible assets	76,552	77,939	145,265
Prepayments for acquisition of property, plant and equipment	1,486	1,487	64,068
Deferred tax assets	–	–	505
	463,961	468,039	394,040

	30 June 2009 HK$'000 (unaudited)	31 December 2008 HK$'000 (audited)	2007 HK$'000 (audited)
Current assets			
Inventories	3,129	461	2,616
Prepayments and other receivables	4,194	3,969	5,434
Due from the immediate holding company	–	17	1,560
Due from a fellow subsidiary	329	560	435
Tax prepaid	–	–	154
Cash and bank balances	806	3,724	32,854
	8,458	8,731	43,053
Current liabilities			
Trade payables	3,477	–	–
Other payables and accruals	102,670	99,240	16,543
Interest-bearing bank and other borrowings	45,376	44,864	–
Due to a fellow subsidiary	286	286	–
Due to a minority shareholder of a subsidiary	34,032	34,074	32,034
Tax payable	–	–	26
	185,841	178,464	48,603
Net current liabilities	177,383	169,733	5,550
Non-current liabilities			
Deferred tax liabilities	15,188	15,460	24,103
Deferred income	12,642	12,887	12,548
	27,830	28,347	36,651
Net assets	258,748	269,959	351,839
Equity			
Equity (net assets) attributable to the Shareholders	206,122	215,663	289,594
Minority interests	52,626	54,296	62,245
	258,748	269,959	351,839

31 December 2007 as compared to 31 December 2008

The net assets attributable to the Shareholders decreased by around 26% from approximately HK$289.6 million as at 31 December 2007 to approximately HK$215.7 million as at 31 December 2008. The net current liabilities of the Group increased significantly from approximately HK$5.6 million as at 31 December 2007 to approximately HK$169.7 million as at 31

December 2008, which was mainly due to the reduction in the Group's bank and cash balances and the increase in the Group's interest-bearing bank and other loans and payables as a result of the construction of the Harbin production facility.

Due to the payments for the construction of the Harbin production facility, the Group's bank and cash balances decreased by around 89% from approximately HK$32.9 million as at 31 December 2007 to approximately HK$3.7 million as at 31 December 2008. In order to finance part of the construction cost of the Harbin production facility, the Group increased its borrowings during the year 2008. As at 31 December 2008, the Group's total borrowings amounted to approximately HK$78.9 million, representing an increase of around 147% as compared to approximately HK$32.0 million as at 31 December 2007. The gearing ratio of the Group calculated as net debt divided by equity attributable to the Shareholders plus net debt was approximately 5% as at 31 December 2007 and approximately 45% as at 31 December 2008.

31 December 2008 as compared to 30 June 2009

The net assets attributable to the Shareholders decreased slightly from approximately HK$215.7 million as at 31 December 2008 to approximately HK$206.1 million as at 30 June 2009. The net current liabilities of the Group increased by around 5% from approximately HK$169.7 million as at 31 December 2008 to approximately HK$177.4 million as at 30 June 2009. The inventories as at 30 June 2009 mainly related to the coal and corn in stock for the trial-run of the Harbin production facility.

Since there were no sales recorded by the Group during the first half of 2009, the Group's bank and cash balances further decreased by around 78% from approximately HK$3.7 million as at 31 December 2008 to approximately HK$0.8 million as at 30 June 2009. As at 30 June 2009, there was no significant change to the Group's total borrowings which amounted to approximately HK$79.4 million. The gearing ratio of the Group was approximately 47% as at 30 June 2009.

Information on the Rightsouth Group

The principal activity of Rightsouth is investment holding. Rightsouth holds the entire issued share capital of Gold Star. Pursuant to the Control Deed, Rightsouth has been assigned the Economic Benefits and granted the Control Rights of the JV Co.

The JV Co. is principally engaged in the sales and distribution of wine and liquor in the PRC. The Directors have advised that the JV Co. operates a chain of wine and liquor specialty stores with a sales network of 18 retail stores and 23 franchised stores in Guangzhou, PRC and a distribution network which includes restaurants, hotels, enterprises and sub-distributors. The brands of wine and liquor being sold by the JV Co. include 茅台 (Maotai), 五糧液 (Wuliangye), 劍南春 (Jiannanchun), 瀘州老窖 (Luzhoulaojiao), 人頭馬 (VSOP), 馬爹利 (Martell) and 軒尼詩 (Hennessy). The JV Co. is also a participant of "放心酒" (the Drink Without Worry) program initiated by the Guangzhou Municipal Government, which is a project designed to identify and crackdown on the distribution of counterfeit wine and liquor products.

Financial performance and position of the Rightsouth Group

Set out below is the financial information of the Rightsouth Group extracted from the accountants' report set out in Appendix II to the Circular (the "**Accountants' Report**"):

(i) Consolidated income statement

	Eight months ended 31 August		Year ended 31 December		
	2009	**2008**	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(unaudited)	(audited)	(audited)	(audited)
Revenue	67,279	69,608	108,706	74,622	47,372
Cost of sales	(58,640)	(59,679)	(93,543)	(64,904)	(42,061)
Gross profit	8,639	9,929	15,163	9,718	5,311
Gross profit margin	*12.8%*	*14.3%*	*13.9%*	*13.0%*	*11.2%*
Other income and gains	4,054	1,970	3,403	2,509	1,436
Selling and distribution costs	(9,199)	(9,298)	(14,870)	(9,886)	(4,989)
Administrative expenses	(1,985)	(2,013)	(3,318)	(2,187)	(1,808)
Other expenses	–	(4,688)	(4,688)	–	–
Finance costs	(10)	(400)	(542)	(79)	(7)
Profit/(Loss) before tax	1,499	(4,500)	(4,852)	75	(57)
Tax	–	–	–	–	–
Profit/(Loss) for the year/ period	1,499	(4,500)	(4,852)	75	(57)

The revenue of the Rightsouth Group increased from approximately HK$47.4 million for the year ended 31 December 2006 to approximately HK$108.7 million for the year ended 31 December 2008 at a compound annual growth rate of approximately 51.4%. The increase in revenue was mainly due to the network expansion of the JV Co. which was in line with the increase in the number of retail stores operated by the JV Co. and the increase in the number of franchised stores and other customers such as restaurants, hotels, enterprises and sub-distributors. The revenue of the Rightsouth Group for the eight months ended 31 August 2009 was approximately HK$67.3 million representing a slight decrease from the same period in 2008, which was mainly due to the poor economy affected by the global economic challenge during the period. The gross profit margin of the Rightsouth Group has been relatively stable which is in the vicinity of 10% to 15%. For each of the three years ended 31 December 2008 and the eight-month period ended 31 August 2009, the Rightsouth Group either made a net loss or broke even. The major operating costs of the Rightsouth Group included the purchase cost of wine and liquor, rentals and staff costs.

(ii) Consolidated balance sheet

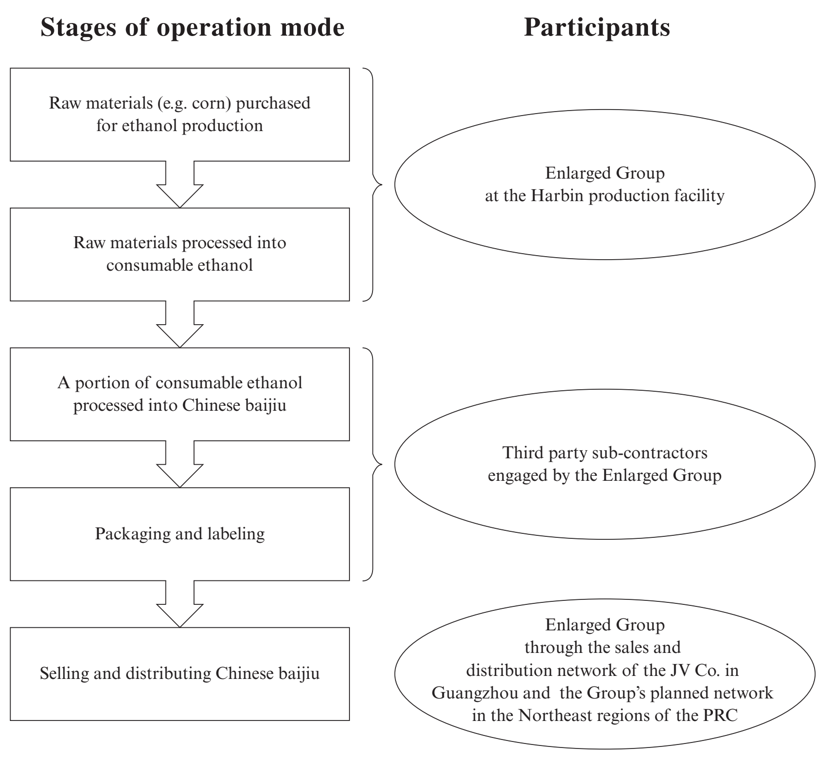
	31 August 2009 *HK$'000* (audited)	**31 December 2008** *HK$'000* (audited)
Non-current assets		
Property, plant and equipment	1,803	2,691
Loan receivable from a related company	–	3,855
	1,803	6,546
Current assets		
Inventories	20,870	22,417
Trade receivables	3,861	6,204
Prepayments, deposits and other receivables	3,917	3,133
Due from related companies	1,678	1,545
Pledged deposits	20,776	21,155
Cash and cash equivalents	3,121	4,188
	54,223	58,642
Current liabilities		
Trade payables	6,831	9,701
Other payables and accruals	2,586	6,819
Interest-bearing bank borrowings	3,404	–
Tax payable	1,273	1,370
Due to a related company	9,462	16,184
	23,556	34,074
Net current assets	30,667	24,568
Non-current liabilities		
Deferred income	–	142
Loan payable to a related company	21,216	21,216
	21,216	21,358
Net assets	11,254	9,756
Equity		
Equity attributable to equity holders:		
Issued capital	15,299	15,299
Reserves	(6,844)	(7,966)
	8,455	7,333
Minority interests	2,799	2,423
	11,254	9,756

The non-current assets of the Rightsouth Group, which mainly represented the leasehold improvements at the retail stores of the JV Co., were approximately HK$1.8 million as at 31 August 2009. The current assets of the Rightsouth Group, which mainly comprised the inventories and pledged deposits, decreased slightly from approximately HK$58.6 million as at 31 December 2008 to approximately HK$54.2 million as at 31 August 2009. The net current assets of the Rightsouth Group increased by around 24.8% from approximately HK$24.6 million as at 31 December 2008 to approximately HK$30.7 million as at 31 August 2009 mainly due to the reduction in the amount due to 廣州天天友誼食品有限公司 (Guangzhou Tiantian Friendship Co., Ltd.), a subsidiary of the Vendor. The loan payable to a related company of approximately HK$21.2 million (the "**Loan**") under the non-current liabilities represented an amount payable to the Vendor, which was capitalised by Rightsouth on 20 October 2009 according to note 1 to the financial information in the Accountants' Report.

Synergetic benefits of and risks associated with the Transactions to the Enlarged Group

The Group is an ethanol producer being managed by a group of brewery industry veterans and is predominately based in Harbin where the Group's new ethanol production facility is located. We understand that ethanol is a major ingredient for producing liquor which commonly commands a relatively high profit margin. By engaging third party sub-contractors to process a portion of the Group's ethanol products into Chinese baijiu and then selling and distributing it through the networks of the Group and the JV Co., the Group will be able to integrate its ethanol production with the business of the JV Co. to enter the wine and liquor market in the PRC, diversify its earnings base and reduce reliance on its ethanol production business.

Set out below are the Enlarged Group's anticipated operation mode in relation to the Group's consumable ethanol production integrated with the business of the JV Co. after Completion:



Set out below are the expected synergetic benefits of the Transactions to the Enlarged Group:

(i) Leveraging the JV Co.'s sales and distribution network to negotiate for more licences for production and sales of other wine and liquor brands

The Directors have advised that the Group is developing a multi-brand strategy to target different segments of the wine and liquor market. By leveraging the JV Co.'s existing sales and distribution network, the Enlarged Group will be in a better position to negotiate for more licences for production and sales of other brands of wine and liquor including Chinese baijiu in the PRC.

(ii) Benefiting from the combined network derived from the prior industry experience of the Group's management, the Group's liquor producers network for its ethanol products and the sales and distribution network of the JV Co.

The Group is managed by a group of brewery industry veterans (their biographies are set out in Appendix VI to the Circular). The management have experience and connections in the brewery industry in the PRC. Coupled with the sales and distribution network of the JV Co. and the Group's liquor producers network for its ethanol products, the Group is well positioned for the integration of the JV Co.'s business with its ethanol business.

(iii) Capturing profit margin in wine and liquor products through vertical integration of the businesses

Given the relatively high profit margin in liquor products, the Group is expected to be able to capture the profit margin by engaging third party sub-contractors to process a portion of the Group's ethanol products into Chinese baijiu and then selling and distributing it through the combined network of the Enlarged Group.

The risks associated with the Transactions are set out in the Circular as follows:

(a) The JV Co. has a relatively short track record in selling and distributing wine and liquor in the PRC;

(b) The Group has limited experience in operating in the wine and liquor industry in the PRC;

(c) The Group's success is dependent on, *inter alia*, consumer preference; and

(d) The Group may not have adequate control over the pricing and distribution policies within the distribution network.

The Directors have advised that, as at the Latest Practicable Date, there were no independent third parties operating as sellers and distributors in the wine and liquor market in the PRC which had approached the Company proposing any merger opportunities. Further, as opposed to acquiring a wine and liquor business from independent third parties which the Company has considered, the Transactions require relatively less time for the parties to negotiate the terms thereof and enable the Group to have immediate control over the Rightsouth Group upon Completion which, through the JV Co., has a number of retail points in Guangzhou, PRC selling and distributing a range of wine and liquor brands. Given the synergies of the Transactions and the prospects of the Enlarged Group are expected to improve as a result of the vertical integration of the businesses, we consider that the Transactions are beneficial to the Group and the Shareholders as a whole and the risks associated therewith are acceptable.

Evaluation of the consideration for the Transactions

The total consideration for the Transactions is HK$37 million, which shall be satisfied by the Company allotting and issuing Consideration Shares at the Issue Price of HK$0.471 each. The Directors have advised that (i) the consideration for the Acquisition was determined after arm's length negotiation between the Company and the Vendor with reference to, *inter alia*, the favourable business prospects of the JV Co. in the wine and liquor market in the PRC; and the relevant net asset value of each of Rightsouth, Gold Star and the JV Co.; and (ii) the Exercise Price was determined after arm's length negotiation between the Company and the Vendor with reference to, *inter alia*, the relevant net asset value of the JV Co. and the establishment costs of the JV Co. incurred by the Vendor.

We have noted from the Accountants' Report that the Rightsouth Group's net asset value attributable to the Vendor as at 31 August 2009 was HK$8.5 million. Taking into account the Loan, the consideration for the Transactions of HK$37 million represents a premium ("**Consideration Premium**") of HK$7.3 million or 24.6% over the sum of such net book value and the Loan (i.e. HK$29.7 million).

(i) Issue Price

The Issue Price of HK$0.471 each represents:

(a) a discount to the closing Share price quoted on the Stock Exchange on 25 November 2009, being the last trading day (the "**Last Trading Day**") immediately prior to suspension of trading in the Shares on 26 November 2009 pending release of the Announcement;

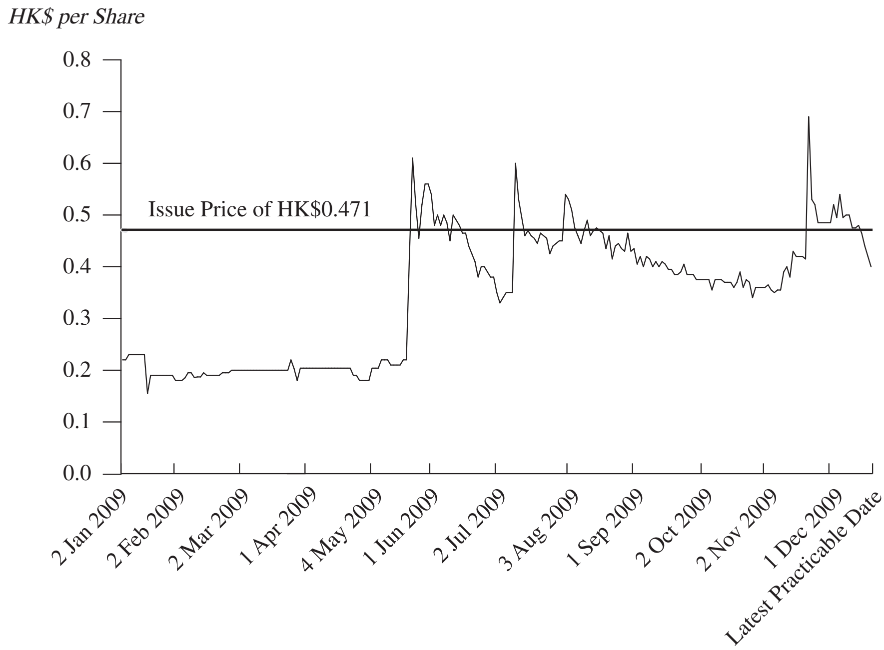
(b) a premium over or a discount to each of the averages of the closing Share prices quoted on the Stock Exchange; and

(c) a premium over each of the net asset value ("**NAV**") and net tangible asset value ("**NTAV**") attributable to the Shareholders per Share, as follows:

Premium/ (Discount) *(%)*	**Closing Share price** *(HK$)*	
(2.9)	0.485	on the Last Trading Day
(10.8)	0.528	as an average over 5 trading days up to and including the Last Trading Day ("**5 Days Average**")
No premium nor discount	0.471	as an average over 10 trading days up to and including the Last Trading Day ("**10 Days Average**")
12.7	0.418	as an average over 20 trading days up to and including the Last Trading Day ("**20 Days Average**")
27.6	0.369	as an average over 180 trading days up to and including the Last Trading Day ("**180 Days Average**")
40.6	0.335	as an average over the period from 2 January 2009 up to and including the Last Trading Day (the "**Review Period**")

Premium *(%)*	**NAV/NTAV per Share** *(HK$)*	
31.2	0.359	NAV per Share as at 30 June 2009
108.4	0.226	NTAV per Share as at 30 June 2009

Set out below are the daily closing Share prices quoted on the Stock Exchange from 2 January 2009 up to and including the Latest Practicable Date:



Source: The website of the Stock Exchange

During the Review Period, the closing Share price fluctuated between HK$0.155 and HK$0.69 with an average of HK$0.335 per Share. The closing Share price shot up from HK$0.415 on 19 November 2009 to HK$0.69 on 20 November 2009 which is four trading days before suspension of trading in the Shares on 26 November 2009 pending release of the Announcement. During the Review Period, the Directors announced on 21 May 2009 and 20 November 2009 that they were not aware of any reasons for the unusual trading volume and price movements on the same days. On 2 December 2009, being the first trading day after the Announcement, the Share price at one time shot up to HK$0.6 and closed at HK$0.52, which represent increases of approximately 23.7% and 7.2% respectively over the closing Share price of HK$0.485 on the Last Trading Day. On 2 December 2009 after the trading hours, the Directors announced the top-up placing (the "**Top-up Placing**") of 36,000,000 new Shares at HK$0.43 each, which placing price represents a discount of 8.7% to the Issue Price or the Issue Price represents a premium of 9.5% over such placing price. Based on the closing Share price of HK$0.4 as at the Latest Practicable Date, the market capitalisation of the Company was approximately HK$245.4 million and the Share price was trading at discount to the Issue Price.

Set out below are the total monthly trading volumes of the Shares and their percentages to the total issued Shares during the Review Period:

	Total monthly trading volume of the Shares	Percentage to the total issued Shares *(%)*
2009		
January	182,000	0.03
February	530,850	0.09
March	1,314,000	0.23
April	*(No Shares traded during the month)*	
May	21,154,999	3.69
June	6,282,000	1.09
July	28,016,000	4.88
August	8,556,500	1.49
September	6,810,000	1.19
October	6,310,000	1.10
November up to the Last Trading Day	66,170,000	11.46
Average	13,211,486	2.30

Source: The website of the Stock Exchange

Liquidity of the Shares was generally thin during the Review Period. The Directors have advised that they were not aware of any reasons for the unusual trading volume movements during the Review Period.

The Issue Price, being the 10 Days Average, is at a discount of 2.9% to the closing Share price on the Last Trading Day and a discount of 10.8% to the 5 Days Average. Such discounts could be possibly due to the unusual movements of the Share price and the trading volume for which the Directors were not aware of the reasons. Despite such discounts, the Issue Price is at a premium over each of the 20 Days Average, the 180 Days Average and the average of the closing Share prices over the Review Period. In addition, the Issue Price is at a 31.2% premium and an 108.4% premium over the NAV and NTAV attributable to the Shareholders per Share as at 30 June 2009 respectively, which are higher than the Consideration Premium of 24.6%. We consider that the premiums represented by the Issue Price are in the interests of the Independent Shareholders.

(ii) Basis of the consideration for the Transactions

In assessing the consideration for the Transactions, we have also considered the price to earnings ("**PE**") multiple and the revenue multiple of the Rightsouth Group implied by the Transactions. We have noted that the Rightsouth Group either made a net loss or broke even for each of the three financial years ended 31 December 2008 where a loss of HK$4.9 million was recorded for the year ended 31 December 2008. Further, based on searches on Bloomberg which we conducted on a best efforts basis, we were not able to identify (a) any transactions having taken place during the period from 1 January 2009 to the Latest Practicable Date which involved an acquirer from either Hong Kong or the PRC and a target company principally engaged in a business similar to that of the Rightsouth Group i.e. an operator of chain-stores selling and distributing wine and liquor in the PRC only; and (b) any companies listed in Hong Kong or the PRC which are principally engaged in such business. Hence, we consider that neither comparable transaction analysis nor comparison with other companies using the PE multiple or the revenue multiple is applicable in this case.

With the expected synergetic benefits of the Transactions to the Enlarged Group as discussed in this letter, we consider that the Transactions will not only enable the Group to enter the wine and liquor market, but also create synergies between the Group's ethanol business and the wine and liquor business of the JV Co. in particular that (a) the Enlarged Group will be in a better position to negotiate for more licensed wine and liquor brands, (b) the Enlarged Group will have a combined network for sales and distribution of its products; and (c) the profit margin in wine and liquor products is expected to be captured through the vertical integration of the businesses.

Further, we consider it is beneficial to the Group that the Transactions enable the Group to have immediate control over the Rightsouth Group which, through the JV Co., has a number of retail points in Guangzhou, PRC selling and distributing a range of wine and liquor brands. The network itself and the speed of obtaining such network, which would otherwise take a longer time for the Group to build, is considered an important success factor for the Group to realise its plan to enter the wine and liquor market in a relatively short period of time given the Harbin production facility is expected to commence operation soon. Taking into account the Loan, the net book value of the Rightsouth Group (including the minority interests) would be HK$32.5 million as at 31 August 2009 over which the Group will have control upon Completion.

We consider that the consideration for the Transactions is fair and reasonable in view of (a) the various synergies as referred to and the benefits of the Transactions as discussed in this paragraph headed "*(ii) Basis of the consideration for the Transactions*" including the immediate control over the Rightsouth Group and the access to the JV Co.'s sales and distribution network upon Completion; and (b) that the Group will have control over the Rightsouth Group's net assets which were HK$32.5 million as at 31 August 2009 upon Completion, taking into account the Consideration Premium of 24.6% being lower than the 31.2% and 108.4% premiums represented by the Issue Price over the relevant NAV per Share and NTAV per Share respectively.

(iii) Specific Mandate and dilution of shareholdings

Set out below are the shareholding structures of the Company (a) as at the date of the Announcement; (b) as at the Latest Practicable Date; and (c) upon Completion as follows:

Shareholders	**As at the date of the Announcement**		**As at the Latest Practicable Date** *(Note)*		**Upon Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
The Vendor	–	–	–	–	78,556,263	11.35
OIL	195,000,000	33.77	195,000,000	31.78	195,000,000	28.18
CEC Agricapital	128,960,000	22.33	128,960,000	21.02	128,960,000	18.63
	323,960,000	56.10	323,960,000	52.80	402,516,263	58.16
Other Shareholders	253,547,000	43.90	289,547,000	47.20	289,547,000	41.84
Total	577,507,000	100.00	613,507,000	100.00	692,063,263	100.00

Note: The increase in the number of Shares in issue from the date of the Announcement to the Latest Practicable Date is because of completion of the Top-up Placing.

The consideration for the Transactions shall be satisfied by the allotment and issue of 78,556,263 Consideration Shares, representing approximately 12.80% of the Shares in issue as at the Latest Practicable Date and approximately 11.35% of the issued Shares as enlarged by the Consideration Shares. The shareholdings of the Shareholders other than the Vendor, OIL and CEC Agricapital shall be diluted by approximately 11.35% from 47.20% as at the Latest Practicable Date to 41.84% upon Completion.

We consider that the Specific Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole despite the dilution of shareholdings in view of (a) that the Issue Price is in the interests of the Independent Shareholders as discussed in the paragraph headed "*(i) Issue Price*" in this letter; (b) the various synergies as referred to and the benefits of the Transactions as discussed in the paragraph headed "*(ii) Basis of the consideration for the Transactions*" in this letter; and (c) that the issuance of the Consideration Shares involves no initial cash outlay to the Group.

(iv) Alternative financing means

The Directors have considered alternative fund raising means to finance the Transactions which include (a) bank borrowings; (b) Shareholders' loan; and (c) disposal of certain assets of the Group. Taking into account the financial conditions of the Group, the issuance of the Consideration Shares is considered appropriate as it is fast, relatively straightforward, interest-free and gearing-free as compared to the alternatives despite its dilutive impact on the existing shareholdings.

Having taken into account that (i) the consideration for the Transactions which was determined on an arm's length basis is fair and reasonable; (ii) the premiums represented by the Issue Price are in the interests of the Independent Shareholders; and (iii) the issuance of the Consideration Shares under the Specific Mandate is fair and reasonable despite the dilution of shareholdings, we consider that the Transactions are on normal commercial terms and the terms of the Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Financial effects of the Transactions on the Enlarged Group

Upon Completion, Rightsouth, Gold Star and the JV Co. will become subsidiaries of the Company, and their financial statements will be consolidated into the financial statements of the Group after Completion. The unaudited pro forma financial information of the Enlarged Group taking into account the Transactions is set out in Appendix III to the Circular for illustrative purposes. The Directors have anticipated the professional fees and other expenses incurred by the Company in connection with the Transactions, the Specific Mandate and the Mandate Renewal to be less than HK$2 million.

Set out below are the financial effects of the Transactions on the Enlarged Group:

(i) Net tangible asset value

	30 June 2009	**Upon Completion (without taking into account the Top-up Placing)**
Net tangible assets attributable to the Shareholders *(HK$)*	129,570,000	157,471,000
Number of Shares	574,507,000	653,063,263 *(Note)*
NTAV attributable to the Shareholders per Share *(HK$)*	0.226	0.241
Enhancement of		6.6%

Note: This number of Shares represents the sum of the number of Shares in issue as at 30 June 2009 (i.e. 574,507,000) plus the number of the Consideration Shares (i.e. 78,556,263).

We consider that the possible enhancement in the net tangible assets attributable to the Shareholders per Share upon Completion is in the interests of the Company and the Shareholders as a whole.

(ii) Revenue and earnings

In view of the revenue track record of the JV Co. and the synergies and benefits expected of the Transactions, it is anticipated that the Transactions would have a positive impact on the future revenue and earnings of the Enlarged Group.

(iii) Cash flow

Since the consideration for the Transactions shall be satisfied by the Company allotting and issuing the Consideration Shares, there will be no impact on the cash flow of the Group in this regard. In view of the synergies and benefits expected of the Transactions, it is anticipated that the Transactions would have a positive impact on the future cash flow of the Enlarged Group.

Taking into account the possible net tangible asset value enhancement and the anticipated positive impact on the Enlarged Group's future revenue, earnings and cash flow as a result of the Transactions, we consider that from the financial perspective, the Transactions are in the interests of the Company and the Shareholders as a whole.

Mandate Renewal

On 3 June 2009, the Directors were granted the General Mandate to allot, issue and deal with up to 114,601,400 Shares, representing 20% of the then issued capital of the Company at the Company's annual general meeting. Since then, 36,000,000 Shares have been issued under the General Mandate pursuant to the Top-up Placing.

The Board has proposed to renew the General Mandate so as to expand and replace the existing General Mandate. At the EGM, the Directors will seek approval of the Independent Shareholders for the Mandate Renewal. According to the "*Letter from the Board*" set out in the Circular, it is expected that up to 122,701,400 new Shares, representing 20% of the share capital of the Company in issue as at the date of the EGM, and any extension thereof will be permitted to be allotted, issued and dealt with by the Directors under the new general mandate.

The issuance of Shares under the new general mandate will cause maximum dilution to shareholdings by approximately 16.67% if the 20% new general mandate is fully utilised. We consider that the Mandate Renewal is fair and reasonable and in the interests of the Company and the Shareholders as a whole for the following reasons:

(i) in comparison with rights issue and open offer, equity financing through the use of the new general mandate is fast and relatively straightforward for the Group to raise capital, and unlike bank borrowings, it is interest-free and gearing-free to the Group;

(ii) the Mandate Renewal will provide the Group with flexibility to determine financing alternatives for future investments and to satisfy any existing funding needs of the Group; and

(iii) the 20% limit imposed on the number of Shares that are allowed to be allotted, issued and dealt with by the Directors under the new general mandate is in accordance with the threshold permitted by the Listing Rules.

DISCUSSION AND ANALYSIS

The Group has undergone significant changes in recent years. The CEC group acquired the control of the Company in April 2005. In July 2007, the Group disposed of its handbag and dairy businesses and became an ethanol producer. The Group is managed by a group of brewery industry veterans and is predominately based in Harbin where the Group's new ethanol production facility is located. We understand that ethanol is a major ingredient for producing liquor which commonly commands a relatively high profit margin. By engaging third party sub-contractors to process a portion of the Group's ethanol products into Chinese baijiu and then selling and distributing it through the networks of the Group and the JV Co., the Group will be able to integrate its ethanol production with the business of the JV Co. to enter the wine and liquor market in the PRC, diversify its earnings base and reduce reliance on its ethanol production business. Taking into account the synergetic benefits expected of the Transactions and that the Group will be able to gain immediate control over the JV Co.'s sales and distribution network in Guangzhou to accommodate the upcoming commencement of operation at the Harbin production facility, we consider that the Transactions represent a reasonable strategic move for the Group to develop its business in the wine and liquor industry in the PRC.

The total consideration for the Transactions of HK$37 million shall be satisfied by the Company allotting and issuing the Consideration Shares at the Issue Price which is a 10 Days Average. We consider that the consideration for the Transactions is fair and reasonable in view of the various synergies and benefits expected of the Transactions to the Enlarged Group as discussed in this letter, the access to the JV Co.'s sales and distribution network and the control over the Rightsouth Group's net assets which were HK$32.5 million as at 31 August 2009 upon Completion, taking into account that the Company is issuing the Consideration Shares at premium over the net book value of the Group which premium is higher than the Consideration Premium.

We consider that the issuance of the Consideration Shares under the Specific Mandate is fair and reasonable and in the interests of the Company and the Shareholders as a whole despite the dilution of shareholdings in view of that the Issue Price is in the interests of the Independent Shareholders as discussed in this letter, the various synergies and benefits expected of the Transactions and that such issuance involves no initial cash outlay to the Group. Taking into account the financial conditions of the Group, the issuance of the Consideration Shares is considered appropriate as compared to such alternatives as bank borrowings, Shareholders' loan and disposal of certain assets of the Group, as it is fast, relatively straightforward, interest-free and gearing-free to the Group. Likewise, we consider that the Mandate Renewal (which involves new Shares permitted to be issued until the next annual general meeting of the Company) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Transactions are expected to result in net tangible asset value enhancement and have a positive impact on the Enlarged Group's future revenue, earnings and cash flow. Therefore, we consider that from the financial perspective, the Transactions are in the interests of the Company and the Shareholders as a whole.

OPINION

Having taken into account the principal factors and reasons set out above, we are of the view that (i) the Transactions, which are not in the ordinary and usual course of business of the Group, are on normal commercial terms, (ii) the terms of the Transactions, the Specific Mandate and the Mandate Renewal are fair and reasonable; and (iii) the Transactions, the Specific Mandate and the Mandate Renewal are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Transactions, the Specific Mandate and the Mandate Renewal.

Yours faithfully,
for and on behalf of
Shenyin Wanguo Capital (H.K.) Limited

Willis Ting	**Felix Chan**
Managing Director	*Associate Director*

1. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2008 AND SIX MONTHS ENDED 30 JUNE 2009

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 December 2008 and the unaudited financial statements of the Group for the six months ended 30 June 2009.

	Six months ended 30 June	**Year ended 31 December**		
	2009	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
RESULTS				
Turnover				
Continuing operations	–	3,780	65,815	–
Discontinued operations	–	–	98,641	167,420
	–	3,780	164,456	167,420
Loss for the year				
Continuing operations	(16,583)	(117,555)	(34,067)	(6,053)
Discontinued operations	–	–	(5,271)	(25,880)
	(16,583)	(117,555)	(39,338)	(31,933)

	As at 30 June	**As at 31 December**		
	2009	**2008**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(audited)	(audited)	(audited)
ASSETS AND LIABILITIES				
Total assets	472,419	476,770	437,093	142,094
Total liabilities	(213,671)	(206,811)	(85,254)	(127,275)
Minority interests	(52,626)	(54,296)	(62,245)	(11,771)
	206,122	215,663	289,594	3,048

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

The audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2008 ("2008 Annual Report") are set out below. The page reference in this report is the same as those in the 2008 Annual Report.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
CONTINUED OPERATIONS			
REVENUE	*5*	3,780	65,815
Cost of sales		(9,923)	(70,472)
Gross loss		(6,143)	(4,657)
Other income	*5*	1,265	555
Selling and distribution costs		(52)	(1,091)
Administrative expenses		(43,300)	(29,001)
Other expenses	*6*	(76,581)	–
Finance costs	*7*	(882)	–
LOSS BEFORE TAX	*6*	(125,693)	(34,194)
Income tax credit	*10*	8,138	127
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(117,555)	(34,067)
DISCONTINUED OPERATIONS			
Loss of discontinued operations		–	(14,889)
Gain on disposal of discontinued operations		–	9,618
Loss for the year from discontinued operations	*12*	–	(5,271)
LOSS FOR THE YEAR		(117,555)	(39,338)
Attributable to:			
Equity holders of the parent	*11*	(104,916)	(34,757)
Minority interests		(12,639)	(4,581)
		(117,555)	(39,338)
Dividends	*13*	–	–
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For loss for the year	*14*	HK(18.54) cents	HK(7.8) cents
– For loss for the year from continuing operations	*14*	HK(18.54) cents	HK(7.4) cents

CONSOLIDATED BALANCE SHEET
31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	355,440	149,702
Prepaid land lease payments	*16*	33,173	32,172
Goodwill	*17*	–	2,328
Other intangible assets	*18*	77,939	145,265
Prepayments for acquisition of property, plant and equipment	*21*	1,487	64,068
Deferred tax assets	*25*	–	505
Total non-current assets		468,039	394,040
CURRENT ASSETS			
Inventories	*20*	461	2,616
Prepayments and other receivables	*21*	3,969	5,434
Due from the immediate holding company	*32*	17	1,560
Due from a fellow subsidiary	*32*	560	435
Tax prepaid		–	154
Cash and bank balances	*22*	3,724	32,854
Total current assets		8,731	43,053
CURRENT LIABILITIES			
Other payables and accruals	*23*	99,240	16,543
Interest-bearing bank and other borrowings	*24*	44,864	–
Due to a fellow subsidiary	*32*	286	–
Due to a minority shareholder of a subsidiary	*32*	34,074	32,034
Tax payable		–	26
Total current liabilities		178,464	48,603
NET CURRENT LIABILITIES		(169,733)	(5,550)
TOTAL ASSETS LESS CURRENT LIABILITIES		298,306	388,490
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*25*	15,460	24,103
Deferred income	*26*	12,887	12,548
Total non-current liabilities		28,347	36,651
Net assets		269,959	351,839
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*27*	57,301	56,600
Reserves	*29(a)*	158,362	232,994
		215,663	289,594
Minority interests		54,296	62,245
Total equity		269,959	351,839

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to equity holders of the parent									
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Share option reserve *HK$'000*	Merger reserve *HK$'000*	Statutory surplus reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
At 1 January 2007		33,200	83,832	–	2,150	2,223	646	(119,003)	3,048	11,771	14,819
Exchange realignment		–	–	–	–	–	6,614	–	6,614	1,953	8,567
Share issue expense	27	–	(2,155)	–	–	–	–	–	(2,155)	–	(2,155)
Total income and expense for the year recognised directly in equity		–	(2,155)	–	–	–	6,614	–	4,459	1,953	6,412
Loss for the year		–	–	–	–	–	–	(34,757)	(34,757)	(4,581)	(39,338)
Total income and expense for the year		–	(2,155)	–	–	–	6,614	(34,757)	(30,298)	(2,628)	(32,926)
Issue of shares	27	23,400	277,760	–	–	–	–	–	301,160	–	301,160
Capital contribution from minority interest		–	–	–	–	–	–	–	–	10,678	10,678
Business combination	30	–	–	–	–	–	–	–	–	51,221	51,221
Disposal of subsidiaries	12	–	–	–	–	(2,223)	376	2,223	376	(8,797)	(8,421)
Equity-settled share option arrangement	28	–	–	15,308	–	–	–	–	15,308	–	15,308
At 31 December 2007		56,600	359,437*	15,308*	2,150*	–*	7,636*	(151,537)*	289,594	62,245	351,839
At 1 January 2008		56,600	359,437	15,308	2,150	–	7,636	(151,537)	289,594	62,245	351,839
Exchange realignment		–	–	–	–	–	11,520	–	11,520	4,690	16,210
Total income and expense for the year recognised directly in equity		–	–	–	–	–	11,520	–	11,520	4,690	16,210
Loss for the year		–	–	–	–	–	–	(104,916)	(104,916)	(12,639)	(117,555)
Total income and expense for the year		–	–	–	–	–	11,520	(104,916)	(93,396)	(7,949)	(101,345)
Issue of shares	27	701	9,795	(8,478)	–	–	–	–	2,018	–	2,018
Equity-settled share option arrangement	28	–	–	17,447	–	–	–	–	17,447	–	17,447
At 31 December 2008		57,301	369,232*	24,277*	2,150*	–*	19,156*	(256,453)*	215,663	54,296	269,959

* *These reserve accounts comprise the consolidated reserves of HK$158,362,000 (2007: HK$232,994,000) in the consolidated balance sheet.*

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		(125,693)	(34,194)
From discontinued operations		–	(6,871)
Adjustments for:			
Finance costs	*7*	882	3,482
Interest income	*5*	(56)	(728)
Loss on disposal of items of property, plant and equipment	*6*	–	921
Gain on disposal of prepaid land lease payments	*6*	–	(898)
Gain on disposal of subsidiaries	*6*	–	(9,618)
Depreciation	*15*	3,420	4,743
Amortisation of prepaid land leases payments	*16*	1,034	351
Amortisation of other intangible assets	*18*	5,474	2,654
Amortisation of deferred income	*26*	(454)	–
Impairment of property, plant and equipment	*15*	9,662	–
Impairment of other intangible assets	*18*	64,591	–
Impairment of goodwill	*17*	2,328	–
Reversal of allowance for impairment of receivables		–	(193)
Equity-settled share option expense	*28*	17,447	15,308
		(21,365)	(25,043)
Decrease/(increase) in inventories		2,155	(1,600)
Decrease/(increase) in prepayments and other receivables		(261)	99,499
Increase/(decrease) in other payables and accruals		14,330	(12,243)
Increase in an amount due from the immediate holding company		(17)	–
Decrease /(Increase) in an amount due from a fellow subsidiary		(125)	817
Increase in an amount due to a fellow subsidiary		286	–
Cash generated from/(used) in operations		(4,997)	61,430
Interest paid		–	(119)
Tax paid		–	(219)
Net cash inflow/(outflow) from operating activities		(4,997)	61,092

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow/(outflow) from operating activities		(4,997)	61,092
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		56	728
Purchase of items of property, plant and equipment		(76,181)	(164,427)
Prepaid land lease prepayments		–	(12,548)
Proceeds from disposal of items of property, plant and equipment		–	2,023
Proceeds from disposals of prepaid land leases payments		–	6,729
Acquisition of subsidiaries		–	5,844
Transaction costs on acquisition of subsidiaries		–	(2,317)
Disposal of subsidiaries	*12*	1,560	(14,135)
Transaction costs on disposal of subsidiaries	*12*	–	(642)
Net cash outflow from investing activities		(74,565)	(178,745)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*27*	2,018	93,960
Share issue expenses	*29*	–	(2,155)
New bank and other borrowings	*24*	44,864	–
Advance from a minority shareholder of a subsidiary		–	35,209
Capital contribution from a minority shareholder of a subsidiary		–	10,678
Interest paid		(576)	–
Net cash inflow from financing activities		46,306	137,692
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(33,256)	20,039
Cash and cash equivalents at beginning of year		32,854	8,614
Effect of foreign exchange rate changes, net		4,126	4,201
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,724	32,854
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	3,724	32,854

BALANCE SHEET
31 December 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		25	39
Investments in subsidiaries	*19*	209,517	209,517
Total non-current assets		209,542	209,556
CURRENT ASSETS			
Prepayments and other receivables	*21*	262	394
Due from subsidiaries	*19*	74,329	79,476
Due from the immediate holding company	*32*	17	1,560
Cash and bank balances	*22*	3,373	2,998
Total current assets		77,981	84,428
CURRENT LIABILITIES			
Other payables and accruals	*23*	964	1,161
Provision for taxation		–	26
Total current liabilities		964	1,187
NET CURRENT ASSETS		77,017	83,241
Net assets		286,559	292,797
EQUITY			
Issued capital	*27*	57,301	56,600
Reserves	*29(b)*	229,258	236,197
Total equity		286,559	292,797

NOTES TO FINANCIAL STATEMENTS
31 December 2008

1. Corporate information

BIO-DYNAMIC GROUP LIMITED was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The address of its principal place of business is 2116 Hutchison House, 10 Harcourt Road, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the financial statements.

Orientelite Investments Limited, a company incorporated in the British Virgin Islands, is the immediate holding company and, in the opinion of the directors, China Enterprise Capital Limited, a company also incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 8 May 2008 and approved by the Registrars of Companies of the Cayman Islands and Hong Kong, the name of the Company was changed from "Wealthmark International (Holdings) Limited" to "BIO-DYNAMIC GROUP LIMITED". The Chinese translation of the Company's name for identification purposes was changed from "和寶國際控股有限公司" to "生物動力集團有限公司".

2.1 Basis of presentation

At 31 December 2008, the Group had net current liabilities of HK$169,733,000 and had bank and other borrowings of HK$44,864,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated net loss of HK$117,555,000 for the year ended 31 December 2008.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(a) The Group is negotiating with certain bankers to obtain additional banking facilities;

(b) The Group is considering to dispose of certain of its operations and properties;

(c) The Group has obtained financial support from its ultimate holding company and fellow subsidiaries; and

(d) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through fund raising exercises.

In addition, during the year, one of the Company's major subsidiaries was not put into operation as this subsidiary had not yet obtained a manufacturing permit from the relevant government body in Mainland China. Accordingly, no operating activities were conducted by this subsidiary during the year and as at the date of approval of the financial statements. The directors are currently arranging for trial-runs of the operation of this subsidiary in order to fulfill the requirement for an application for the manufacturing permit to be made.

On the basis that the Group would obtain additional financial facilities from the bankers, realise certain of its operations and properties and obtain additional funding from other sources, and that the above mentioned subsidiary of the Company would obtain the manufacturing permit for commencement of operations, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the financial statements.

2.2 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.3 Impact of new and revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC) – Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC) – Int 12	*Service Concession Arrangements*
HK(IFRIC) – Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC) – Int 11 HKFRS 2 – Group and Treasury Share Transactions

HK(IFRIC) – Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC) – Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation has had no significant impact on the financial position or results of operations of the Group.

(c) HK(IFRIC) – Int 12 Service Concession Arrangements

HK(IFRIC) – Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC) – Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC) – Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.4 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving*[1] *Disclosure about Finance Instruments*[1]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HKAS(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 *Reassessment of Embedded Derivatives* and *HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives*[5]
HK(IFRIC) – Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC) – Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC) – Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC) – Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC) – Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods beginning on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2009*
3 *Effective for annual periods beginning on or after 1 July 2008*
4 *Effective for annual periods beginning on or after 1 October 2008*
5 *Effective for annual periods ending on or after 30 June 2009*
* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.5 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed 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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial 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 each reporting date as to whether there is any 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. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (d);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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:

Buildings	$3^1/_3$%
Plant and machinery	10%
Leasehold improvements, furniture and fixtures	20%
Motor vehicles	20%-$33^1/_3$%

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 balance sheet date.

An item of property, plant and equipment 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.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation. Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing cost on relevant borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Technology

Purchased technology is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 30 years.

Trademark

Trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 30 years.

Customer base

Customer base is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 20 years.

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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant change in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and 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. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and bills and other payables, an amount due to a fellow subsidiary, an amount due to a minority shareholder of a subsidiary and interest-bearing loans and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses are recognised within "Finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

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 cash flow statement, 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.

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 balance sheet date 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 is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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:

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with investments in subsidiaries, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is created to a deferred income account and is released to the income statement over the expect useful life of the relevant asset by equal annual instalment.

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 discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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 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.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

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 cost capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of subsidiaries in Mainland China is Renminbi ("RMB"). As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Significant accounting estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was Nil (2007: HK$2,328,000). More details are given in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. During the year, impairment provision on certain non-financial assets other than goodwill has been made. Further details are given in note 15 and note 18 to the financial statements.

Useful lives of other intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets other than goodwill. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

Equity settled share option expense

The Company operates a share option scheme under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility, dividend yield and the risk-free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Cost of business combination

On 19 July 2007, the Group completed the acquisition of the entire issued share capital of BAPP Ethanol Holdings Limited ("BAPP Ethanol") and CEC Ethanol (Northeast) Limited ("CEC Ethanol") from its fellow subsidiaries at considerations of HK$120,000,000 and HK$100,000,000, respectively. The considerations were satisfied by the Company through the allotment and issuance of 96,000,000 and 80,000,000 new shares of the Company, respectively, at an issue price of HK$1.25 per share. HKFRS 3 requires the cost of a business combination to be measured at the fair value of the equity instruments issued by the acquirer in exchange for control of the acquiree at the date of exchange. The published price of the Company's shares at the date of exchange is HK$2.57 per share. The directors considered that the published price at the date of exchange of the shares issued is not a suitable indicator of the fair value of these acquisitions due to the thinness of the trading volume of the Company's shares. After further review, the directors estimated that the fair values of the shares issued for the acquisition of BAPP Ethanol and CEC Ethanol were HK$1.08 and HK$1.30 per share, respectively, by reference to the Company's interests in the fair values of BAPP Ethanol and CEC Ethanol determined from value in use calculations.

4. Segment information

During the year ended 31 December 2008, over 90% of the Group's operations related to the manufacture and sale of ethanol products and over 90% of the Group's products were sold to customers located in Mainland China. Accordingly, no segment information has been disclosed.

Segment information for the year ended 31 December 2007 was presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

(i) Primary reporting format – Business segments

The Group's prior year's operating businesses were structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represented a strategic business unit that offered products and services which were subject to risks and returns that were different from those of the other business segments. Summary details of the prior year business segments were as follows:

(a) The ethanol products segment comprised the manufacture, sale and distribution of ethanol products;

(b) the handbags and other accessories segment comprised the manufacture and sale of handbags, garments and other accessories and the provision of related subcontracting services; and

(c) the dairy products segment comprised the manufacture and sale of liquid milk and yogurt.

There were no sales or other transactions among the business segments.

The following table presents revenue, loss and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2007.

	Continuing operations	Discontinued operations			
	Ethanol products	Handbags and other accessories	Dairy products	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2007					
Segment revenue	65,815	76,902	21,739	98,641	164,456
Segment results	(4,657)	4,416	319	4,735	78
Other income	555			635	1,190
Corporate and other unallocated expenses	(30,092)			(8,759)	(38,851)
Finance costs	–			(3,482)	(3,482)
Loss before tax	(34,194)			(6,871)	(41,065)
Income tax credit	127			1,600	1,727
Loss for the year	(34,067)			(5,271)	(39,338)
Assets and liabilities					
Segment assets	432,102			–	432,102
Corporate and other unallocated assets	4,991			–	4,991
Total assets	437,093			–	437,093
Segment liabilities	84,067			–	84,067
Corporate and other unallocated liabilities	1,187			–	1,187
Total liabilities	85,254			–	85,254
Other segment information:					
Depreciation and amortisation	4,177	1,485	2,071	3,556	7,733
Corporate and other unallocated amounts	15			–	15
	4,192			3,556	7,748
Capital expenditure	99,545	575	239	814	100,359
Reversal of allowance for impairment of receivables	–	193	–	193	193

(ii) Secondary reporting format – Geographical segments

In determining the Group's geographical segments, in the prior year, revenues were attributed to the segments based on the location of the customers. Sales or transactions between the geographical segments were eliminated on presentation of segment information of the Group.

	Segment revenue	**Total assets**	**Capital expenditure**
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2007			
United States of America	9,930	–	–
Europe	14,390	–	–
The People's Republic of China ("PRC")	138,286	429,774	100,219
Asia region except the PRC	1,850	4,991	140
	164,456	434,765	100,359
Goodwill		2,328	
Total assets		437,093	

5. Revenue and other income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts.

An analysis of revenue and other income is as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Revenue		
Sale of goods	3,780	164,456
Attributable to:		
Continuing operations	3,780	65,815
Discontinued operations *(note 12)*	–	98,641
	3,780	164,456
Other income		
Government grants*	1,126	–
Bank interest income	56	728
Net foreign exchange gains	–	398
Rental income	–	17
Other income	83	47
	1,265	1,190
Attributable to:		
Continuing operations	1,265	555
Discontinued operations *(note 12)*	–	635
	1,265	1,190

* *The government grants comprise (i) the amount of HK$672,000 related to the Group's compliance with Energy Conservation and Emission Reduction conditions as required by the respective government bodies; and (ii) the amount of HK$454,000 related to the amortisation of the deferred income (note 26).*

6. Loss before tax

The Group's loss before tax is arrived at after charging:

		2008	2007		
	Notes	**Continuing operations**	**Continuing operations**	**Discontinued operations**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost of inventories sold (including write-down of inventories)		9,069	52,496	64,202	116,698
Depreciation	*15*	3,420	1,193	3,550	4,743
Amortisation of other intangible assets	*18*	5,474	2,654	–	2,654
Amortisation of prepaid land lease payments	*16*	1,034	345	6	351
Minimum lease payments under operating leases:					
Land and buildings		360	360	264	624
Auditors' remuneration		720	695	–	695
Employee benefits expense (including directors' remuneration) *(note 8)*					
Wages and salaries		9,864	5,015	19,915	24,930
Equity-settled share option expense		17,447	15,308	–	15,308
Pension scheme contributions		1,307	239	705	944
		28,618	20,562	20,620	41,182
Foreign exchange differences, net		33	132	(530)	(398)
Other expenses:					
Impairment of property, plant and equipment	*15*	9,662	–	–	–
Impairment of other intangible assets	*18*	64,591	–	–	–
Impairment of goodwill	*17*	2,328	–	–	–
		76,581	–	–	–
Loss on disposal of items of property, plant and equipment		–	–	921	921
Gain on disposal of prepaid land lease payments		–	–	(898)	(898)
Gain on disposal of subsidiaries		–	–	(9,618)	(9,618)

7. Finance costs

	Group 2008 *HK$'000*	Group 2007 *HK$'000*
Interest on bank loans and other loans wholly repayable within five years	2,337	119
Interest on an amount due to the immediate holding company wholly repayable within five years	–	3,363
Total interest expense on financial liabilities not at fair value through profit or loss	2,337	3,482
Less: interest capitalised	(1,455)	–
	882	3,482
Attributable to:		
Continuing operations	882	–
Discontinued operations *(note 12)*	–	3,482
	882	3,482

8. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group 2008 *HK$'000*	Group 2007 *HK$'000*
Fees	1,500	1,330
Other emoluments of directors:		
Salaries, allowances and benefits in kind	2,700	1,015
Equity-settled share option expense	11,133	9,806
Pension scheme contributions	16	16
	15,349	12,167

During the year, certain share options which were previously granted under the share option scheme of the Company to certain directors were modified, further details of which are set out in note 28 to the financial statements. The increase in the fair value of the new options has been recognised in the income statement upon the grant date and is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Dr. Leung Kwan-Kwok	150	150
Mr. Zuchowski Sam	150	150
Dr. Loke Yu	150	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and a non-executive director

	Fees	**Salaries, allowances and benefits in kind**	**Equity-settled share option expense**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008					
Executive directors:					
Mr. Peter Lo	150	–	1,746	8	1,904
Mr. David Lee Sun	150	–	1,746	8	1,904
Mr. Li Wentao	150	1,050	1,874	–	3,074
Mr. Zhao Difei	150	650	2,089	–	2,889
Mr. Lu Gui Pin	150	350	1,589	–	2,089
Mr. Li Jian Quan	150	650	2,089	–	2,889
	900	2,700	11,133	16	14,749
Non-executive director:					
Mr. Derek Emory Ting-Lap Yeung	150	–	–	–	150

	Notes	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007						
Executive directors:						
Mr. Peter Lo		150	–	1,524	8	1,682
Mr. Li Wentao		150	301	1,524	–	1,975
Mr. David Lee Sun		150	–	1,524	8	1,682
Mr. Zhao Difei	(a)	65	281	1,901	–	2,247
Mr. Li Jian Quan	(a)	65	281	1,901	–	2,247
Mr. Lu Gui Pin	(a)	65	152	1,432	–	1,649
Mr. Fu Hui	(b)	85	–	–	–	85
		730	1,015	9,806	16	11,567
Non-executive director:						
Mr. Derek Emory Ting-Lap Yeung		150	–	–	–	150

There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

Notes:

(a) appointed on 26 July 2007

(b) resigned on 26 July 2007

9. Five highest paid employees

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year ended 31 December 2007 is as follows:

Group

	Group 2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	540	540
Equity-settled share option expense	1,469	1,147
Pension scheme contributions	12	12
	2,021	1,699

10. Tax

During the year, no Hong Kong profits tax has been provided as there was no assessable profit arising from Hong Kong and no tax on profits assessable elsewhere has been provided. In the prior year, Hong Kong profits tax had been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during that year.

	2008 *HK$'000*	2007 *HK$'000*
Group:		
Current – Hong Kong	–	151
Current – Overseas	–	(1,565)
Deferred *(note 25)*	(8,138)	(313)
Total tax credit for the year	(8,138)	(1,727)
Attributable to:		
Continuing operations	(8,138)	(127)
Discontinued operations *(note 12)*	–	(1,600)
	(8,138)	(1,727)

A reconciliation of the tax credit applicable to loss before tax using the statutory rates for Hong Kong in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2008 *HK$'000*	*%*	2007 *HK$'000*	*%*
Loss before tax	(125,693)		(41,065)	
Tax at statutory tax rate	(20,739)	16.50	(7,186)	17.50
Overprovision in prior years	–	–	(1,560)	3.80
Expenses not deductible for tax	3,263	(2.60)	5,000	(12.18)
Income not subject to tax	–	–	(2,021)	4.92
Tax effect of temporary differences not recognised	–	–	(300)	0.73
Tax losses utilised from previous years	–	–	(1,266)	3.08
Tax losses not recognised	12,105	(9.63)	7,879	(19.19)
Effect of different tax rates of subsidiaries	(2,767)	2.20	(2,273)	5.54
Tax credit at the Group's effective rate	(8,138)	6.47	(1,727)	4.2

Under the new corporate income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. One of the Group's subsidiaries is exempted from PRC corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Although this subsidiary has no assessable profit since its date of registration, based on the State Council Circular on the Implementation of Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), this subsidiary should be subject to the first year exemption in 2008 whether or not it has assessable profit.

11. Loss attributable to equity holders of the parent

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of approximately HK$25,703,000 (2007: HK$74,419,000) which has been dealt with in the financial statements of the Company *(note 29(b))*.

12. Discontinued operations

On 11 May 2007, the Company entered into an agreement with the immediate holding company for the disposal of the entire issued share capital of Glory Access Limited (the "GAL") and Agricapital (Tianjin) Limited (the "ATL"), both being wholly-owned subsidiaries of the Company, for a total consideration of US$200,000 (approximately HK$1,560,000). GAL and its subsidiaries were engaged in the manufacture and sale of handbags, garments and other accessories and the provision of related subcontracting services while ATL and its subsidiaries were engaged in the manufacture and sale of liquid milk and yogurt. The disposal was completed on 19 July 2007.

The results of the subsidiaries disposed of for the year ended 31 December 2007 are presented below:

	2007
	HK$'000
Turnover	98,641
Cost of sales	(93,906)
Other income	635
Reversal of allowance for impairment of receivables	193
Expenses	(18,570)
Finance costs	(3,482)
Loss before tax from the discontinued operations	(16,489)
Income tax credit	1,600
Loss for the year from the discontinued operations	(14,889)

The major classes of assets and liabilities of the subsidiaries disposed of on the completion date in 2007 are as follows:

	HK$'000
Property, plant and equipment	43,385
Prepaid land lease payments	460
Goodwill	11,010
Inventories	33,992
Trade and other receivables	36,204
Cash and bank balances	14,135
Due to the immediate holding company	(79,909)
Trade and other payables	(52,770)
Due to a minority shareholder of a subsidiary	(6,259)
Current tax payable	(527)
Minority interests	(8,797)
Exchange reserve	376
Net liabilities disposed of	(8,700)
Transaction costs on disposal of subsidiaries	642
Gain on disposal of subsidiaries	9,618
Consideration receivable*	1,560
Net cash outflow arising on disposal	
Cash and bank balances disposed of	14,135

* *The consideration receivable was outstanding as at 31 December 2007 and included in the amount due from the immediate holding company in 2007.*

The net cash flows incurred by the subsidiaries disposed of are as follows:

	2008	2007
	HK$'000	*HK$'000*
Operating activities	–	(4,503)
Investing activities	1,560	8,017
Financing activities	–	3,078
Net cash inflow	1,560	6,592

Loss per share:	
Basic, from the discontinued operation	HK0.4 cent

The calculations of basic loss per share from the discontinued operation are based on loss attributable to equity holders of the parent from the discontinued operations of HK$2,008,000 and the weighted average number of ordinary shares in issue in year 2007 of 443,347,945 shares as used in the basic loss per share calculation for the year.

13. Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

14. Loss per share

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

The calculation of basic loss per share is based on:

	2008	2007
	HK$'000	*HK$'000*
Loss		
Loss attributable to equity holders of the parent used in the basic loss per share calculation:		
From continuing operations	(104,916)	(32,749)
From discontinued operations	–	(2,008)
	(104,916)	(34,757)

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	566,019,197	443,347,945

As the exercise price of the share options outstanding at the each of balance sheet dates was higher than the average market price of the Company's ordinary shares during both years, no shares were assumed to have been issued on the deemed exercise of the Company's options for the years ended 31 December 2007 and 2008. No diluted loss per share has been presented.

15. Property, plant and equipment

Group

	Buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	10,483	22,283	155	118	117,928	150,967
Accumulated depreciation	(173)	(1,033)	(40)	(19)	–	(1,265)
Net carrying amount	10,310	21,250	115	99	117,928	149,702
At 1 January 2008, net of accumulated depreciation	10,310	21,250	115	99	117,928	149,702
Additions	–	521	–	–	208,941	209,462
Impairment	(2,025)	(7,043)	(15)	(22)	(557)	(9,662)
Depreciation provided during the year	(1,059)	(2,324)	(27)	(10)	–	(3,420)
Transfers	73,282	545	–	–	(73,827)	–
Exchange realignment	617	1,228	5	5	7,503	9,358
At 31 December 2008, net of accumulated depreciation and impairment	81,125	14,177	78	72	259,988	355,440
At 31 December 2008:						
Cost	84,434	24,767	161	125	260,552	370,039
Accumulated depreciation and impairment	(3,309)	(10,590)	(83)	(53)	(564)	(14,599)
Net carrying amount	81,125	14,177	78	72	259,988	355,440

An impairment loss of HK$9,662,000 (2007: Nil) was recognised for property, plant and equipment held by the Group because the respective carrying amounts were lower than the recoverable amounts of these assets estimated by the directors of the Company.

Group

	Buildings	Plant and Machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Moulds	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2007							
At 31 December 2006 and at 1 January 2007:							
Cost	22,804	62,971	32,121	3,406	2,285	–	123,587
Accumulated depreciation and impairment	(8,445)	(31,822)	(30,628)	(1,348)	(2,247)	–	(74,490)
Net carrying amount	14,359	31,149	1,493	2,058	38	–	49,097
At 1 January 2007, net of accumulated depreciation	14,359	31,149	1,493	2,058	38	–	49,097
Additions	2,227	234	289	51	3	97,555	100,359
Acquisition of subsidiaries *(note 30)*	8,208	21,413	41	113	–	19,584	49,359
Disposals	(2,944)	–	–	–	–	–	(2,944)
Disposal of subsidiaries *(note 12)*	(11,321)	(28,851)	(1,366)	(1,818)	(29)	–	(43,385)
Depreciation provided during the year	(546)	(3,531)	(344)	(310)	(12)	–	(4,743)
Exchange realignment	327	836	2	5	–	789	1,959
At 31 December 2007, net of accumulated depreciation	10,310	21,250	115	99	–	117,928	149,702
At 31 December 2007:							
Cost	10,483	22,283	155	118	–	117,928	150,967
Accumulated depreciation	(173)	(1,033)	(40)	(19)	–	–	(1,265)
Net carrying amount	10,310	21,250	115	99	–	117,928	149,702

16. Prepaid land lease payments

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Carrying amount at 1 January	33,297	6,296
Acquisition of subsidiaries *(note 30)*	–	20,286
Additions	–	12,548
Disposals	–	(6,291)
Recognised during the year	(1,034)	(351)
Exchange realignment	2,107	809
Carrying amount at 31 December	34,370	33,297
Current portion included in prepayments and other receivables	(1,197)	(1,125)
Non-current portion	33,173	32,172

The leasehold land is held under medium term leases and is situated in Mainland China.

17. Goodwill

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1 January		
Cost	2,328	11,010
Accumulated impairment	–	–
Net carrying amount	2,328	11,010
Cost at 1 January 2007, net of accumulated impairment	2,328	11,010
Acquisition of subsidiaries *(note 30)*	–	2,328
Disposal of subsidiaries *(note 12)*	–	(11,010)
Impairment during the year	(2,328)	–
At 31 December	–	2,328

Impairment testing of goodwill

Goodwill acquired through a business combination in the prior year had been allocated to the ethanol products cash-generating unit ("CGU") that was expected to attribute to the opportunity to improve the Group's earnings base.

The recoverable amount of the ethanol products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13.60% (2007: 22.15% to 23.65%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2% which does not exceed the average long-term growth rate of the industry in which the ethanol business operates.

Key assumptions were used in the value in use calculation of the ethanol products for 31 December 2008 and 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year.

18. Other intangible assets

Group	**Technology**	**Trademark**	**Customer base**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2008				
Cost at 1 January 2008, net of accumulated amortisation	94,290	25,546	25,429	145,265
Amortisation provided during the year	(3,196)	(909)	(1,369)	(5,474)
Impairment during the year	(29,255)	(10,017)	(25,319)	(64,591)
Exchange realignments	–	1,480	1,259	2,739
At 31 December 2008	61,839	16,100	–	77,939
At 31 December 2008:				
Cost	95,888	27,633	27,742	151,263
Accumulated amortisation and impairment	(34,049)	(11,533)	(27,742)	(73,324)
Net carrying amount	61,839	16,100	–	77,939
31 December 2007				
Cost at 1 January 2007, net of accumulated amortisation	–	–	–	–
Acquisition of subsidiaries *(note 30)*	95,888	24,971	25,070	145,929
Amortisation provided during the year	(1,598)	(421)	(635)	(2,654)
Exchange realignments	–	996	994	1,990
At 31 December 2007	94,290	25,546	25,429	145,265
At 31 December 2007 and at 1 January 2008:				
Cost	95,888	25,978	26,081	147,947
Accumulated amortisation	(1,598)	(432)	(652)	(2,682)
Net carrying amount	94,290	25,546	25,429	145,265

Aggregate impairment losses of HK$64,591,000 (2007: Nil) were recognised for certain other intangible assets due to the fact that the recoverable amounts of these intangible assets were estimated to be less than the carrying amounts.

19. Investments in subsidiaries

	Company	
	2008	**2007**
	HK$'000	*HK$'000*
Unlisted shares, at cost	209,517	209,517
Due from subsidiaries	74,329	79,476
	283,846	288,993

The amounts due from subsidiaries included in the Company's current assets of HK$74,329,000 (2007: HK$79,476,000) are unsecured, interest-free and has no fixed terms of repayments.

Particulars of the subsidiaries as at 31 December 2008 are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary registered share capital**	**Percentage of equity attributable to the Company**		**Principal activities**
			Direct	**Indirect**	
BAPP Ethanol Holdings Limited	The British Virgin Islands (The "BVI")/ Hong Kong	4,450,682 ordinary shares of US$1	100%	–	Investment holding
BAPP (Northwest) Limited	BVI/Hong Kong	1 ordinary share of US$1	–	100%	Investment holding
CEC Ethanol (Northeast) Limited	BVI/Hong Kong	12,750,315 ordinary shares of US$1	100%	–	Investment holding
寧夏西部光彩新能源高新技術有限公司 Ningxia West Bright New Resource Technology Co., Ltd. (a)(b)	People's Republic of China/ Mainland China	RMB40,000,000	–	100%	Manufacture and sale of ethanol
哈爾濱中國釀酒有限公司 Harbin China Distillery Co., Ltd. (a)(c)	People's Republic of China/ Mainland China	RMB220,000,000	–	72.7%	Not commenced operation
Skymax International Investment Enterprise Limited	Hong Kong	1 ordinary share of HK$1	–	100%	Inactive
Bio-Dynamic China Limited	Hong Kong	1 ordinary share of HK$1	100%	–	Inactive

(a) For identification purposes only.

(b) The company is registered as a wholly-foreign-owned enterprise established under PRC law.

(c) The company is registered as a Sino-foreign equity joint venture established under PRC law.

During the year ended 31 December 2007, the Company acquired the entire issued share capital of BAPP Ethanol Holdings Limited and CEC Ethanol (Northeast) Limited from its fellow subsidiaries *(see note 30)*.

20. Inventories

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Raw materials	461	2,066
Work in progress	–	250
Finished goods	–	300
	461	2,616

21. Prepayments and other receivables

	Group		**Company**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current:				
Prepayments	1,461	2,326	262	394
Other receivables	1,274	2,153	–	–
Tax recoverable	1,234	955	–	–
	3,969	5,434	262	394
Non-current:				
Prepayments	1,487	64,068	–	–

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.

22. Cash and bank balances

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to HK$184,000 (2007: HK$17,684,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

23. Other payables and accruals

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Other payables	96,920	15,382	–	–
Accruals	2,320	1,161	964	1,161
	99,240	16,543	964	1,161

Other payables are non-interest-bearing and have an average term of three months.

24. Interest-bearing bank and other borrowings

Group	2008 Effective interest rate (%)	2008 Maturity	2008 HK$'000	2007 HK$'000
Current				
Bank loan – unsecured	7.47	2009	18,627	–
Other loans – unsecured	9.72	2009	26,237	–
			44,864	–

	Group 2008 HK$'000	Group 2007 HK$'000
Analysed into:		
Bank loans and other borrowings:		
Within one year	44,864	–

Notes:

(a) The Group's bank and other borrowings are denominated in RMB and bear interest at fixed interest rates.

(b) The Group's bank loans of HK$18,627,000 are guaranteed by the pledged deposit of US$2,680,793 held by a fellow subsidiary of the Group.

The carrying amounts of the Group's borrowings approximate to their fair values.

25. Deferred tax

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

Group

	2008 *HK$'000*	**2007** *HK$'000*
At 1 January	505	–
Fair value adjustments arising from acquisition of subsidiaries	–	422
Deferred tax credited/(charged) to the income statement during the year *(note 10)*	(505)	83
Gross deferred tax assets at 31 December	–	505

Deferred tax liabilities

Group

	2008	**2007**		
	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	**Fair value adjustments arising from acquisition of subsidiaries** *HK$'000*	**Accelerated tax depreciation** *HK$'000*	**Total** *HK$'000*
At 1 January	24,103	–	183	183
Acquisition of subsidiaries	–	24,147	–	24,147
Deferred tax credited to the income statement during the year *(note 10)*	(8,643)	(44)	(186)	(230)
Exchange realignment	–	–	3	3
Gross deferred tax liabilities at 31 December	15,460	24,103	–	24,103

The Group has tax losses arising in Hong Kong of HK$9,990,000 (2007: HK$226,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$63,376,000 (2007: HK$13,441,000) that will expire in the next five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

26. Deferred income

The table below presents the movements in deferred income:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
At 1 January	12,548	–
Additions	–	12,548
Amortised during the year *(note 5)*	(454)	–
Exchange realignment	793	–
	12,887	12,548

The balance represents the government grant for the construction of certain of the Group's production plants and has been accounted for as deferred income under non-current liabilities on the consolidated balance sheet. Such deferred income is amortised on a straight line basis to the consolidated income statement over the expected useful lives of the relevant assets acquired.

27. Share capital

	2008	**2007**
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2007: 1,000,000,000) ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
573,007,000 (2007: 566,000,000) ordinary shares of HK$0.1 each	57,301	56,600

During 2007 and 2008, the movements in share capital were as follows:

(a) On 18 June 2007, 58,000,000 new shares of HK$0.1 each were issued at HK$1.62 per share to the immediate holding company pursuant to a placing and subscription agreement. These shares rank pari passu in all respects with the existing shares. The net proceeds totalling approximately HK$91,826,000 have been and will be used for the Group's general working capital purposes.

(b) On 19 July 2007, 176,000,000 new shares of HK$0.1 each were issued to certain fellow subsidiaries to satisfy the considerations for the acquisitions of BAPP Ethanol and CEC Ethanol. More details of the acquisitions are given in note 30 to the financial statements.

(c) On 31 December 2008, 7,007,000 share options were exercised at the subscription price of HK$0.288 per share *(note 28)*, resulting in the issue of 7,007,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$2,018,000. The share option reserve of HK$8,478,000 in respect of the share options exercised during the year was transferred to the share premium account.

A summary of the transactions during 2007 and 2008 with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Share capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2007	332,000,000	33,200	83,832	117,032
Shares issued on 18 June 2007 (a)	58,000,000	5,800	277,760	283,560
Share issue expense	–	–	(2,155)	(2,155)
Consideration shares issued (b)	176,000,000	17,600	–	17,600
At 31 December 2007 and 1 January 2008	566,000,000	56,600	359,437	416,037
Share options exercised (c)	7,007,000	701	9,795	10,496
At 31 December 2008	573,007,000	57,301	369,232	426,533

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 23 May 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer, and (iii) the nominal value of the Company's shares on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 31 October 2008, the Company granted new share options to certain directors and employees for replacing the share options previously granted to them on 7 June 2007 and 26 July 2007. The exercise prices of the new options granted have been reduced from HK$2.44 and HK$1.97 to HK$0.288 per share. The exercise period has been changed from 10 years to 3 years. The total number of share options granted has been increased from 29,600,000 shares to 39,130,000 shares. The closing price of the Company's shares immediately before the date of grant was HK$0.28 per share.

The following share options were outstanding under the Scheme in the year 2008 and 2007:

	2008		**2007**	
	Weighted average exercise price *HK$ per share*	**Number of options** *'000*	**Weighted average exercise price** *HK$ per share*	**Number of options** *'000*
At 1 January	2.21	29,600	–	–
Cancelled during the year	2.21	(29,600)	–	–
Granted during the year	0.288	39,130	2.21	29,600
Exercised during the year	0.288	(7,007)	–	–
At 31 December	0.288	32,123	2.21	29,600

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.22 per share (2007: HK$Nil).

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2008

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
12,558	0.288	31-10-2008 to 30-10-2011
19,565	0.288	31-10-2009 to 30-10-2012
32,123		

2007

Number of options	**Exercise price***	**Exercise period**
'000	*HK$ per share*	
7,230	1.97	7-6-2008 to 6-6-2017
7,230	1.97	7-6-2009 to 6-6-2017
7,570	2.44	26-7-2008 to 25-7-2017
7,570	2.44	26-7-2009 to 25-7-2017
29,600		

* *The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair value of the share options granted during the year was HK$5,393,000 (HK$0.14 each) (2007: HK$36,571,000 HK$1.24 each) of which the Group recognised a share option expense of HK$17,447,000 (2007: HK$15,308,000) during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008		**2007**	
	Grant dates			
	31-10-2008	**31-10-2008**	**6-6-2007**	**26-7-2007**
Dividend yield *(%)*	0.00	0.00	0.00	0.00
Expected volatility *(%)*	105.84	96.78	97.97	102.31
Historical volatility *(%)*	105.84	96.78	97.97	102.31
Risk-free interest rate *(%)*	1.221	1.804	4.695	4.711
Expected life of options *(year)*	3.00	4.00	10.00	10.00
Weighted average share price *(HK$ per share)*	0.288	0.288	1.97	2.44

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 7,007,000 share options exercised during the year resulted in the issue of 7,007,000 ordinary shares of the Company and new share capital of HK$700,700 and share premium of HK$9,795,000 (before issue expenses), as further detailed in note 27 to the financial statements.

At the balance sheet date, the Company had 32,123,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 32,123,000 additional ordinary shares of the Company and additional share capital of HK$3,212,000 and share premium of HK$6,039,000 (before issue expenses).

Subsequent to the balance sheet date, on 11 February 2009, a total of 600,000 share options were granted to certain of the directors of the Company in respect of their services to the Group in the forthcoming year. 300,000 options vest immediately and have an exercise price of HK$0.19 per share and an exercise period from 11 February 2009 to 10 February 2012. 300,000 share options vest on 11 February 2010 and have an exercise price of HK$0.19 per share and an exercise period from 11 February 2010 to 10 February 2013. The closing price of the Company's shares at the date of grant was HK$0.187 per share.

At the date of approval of these financial statements, the Company had 32,723,000 share options outstanding under the Scheme, which represented approximately 5.71% of the Company's shares in issue as at that date.

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

Share premium

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to the eligible participants recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 2.5 to the financial statements.

Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares issued and the nominal value of shares of the subsidiaries acquired at the time of the group reorganisation on 29 December 2000.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.5 to the financial statements.

(b) Company

	Notes	Share premium account *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Balance at 1 January 2007		83,832	–	(64,129)	19,703
Share issue expense	*27*	(2,155)	–	–	(2,155)
Issue of shares	*27*	277,760	–	–	277,760
Equity-settled share option expense	*28*	–	15,308	–	15,308
Loss for the year		–	–	(74,419)	(74,419)
At 31 December 2007		359,437	15,308	(138,548)	236,197
Share options exercised	*27*	9,795	(8,478)	–	1,317
Equity-settled share option expense	*28*	–	17,447	–	17,447
Loss for the year		–	–	(25,703)	(25,703)
At 31 December 2008		369,232	24,277	(164,251)	229,258

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

30. Business combination

On 19 July 2007, the Group completed the acquisition of the entire issued share capital of BAPP Ethanol and CEC Ethanol from its fellow subsidiaries at considerations of HK$120,000,000 and HK$100,000,000, respectively. The considerations were satisfied by the Company through the allotment and issuance of 96,000,000 and 80,000,000 new shares of the Company, respectively, at an issue price of HK$1.25 per share. The acquisition of BAPP Ethanol and CEC Ethanol was completed on 19 July 2007.

BAPP Ethanol and CEC Ethanol were engaged in investment holding. Their subsidiaries are engaged in the manufacture, sale and distribution of ethanol products.

The identifiable assets and liabilities acquired as at the date of acquisition are as follows:

	BAPP Ethanol		CEC Ethanol	
	Fair value	**Carrying amount**	**Fair value**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	28,287	27,587	21,072	21,483
Other intangible assets	95,888	–	50,041	51,320
Prepaid land lease payments	5,388	5,388	14,898	14,898
Deferred tax assets	–	–	422	–
Inventories	1,776	1,776	2,401	2,401
Trade and other receivables	1,427	1,427	104,167	104,167
Current tax assets	–	–	148	148
Due from fellow subsidiaries	418	418	834	834
Cash and bank balances	1,421	1,421	4,423	4,423
Deferred tax liabilities	(24,147)	–	–	–
Trade and other payables	(6,319)	(6,319)	(44,135)	(44,135)
Minority interests	–	–	(51,221)	(51,221)
		31,698		104,318
Net assets acquired	104,139		103,050	
Goodwill	519		1,809	
	104,658		104,859	
Satisfied by:				
Fair value of shares issued	103,500		103,700	
Transaction costs of acquisition	1,158		1,159	
	104,658		104,859	
Net cash inflow arising on acquisition:				
Cash and bank balances	1,421		4,423	

The acquisition constituted a non-cash transaction for the year ended 31 December 2007.

Since its acquisition, BAPP Ethanol and CEC Ethanol contributed approximately HK$65,815,000 to the Group's turnover and approximately HK$12,287,000 to the Group's loss before tax for the year ended 31 December 2007.

If the acquisition had been completed on 1 January 2007, the Group's turnover for the year would have been approximately HK$293,053,000 and loss for the year would have been approximately HK$37,425,000.

31. Commitments

	Group 2008 HK$'000	2007 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	–	58,032
Acquisition of additional interests in a non-wholly-owned subsidiary *(note 35)*	68,148	64,068
	68,148	122,100

32. Related party transactions and balances

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related party during the year:

	2008 HK$'000	2007 HK$'000
Related company:		
Rental paid to a related company*	360	360
Immediate holding company:		
Disposal of subsidiaries to the immediate holding company	–	1,560
Fellow subsidiaries:		
Interest paid to the immediate holding company	–	3,363
Acquisition of subsidiaries from fellow subsidiaries	–	207,200

* *The rental expense was charged at a rate of HK$30,000 per month.*

(b) The Group had the following balances with related parties:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from related parties				
Due from a fellow subsidiary	560	435	–	–
Due from the immediate holding company	17	1,560	17	1,560
	577	1,995	17	1,560
Due to related parties				
Due to a fellow subsidiary	286	–	–	–
Due to a minority shareholder of a subsidiary	34,074	32,034	–	–
	34,360	32,034	–	–

Notes:

These balances are unsecured, interest-free, have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(c) Compensation of key management personnel of the Group

	2008	**2007**
	HK$'000	*HK$'000*
Short-term employee benefits	4,200	2,345
Post-employment benefits	16	16
Equity-settled share option expense	11,133	9,806
Total compensation paid to key management personnel	15,349	12,167

Further details of directors' emoluments are included in note 8 to the financial statements.

33. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group		Company	
	2008	**2007**	**2008**	**2007**
	Loans and receivables	**Loans and receivables**	**Loans and receivables**	**Loans and receivables**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments and other receivables	1,274	2,153	262	394
Cash and bank balances	3,724	32,854	3,373	2,998
Due from a fellow subsidiary	560	435		
Due from the immediate holding company	17	1,560	17	1,560
Due from subsidiaries	–	–	74,329	79,476
	5,575	37,002	77,981	84,428

Financial liabilities

	Group		Company	
	2008	**2007**	**2008**	**2007**
	Financial liabilities at amortised cost	**Financial liabilities at amortised cost**	**Financial liabilities at amortised cost**	**Financial liabilities at amortised cost**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals *(note 23)*	99,240	16,543	964	1,161
Interest-bearing bank and other borrowings	44,864	–	–	–
Due to a fellow subsidiary	286	–	–	–
Due to a minority shareholder of a subsidiary	34,074	32,034	–	–
	178,464	48,577	964	1,161

34. Financial risk management objectives and policies

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from/to related parties, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group'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 as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to short term borrowings with fixed rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain bank balances denominated in Hong Kong dollars ("HK$") and United States dollars ("US$"). The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity due to changes in the fair value of monetary assets and liabilities.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in equity*
	%	*HK$'000*
2008		
If HK$ weakens against RMB	5	7,799
If HK$ strengthens against RMB	-5	(7,799)
2007		
If HK$ weakens against RMB	5	(2,110)
If HK$ strengthens against RMB	-5	2,110

* *Excluding retained earnings*

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from a fellow subsidiary and the immediate holding company, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are analysed by counterparty by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from other receivables are disclosed in note 21 to the financial statements.

Liquidity risk

The Group 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 Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

The maturity profile of the Group's financial liabilities as at 31 December 2008 and 2007, based on the contractual undiscounted payments, was as follows:

Group

	2008	
	Within 1 year	**Total**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	99,240	99,240
Interest-bearing bank and other borrowings	44,864	44,864
Due to a fellow subsidiary	286	286
Due to a minority shareholder of a subsidiary	34,074	34,074
	178,464	178,464

	2007	
	Within 1 year	**Total**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	16,543	16,543
Due to a minority shareholder of a subsidiary	32,034	32,034
	48,577	48,577

Company

	2008	
	Within 1 year	**Total**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	964	964

	2007	
	Within 1 year	**Total**
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	1,161	1,161

Capital management

The primary objectives of the Group's capital management are to safeguard the Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group 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 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain an optimal capital structure which reduces cost of capital. Net debt includes other payables, interest-bearing bank and other borrowings, amounts due to a fellow subsidiary and a minority shareholder of a subsidiary. Capital includes equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008	**2007**
	HK$'000	*HK$'000*
Other payables and accruals	99,240	16,543
Interest-bearing bank and other borrowings	44,864	–
Due to a fellow subsidiary	286	–
Due to a minority shareholder of a subsidiary	34,074	32,034
Less: Cash and bank balances	(3,724)	(32,854)
Net debt	174,740	15,723
Capital	215,663	289,594
Capital and net debt	390,403	305,317
Gearing ratio	45%	5%

35. Post balance sheet event

(a) On 11 February 2009, 600,000 share options were granted to certain directors of the Company, as further detailed in note 28 to the financial statements.

(b) On 23 April 2009, the board of directors of the Company resolved to terminate a sale and purchase agreement, which was entered into on 9 November 2007, in connection with the intended acquisition of additional interests in a non-wholly-owned subsidiary *(note 31)*.

36. Comparative amounts

In order to conform with the current year presentation, certain prior year comparatives have been reclassified. HK$64,068,000 previously included in current assets "Prepayments and other receivables" has been reclassified as "Prepayment for acquisition of property, plant and equipment" in non-current assets; HK$12,548,000 previously included in "Other payables" has been reclassified as "Deferred income" in non-current liabilities, and HK$1,125,000 representing the current portion of prepaid land lease payments has been reclassified to "Prepayments and other receivables".

3. UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009

The following financial information is an extract of the interim report of the Group for the six months ended 30 June 2009.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009	**2008**
		(Unaudited)	**(Unaudited)**
		HK$'000	*HK$'000*
REVENUE	*5*	–	3,975
Cost of sales		–	(7,219)
Gross loss		–	(3,244)
Other income	*5*	230	97
Administrative expenses		(16,381)	(23,768)
Finance costs	*6*	(703)	–
LOSS BEFORE TAX	*7*	(16,854)	(26,915)
Tax	*8*	271	1,100
LOSS FOR THE PERIOD		(16,583)	(25,815)
Attributable to:			
Equity holders of the parent		(14,979)	(24,647)
Minority interests		(1,604)	(1,168)
		(16,583)	(25,815)
Dividends	*9*	–	–
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	*10*	HK(2.6) cents	HK(4.4) cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	(16,583)	(25,815)
Exchange differences on translation of foreign operations	(268)	17,318
OTHER COMPREHENSIVE INCOME /(LOSS) FOR THE PERIOD, NET OF TAX	(268)	17,318
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(16,851)	(8,497)
Attributable to:		
Equity holders of the parent	(15,181)	(12,109)
Minority interests	(1,670)	3,612
	(16,851)	(8,497)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2009

	Notes	**30 June 2009 (Unaudited)** *HK$'000*	**31 December 2008 (Audited)** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	353,092	355,440
Prepaid land lease payments	*12*	32,831	33,173
Other intangible assets	*13*	76,552	77,939
Prepayments for acquisition of property, plant and equipment		1,486	1,487
Total non-current assets		463,961	468,039
CURRENT ASSETS			
Inventories		3,129	461
Prepayments and other receivables		4,194	3,969
Due from the immediate holding company		–	17
Due from a fellow subsidiary		329	560
Cash and bank balances		806	3,724
Total current assets		8,458	8,731
CURRENT LIABILITIES			
Trade payables		3,477	–
Other payables and accruals		102,670	99,240
Interest-bearing bank and other borrowings		45,376	44,864
Due to a fellow subsidiary		286	286
Due to a minority shareholder of a subsidiary		34,032	34,074
Total current liabilities		185,841	178,464
NET CURRENT LIABILITIES		(177,383)	(169,733)
TOTAL ASSETS LESS CURRENT LIABILITIES		286,578	298,306
NON-CURRENT LIABILITIES			
Deferred tax liability		15,188	15,460
Deferred income		12,642	12,887
Total non-current liabilities		27,830	28,347
Net assets		258,748	269,959
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*14*	57,451	57,301
Reserves		148,671	158,362
		206,122	215,663
Minority interests		52,626	54,296
Total equity		258,748	269,959

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to equity holders of the parent								
	Issued capital	Share premium account	Share option reserve	Merger reserve	Exchange fluctuation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	56,600	359,437	15,308	2,150	7,636	(151,537)	289,594	62,245	351,839
Loss for the period	–	–	–	–	–	(24,647)	(24,647)	(1,168)	(25,815)
Other comprehensive income	–	–	–	–	12,538	–	12,538	4,780	17,318
Total comprehensive income/(loss)	–	–	–	–	12,538	(24,647)	(12,109)	3,612	(8,497)
Equity-settled share option arrangement	–	–	10,802	–	–	–	10,802	–	10,802
At 30 June 2008 (Unaudited)	56,600	359,437	26,110	2,150	20,174	(176,184)	288,287	65,857	354,144
At 1 January 2009	57,301	369,232	24,277	2,150	19,156	(256,453)	215,663	54,296	269,959
Loss for the period	–	–	–	–	–	(14,979)	(14,979)	(1,604)	(16,583)
Other comprehensive loss	–	–	–	–	(202)	–	(202)	(66)	(268)
Total comprehensive loss	–	–	–	–	(202)	(14,979)	(15,181)	(1,670)	(16,851)
Issue of shares	150	1,777	(1,494)	–	–	–	433	–	433
Equity-settled share option arrangement	–	–	5,207	–	–	–	5,207	–	5,207
At 30 June 2009 (Unaudited)	57,451	371,009*	27,990*	2,150*	18,954*	(271,432)*	206,122	52,626	258,748

* *These reserve accounts comprise the consolidated reserves of HK$148,671,000 (31 December 2008: HK$158,362,000) in the consolidated statement of financial position.*

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	(2,935)	3,531
Net cash outflow from investing activities	(398)	(34,323)
Net cash inflow from financing activities	242	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,091)	(30,792)
Effect of foreign exchange rate changes, net	173	2,604
Cash and cash equivalents at beginning of period	3,724	32,854
CASH AND CASH EQUIVALENTS AT END OF PERIOD	806	4,666
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	806	4,666

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2009

1. Basis of presentation

At 30 June 2009, the Group had net current liabilities of HK$177,383,000 and had bank and other borrowings of HK$45,376,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated net loss of HK$16,583,000 for the six months ended 30 June 2009.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(a) The Group is negotiating with certain bankers to obtain additional banking facilities;

(b) The Group is considering to dispose of certain of its operations and properties;

(c) The Group has obtained financial support from its ultimate holding company and fellow subsidiaries; and

(d) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through fund raising exercises.

In addition, during the period, one of the Company's major subsidiaries was not put into operation as this subsidiary had not yet obtained a manufacturing permit from the relevant government body in Mainland China. Accordingly, no operating activities were conducted by this subsidiary during the period and as at the date of approval of the financial statements. The directors are currently arranging for trial-runs of the operation of this subsidiary in order to fulfill the requirement for an application for the manufacturing permit to be made.

On the basis that the Group would obtain additional financial facilities from the bankers, realise certain of its operations and properties and obtain additional funding from other sources, and that the above mentioned subsidiary of the Company would obtain the manufacturing permit for commencement of operations, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the financial statements.

2. Basis of preparation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

3. Impact of new and revised Hong Kong Financial Reporting Standards

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of the new Standards and Interpretations as of 1 January 2009, noted below.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	*Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments:* Presentation and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*

The adoption of the above new standards and interpretations has had no material effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements except for the impact as described below.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

4. Segment information

During the six months ended 30 June 2009, no operations related to the manufacture and sale of ethanol products were incurred. Accordingly, no segment information has been disclosed.

During the six months ended 30 June 2008, over 90% of the Group's operations related to the manufacture and sale of ethanol products and over 90% of the Group's products were sold to customers located in Mainland China. Accordingly, no segment information has been disclosed.

5. Revenue and other income

	Six months ended 30 June	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Revenue		
Sale of goods	–	3,975
Other income		
Government grants	230	–
Others	–	97
	230	97

6. Finance costs

	Six months ended 30 June	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Interest on bank loans	703	–

7. Loss before tax

	Six months ended 30 June	
	2009	**2008**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Depreciation	2,317	1,284
Amortisation of other intangible assets	1,367	2,721
Amortisation of prepaid land lease payments	499	291

8. Tax

During the period, no Hong Kong profits tax has been provided as there was no assessable profit arising from Hong Kong and no tax on profits assessable elsewhere has been provided.

Under the new corporate income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. One of the Group's subsidiaries is exempted from PRC corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Although this subsidiary has no assessable profit since its date of registration, based on the State Council Circular on the Implementation of Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), this subsidiary should be subject to the second year exemption in 2009 whether or not it has assessable profit.

	Six months ended 30 June 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Current income tax charge		
Provision for the period	–	–
Overprovision in prior years	–	(26)
	–	(26)
Deferred income tax	(271)	(1,074)
Total tax credit for the period	(271)	(1,100)

9. Dividends

The directors do not recommend the payment of any dividend for the six months ended 30 June 2009 (2008: Nil).

10. Loss per share attributable to equity holders of the parent

The calculation of basic loss per share amounts is based on the loss for the period attributable to equity holders of the parent of HK$14,979,000 (2008: HK$24,647,000) and the weighted average of 573,057,000 (2008: 566,000,000) ordinary shares in issue during the period.

Dilutive loss per share amounts for the six months ended 30 June 2009 and 2008 have not been disclosed, as the share options outstanding during these periods had no dilutive effect on the basic loss per share for these periods.

11. Property, plant and equipment

	30 June 2009 (Unaudited) HK$'000	31 December 2008 (Audited) HK$'000
Carrying amount at 1 January	355,440	149,702
Additions	398	209,462
Impairment	–	(9,662)
Depreciation charge for the period/year	(2,317)	(3,420)
Exchange realignment	(429)	9,358
Carrying amount at 30 June/31 December	353,092	355,440

12. Prepaid land lease payments

	30 June 2009 (Unaudited) *HK$'000*	31 December 2008 (Audited) *HK$'000*
Carrying amount at 1 January	34,370	33,297
Amortisation provided during the period/year	(499)	(1,034)
Exchange realignment	(42)	2,107
Carrying amount at 30 June/31 December	33,829	34,370
Current portion included in prepayments and other receivables	(998)	(1,197)
Non-current portion	32,831	33,173

The leasehold land is held under medium term leases and is situated in Mainland China.

13. Other intangible assets

	Technology *HK$'000*	Trademark *HK$'000*	Customer base *HK$'000*	Total *HK$'000*
Cost at 1 January 2009, net of accumulated amortisation and impairment	61,839	16,100	–	77,939
Amortisation provided during the period	(1,085)	(282)	–	(1,367)
Exchange realignments	–	(20)	–	(20)
At 30 June 2009 (Unaudited)	60,754	15,798	–	76,552
At 30 June 2009:				
Cost	95,888	27,599	27,708	151,195
Accumulated amortisation and impairment	(35,134)	(11,801)	(27,708)	(74,643)
Net carrying amount	60,754	15,798	–	76,552
Cost at 1 January 2008, net of accumulated amortisation	94,290	25,546	25,429	145,265
Amortisation provided during the year	(3,196)	(909)	(1,369)	(5,474)
Impairment during the year	(29,255)	(10,017)	(25,319)	(64,591)
Exchange realignments	–	1,480	1,259	2,739
At 31 December 2008 (Audited)	61,839	16,100	–	77,939
At 31 December 2008:				
Cost	95,888	27,633	27,742	151,263
Accumulated amortisation and impairment	(34,049)	(11,533)	(27,742)	(73,324)
Net carrying amount	61,839	16,100	–	77,939

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. During the six months ended 30 June 2009, no impairment provision on non-financial assets other than goodwill has been made.

14. Issued capital

	30 June 2009 (Unaudited) *HK$'000*	31 December 2008 (Audited) *HK$'000*
Authorised:		
1,000,000,000 (2007: 1,000,000,000) ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
574,507,000 (2008: 573,007,000) ordinary shares of HK$0.1 each	57,451	57,301

15. Commitments

	30 June 2009 (Unaudited) *HK$'000*	31 December 2008 (Audited) *HK$'000*
Contracted, but not provided for:		
Acquisition of additional interests in a non-wholly-owned subsidiary	–	68,148

16. Related party transactions

The Group had the following transactions with a related party during the period:

	Six months ended 30 June	
	2009 (Unaudited) *HK$'000*	2008 (Unaudited) *HK$'000*
Rental paid/payable to a related company*	180	180

* *The rental expense was charged at a rate of HK$30,000 per month.*

1. ACCOUNTANTS' REPORT OF THE RIGHTSOUTH GROUP

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

24 December 2009

To the directors
Bio-Dynamic Group Limited
(Incorporated in the Cayman Islands with limited liability)

Dear Sirs,

We set out below our report on the financial information relating to Rightsouth Limited (the "Target Company" or "Rightsouth") and its subsidiaries (collectively referred to as the "Rightsouth Group"), prepared on the basis set out in note 2 of Section 2 below, for each of the three years ended 31 December 2006, 2007 and 2008, and the eight-month period ended 31 August 2009 (the "Relevant Periods") and the eight-month period ended 31 August 2008 (the "31 August 2008 Financial Period") for inclusion in the shareholders' circular of Bio-Dynamic Group Limited (the "Company", previously known as Wealthmark International (Holdings) Limited) dated 24 December 2009 (the "Circular") in relation to the proposed acquisition of the 100% equity interest in the Target Company by the Company.

The Target Company was incorporated in the British Virgin Islands (the "BVI") on 25 November 2008 with limited liability under the International Business Companies Ordinance of the BVI. As at the date of this report, the Target Company owned a 100% equity interest in Gold Star International (HK) Limited ("Gold Star") and a 70% beneficial interest in Guangzhou Wine & Liquor Franchised Stores Ltd ("GZ W&L").

Gold Star was incorporated in Hong Kong on 4 July 2008 with limited liability. It has no significant business transactions since its incorporation.

GZ W&L was a limited liability company established in Guangzhou, China on 6 August 1999 and became a Sino-foreign equity joint venture pursuant to a Chinese-foreign Equity Joint Venture Agreement dated 2 December 2004. During the Relevant Periods, the principal business activities of GZ W&L were wholesale and retail sales of middle and high ranked wine and liquor in Guangzhou, China.

All companies now comprising the Rightsouth Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for Rightsouth since its date of incorporation as there is no statutory requirement for the Company to prepare audited financial statements. Gold Star was incorporated in Hong Kong and has prepared statutory accounts in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and accounting principles generally accepted in Hong Kong. GZ W&L was established in the PRC and has prepared statutory accounts in accordance with the accounting principles and the relevant financial regulations of the PRC ("PRC GAAP"), which were set out in note 1 of Section 2 below.

For the purpose of this report, the directors of the Target Company have prepared the balance sheet of the Target Company as at 31 August 2009, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Rightsouth Group for each of the Relevant Periods and the 31 August 2008 Financial Period and consolidated statements of financial position of the Rightsouth Group as at 31 December 2006, 2007 and 2008 and 31 August 2009, together with the notes thereto, set out in this report (collectively the "Financial Information") in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. The Financial Information in respect of the Relevant Periods and the 31 August 2008 Financial Period are hereinafter referred to as the "Relevant Periods Financial Information" and the "31 August 2008 Financial Information", respectively.

The directors of the Target Company are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates made are reasonable, and that the reasons for any significant departure from applicable accounting standards are stated.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIODS FINANCIAL INFORMATION

For the purpose of this report, we have carried out independent audit procedures on the Relevant Periods Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA, and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA. It is our responsibility to form an independent opinion, based on our procedures, on the Relevant Periods Financial Information and to report our opinion thereon.

PROCEDURES PERFORMED IN RESPECT OF THE 31 AUGUST 2008 FINANCIAL INFORMATION

For the purpose of this report, we have also performed a review of the 31 August 2008 Financial Information 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 consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 August 2008 Financial Information.

OPINION AND REVIEW CONCLUSION

In our opinion, the Relevant Periods Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Rightsouth as at 31 August 2009, of the consolidated results and cash flows of the Rightsouth Group for each of the Relevant Periods, and of the state of affairs of the Rightsouth Group as at 31 December 2006, 2007 and 2008 and 31 August 2009.

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 August 2008 Financial Information does not give a true and fair view of the results and cash flows of the Rightsouth Group for the eight-month period ended 31 August 2008.

2. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Eight-month period ended 31 August	
		2006	2007	2008	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
REVENUE	7	47,372	74,622	108,706	69,608	67,279
Cost of sales		(42,061)	(64,904)	(93,543)	(59,679)	(58,640)
Gross profit		5,311	9,718	15,163	9,929	8,639
Other income and gains	7	1,436	2,509	3,403	1,970	4,054
Selling and distribution costs		(4,989)	(9,886)	(14,870)	(9,298)	(9,199)
Administrative expenses		(1,808)	(2,187)	(3,318)	(2,013)	(1,985)
Other expenses	8	–	–	(4,688)	(4,688)	–
Finance costs	9	(7)	(79)	(542)	(400)	(10)
Profit/(loss) before tax	8	(57)	75	(4,852)	(4,500)	1,499
Tax	11	–	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(57)	75	(4,852)	(4,500)	1,499
Attributable to:						
Equity holders of the Target Company		(40)	52	(4,731)	(4,554)	1,123
Minority interests		(17)	23	(121)	54	376
		(57)	75	(4,852)	(4,500)	1,499

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Eight-month period ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
PROFIT/(LOSS) FOR THE YEAR/PERIOD	(57)	75	(4,852)	(4,500)	1,499
Other comprehensive income/(loss):					
Exchange difference on translating foreign operations	296	633	567	659	(1)
	239	708	(4,285)	(3,841)	1,498
Attributable to:					
Equity holders of the Target Company	256	685	(4,164)	(3,895)	1,122
Minority interests	(17)	23	(121)	54	376
	239	708	(4,285)	(3,841)	1,498

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 August
		2006	2007	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	2,063	2,796	2,691	1,803
Loan receivable from a related company	*25*	3,005	3,422	3,855	–
Goodwill	*13*	4,688	4,688	–	–
Total non-current assets		9,756	10,906	6,546	1,803
CURRENT ASSETS					
Inventories	*14*	8,385	19,365	22,417	20,870
Trade receivables	*15*	3,569	7,090	6,204	3,861
Prepayments, deposits and other receivables	*16*	2,142	2,767	3,133	3,917
Due from related companies	*25*	1,080	1,223	1,545	1,678
Pledged deposits	*17*	–	–	21,155	20,776
Cash and cash equivalents	*17*	2,812	3,164	4,188	3,121
Total current assets		17,988	33,609	58,642	54,223
CURRENT LIABILITIES					
Trade payables	*18*	3,229	5,887	9,701	6,831
Other payables and accruals	*19*	1,871	2,646	6,819	2,586
Interest-bearing bank borrowings	*20*	–	4,272	–	3,404
Tax payable		1,280	1,374	1,370	1,273
Due to a related company	*25*	6,181	15,529	16,184	9,462
Total current liabilities		12,561	29,708	34,074	23,556
NET CURRENT ASSETS		5,427	3,901	24,568	30,667
TOTAL ASSETS LESS CURRENT LIABILITIES		15,183	14,807	31,114	32,470
NON-CURRENT LIABILITIES					
Deferred income	*21*	1,850	766	142	–
Loan payable to a related company	*25*	–	–	21,216	21,216
		1,850	766	21,358	21,216
Net assets		13,333	14,041	9,756	11,254
EQUITY					
Equity attributable to equity holders of the Target Company					
Issued capital	*22*	15,299	15,299	15,299	15,299
Reserves		(4,487)	(3,802)	(7,966)	(6,844)
		10,812	11,497	7,333	8,455
Minority interests		2,521	2,544	2,423	2,799
Total equity		13,333	14,041	9,756	11,254

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Target Company						
	Issued capital	Merger reserve	Exchange fluctuation reserve	Accumulated losses	Subtotal	Minority interests	Total equity
	HK$'000 *(note 22)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	15,299	(2,200)	(56)	(2,487)	10,556	2,538	13,094
Loss for the year	–	–	–	(40)	(40)	(17)	(57)
Other comprehensive income	–	–	296	–	296	–	296
At 31 December 2006 and at 1 January 2007	15,299	(2,200)*	240*	(2,527)*	10,812	2,521	13,333
Profit for the year	–	–	–	52	52	23	75
Other comprehensive income	–	–	633	–	633	–	633
At 31 December 2007 and at 1 January 2008	15,299	(2,200)*	873*	(2,475)*	11,497	2,544	14,041
Loss for the year	–	–	–	(4,731)	(4,731)	(121)	(4,852)
Other comprehensive income	–	–	567	–	567	–	567
At 31 December 2008 and at 1 January 2009	15,299	(2,200)*	1,440*	(7,206)*	7,333	2,423	9,756
Profit for the period	–	–	–	1,123	1,123	376	1,499
Other comprehensive income	–	–	(1)	–	(1)	–	(1)
At 31 August 2009	15,299	(2,200)*	1,439*	(6,083)*	8,455	2,799	11,254
(Unaudited)							
At 31 December 2007 and at 1 January 2008	15,299	(2,200)	873	(2,475)	11,497	2,544	14,041
Loss for the period	–	–	–	(4,554)	(4,554)	54	(4,500)
Other comprehensive income	–	–	659	–	659	–	659
At 31 August 2008	15,299	(2,200)	1,532	(7,029)	7,602	2,598	10,200

* *These components of equity comprise the negative reserves of HK$4,487,000, HK$3,802,000, HK$7,966,000 and HK$6,844,000 in the consolidated statements of financial position as at 31 December 2006, 2007 and 2008, and 31 August 2009, respectively.*

CONSOLIDATED CASH FLOW STATEMENTS

		Year ended 31 December			Eight-month period ended 31 August	
		2006	2007	2008	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		(57)	75	(4,852)	(4,500)	1,499
Adjustments for:						
Finance costs	*9*	7	79	542	400	10
Interest income	*7*	(193)	(211)	(247)	(165)	(124)
Depreciation	*8*	855	1,131	1,702	1,353	987
Loss on disposal of items of property, plant and equipment	*8*	–	1	–	–	39
Impairment of goodwill	*8*	–	–	4,688	4,688	–
Government grant	*7*	(885)	(1,125)	(1,121)	(753)	(443)
		(273)	(50)	712	1,023	1,968
(Increase)/decrease in inventories		(3,052)	(10,980)	(3,052)	(6,034)	1,547
(Increase)/decrease in trade receivables		629	(3,521)	886	(285)	2,343
Increase in prepayments, deposits and other receivables		(847)	(625)	(366)	(4,523)	(784)
(Increase)/decrease in balances with related companies		3,222	9,205	333	(540)	(2,885)
Increase/(decrease) in trade payables		1,003	2,658	3,814	3,624	(2,870)
Increase/(decrease) in other payables and accruals		530	651	4,582	3,030	(3,932)
Cash generated from/(used in) operations		1,212	(2,662)	6,909	(3,705)	(4,613)
Interest received		23	20	31	21	9
PRC income tax paid		(49)	–	(88)	–	(105)
Net cash inflow/(outflow) from operating activities		1,186	(2,642)	6,852	(3,684)	(4,709)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(1,942)	(1,754)	(1,475)	(1,344)	(137)
Increase in pledged deposits		–	–	(21,155)	(21,155)	–
Net cash outflow from investing activities		(1,942)	(1,754)	(22,630)	(22,499)	(137)

		Year ended 31 December			Eight-month period ended 31 August	
		2006	2007	2008	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bank borrowings		–	4,272	22,304	17,902	3,404
Repayment of bank borrowings		–	–	(26,576)	(13,584)	–
Increase in balances with a related company		–	–	21,216	21,216	–
Receipt of government's grant		796	–	9	9	–
Interest paid		(7)	(79)	(542)	(400)	(10)
Net cash inflow from financing activities		789	4,193	16,411	25,143	3,394
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		33	(203)	633	(1,040)	(1,452)
Cash and cash equivalents at beginning of year/period		2,471	2,812	3,164	3,164	4,188
Effect of foreign exchange rate changes, net		308	555	391	402	385
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		2,812	3,164	4,188	2,526	3,121
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*17*	2,812	3,164	4,188	2,526	3,121

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and reorganisation

The Target Company was incorporated in the BVI on 25 November 2008 with limited liability under the International Business Companies Ordinance of the BVI. At the date of this report, it is wholly owned by China Food and Beverage Group Limited ("China Food"), an 88.6% owned and controlled subsidiary of CEC F&B Limited ("CEC F&B"). CEC F&B, a company incorporated in the BVI, is wholly owned by China Enterprise Capital Limited ("CEC"). In the opinion of the directors of the Target Company, the ultimate holding company of the Target Company is China Enterprise Capital Limited. The Target Company has not carried out any business since the date of its incorporation other than acting as the holding company of the subsidiaries as set out below pursuant to a reorganisation (the "Reorganisation"). The registered office address of the Target Company is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands.

Reorganisation

Gold Star International (HK) Limited ("Gold Star") was incorporated in Hong Kong on 4 July 2008 with limited liability. It was wholly owned by CEC F&B and has no significant business transactions since its incorporation.

GZ W&L was a limited liability company established in Guangzhou, China on 6 August 1999. On 2 December 2004, pursuant to a Chinese-foreign Equity Joint Venture Agreement, China Food and Guangzhou Food Wholesale Co Ltd（廣州副食品批發有限公司）became the equity interest holders of GZ W&L holding 70% and 30% of the total equity interest respectively. Pursuant to an agreement dated 29 August 2008, Guangzhou Food Wholesale Co Ltd（廣州副食品批發有限公司）agreed to transfer all of its 30% equity interests to Guangzhou Yangcheng Food Co Ltd（廣州羊城食品有限公司）. During the Relevant Periods, the principal business activities of GZ W&L were wholesale and retail sales of middle and high ranked wine and liquor in Guangzhou, China.

On 3 March 2009, CEC F&B acquired the entire issued share capital of the Target Company at the consideration amounting to US$1. On 30 September 2009, CEC F&B transferred the 100% interest in the Target Company to China Food at consideration of US$1.

On 19 October 2009, the Target Company acquired the entire issued capital of Gold Star from CEC F&B at the consideration of HK$1. The unsecured and non-interest-bearing shareholder loan in the sum of HK$21,216,000 made by China Food to Gold Star was also assigned from China Food to the Target Company for the consideration of HK$21,216,000.

On 20 October 2009, the Target Company capitalized the aforesaid loan by way of the issuance of 2,720,000 ordinary shares at US$1 par value to China Food. In addition, Gold Star capitalized the aforesaid loan by way of the issuance of 21,216,000 ordinary shares at HK$1 par value to the Target Company.

On 25 November 2009, pursuant to the Deed of Assignment and Control agreement (the "Control Deed") between the Target Company and China Food, China Food granted to the Target Company all of the beneficial interests in the economic rights and all the control rights in relation to the management of GZ W&L attributable to the equity interests in GZ W&L held by China Food at a consideration of HK$15,298,500 by issue of 1,974,000 consideration shares at US$1 par value. As a result, GZ W&L was in substance controlled by the Target Company.

Upon completion of the Reorganisation on 25 November 2009, the Target Company has direct interests in the following subsidiary and controlled entity and particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/registered paid-up capital	Percentage of equity interest attributable to equity holders of the Rightsouth Group	Principal activities
Gold Star International (HK) Limited (i)	Hong Kong 4 July 2008	HK$1	100	Dormant
Guangzhou Wine and Liquor Franchised Store Limited (ii)	Mainland China 6 August 1999	RMB125,000,000	70	Wholesale and retail sales of wine and liquor

(i) The statutory financial statements of Gold Star in accordance with HKFRSs and accounting principles generally accepted in Hong Kong were audited by Ernst & Young for the period from the date of incorporation to 31 December 2008.

(ii) The statutory financial statements of GZ W&L in accordance with the PRC accounting principles and regulations were audited by Beijing Zhongwei Huahao Certified Public Accountants Co., Ltd., Guangdong Branch (北京中威華浩會計師事務所有限公司廣東分公司), Certified Public Accountants registered in the PRC, for the year ended 31 December 2006 and by Guangdong Jinqiao Certified Public Accountants Co., Ltd. (廣東金橋會計師事務所有限公司), Certified Public Accountants registered in the PRC, for the years ended 31 December 2007 and 2008.

2. Basis of presentation

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information has been prepared on a historical cost convention and is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated. The accounting policies set out below have been consistently applied throughout the Relevant Periods.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2006. For the purpose of preparing the Financial Information, the Rightsouth Group has adopted all these new and revised HKFRSs for the Relevant Periods, except for those new standards or interpretations that are not yet effective for the Relevant Periods. The new and revised accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 3.

Basis of consolidation

The Target Company's acquisition of the 100% equity interest in Gold Star and the 70% beneficial interest in GZ W&L are considered as business combinations under common control because, the Target Company, Gold Star and GZ W&L are ultimately controlled by CEC both before and after the business combinations. Accordingly, the business combinations will be accounted for using the principles of merger accounting as set out in Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA, as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The Financial Information which is based on the audited consolidated financial statements of the companies now comprising the Rightsouth Group includes the consolidated income statements, the consolidated statements of changes in equity, the consolidated cash flow statements and the consolidated statements of financial position of the companies now comprising the Rightsouth Group, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on consolidation.

3. Impact of issued but not yet effective Hong Kong Financial Reporting Standards

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

HKFRS 1 (Revised)	*First-time Adoption of HKFRSs*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[4]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[5]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[3]

[1] *Effective for annual periods beginning on or after 1 July 2009*
[2] *Effective for annual periods beginning on or after 1 January 2010*
[3] *Effective for transfers of assets from customers received on or after 1 July 2009*
[4] *Effective for annual periods beginning on or after 1 January 2011*
[5] *Effective for annual periods beginning on or after 1 February 2010*
[6] *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the HKICPA has also issued Improvements to HKFRS 5 which primarily with a view to removing inconsistencies and clarify wording and is effective for the annual periods on or after 1 July 2009.

The Rightsouth Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, save as not yet in a position to assess the possible impact of the adoption of the recently issued HKFRS 9 and HKAS 24 (Revised), the directors of the Company preliminary anticipate that the adoption of the new and revised HKFRSs is unlikely to have a significant impact on the Rightsouth Group's results of operations and financial position.

4. Summary of significant accounting policies

Business combination

Merger accounting for business combinations involving entities under common control

The financial statements incorporate the financial statement items of the combining entities or businesses which are under common control combination as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or in excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interests.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, whichever is a shorter period, regardless of the date of the common control combination.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Target Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Rightsouth Group obtains control, and continue to be consolidated until the date that such control ceases.

The results of subsidiaries are included in the Target Company's income statement to the extent of dividends received and receivable. The Target Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Rightsouth Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Rightsouth Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as a subsidiary, if the Target Company has unilateral control, directly or indirectly, over the joint venture.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Rightsouth Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Rightsouth Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Rightsouth 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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial 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 assets.

An assessment is made at each reporting date as to whether there is any 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. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Rightsouth Group; (ii) has an interest in the Rightsouth Group that gives it significant influence over the Rightsouth Group; or (iii) has joint control over the Rightsouth Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Rightsouth Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 estimated useful lives used for this purpose are as follows:

Leasehold improvements	3 years
Office equipment	3 years
Motor vehicles	5 years

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 each balance sheet date.

An item of property, plant and equipment 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. 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

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Rightsouth Group assesses whether a contract contains an embedded derivative when the Rightsouth Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Rightsouth Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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.

Impairment of financial assets

The Rightsouth Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological market, economic or legal environment that have an adverse effect of the debtor) that the Rightsouth Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 where:

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

Where the Rightsouth Group has transferred its rights to receive cash flows from an asset and 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 Rightsouth Group's continuing involvement in the asset. 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 Rightsouth Group could be required to repay.

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including trade and other payables, an amount to a related company and interest-bearing bank borrowings are initially stated at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

Inventories

Inventories represent merchandise purchased for resale and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. 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 cash flow statements, 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 Rightsouth Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, which are not restricted as to use.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production 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. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 balance sheet date 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.

Revenue recognition

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

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

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

(iii) Franchised income, when the Rightsouth Group's right to receive payment has been established.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalment.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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:

- where the deferred tax liability arises from goodwill or 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 taxable temporary differences associated with interests in subsidiaries, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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 interests 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 each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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.

Pensions and other post employment benefits

The employees of the Rightsouth Group's subsidiaries which operate in Mainland China are covered by government-regulated defined contribution retirement benefit schemes under which the employees are entitled to a monthly pension. The Rightsouth Group contributes a percentage of the employees' salaries to these retirement benefit schemes on a monthly basis. Under these schemes, the Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Target Company's functional and presentation currency. Each entity in the Rightsouth Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Target Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the average exchange rates for the year/period. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statements, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the average exchange rates for the year/period.

5. Significant accounting judgements and estimates

The preparation of the Rightsouth Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 11 to the Financial Information.

Impairment of goodwill

The Rightsouth Group's impairment test for goodwill is based on a value in use calculation that uses a discounted cash flow. The cash flows are derived from the budget for the next five years, and do not include restructuring activities that the Rightsouth Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Rightsouth Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Rightsouth Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Merger accounting for business combinations involving entities under common control

The financial statements incorporate the financial statement items of the combining entities or businesses which are under common control combination as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

6. Segment information

During the three years ended 31 December 2006, 2007 and 2008 and the eight-month period ended 31 August 2009, all of the Rightsouth Group's operations related to the wholesale and retail sales of middle and high ranked wine and liquor products and 100% of the Rightsouth Group's products were sold to customers located in Mainland China. Accordingly, the directors are of the opinion that the wholesale and retail sales of middle and high ranked wine and liquor products in Mainland China is a single reportable segment of Rightsouth Group.

7. Revenue, other income and gains

Revenue, which is also the Rightsouth Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts.

An analysis of the Rightsouth Group's revenue, other income and gains is as follows:

	Year ended 31 December			Eight-month period ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue					
Sale of goods	47,372	74,622	108,706	69,608	67,279
Other income and gains					
Government grant	885	1,125	1,121	753	443
Franchised income	133	197	90	47	113
Interest income on a loan receivable	170	191	216	144	115
Bank interest income	23	20	31	21	9
Others	225	976	1,945	1,005	3,374
Total other income and gains	1,436	2,509	3,403	1,970	4,054

8. Profit/(loss) before tax

The Rightsouth Group's profit/(loss) before tax is arrived at after charging:

		Year ended 31 December			Eight-month period ended 31 August	
		2006	2007	2008	2008	2009
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Cost of inventories sold		42,061	64,904	93,543	59,679	58,640
Depreciation	*12*	855	1,131	1,702	1,353	987
Minimum lease payments under operating leases		844	2,610	3,981	2,436	2,677
Loss on disposal of items of property, plant and equipment		–	1	–	–	39
Impairment of goodwill		–	–	4,688	4,688	–
Auditors' remuneration		9	6	13	–	–
Employee benefit expenses:						
Wages, salaries and staff welfare		1,614	2,447	3,673	2,115	1,794
Retirement benefit contributions		95	138	173	115	115
		1,709	2,585	3,846	2,230	1,909

9. Finance costs

	Year ended 31 December			Eight-month period ended 31 August	
	2006	2007	2008	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank borrowings	7	79	542	400	10

10. Directors' and senior executives' remuneration

No director received any fees or emoluments in respect of their services rendered to the Target Company during the Relevant Periods and the 31 August 2008 Financial Period.

11. Tax

No Hong Kong profits tax has been provided because the Rightsouth Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods and the 31 August 2008 Financial Period.

One major subsidiary of the Rightsouth Group operates in Guangzhou, Mainland China, which are subject to the corporate income tax rate of 33% for the years ended 31 December 2006 and 2007.

During the 5th session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New CIT Law") was approved and became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Under the New CIT Law, corporate income tax for domestic enterprises has decreased from 33% to 25% effective from 1 January 2008.

No PRC corporate income tax has been provided because the Rightsouth Group did not generate any assessable profits arising in Mainland China during the Relevant Periods and the 31 August 2008 Financial Period.

A reconciliation of tax expense/(credit) applicable to profit/(loss) before tax using the statutory income tax rates for the jurisdiction in which the Target Company and its subsidiaries are domiciled to tax expense at the effective income tax rate for each of the Relevant Periods and the 31 August 2008 Financial Period, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Year ended 31 December						Eight-month period ended 31 August			
	2006		2007		2008		2008		2009	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (Unaudited)	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(57)		75		(4,852)		(4,500)		1,499	
Income tax at the statutory income tax rate	(19)	33	25	33	(1,213)	25	(1,125)	25	375	25
Expenses not deductible for tax	–	–	–	–	1,194	(25)	1,210	(27)	29	2
Tax losses not recognised	109	(191)	405	540	293	(6)	134	(3)	206	14
Income not subject to tax	(90)	158	(430)	(573)	(274)	6	(219)	5	(610)	(41)
Tax charge at the Rightsouth Group's effective rate	–	–	–	–	–	–	–	–	–	–

Deferred tax assets have not been recognised in respect of the following items:

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax losses	–	–	768	1,591
Deductible temporary differences	4,776	3,763	2,663	196
	4,776	3,763	3,431	1,787

Deferred tax assets have not been recognised in respect of these tax losses and deductible temporary differences, as it is not certain that taxable profits will be available against which the tax losses and the deductible temporary differences can be utilised.

12. Property, plant and equipment

	Leasehold improvements *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2006				
At 1 January 2006:				
Cost	1,812	153	205	2,170
Accumulated depreciation	(1,053)	(56)	(104)	(1,213)
Net carrying amount	759	97	101	957
At 1 January 2006, net of accumulated depreciation	759	97	101	957
Additions	1,895	47	–	1,942
Depreciation provided during the year	(768)	(47)	(40)	(855)
Exchange realignment	12	3	4	19
At 31 December 2006, net of accumulated depreciation	1,898	100	65	2,063
At 31 December 2006:				
Cost	3,771	206	213	4,190
Accumulated depreciation	(1,873)	(106)	(148)	(2,127)
Net carrying amount	1,898	100	65	2,063
31 December 2007				
At 1 January 2007:				
Cost	3,771	206	213	4,190
Accumulated depreciation	(1,873)	(106)	(148)	(2,127)
Net carrying amount	1,898	100	65	2,063
At 1 January 2007, net of accumulated depreciation	1,898	100	65	2,063
Additions	1,585	169	–	1,754
Disposals	–	(1)	–	(1)
Depreciation provided during the year	(1,019)	(70)	(42)	(1,131)
Exchange realignment	103	5	3	111
At 31 December 2007, net of accumulated depreciation	2,567	203	26	2,796
At 31 December 2007:				
Cost	5,631	377	228	6,236
Accumulated depreciation	(3,064)	(174)	(202)	(3,440)
Net carrying amount	2,567	203	26	2,796

	Leasehold improvements *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2008				
At 1 January 2008:				
Cost	5,631	377	228	6,236
Accumulated depreciation	(3,064)	(174)	(202)	(3,440)
Net carrying amount	2,567	203	26	2,796
At 1 January 2008, net of accumulated depreciation	2,567	203	26	2,796
Additions	1,327	96	52	1,475
Depreciation provided during the year	(1,579)	(102)	(21)	(1,702)
Exchange realignment	111	10	1	122
At 31 December 2008, net of accumulated depreciation	2,426	207	58	2,691
At 31 December 2008:				
Cost	7,306	496	294	8,096
Accumulated depreciation	(4,880)	(289)	(236)	(5,405)
Net carrying amount	2,426	207	58	2,691
31 August 2009				
At 1 January 2009:				
Cost	7,306	496	294	8,096
Accumulated depreciation	(4,880)	(289)	(236)	(5,405)
Net carrying amount	2,426	207	58	2,691
At 1 January 2009, net of accumulated depreciation	2,426	207	58	2,691
Additions	99	38	–	137
Disposals	–	–	(39)	(39)
Depreciation provided during the period	(912)	(69)	(6)	(987)
Exchange realignment	2	–	(1)	1
At 31 August 2009, net of accumulated depreciation	1,615	176	12	1,803
At 31 August 2009:				
Cost	7,409	535	243	8,187
Accumulated depreciation	(5,794)	(359)	(231)	(6,384)
Net carrying amount	1,615	176	12	1,803

13. Goodwill

	As at 31 December			As at 31 August
	2006	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January, net of accumulated impairment	4,688	4,688	4,688	–
Impairment during the year/period	–	–	(4,688)	–
At 31 December/31 August	4,688	4,688	–	–
At 31 December/31 August:				
Cost	4,688	4,688	4,688	4,688
Accumulated impairment	–	–	(4,688)	(4,688)
Net carrying amount	4,688	4,688	–	–

The goodwill was arising from the acquisition of GZ W&L by China Food in 2005. According to Accounting Guideline 5 "Merger Accounting for Common Control Combinations", the goodwill relating to GZ W&L recognising in China Food's consolidated financial statements is also recognised in the Rightsouth Group's consolidated financial statements.

The goodwill had been allocated to the wine and liquor products cash-generating unit ("CGU") for impairment testing. In the opinion of the directors of China Food, the recoverable amount of the wine and liquor products cash-generating unit is determined based on its fair value less cost to sell. As at 31 December 2006 and 2007, the amount of the fair value less cost to sell exceeds the carrying amount of the CGU, no provision for impairment is necessary. In the year 2008, the directors of China Food have determined that the amount of the fair value less cost to sell is less than the carrying amount of the CGU and full impairment was made.

14. Inventories

	As at 31 December			As at 31 August
	2006	2007	2008	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Wine and liquor	8,385	19,365	22,417	20,870

15. Trade receivables

The Rightsouth Group's trade receivables mainly arise from the sale of wine and liquor to retail and wholesale customers. Except for the direct retail sales to the customers who are required to settle the amounts as soon as the products are sold, the Rightsouth Group allows a credit period which is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit.

The Rightsouth Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Rightsouth Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 3 months	3,569	7,090	6,204	3,861

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 related to a number of independent customers that have a good track record with the Rightsouth Group. The carrying amounts of the trade receivables approximate to their fair values.

16. Prepayments, deposits and other receivables

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	1,162	823	1,148	1,449
Deposits and other receivables	980	1,944	1,985	2,468
	2,142	2,767	3,133	3,917

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables which have no recent history of default. The carrying amounts of these balances approximate to their fair values.

17. Cash and cash equivalents and pledged deposits

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	2,812	3,164	4,188	3,121
Time deposits	–	–	21,155	20,776
	2,812	3,164	25,343	23,897
Less: Pledged deposits for a bank borrowing of a subsidiary of the Company	–	–	(21,155)	(20,776)
Cash and cash equivalents	2,812	3,164	4,188	3,121

The Rightsouth Group's cash and bank balances denominated in Renminbi *("RMB")* amounted to HK$2,812,000, HK$3,164,000, HK$4,178,000 and HK$2,797,000 as at 31 December 2006, 2007 and 2008, and 31 August 2009, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Rightsouth Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits are restricted and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

18. Trade payables

The trade payables are non-interest-bearing and are normally settled on 30-day terms. The carrying amounts of these balances approximate to their fair values.

19. Other payables and accruals

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income *(note 21)*	955	1,079	671	370
Value-added tax and other taxes payable	314	554	1,206	872
Accruals	353	457	724	466
Other payables	249	556	4,218	878
	1,871	2,646	6,819	2,586

Other payables are non-trade in nature, unsecured, interest-free and have an average term of three months. The carrying amounts of these balances approximate to their fair values.

20. Interest-bearing bank borrowings

	Effective interest rate *(%)*	Maturity	As at 31 December			As at 31 August
			2006	**2007**	**2008**	**2009**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loan – secured	4.86%	2010	–	–	–	3,404
Bank loan – unsecured	7.02%	2008	–	4,272	–	–
			–	4,272	–	3,404
Analysed into:						
Repayable within one year			–	4,272	–	3,404

As at 31 August 2009, the Rightsouth Group had a bank borrowing amounting to RMB3,000,000 (equivalent to HK$3,404,000), which was secured by the land and building of Guangzhou Tiantian Friendship Co., Ltd. ("Tiantian"), a fellow subsidiary of the Target Company.

All interest-bearing bank borrowings were denominated in RMB. The carrying amount of the Rightsouth Group's bank borrowings approximate to their fair value.

The Rightsouth Group has no undrawn banking facilities as at 31 December 2006, 2007 and 2008, and 31 August 2009.

21. Deferred income

Government grants

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Carrying amount at 1 January	2,810	2,805	1,845	813
Granted during the year/period	796	–	9	–
Amortised as income *(note 7)*	(885)	(1,125)	(1,121)	(443)
Exchange realignment	84	165	80	–
Carrying amount at 31 December/31 August	2,805	1,845	813	370
Current portion included in other payables and accruals *(note 19)*	(955)	(1,079)	(671)	(370)
Non-current portion	1,850	766	142	–

Government grants represent the subsidies received from the local Bureau of Finance in respect of the development and construction of franchised stores. The fair value of the government grant is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments. There are no other conditions relating to these grants.

22. Share capital

The Target Company was incorporated in the BVI on 25 November 2008, with an authorised share capital of US$5,000,000 divided into 5,000,000 shares of US$1 each, with one share issued and allotted to CEC F&B on 3 March 2009.

The issued capital as presented in the consolidated statements of financial position as at 31 December 2006, 2007, 2008 and 31 August 2009 represented the capital issued by the Target Company for the purpose of the business combination in the amount of HK$15,298,508, of which HK$8 is relating to China Food and HK$15,298,500 is relating to GZ W&L.

23. Contingent liabilities

Gold Star, a subsidiary of the Rightsouth Group provided guarantees to banks in connection with facilities granted to Harbin China Distillery Company Limited, a subsidiary of the Company, up to RMB16,400,000 with the pledged deposits of approximately HK$21,155,000 and HK$20,776,000 as at 31 December 2008 and 31 August 2009, respectively *(note 17)*.

24. Operating lease arrangements

As lessee

The Rightsouth Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six months to seven years.

At the end of each of the Relevant Periods, the Rightsouth Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,766	4,122	5,030	4,257
In the second to fifth years, inclusive	14,764	13,399	10,336	6,976
After five years	2,565	–	–	–
	19,095	17,521	15,366	11,233

25. Related company transactions and balances

In addition to the transactions detailed elsewhere in the Financial Information, the Rightsouth Group had the following transactions with related companies during the Relevant Periods:

(a) Transactions with related companies

		Year ended 31 December			Eight-month period ended 31 August	
		2006	**2007**	**2008**	**2008**	**2009**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Sales of products to related companies	*(i)*	1,018	3,776	–	–	–
Purchases of products from related companies	*(ii)*	3,923	2,859	6	–	534

(i) The sales to related companies were made according to the published prices and conditions offered to the major customers of the Rightsouth Group.

(ii) The purchases from related companies were made according to the published prices and conditions offered to the major suppliers of the Rightsouth Group.

(b) Outstanding balances with related companies

		As at 31 December			As at 31 August
		2006	2007	2008	2009
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loan receivable from a related company					
Guangzhou Wine and Liquor Co., Ltd. (廣州酒類有限公司) ("GZ Wine and Liquor")*	*(i)*	3,005	3,422	3,855	–
Due from related companies					
GZ Wine and Liquor*	*(ii)*	324	47	31	–
Guangzhou Wine and Liquor Distribution Co., Ltd. (廣州酒類配送有限公司)*	*(ii)*	756	1,176	1,215	1,075
CEC Ethanol (Northeast) Ltd***	*(iii)*	–	–	299	590
CEC F&B Limited	*(iii)*	–	–	–	13
		1,080	1,223	1,545	1,678
Loan payable to a related company					
China Food and Beverage Group Limited	*(iv)*	–	–	21,216	21,216
Due to a related company					
Guangzhou Tiantian Friendship Co., Ltd. (廣州天天友誼食品有限公司) ("Tiantian")**	*(iii)*	6,181	15,529	16,184	9,462

* *They are subsidiaries of Guangzhou Yangcheng Food Co., Ltd., the minority shareholder of GZ W&L.*

** *It is a 70% owned subsidiary of China Food.*

*** *It is a subsidiary of the Company.*

(i) On 10 August 2005, an interest-free loan agreement was entered into between GZ W&L and GZ Wine and Liquor. Pursuant to the agreement, GZ W&L lent RMB 5,000,000 to GZ Wine and Liquor free of interest and the maturity term is 10 years. On 15 June 2009, a creditor transfer agreement was entered into between GZ W&L and Tiantian. Pursuant to the agreement, GZ W&L transferred the loan with GZ Wine and Liquor to Tiantian in a full amount of RMB5,000,000, which was offset with the payables to Tiantian on that date immediately. The loan receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised.

(ii) The balances with the related companies are trade in nature, unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(iii) The balances with the related companies are non-trade in nature, unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(iv) The balance represented the unsecured and non-interest-bearing loan provided by China Food to Gold Star. The loan was transferred to the Target Company on 19 October 2009 when it acquired Gold Star from China Food.

(c) Gold Star, a subsidiary of the Rightsouth Group, has provided guarantees to banks for Harbin China Distillery Company Limited, a subsidiary of the Company, with pledged deposits of HK$21,155,000 and HK$20,776,000 as at 31 December 2008 and 31 August 2009, respectively.

(d) Tiantian, a fellow subsidiary of the Target Company has provided guarantees to banks for GZ W&L with the land and building as at 31 August 2009.

26. Financial risk management objectives and policies

The Rightsouth Group's principal financial instruments comprise interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Rightsouth Group's operations. The Rightsouth Group 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 Rightsouth Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

The Rightsouth Group's exposure to the risk of changes in market interest rates relates primarily to the Rightsouth Group's debt obligations with floating interest rates. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Rightsouth Group are set out in note 20 to the Financial Information.

A reasonably possible change of 50 basis points in interest rates would have no material impact on the Rightsouth Group's profit or loss during the Relevant Periods and there would be no impact on the Rightsouth Group's equity.

Liquidity risk

The Rightsouth Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and trade finance facilities. The Rightsouth Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Rightsouth Group's operations. The Rightsouth Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Rightsouth Group's cash and bank balances are placed with reputable financial institutions.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of cash and bank balances, trade receivables and other receivables represent the Rightsouth Group's maximum exposure to credit risk in relation to financial assets.

At the end of each of the Relevant Periods, there was no significant concentration of credit risk.

Foreign currency risk

The Rightsouth Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. For the PRC operations, most of the sales and purchases transactions are settled in RMB. Accordingly, the transactional currency exposures of the Rightsouth Group are not significant. The Rightsouth Group has not entered into any hedging transaction to reduce the Rightsouth Group's exposure to foreign currency risk in this regard.

A reasonably possible change of 5% to 10% in the exchange rate between the HK$ and RMB per annum would have no material impact on the Rightsouth Group's profit or loss during the Relevant Periods and there would be no material impact on the Rightsouth Group's equity.

Capital management

The primary objective of the Rightsouth Group's capital management is to safeguard the Rightsouth Group'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 Rightsouth Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes of the Rightsouth Group's capital management policy during the Relevant Periods.

The Rightsouth Group monitors capital using a gearing ratio, which is net debt divided by the total adjusted equity plus net debt. Net debt is calculated as the sum of interest-bearing bank borrowings, trade payables, other payables and an amount due to a related party, less cash and cash equivalents. Capital represents equity attributable to the equity holders of the Target Company. The Rightsouth Group's policy is to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2006, 2007 and 2008, and 31 August 2009 were as follows:

	As at 31 December			As at 31 August
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank borrowings	–	4,272	–	3,404
Trade payables	3,229	5,887	9,701	6,831
Other payables	249	556	4,218	878
Due to a related company	6,181	15,529	16,184	9,462
Less: Cash and cash equivalents	(2,812)	(3,164)	(4,188)	(3,121)
Net debt	6,847	23,080	25,915	17,454
Equity	13,333	14,041	9,756	11,254
Equity and net debt	20,180	37,121	35,671	28,708
Gearing ratio	34%	62%	73%	61%

27. Net assets of the Target company

The Target Company was incorporated on 25 November 2008 and acquired by CEC F&B on 3 March 2009. Pursuant to the Reorganisation, the Target Company became the holding company of the Rightsouth Group on 25 November 2009.

The balance sheet of the Target Company as at 31 August 2009 is as follows:

	Note	As at 31 August 2009
	Note	*HK$*
CURRENT ASSET		
Amount due from CEC F&B		8
Net assets		8
EQUITY		
Issued capital	*22*	8
Total equity		8

28. Post balance sheet events

On 19 October 2009, the Target Company acquired the entire issued share capital of Gold Star from CEC F&B at the consideration of HK$1. The unsecured and non-interest bearing shareholder loan in the sum of HK$21,216,000 made by China Food to Gold Star was also assigned from China Food to the Target Company for the consideration of HK$21,216,000.

On 20 October 2009, the Target Company capitalized the aforesaid loan from China Food by way of the issuance of 2,720,000 ordinary shares at US$1 par value to China Food. In addition, Gold Star capitalized the aforesaid loan from the Target Company by way of the issuance of 21,216,000 ordinary shares at HK$1 par value to the Target Company.

On 25 November 2009, a Deed of Assignment and Control agreement (the "Control Deed") was entered into between the Target Company and China Food, pursuant to which, China Food granted to the Target Company all of the beneficial interests in the economic rights and all the control rights in relation to the management of GZ W&L attributable to the equity interests in GZ W&L held by China Food at a consideration of HK$15,298,500 by issue of 1,974,000 consideration shares at US$1 par value to China Food. This transaction was completed as at the date of this report.

29. Subsequent financial statements

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 August 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The accompanying unaudited pro forma financial information of the Enlarged Group (as defined in this circular), comprising unaudited pro forma income statement and cash flow statement of the Enlarged Group for the year ended 31 December 2008 and the unaudited pro forma balance sheet of the Enlarged Group as at 30 June 2009, has been prepared by the Directors (as defined in this circular) in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to provide information about how the Acquisition (as defined in this circular) as detailed in the "Letter from the Board" in this circular might have affected the results of operations, financial position and cash flows of the Group as if the Acquisition had been completed and the Reorganisation (as defined in Appendix II to this circular) taken effect on (i) 1 January 2008 in respect of the unaudited pro forma income statement and cash flow statement of the Enlarged Group; and (ii) 30 June 2009 in respect of the unaudited pro forma balance sheet of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the consolidated financial statements of the Group as set out in Appendix I to this circular and the audited consolidated financial information of the Rightsouth Group as set out in the accountants' report in Appendix II to this circular after giving effect to the pro forma adjustments as described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have an impact on the Group and the Rightsouth Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the published financial information of the Group as set out in Appendix I to this circular, the audited consolidated financial information of the Rightsouth Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

2. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

	The Group	Rightsouth Group	Pro forma combined	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)	*(Note 2)*				
REVENUE	3,780	108,706	112,486			112,486
Cost of sales	(9,923)	(93,543)	(103,466)			(103,466)
Gross profit/(loss)	(6,143)	15,163	9,020			9,020
Other income	1,265	3,403	4,668			4,668
Selling and distribution costs	(52)	(14,870)	(14,922)			(14,922)
Administrative expenses	(43,300)	(3,318)	(46,618)	(1,770)	*7*	(48,388)
Other expenses	(76,581)	(4,688)	(81,269)			(81,269)
Finance costs	(882)	(542)	(1,424)			(1,424)
LOSS BEFORE TAX	(125,693)	(4,852)	(130,545)			(132,315)
Income tax credit	8,138	–	8,138			8,138
LOSS FOR THE YEAR	(117,555)	(4,852)	(122,407)			(124,177)
Attributable to:						
Equity holders of the parent	(104,916)	(4,731)	(109,647)	(1,770)	*7*	(111,417)
Minority interests	(12,639)	(121)	(12,760)			(12,760)
	(117,555)	(4,852)	(122,407)			(124,177)

3. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP AS AT 30 JUNE 2009

	The Group as at 30 June 2009	Rightsouth Group as at 31 August 2009	Pro forma combined	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note 3)	*(Note 4)*				
NON-CURRENT ASSETS						
Property, plant and equipment	353,092	1,803	354,895			354,895
Land lease prepayments	32,831	–	32,831			32,831
Other intangible assets	76,552	–	76,552			76,552
Prepayments for acquisition of property, plant and equipment	1,486	–	1,486			1,486
Interests in subsidiaries	–	–	–	37,000	*6a*	–
				(37,000)	*6b*	
Total non-current assets	463,961	1,803	465,764			465,764
CURRENT ASSETS						
Inventories	3,129	20,870	23,999			23,999
Trade receivables	–	3,861	3,861			3,861
Prepayments and other receivables	4,194	3,917	8,111			8,111
Due from a fellow subsidiary	329	–	329			329
Due from related companies	–	1,678	1,678			1,678
Pledged deposits	–	20,776	20,776			20,776
Cash and cash equivalents	806	3,121	3,927			3,927
Total current assets	8,458	54,223	62,681			62,681
CURRENT LIABILITIES						
Trade payables	3,477	6,831	10,308			10,308
Other payables and accruals	102,670	2,586	105,256	1,770	*7*	107,026
Interest-bearing bank and other borrowings	45,376	3,404	48,780			48,780
Due to a fellow subsidiary	286	–	286			286
Due to a minority shareholder of a subsidiary	34,032	–	34,032			34,032
Due to a related company	–	9,462	9,462			9,462
Income tax payable	–	1,273	1,273			1,273
Total current liabilities	185,841	23,556	209,397			211,167
NET CURRENT ASSETS/ (LIABILITIES)	(177,383)	30,667	(146,716)			(148,486)
TOTAL ASSETS LESS CURRENT LIABILITIES	286,578	32,470	319,048			317,278

	The Group as at 30 June 2009 *HK$'000* *(Note 3)*	Rightsouth Group as at 31 August 2009 *HK$'000* *(Note 4)*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	286,578	32,470	319,048			317,278
NON-CURRENT LIABILITIES						
Deferred tax liability	15,188	–	15,188			15,188
Deferred income	12,642	–	12,642			12,642
Loans payable to a related company	–	21,216	21,216	(21,216)	*5*	–
Total non-current liabilities	27,830	21,216	49,046			27,830
Net assets	258,748	11,254	270,002			289,448
EQUITY						
Equity attributable to equity holders of the parent						
Issued capital	57,451	15,299	72,750	21,216	*5*	65,307
				7,856	*6a*	
				(36,515)	*6b*	
Reserves	148,671	(6,844)	141,827	29,144	*6a*	168,716
				(485)	*6b*	
				(1,770)	*7*	
	206,122	8,455	214,577			234,023
Minority interests	52,626	2,799	55,425			55,425
Total equity	258,748	11,254	270,002			289,448

4. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

	The Group *HK$'000* *(Note 1)*	Rightsouth Group *HK$'000* *(Note 2)*	Pro forma combined *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax:	(125,693)	(4,852)	(130,545)	(1,770)	*7*	(132,315)
Adjustments for:						
Finance costs	882	542	1,424			1,424
Interest income	(56)	(247)	(303)			(303)
Depreciation	3,420	1,702	5,122			5,122
Amortisation of prepaid land leases payments	1,034	–	1,034			1,034
Amortisation of other intangible assets	5,474	–	5,474			5,474
Amortisation of deferred income	(454)	(1,121)	(1,575)			(1,575)
Impairment of property, plant and equipment	9,662	–	9,662			9,662
Impairment of other intangible assets	64,591	–	64,591			64,591
Impairment of goodwill	2,328	4,688	7,016			7,016
Equity-settled share option expense	17,447	–	17,447			17,447
	(21,365)	712	(20,653)			(22,423)
Decrease/(increase) in inventories	2,155	(3,052)	(897)			(897)
Decrease/(increase) in trade receivables	–	886	886			886
Decrease/(increase) in prepayments and other receivables	(261)	(366)	(627)			(627)
Increase/(decrease) in trade payables	–	3,814	3,814			3,814
Increase/(decrease) in other payables and accruals	14,330	4,582	18,912	1,770	*7*	20,682
Increase in an amount due from the immediate holding company	(17)	–	(17)			(17)
Decrease/(increase) in an amount due from a fellow subsidiary	(125)	–	(125)			(125)
(Increase)/decrease in balances with related companies	–	333	333			333
Increase in an amount due to a fellow subsidiary	286	–	286			286
Cash generated from/(used) in operations	(4,997)	6,909	1,912			1,912

	The Group	Rightsouth Group	Pro forma combined	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)	*(Note 2)*				
Cash generated from/(used) in operations	(4,997)	6,909	1,912			1,912
Interest paid	–	31	31			31
Tax paid	–	(88)	(88)			(88)
Net cash inflow/(outflow) from operating activities	(4,997)	6,852	1,855			1,855
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	56	–	56			56
Purchase of items of property, plant and equipment	(76,181)	(1,475)	(77,656)			(77,656)
Increase in pledged deposits	–	(21,155)	(21,155)			(21,155)
Disposal of subsidiaries	1,560	–	1,560			1,560
Net cash outflow from investing activities	(74,565)	(22,630)	(97,195)			(97,195)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of shares	2,018	–	2,018			2,018
Share issue expenses	–	–	–			–
New bank and other borrowings	44,864	22,304	67,168			67,168
Repayment of bank borrowings	–	(26,576)	(26,576)			(26,576)
Increase in balances with a related company	–	21,216	21,216			21,216
Receipt from government's grant	–	9	9			9
Interest paid	(576)	(542)	(1,118)			(1,118)
Net cash inflow from financing activities	46,306	16,411	62,717			62,717
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,256)	633	(32,623)			(32,623)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(33,256)	633	(32,623)			(32,623)
Cash and cash equivalents at beginning of year	32,854	3,164	36,018			36,018
Effect of foreign exchange rate changes, net	4,126	391	4,517			4,517
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,724	4,188	7,912			7,912
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	3,724	4,188	7,912			7,912

Notes:

1. The balances are extracted from the audited consolidated financial information of the Group for the year ended 31 December 2008 as set out in Appendix I to this circular.

2. The balances are extracted from the audited consolidated financial information of the Rightsouth Group for the year ended 31 December 2008 as set out in Appendix II to this circular.

3. The balances are extracted from the unaudited consolidated financial information of the Group for the six-month period ended 30 June 2009 as set out in Appendix I to this circular.

4. The balances are extracted from the audited consolidated financial information of the Rightsouth Group for the eight-month period ended 31 August 2009 as set out in Appendix II to this circular.

5. The adjustment represents the aggregate of events occurred subsequent to 31 August 2009 but completed before the Latest Practicable Date:

   (i) the assignment of the unsecured and non-interest bearing shareholder loan in the sum of HK$21,216,000 from China Food and Beverage Limited ("China Food") to Rightsouth for the consideration of HK$21,216,000 on 19 October 2009;

   (ii) the capitalization of the unsecured and non-interest bearing shareholder loan made by China Food to Rightsouth in the amount of HK$21,216,000 by way of the issuance of 2,720,000 ordinary shares of US$1.00 par value each to China Food on 20 October 2009;

   (iii) the capitalization of the unsecured and non-interest bearing shareholder loan made by Rightsouth to Gold Star in the amount of HK$21,216,000 by way of the issuance of 21,216,000 ordinary shares of HK$1.00 par value each to Rightsouth on 20 October 2009; and

   (iv) the elimination of the investment of Rightsouth in Gold star.

6a. Pursuant to the agreement for the sale and purchase of all the shares in Rightsouth between China Food and the Company dated 25 November 2009, the Company conditionally agrees to acquire from China Food the 100% equity interests in Rightsouth at a consideration of HK$37,000,000 by way of allotment and issue of the consideration shares of 78,556,263 at HK$0.1 each resulting in a share premium of approximately HK$29,144,000. The adjustment represents the consideration payable to China Food.

6b. The Company's acquisitions of the 100% equity interest in Rightsouth is considered as a business combination under common control because China Food and the Company are ultimately controlled by China Enterprise Capital Limited both before and after the business combination. Accordingly, the business combination will be accounted for using the principles of merger accounting. The adjustment represents the recognition of merger reserve of approximately HK$485,000 arising from the business combination, which represents the difference between the cost of combination of HK$37,000,000 in the form of shares issued by the Company, and the 100% of the share capital of Rightsouth (taking into account of the capitalisation as mentioned in 5(ii) above), which is to be acquired by the Company amounting to approximately HK$36,515,000.

7. The adjustment represents the estimated legal and professional costs directly attributable to the acquisition, which is considered as common control combination, of approximately HK$1,770,000 to be expensed in the unaudited pro forma income statement. The legal and professional costs will not have a continuing effect on the financial statements of the Enlarged Group in subsequent years.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

24 December 2009

The directors
Bio-Dynamic Group Limited
(Incorporated in the Cayman Islands with limited liability)

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Bio-Dynamic Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in section A of Appendix III to the circular dated 24 December 2009 (the "Circular") issued by the Company, in connection with the acquisition of the entire issued share capital of Rightsouth Limited and its subsidiaries (the "Rightsouth Group") (the "Acquisition") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented in Appendix I to the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Introduction" in Appendix III to the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited 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 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement does not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 had the Acquisition actually been completed on that date or any future dates; or
- the results of operations and cash flows of the Group for the year ended 31 December 2008 had the Acquisition actually been completed on 1 January 2008 or any future periods.

OPINION

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

1. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2009, being the latest practicable date prior to the printing of this circular for the purpose of preparing this statement of indebtedness, the Enlarged Group had secured bank loans of approximately HK$56,064,000, unsecured other loans of approximately HK$26,783,000, unsecured amount due to a minority shareholder of a subsidiary of approximately HK$34,047,000, and unsecured amounts due to fellow subsidiaries of approximately HK$10,263,000. The secured bank loans of the Enlarged Group as at 31 October 2009 were secured by: (i) certain land and buildings of a fellow subsidiary of the Enlarged Group; (ii) bank deposits of the Enlarged Group; and (iii) the minority shareholder of a subsidiary of the Enlarged Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have, as at the close of business on 31 October 2009, other outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

2. WORKING CAPITAL

As at the Latest Practicable Date, on the basis that the Enlarged Group is able to:

(i) obtain the relevant manufacturing permit which is required in order for the production facility at Harbin to commence operations following the completion of its trial run;

(ii) obtain additional funding from other sources, in addition to the recent Placing and Subscription which was completed on 2 December 2009 and 15 December 2009 respectively;

(iii) obtain additional financial facilities from its bankers, in addition to banking facilities of approximately RMB30,000,000 which were obtained by the Group in August 2009; and

(iv) dispose of certain of its operations and properties,

after due and careful enquiry, and taking into account that the Company has obtained financial support from its ultimate holding company and fellow subsidiaries, the Directors are of the opinion that the Enlarged Group shall, immediately following Completion, have sufficient working capital for at least 12 months from the Latest Practicable Date. However, the Directors would like to draw your attention to "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix III of this circular which disclosed that upon Completion, the consolidated current liabilities exceeded its consolidated current assets by approximately HK$148,486,000. In addition, a subsidiary of the Company has not yet obtained the manufacturing permit as expected as at the Latest Practicable Date (see paragraph (i) above). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the adequacy of working capital.

The relevant manufacturing permit referred to in (i) above is important to the business of the Enlarged Group as it is required for the production facility at Harbin to commence operations and contribute to the overall revenue of the Enlarged Group going forward. In the event the Enlarged Group is unable to obtain the relevant manufacturing permit, it will not be able to utilise the production facility at Harbin to contribute to its business going forward.

The additional funding and banking facilities referred to in (ii) and (iii) above will, if obtained, enable the Enlarged Group to strengthen its capital base and improve its financial position, immediate liquidity and cash flows. The amount of such additional funding and banking facilities required is dependant on the Enlarged Group's total liabilities (which takes into account, amongst other things, its bank and other borrowings of approximately HK$127,157,000 as at the close of business on 31 October 2009), less any funding and banking facilities which have been obtained as mentioned above, as at the Latest Practicable Date. In the event the Enlarged Group is unable to obtain such additional funding and banking facilities, this will affect its overall financial position.

The disposal of certain of the Enlarged Group's operations and properties referred to in (iv) above will help to strengthen its balance sheet and further improve its immediate liquidity and cash position. If the Enlarged Group is unable to dispose of such operations or properties, this should not have a material adverse impact on its current financial position.

If the Enlarged Group is unable to carry out all of the actions referred to in (i) to (iv) above, this may result in a material uncertainty which may cast significant doubt about the Enlarged Group's ability to continue as a going concern.

3. BUSINESS TREND OF THE GROUP

As the Group's Harbin production facility has not yet commenced operations as at the Latest Practicable Date, the Group recorded no turnover for the six months ended 30 June 2009 (the "**Period**"). Loss attributable to equity holders of the parent was approximately HK$15.0 million. The decrease in loss for the Period was mainly attributable to the decrease in recognition of share option expenses of approximately HK$55.6 million and the remuneration cut of around 50% on average of all Directors effective from 1 January 2009. Loss per share for the Period was HK$0.026.

Trial run of the Group's Harbin production facility started in late August 2009 and was expected to be completed by December 2009. According to the current plan, the facility will commence production in early to mid 2010 and gradually contribute turnover to the Group.

During the Period, the Group's Yinchuan production facility remained idle. The management is currently considering various plans for the idle assets, however, no definite plan has been formed as at the Latest Practicable Date.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

With the production of the Harbin production facility expected to be commenced soon, the Group is considering the development of alcoholic beverage products, the downstream products of ethanol. The Acquisition and the Option will (i) enable the Group to gain entry into the wine and liquor market in the PRC, (ii) provide opportunities for vertical integration of the business of the JV Co. with the existing business of the Group, (iii) enable synergy between the business of the JV Co. with the business of the Group, and (iv) enables the Group to obtain immediate access to the wine and liquor market in the PRC.

The Directors consider that the Acquisition will enhance the assets base of the Group, create new business opportunities for the Group and will broaden its revenue base. The exercise of the Option has no material financial impact on the Group.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2007, 2008 and 2009. The following should be read in conjunction with the historical combined financial information together with the accompanying notes set out in the financial information contained in this Appendix I above. The following discussion contains certain forward-looking statements that involve risks and uncertainties.

Financial year ended 31 December 2008

Review

Following the disposal of the handbag and dairy businesses in the prior financial year, the Group has transformed to focus its development on the ethanol business. As the Group's Harbin production facility has not commenced operation during the year, the Group recorded a turnover of approximately HK$3.8 million for the year ended 31 December 2008. Loss attributable to equity holders of the Company was approximately HK$104.9 million (2007: HK$34.8 million). The significant increase in loss for the year was mainly attributable to (i) the impairment of intangible assets of approximately HK$64.6 million (2007: Nil), (ii) the impairment of goodwill of approximately HK$2.3 million (2007: Nil), (iii) the impairment of property, plant and equipment of approximately HK$9.7 million (2007: Nil), (iv) the recognition of share option expenses of approximately HK$17.4 million (2007: HK$15.3 million) and (v) the amortisation of intangible assets of approximately HK$5.5 million (2007: HK$2.7 million).

Loss per share for the year was HK18.54 cents (2007: HK7.8 cents).

The Group has completed the construction of a 60,000 tonne production facility in Harbin for its ethanol business during the year and is now waiting for the manufacturing permit. The new Harbin production facility has a land area of approximately 180,000 square metres and a total gross floor area of approximately 58,653 square metres. Upon obtaining the permit, the Group will commence the production of premium grade consumable ethanol, industrial ethanol, and other food and feed ingredients such as fusel oil and Distiller's Dried Grains with Solubles (DDGS). In view of current ethanol market conditions, an impairment of intangible assets of approximately HK$64.6 million and an impairment of goodwill of approximately HK$2.3 million were made during the year.

During the year, the management suspended the production of Yinchuan production facility due to its small production scale and high energy cost in the zone where the facility located. The Group is currently considering various plans for the idle assets. As no definite plan has been formed as at the date of this report, an impairment of property, plant and equipment in respect of Yinchuan production facility of approximately HK$9.7 million was made during the year.

Prospects

Wild swings in commodity markets and a great deal of manufactured hysteria over the food versus fuel debate have created challenging conditions for ethanol producers. However, with growing energy security and environmental concerns, biofuel production will remain important in China in the near future. The Group is considering the development of alcoholic beverage products, the downstream products of ethanol, by building on the new ethanol production facility. The management believes that the Group will be able to obtain sufficient finance for its working capital and future developments.

Liquidity, financial resources and capital structure

During the year, the issued share capital of the Company increased by 7,007,000 shares to 573,007,000 shares due to exercise of share options by various directors and employees. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

As at 31 December 2008, the Group has equity attributable to equity holders of the Company of approximately HK$215.7 million (2007: HK$289.6 million). Non-current assets and net current liabilities of the Group as at 31 December 2008 amounted to approximately HK$468.0 million (2007: HK$394.0 million) and approximately HK$169.7 million (2007: HK$5.6 million), respectively. In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(a) The Group is negotiating with certain bankers to obtain additional banking facilities;

(b) The Group is considering to dispose of certain of its operations and properties;

(c) The Group has obtained financial support from its ultimate holding company and fellow subsidiaries; and

(d) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through fund raising exercises.

As at 31 December 2008, the Group's bank and cash balances amounted to approximately HK$3.7 million (2007: HK$32.9 million), which were denominated in Hong Kong dollars and Renminbi. In order to finance the construction cost of Harbin production facility, the Group increased its borrowings during the year. As at 31 December 2008, the Group's total borrowings amounted to approximately HK$78.9 million (2007: HK$32.0 million), representing a rise of 146.5% when compared to prior year. The Group's borrowings included an amount due to a minority shareholder of a subsidiary of approximately HK$34.1 million (2007: HK$32.0 million), short term borrowings of approximately HK$26.2 million (2007: Nil) and a bank loan of approximately HK$18.6 million (2007: Nil). All of the borrowings are denominated in Renminbi. The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The short term borrowings and the bank loan are unsecured, bear fixed interest rates and are repayable within one year. The gearing ratio of the Group as at 31 December 2008, calculated as net debt divided by equity attributable to equity holders of the Company plus net debt, was 45% (2007: 5%).

The Group did not use financial instruments for financial hedging purposes during the year.

The Group's business transactions, assets and liabilities are principally denominated in Renminbi and Hong Kong dollars. Fluctuations in Renminbi may impact the Group's results and net asset value as the Company's consolidated financial statements are presented in Hong Kong dollars. The Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on assets

As at 31 December 2008, there was no charge on the Group's assets (2007: Nil).

Contingent liabilities

As at 31 December 2008, the Group had no material contingent liabilities (2007: Nil).

Employee and remuneration policy

As at 31 December 2008, the Group had approximately 228 (2007: 148) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$28.6 million (2007: HK$41.2 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications. The Company has adopted a share option scheme and the purpose of which is to provide incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Financial year ended 31 December 2007

Significant acquisitions and disposals

Very substantial and connected transactions

On 11 May 2007, the Company entered into various agreements with its fellow subsidiaries and immediate holding company for certain very substantial and connected transactions. These transactions have been approved by independent shareholders at the Extraordinary General Meeting held on 16 July 2007 and completed on 19 July 2007. Details are set out below:

(i) Disposal of Handbags and other accessories Business and Dairy Business

The Company disposed of the entire issued share capital of each of Glory Access Limited and Agricapital (Tianjin) Limited, each a wholly-owned subsidiary of the Company, to Orientelite Investments Limited, the immediate holding company of the Company, for a total cash consideration of US$200,000 (approximately HK$1,560,000).

Glory Access Limited was the holding company of the Company's interests in its handbags and other accessories business (the "GAL Group") while Agricapital (Tianjin) Limited was the holding company of the Company's interests in its dairy business (the "ATL Group"). The disposal of the GAL Group and ATL Group (collectively, the "Old Businesses") represented the disposal of all of the Company's subsidiaries at that time.

(ii) Acquisition of Ethanol Business

The Company acquired the entire issued share capital in BAPP Ethanol Holdings Limited and CEC Ethanol (Northeast) Limited from its fellow subsidiaries, at considerations of HK$120 million and HK$100 million, respectively. The considerations were satisfied by the Company through the allotment and issuance of 96,000,000 shares and 80,000,000 shares of the Company, respectively, at an issue price of HK$1.25 per share.

BAPP Ethanol Holdings Limited and its subsidiaries (the "BAPP Ethanol Group") were principally engaged in the production and sale of ethanol during the year. The BAPP Ethanol Group operates as a research and development facility exploring more efficient methods of non-feedstock ethanol production and is currently refining a proprietary enzymatic process by which beetroot can be used to generate ethanol in a cost efficient and environmentally conscientious manner.

CEC Ethanol (Northeast) Limited and its subsidiary (the "CEC Ethanol Group") were principally engaged in the sale and distribution of ethanol during the year. The CEC Ethanol Group owns brands and sales networks of premium grade ethanol and is currently developing a 150,000 tonnes ethanol production facility in Harbin, the PRC. In order to ensure steady supply of ethanol for the sales and distribution business during the construction period of the production plant, on 23 May 2007, Harbin China Distillery Co., Ltd. ("Harbin Distillery"), the 72.7% owned subsidiary of CEC Ethanol (Northeast) Limited, entered into a processing agreement with a connected party for the production of ethanol on a tolling basis.

Further details of these transactions were set out in the Company's circular dated 29 June 2007.

Discloseable and connected transaction

On 9 November 2007, the Company and its wholly-owned subsidiary, CEC Ethanol (Northeast) Limited, entered into a sale and purchase agreement with Harbin Light Industry Asset Management Co., Ltd. ("Harbin Light Industry"), a minority shareholder of Harbin Distillery, for the acquisition of the remaining 27.3% equity interest in Harbin Distillery held by Harbin Light Industry. The consideration payable by the Company for the acquisition is RMB60 million (approximately HK$62.6 million), which will be satisfied by the Company through the allotment and issuance of 50,040,000 shares of the Company at an issue price of HK$1.25 per share. Further details of the acquisition were set out in the Company's circular dated 28 November 2007.

On completion of the acquisition, Harbin Distillery will become a wholly-owned subsidiary of the Company. However, as the conditions precedent as set out in the sale and purchase agreement have not been fully fulfilled, the acquisition has not been completed as at the date of this report.

Business and financial review

The results generated from the BAPP Ethanol Group and CEC Ethanol Group (collectively, the "New Business") were presented as continuing operations while the results generated from the Old Businesses were presented as discontinued operations.

For the year ended 31 December 2007, loss attributable to equity holders of the Company was approximately HK$34.8 million (2006: HK$26.0 million as restated). The increase in loss was mainly attributable to the recognition of share option expenses of approximately HK$15.3 million (2006: Nil) in respect of 29,600,000 share options granted during the year. Loss per share for the year was HK7.8 cents (2006: HK8.1 cents as restated).

Continuing operations

The Group has transformed to focus its development on ethanol business since 19 July 2007. The ethanol business is still at initial and developing stage. The Group recorded a turnover of approximately HK$65.8 million from its continuing operations, of which the CEC Ethanol Group contributed a turnover of approximately HK$65.5 million. As the CEC Ethanol Group is currently developing a 150,000 tonne ethanol production facility in Harbin, the PRC, its turnover during the year was mainly arising from sale and distribution of ethanol which were produced by a connected party on a tolling basis. However, in November 2007, the connected party ceased its operation and since then, the CEC Ethanol Group recorded no turnover and began to accelerate its pace of construction. The phase one 60,000 tonne capacity production facility is expected to be completed by May 2008 and CEC Ethanol Group will commence operation and start to generate revenue to the Group. The BAPP Ethanol Group has commenced limited production during the year due to seasonality of crop harvest, and hence, its contribution to the Group's turnover was minimal.

Loss attributable to equity holders of the Company from continuing operations was approximately HK$32.8 million (2006: HK$6.1 million), including share option expenses of approximately HK$15.3 million (2006: Nil).

Discontinued operations

Loss attributable to equity holders of the Company from discontinued operations was approximately HK$2.0 million (2006: HK$19.9 million as restated). The Group recorded a gain on disposal of discontinued operations of approximately HK$9.6 million. However, the gain was not sufficient to offset the loss incurred from the discontinued operations.

Prospects

The worldwide ethanol market is growing and expected to grow rapidly in the coming years due to governmental policies of using ethanol as fuel or a fuel additive in many countries, including China. Initially, the Group will enter into the ethanol market through the consumable ethanol sector. With the Group's proprietary technology that allows the use of non-feedstock in the production process, the Group is able to manufacture ethanol on a more cost-effective basis than traditional processes. The Group will also explore the options of cooperating with ethanol producers by joint venture or by technology licensing.

In the medium term, the Group will also penetrate the fuel ethanol sector. As most existing and proposed production processes for ethanol in China are mainly based on corn or other feedstock, the Group's proprietary technology is well positioned to receive a licence for fuel ethanol.

The directors believe that the potential in the ethanol business is enormous and will improve the Group's earnings base in the coming years.

Liquidity, financial resources and capital structure

During the year, the issued share capital of the Company increased by 234,000,000 shares to 566,000,000 shares. On 18 June 2007, the Company raised net proceeds of approximately HK$91.8 million by way of a top-up placing of 58,000,000 shares at HK$1.62 each. The net proceeds have been and will be used for the Group's general working capital purposes. On 19 July 2007, a total of 176,000,000 shares at HK$1.25 each were allotted and issued as consideration for acquiring the New Business. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

As at 31 December 2007, the Group has net current assets of approximately HK$44.8 million (2006: HK$24.7 million) and equity attributable to equity holders of the Company of approximately HK$289.6 million (2006: HK$3.0 million as restated). The significant increase in net current assets and equity attributable to equity holders of the Company was mainly attributable to the deconsolidation of the Old Businesses and the consolidation of the New Business. Bank and cash balances amounted to approximately HK$32.9 million as at 31 December 2007 (2006: HK$8.6 million).

Except for an amount due to a minority shareholder of a subsidiary of approximately HK$32.0 million, the Group had no other borrowings as at 31 December 2007 (2006: HK$79.2 million). The amount due to a minority shareholder of a subsidiary is interest-free and has no fixed terms of repayment. The gearing ratio of the Group as at 31 December 2007, calculated as total debt divided by equity attributable to equity holders of the Company, was approximately 21% (2006: 4032%). The significant decrease in borrowings and gearing ratio of the Group was mainly due to the release of the amount due to immediate holding company of approximately HK$76.2 million following the disposal of the Old Businesses.

As the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi, the Group's exposure to exchange rate risk is limited. It is the Group's treasury policy to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on assets

As at 31 December 2007, there was no charge on the Group's assets (2006: Nil).

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities (2006: Nil).

Employee and remuneration policy

As at 31 December 2007, the Group had approximately 148 (2006: 2,088) employees with total staff costs amounted to approximately HK$41.2 million (2006: HK$39.7 million). Following the disposal of the Group's labour-intensive Old Businesses, the headcount decreased. However, as the Group adopted a share option scheme to provide incentives to the employees during the year, the recognition of share option expenses of approximately HK$15.3 million increased the staff cost significantly. Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

Financial year ended 31 December 2006

Business and financial review

For the year ended 31 December 2006, the Group's turnover was approximately HK$167.4 million, representing an increase of 44.6% over last year. The substantial increase in turnover during the year was mainly attributable to the contributions from the dairy company acquired in late 2005 and the recovery of the handbags and other accessories segment. Gross profit was approximately HK$7.3 million as opposed to gross loss of approximately HK$0.6 million last year. Loss attributable to equity holders of the Company was approximately HK$25.8 million, representing a decrease of 4.9% over last year. Loss per share for the year was HK$8.0 cents (2005: HK$11.2 cents).

The performance of the handbags and other accessories segment and dairy products segment during the year is set out below.

During the year, handbags and other accessories segment continued its recovery and remained the core business of the Group. Handbags and other accessories segment recorded a turnover of approximately HK$142.5 million, up 23.2% over last year and accounted for 85.1% of the total turnover. Gross profit was approximately HK$13.4 million as opposed to gross loss of approximately HK$0.4 million last year. The increase in the turnover and the turnaround to gross profit was mainly due to the increase in PRC sales which have relatively higher gross margin than overseas sales, and the stringent control over the cost of sales. The Group will continue to tighten controls on operating costs, aiming to enhance operational efficiency and competitiveness and thus further improve business performance.

The Group completed the acquisition of a dairy company in mid December 2005. The operation of the dairy company was ceased before the acquisition and has been restarted in late December 2005. In 2006, the first year of operation, dairy products segment recorded a turnover of approximately HK$24.9 million, representing a significant increase of 236% as compared to the turnover of approximately HK$7.4 million in the first six months of 2006, and accounted for 14.9% of the total turnover. At present, the main product of this segment is yogurt. As the Group was still in a preliminary investment stage in dairy market, it had yet to enjoy the benefits from scale of operation and market experience and hence, a gross loss of approximately HK$6.1 million was recorded. The Group will continue to strengthen its market promotion and invest in packaging facilities so as to expand the output and lower product wastage.

Prospects

In order to broaden the earnings base, the management will actively explore potential investment opportunities in the PRC that can benefit the Group in the long term. The Group will also place emphasis on the improvement of operational efficiency and cost control in order to improve its financial performance and position.

Liquidity, financial resources and capital structure

During the year, the issued share capital of the Company increased by 32,000,000 shares to 332,000,000 shares as a result of two top-up placings. On 21 April 2006, the Company raised net proceeds of approximately HK$10.4 million by way of a top-up placing of 20,000,000 shares at HK$0.54 each. On 12 June 2006, the Company raised net proceeds of approximately HK$6.3 million by way of a top-up placing of 12,000,000 shares at HK$0.54 each. The total net proceeds of approximately HK$16.7 million have been and will be used for the Group's general working capital purposes.

As at 31 December 2006, the Group has net current assets of approximately HK$24.7 million (2005: HK$26.0 million) and shareholders' equity of approximately HK$0.7 million (2005: HK$9.3 million). Bank and cash balances amounted to approximately HK$8.6 million as at 31 December 2006 (2005: HK$27.5 million).

Except for an amount due to the immediate holding company of approximately HK$76.2 million, the Group had no other borrowings as at 31 December 2006. The gearing ratio of the Group, calculated as total debts divided by total assets, was approximately 54.4% as at 31 December 2006. The amount due to the immediate holding company bears interest at 1% above the Hong Kong dollar prime rate per annum and is not repayable within one year.

As the Group's business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate risk is limited. It is the Group's treasury policy to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on assets

As at 31 December 2006, there was no charge on the Group's assets (2005: Nil).

Contingent liabilities

As at 31 December 2006, the Group had no material contingent liabilities (2005: Nil).

Employee and remuneration policy

As at 31 December 2006, the Group had approximately 2,088 (2005: 2,493) employees with total staff costs amounted to approximately HK$39.7 million (2005: HK$33.3 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RIGHTSOUTH GROUP

Set out below is the management discussion and analysis of the Rightsouth Group for the three years ended 31 December 2007, 2008 and 2009 and the eight months ended 31 August 2009. The following should be read in conjunction with the historical combined financial information together with the accompanying notes set out in the Accountants' Report contained in Appendix II to this circular.

Business and financial review

Rightsouth is an investment holding company incorporated in the British Virgin Islands in November 2008 with limited liability and is wholly owned by the Vendor. Rightsouth has not carried out any significant business since the date of its incorporation. As at the Latest Practicable Date, Rightsouth owns 100% equity interest in Gold Star and 70% beneficial interest in JV Co. which were the major investments of the Rightsouth Group.

Gold Star is a company incorporated in Hong Kong in July 2008 with limited liability and has not carried out any significant business since the date of its incorporation.

The JV Co. was established as a limited liability company in the PRC on 6 August 1999 and became a sino-foreign equity joint venture pursuant to an equity joint venture agreement dated 2 December 2004. The JV Co. is principally engaged in the wholesale and retail of wine and liquor in the PRC.

The increase in revenue for the Rightsouth Group over the years from 2006 to 2008 was mainly due to the increase in number of retail stores in Guangzhou, the PRC, from 9 as at 31 December 2006 to 18 as at 31 December 2008 and the increase in the number of corporate customers from less than 30 to over 100. Slight drop in revenue for the eight months ended 31 August 2009 was mainly due to customers reduced their spending as a result of the economic uncertainty.

The results of the Rightsouth Group remained stable over the years from 2006 to 2008, except that there was an impairment of goodwill amounting to approximately HK$4,688,000 recorded in year 2008. The profit for the eight months ended 31 August 2009 was mainly due to gain on derecognition of a loan receivable from a related company of approximately HK$1,600,000.

Liquidity, financial resources and capital structure

As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Rightsouth Group has equity attributable to equity holders of Rightsouth of approximately HK$10,812,000, HK$11,497,000, HK$7,333,000 and HK$8,455,000, respectively. Non-current assets of the Rightsouth Group as at 31 December 2006, 2007 and 2008 and 31 August 2009 amounted to approximately HK$9,756,000, HK$10,906,000, HK$6,546,000 and HK$1,803,000, respectively. Net current assets of the Rightsouth Group as at 31 December 2006, 2007 and 2008 and 31 August 2009 amounted to approximately HK$5,427,000, HK$3,901,000, HK$24,568,000 and HK$30,667,000, respectively.

As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Rightsouth Group's cash and bank balances amounted to approximately HK$2,812,000, HK$3,164,000, HK$25,343,000 and HK$23,897,000, respectively, which were denominated in Hong Kong dollars and Renminbi. Bank balance of HK$21,155,000 and HK$20,776,000 as at 31 December 2008 and 31 August 2009 was pledged to bank to provide guarantee for a subsidiary of the Company. As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Rightsouth Group's total borrowings amounted to approximately HK$6,181,000, HK$19,801,000, HK$37,400,000 and HK$34,082,000, respectively, including an amount due to a related company of approximately HK$6,181,000, HK$15,529,000, HK$16,184,000 and HK$9,462,000, respectively, short term bank borrowings of approximately Nil, HK$4,272,000, Nil and HK$3,404,000, respectively, and loan payable to a related company of approximately Nil, Nil, HK$21,216,000 and HK$21,216,000, respectively. The borrowings are denominated in Hong Kong dollars or Renminbi. The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment. The short term bank borrowings are secured by the land and building of a fellow subsidiary of Rightsouth, bear fixed interest rates and are repayable within one year. The loan payable to a related company was unsecured, interest-free and was subsequently capitalised as equity in October 2009. The gearing ratio of the Rightsouth Group as at 31 December 2006, 2007 and 2008 and 31 August 2009, calculated as net debt divided by equity attributable to equity holders of Rightsouth plus net debt, was 34%, 62%, 73% and 61%, respectively.

The Rightsouth Group did not use financial instruments for financial hedging purposes during the years ended 31 December 2006, 2007, 2008 and the eight months ended 31 August 2009.

The Rightsouth Group's business transactions, assets and liabilities are principally denominated in Renminbi and Hong Kong dollars. Fluctuations in Renminbi may impact the Rightsouth Group's results and net asset value as Rightsouth's consolidated financial statements are presented in Hong Kong dollars. The Rightsouth Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the Rightsouth Group. The Rightsouth Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on assets

As at 31 December 2006 and 2007, there was no charge on the Rightsouth Group's assets. As at 31 December 2008 and 31 August 2009, the Rightsouth Group provided guarantees, by pledged bank deposits of approximately HK$21,155,000 and HK$20,776,000 respectively, to banks in connection with facilities. Granted to Harbin China Distillery Company Limited, a subsidiary of the Company, up to an amount of RMB16,400,000.

Contingent liabilities

As at 31 December 2006 and 2007, the Rightsouth Group had no material contingent liabilities. As at 31 December 2008 and 31 August 2009, the Rightsouth Group provided guarantees, by pledged bank deposits, to banks in connection with facilities granted to Harbin China Distillery Company Limited, a subsidiary of the Company, up to an amount of RMB16,400,000.

Employee and remuneration policy

As at 31 December 2006, 2007 and 2008 and 31 August 2009, the Rightsouth Group had 144, 136, 179 and 158 employees, respectively, and remuneration expenses incurred for the years ended 31 December 2006, 2007 and 2008 and the eight months ended 31 August 2009 amounted to approximately HK$1,709,000, HK$2,585,000, HK$3,846,000 and HK$1,909,000, respectively. Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

7. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

With the production of the Harbin production facility expected to be commenced soon, the Enlarged Group is considering the development of alcoholic beverage products, the downstream products of ethanol. The Acquisition and the Option will (i) enable the Enlarged Group to gain entry into the wine and liquor market in the PRC, (ii) provide opportunities for vertical integration of the business of the JV Co. with the existing business of the Group, (iii) enable synergy between the business of the JV Co. with the business of the Group, and (iv) enables the Enlarged Group to obtain immediate access to the wine and liquor market in the PRC.

The Directors consider that the Acquisition will enhance the assets base of the Enlarged Group, create new business opportunities for the Enlarged Group and will broaden its revenue base. The exercise of the Option has no material financial impact on the Enlarged Group.

This Appendix serves as an explanatory statement as required by the Listing Rules to provide the requisite information to you for your consideration of the Repurchase Mandate.

1. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 613,507,000 Shares. On the basis that no Shares are issued or repurchased prior to the date of the EGM and subject to the passing of the relevant resolution approving the Repurchase Mandate, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 61,350,700 Shares, being 10% of the Shares in issue as at the date of the renewal of the General Mandate.

Shareholders should note that the Repurchase Mandate only covers purchases made during the period ending on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting is required to be held under the Company's Articles of Association or any applicable laws, and the date upon which such authority is revoked or varied by Shareholders in general meeting.

2. REASONS FOR REPURCHASES

Although the Directors have no present intention of repurchasing Shares, they believe that the Repurchase Mandate is in the best interests of the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Share of the Company and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

3. FUNDING OF REPURCHASES

Repurchases must be financed out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association of the Company and the Companies Laws. Such funds include but are not limited to profits available for distribution.

It is possible for there to be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the annual report of the Company in respect of the year ended 31 December 2008) in the event that the Repurchase Mandate were exercised in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

4. SHARE PRICES

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of previous twelve months preceding the Latest Practicable Date were as follows:

	Highest	**Lowest**
	HK$	*HK$*
December 2008	0.25	0.22
January 2009	0.23	0.147
February 2009	0.20	0.18
March 2009	0.22	0.18
April 2009	0.204	0.18
May 2009	0.75	0.185
June 2009	0.55	0.35
July 2009	0.75	0.325
August 2009	0.56	0.375
September 2009	0.435	0.36
October 2009	0.40	0.34
November 2009	0.76	0.335
December 2009 (up to the Latest Practicable Date)	0.60	0.375

5. GENERAL

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases in accordance with the Listing Rules and the Companies Laws.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of the their associates, have any present intention to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is approved by the Shareholders.

No connected persons (as defined in the Listing Rules) of the Company have notified the Company that they have a present intention to sell any Shares held by them to the Company or have undertaken not to sell any of the Shares held by them to the Company in the event that the Company is authorised to make any repurchase of the Shares.

6. CODE CONSEQUENCES

If on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholders' proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Code. As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and, depending on the level of increase of the Shareholders' interest, may become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, OIL and CEC Agricapital held 195,000,000 and 128,960,000 Shares respectively, representing in aggregate 52.80% of the issued share capital of the Company. Immediately after the completion of the Acquisition and the issuance of the Consideration Shares, and assuming no other change to the Company's shareholding, OIL and CEC Agricapital, and the parties acting in concert with them (which would include CEC, CEC F&B Limited and the Vendor) would be interested or deemed to be interested in an aggregate of 402,516,263 Shares, representing 58.16% of the then issued share capital of the Company. In the event that the Directors exercised in full the power to repurchase Shares under the Repurchase Mandate following Completion, the interest of OIL and CEC Agricapital, and the parties acting in concert with them, would be increased to approximately 63.82% of the issued share capital of the Company. Such increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Code.

7. SHARE REPURCHASE MANDATE MADE BY THE COMPANY

No purchases of Shares had been made by the Company during the six months preceding the Latest Practicable Date (whether on the Stock Exchange or otherwise).

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, immediately upon the issue of Consideration Shares (assuming there is no change from the current shareholding structure) will be as follows:

As at the Latest Practicable Date		*HK$*
Authorised share capital		
1,000,000,000	Shares	100,000,000
Issued and fully paid share capital		
613,507,000	Shares	61,350,700
Upon the issue of the Consideration Shares		
Issued and fully paid share capital		
613,507,000	Shares	61,350,700
78,556,263	new Consideration Shares	7,855,626
692,063,263	Shares	69,206,326

All the issued shares in the capital of the Company rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Company had no debt securities in issue as at the Latest Practicable Date.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Directors, including independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The shares option scheme became effective on 23 May 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. As at the Latest Practicable Date, the Company held 28,223,000 share options outstanding under the share option scheme, which represents approximately 4.60% of the Shares in issue as at that date.

3. DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive Directors

Mr. LO Peter, aged 53, was appointed an executive director and the chairman of the Company in May 2005. He is responsible for the overall strategic development of the Group. Mr. Lo is currently a director of China Enterprise Capital Limited, an independent non-executive director of Ajisen (China) Holdings Limited and Uni-President China Holdings Ltd., companies currently listed on the Main Board of the Stock Exchange. Mr. Lo was the independent non-executive director of Lonking Holdings Limited from February 2005 to May 2008. He was the chief executive officer and executive director of Harbin Brewery Group Limited, a company formerly listed on the Main Board of the Stock Exchange, from 1998 to 2004. He held senior management positions in the Hong Kong offices of several international companies and has more than 20 years' experience in doing business in the PRC. Mr. Lo received a Bachelor of Science (Economics) Degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science in 1982. He received the "Directors of the Year 2004" award from The Hong Kong Institute of Directors. Mr. Lo is a member of the People's Consultative Conference of Harbin City.

Mr. LI Wentao, aged 54, was appointed an executive director of the Company in May 2006 and the chief executive officer in September 2007. He is currently responsible for supervising the implementation of the Group's strategic plans. Mr. Li joined the Group as a non-executive director in September 2005. Prior to joining the Group, Mr. Li was a director and the chairman of Harbin Brewery Group Limited ("**HB Group**"). Mr. Li graduated from the Light Industrial Institute of Tianjin majoring in machine and facilities for light industry. Following his graduation in 1982, he joined Harbin Brewery Factory ("**HBF**") in 1982, and HB Group in 1995. He was appointed as the general manager of Harbin Brewing Company Limited in 1996. He is a senior engineer with more than 20 years' experience in the brewery industry gained from working for HBF and HB Group. He has been awarded a series of awards including the National Light Industrial Labourer Model, one of the Ten Most Outstanding Young Persons in Heilongjiang Province, one of the Ten Best Enterprise Operators in Harbin City and the National "First of May" Labour Medal. He was also one of the representatives of the 11th Harbin City People's Congress.

Mr. SUN David Lee, aged 44, was appointed an executive director of the Company in May 2005. He has served as the chief executive officer of the Company from May 2005 to September 2007. Mr. Sun is currently responsible for the international affairs of the Company. He is a director of CEC Management Limited and an executive director of Nubrands Group Holdings Limited, a company currently listed on the Main Board of the Stock Exchange. Prior to helping form CEC Management Limited, he was the Managing Director and General Counsel of Pacific Alliance Group Limited. Mr. Sun was the Director for Strategy and Business Development Asia at InBev. Prior to his position at InBev, he was a consultant in the Corporate Finance and Strategy Practice of McKinsey & Company, Inc. in Hong Kong. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law and a Bachelor of Art degree from Cornell University, United States of America.

Mr. ZHAO Difei, aged 47, was appointed an executive director of the Company in July 2007. He was the technology controller of Harbin Brewery Group Limited, in charge of the brewing technology department and quality control department. He graduated from the Light Industrial Institute of Dalian majoring in industrial fermentation and holds a Master Degree in food engineering. Mr. Zhao has more than 20 years' experience in the brewing industry.

Mr. LI Jian Quan, aged 51, was appointed an executive director of the Company in July 2007. He has over 10 years' experience in human resources management and has devoted to scientific research since 1994. Mr. Li graduated from the University of International Business and Economics in Beijing, majoring in International Business.

Mr. LU Gui Pin, aged 53, was appointed an executive director of the Company in July 2007. He was the general manager of Ningxia Western Bright Industrial Base Company Limited from 2002 to 2006 and was the general manager of Shenzhen Securities Times Huaiyuan Advertisement Company from 1997 to 2002. Mr. Lu graduated from the Jilin University majoring in Chinese Studies.

Non- Executive Director

Mr. YEUNG Ting-Lap Derek Emory, aged 37, was appointed a non-executive director of the Company in May 2005. He is currently the chief executive officer and co-founder of She Communications Limited ("**she.com**"), a leading Hong Kong based women's lifestyle communications company. Mr. Yeung is also a non-executive director of Nubrands Group Holdings Limited, a company currently listed on the Main Board of the Stock Exchange. Prior to founding she.com, Mr. Yeung was an associate with Telecom Venture Group Limited and a consultant with Arthur Andersen & Company both in Boston and Hong Kong. Mr. Yeung holds a Bachelor Degree in Applied Mathematics and Economics from Brown University and a Master Degree in Business Administration and Accounting from Northeastern University, both in the United States of America. Mr. Yeung is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Independent Non-executive Directors

Dr. LOKE Yu alias LOKE Hoi Lam, aged. 60, was appointed an independent non-executive director and the chairman of the audit committee of the Company in June 2005. He has over 35 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of several companies currently listed on the Stock Exchange.

Dr. LEUNG Kwan-Kwok, aged 58, was appointed an independent non-executive director of the Company in May 2005. He is a director of the Social Capital and Impact Assessment Research Unit and the Associate Professor of Department of Applied Social Studies in the City University of Hong Kong. Since 1991, he has been offering consultancy/professional services to the government, public utilities, voluntary agencies, media, and private enterprises in Hong Kong.

Mr. ZUCHOWSKI Sam, aged 62, was appointed an independent non-executive director of the Company in May 2005. He has considerable experience in investment banking and other direct investments where he has held positions with Merrill Lynch International, Inc., First Pacific U.S. Securities (Aust.) Ltd and Capitalcorp Ltd. He was a director of a number of companies listed on the Main Board of the Stock Exchange. Mr. Zuchowski obtained a Bachelor Degree in Law from the University of Melbourne, Australia.

Senior Management

Ms. CHAN So Fong, aged 36, is the chief financial officer, qualified accountant and company secretary of the Company. She joined the Group in August 2005. Ms. Chan has extensive experience in auditing and financial management. She had worked in Ernst & Young. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan holds a Bachelor Degree in Business Administration with major in Professional Accountancy from The Chinese University of Hong Kong.

Mr. WANG Ming Yan, aged 49, is the regional controller of the Group. He joined the Group in July 2007. He was the general manager of Harbin Brewing Company Limited. Mr. Wang is a senior engineer with more than 20 years' experience in the brewery industry. Mr. Wang graduated from the Light Industrial Institute of Harbin.

Mr. WANG Wenjie, aged 56, is the financial controller of the Group. He joined the Group in July 2007. He was the financial controller of the Harbin Brewery Group Limited. Mr. Wang has over 30 years of accounting experience. Mr. Wang graduated from the Industrial University of Harbin majoring in accounting.

Mr. FU Hui, aged 47, was appointed a director of the Company in July 2006 and resigned in July 2007. Mr. Fu is responsible for the operations of the Rightsouth Group. He was a director and the chief operation officer of Harbin Brewery Group Limited. Mr. Fu joined Harbin Brewery Factory in 1983. He graduated from the Light Industrial Institute of Dalian in 1983 majoring in industrial fermentation and holds a Master Degree in Management Science and Engineering from the Polytechnic University of Harbin in 1983. He was appointed as the manager of the brewing technology, research and development department of Harbin Brewery Factory in 1993. Mr. Fu was a brewing engineer of Harbin Brewery Group Limited and a senior fermentation engineer with more than 20 years' experience in the brewery industry gained from working for Harbin Brewery Factory and Harbin Brewery Group Limited.

4. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SECURITIES

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

Long positions in ordinary Shares of the Company

	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
Name of Director	**Director beneficially owned**	**Through spouse**	**Total**	
Mr. Lo Peter	3,160,000	–	3,160,000	0.51
Mr. Li Wentao	950,000	–	950,000	0.15
Mr. Sun David Lee	–	230,000	230,000	0.04
Mr. Zhao Difei	2,220,000	–	2,220,000	0.36
Mr. Li Jian Quan	6,296,000	–	6,296,000	1.03
Mr. Lu Gui Pin	6,432,000	–	6,432,000	1.05
	19,058,000	230,000	19,288,000	3.14

Long positions in share options of the Company

Name of Director	Number of options directly beneficially owned
Mr. Lo Peter	3,320,000
Mr. Li Wentao	4,050,000
Mr. Sun David Lee	3,320,000
Mr. Zhao Difei	3,000,000
Mr. Lu Gui Pin	2,400,000
Mr. Yeung Ting-Lap Derek Emory	200,000
Dr. Loke Yu	200,000
Mr. Zuchowski Sam	200,000
	16,690,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had 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 the Directors were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

5. DISCLOSEABLE INTERESTS UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

(a) the Company

Save as disclosed below, the Directors are not aware of any person (not being a Director or chief executive of the Company) who as at the Latest Practicable Date had 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 or who was, 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.

Name	Capacity in which Shares are held	Number of Shares (long position)	% of issued share capital of the Company[(1)]
CEC	Interest of controlled corporations[(2)]	402,516,263	65.61
OIL	Beneficial interest	195,000,000	31.78
	Interest of controlled corporation[(3)]	128,960,000	21.02
CEC Agricapital	Beneficial interest	128,960,000	21.02
Vendor	Beneficial interest[(4)]	78,556,263	12.80
CEC F&B	Interest of controlled corporation[(5)]	78,556,263	12.80

(1) The calculation of the percentage figures is based on the relevant number of shares as a percentage of the number of Shares of the Company in issue as at the Latest Practicable Date.

(2) CEC owns 100% of the issued share capital of each of OIL, which in turn owns 100% of CEC Agricapital. CEC also indirectly holds approximately 88.6% of the issued share capital of the Vendor. Accordingly, CEC is taken under the SFO to be interested in the Shares in which OIL, CEC Agricapital and the Vendor have an interest. See also note 4.

(3) OIL owns 100% of CEC Agricapital. Accordingly, OIL is taken under the SFO to be interested in the Shares which OIL and CEC Agricapital have an interest.

(4) The 78,556,263 Shares are Consideration Shares and have not been allotted as at the Latest Practicable Date. Allotment is subject to the terms and conditions of the Share and Purchase Agreement including approval by Independent Shareholders at the EGM. The percentage interest in the Company's issued share capital immediately after allotment is set out in the section "Letter from the Board – Changes in Shareholding Structure" of this circular.

(5) CEC F&B owns 88.6% of the issued share capital of the Vendor. Accordingly, CEC F&B is taken under the SFO to be interested in the Shares in which the Vendor has an interest. See also note 3.

(b) Other members of the Enlarged Group

Save as disclosed below, the Directors and the Chief Executive of the Company are not aware of any person (not being a Director or Chief Executive of the Company) who as at the Latest Practicable Date was, 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 Enlarged Group (other than the Company).

Name of company in the Enlarged Group	Name of shareholder	Capacity in which shares/equity interests are held	Issued share capital/ registered capital	% of issued share capital/ equity interests
Rightsouth	Company	Beneficial interest	US$4,694,001	100
Gold Star	Rightsouth	Beneficial interest	HK$21,216,001	100
JV Co.	Vendor	Legal interest	RMB12,500,000	70
JV Co.	Rightsouth	Beneficial interest	RMB12,500,000	70
JV Co.	Independent third party	Beneficial interest	RMB12,500,000	30

The Directors are not aware that any Director or proposed Director is a director or employee of the entities which had interests or short positions in Shares or underlying Shares of the Company as disclosed above.

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant to the Enlarged Group's business.

6. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Enlarged Group within two years preceding the issue of this circular:

(i) the Placing and Subscription Agreement, details of which are set out in the announcement issued by the Company on 2 December 2009 in relation to the Placing;

(ii) the Sale and Purchase Agreement, details of which are set out in "Letter of the Board – Sale and Purchase Agreement";

(iii) the Option Agreement, details of which are set out in "Letter of the Board – Option Agreement";

(iv) the Control Deed, details of which are set out in "Letter of the Board – Control Deed"; and

(v) the agreement entered into between the Company, CEC Ethanol (Northeast) Limited and 哈爾濱工業資產經營有限責任公司 (Harbin Light Industry Asset Management Co., Ltd) dated 23 April 2009 in respect of the termination of a sale and purchase agreement entered into between the parties dated 12 November 2007 in relation to a proposed acquisition by the Company of a 27.3% equity interest in Harbin China Distillery Co., Ltd.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business carried on by the Enlarged Group) have been entered into by any member of the Enlarged Group within the two years preceding the date of this circular.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have issued letters which are contained in this circular:

Name	Qualification
The Independent Financial Adviser	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO
Ernst & Young	Certified Public Accountants

The Independent Financial Adviser and Ernst & Young have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and reports (as the case may be) and references to their respective names, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the Independent Financial Adviser and Ernst & Young was beneficially interested in the share capital of any member of the Group, nor did they have any rights (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 interest, either direct or indirect, in any assets which had been since 31 December 2008 (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 Enlarged Group or which were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

9. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or is proposing to enter, into any service contract with any member of the Enlarged Group which is not determinable within one year without payment of compensation (other than statutory compensation).

10. COMPETING INTERESTS OF DIRECTORS AND ASSOCIATES

As at the Latest Practicable Date, no Director has any interest, and as far as each Director is aware none of his associates have any interests, in any business which competes or is likely to compete, either directly or indirectly, with the existing business of the Enlarged Group.

In addition, as at the Latest Practicable Date, none of the Directors and his respective associates have any interest, either direct or indirect, in any assets which had been since 31 December 2008 (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 Enlarged Group.

11. NO MATERIAL ADVERSE CHANGE

The Directors believe that there has been no material adverse change in the Group's financial or trading position since 31 December 2008 the date to which the latest audited statements of the Group were made.

12. MISCELLANEOUS

(a) The qualified accountant and secretary of the Company is Ms. Chan So Fong, *FCCA, CPA*. Ms. Chan is a Fellow Member of the Association of Chartered Certified Accountants and an Associate Member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company's head office and principal place of business in Hong Kong is situated at 2116 Hutchison House, 10 Harcourt Road, Hong Kong.

(c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English language text of this document shall prevail over the Chinese language text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company during normal business hours from the date of this circular up to and including 8 January 2010:

(i) the memorandum of association and the articles of association of the Company;

(ii) the annual reports of the Company for each of the three years ended 31 December 2006, 2007 and 2008;

(iii) the accountants' report of the Rightsouth Group as set out in Appendix II to this circular;

(iv) the unaudited pro forma financial information of the Enlarged Group and the report of the Company's reporting accountant thereon as set out in Appendix III to this circular;

(v) the letter from the Independent Board Committee as set out on page 25 of this circular;

(vi) the letter from the Independent Financial Adviser, Shenyin Wanguo Capital (H.K.) Limited, as set out on pages 26 to 48 of this circular;

(vii) the material contracts referred to in the paragraph headed "Material Contracts" of this circular;

(viii) the written consents referred to in the paragraph headed "Experts and consents" above; and

(ix) this circular.

BIO-DYNAMIC GROUP LIMITED
生 物 動 力 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Bio-Dynamic Group Limited (the "**Company**") will be held at Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 11 January 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

(1) **THAT**:

(a) the Sale and Purchase Agreement (as defined in the Company's circular to Shareholders dated 24 December 2009 (the "**Circular**") of which this notice of Extraordinary General Meeting forms a part) (a copy of which has been produced to this meeting marked "A" and initialled by the chairman of this meeting for the purpose of identification) entered between the Company and China Food and Beverage Group Limited, and the transactions contemplated thereunder be and are hereby approved; and any one director of the Company ("**Director**") be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Sale and Purchase Agreement or any matters relation thereto; and

(b) the allotment and issue of 78,556,263 new shares of HK$0.10 each ("**Shares**") to China Food and Beverage Group Limited (or its nominee) at an issue price of HK$0.471 per Share at completion of the Sale and Purchase Agreement in accordance with its terms and subject to the terms and conditions contained in the Articles be and are hereby approved and that any two directors of the Company or any one Director and the secretary of the Company be and hereby authorised to execute a share certificate (or certificates) representing the Shares and affix the common seal of the Company thereto for and on behalf of the Company, and any one Director of the Company (in any case where the common seal of the Company is required to be affixed, then any two Directors or any one director and the secretary, of the Company) be authorised, with full power, to do all things and sign or execute all documents on behalf of the Company which may in his/her (or their) opinion necessary or desirable in connection with the issue of the Shares, the share certificates or any matters in relation thereto and the Directors of the Company be and are authorised to allot, issue and deal with additional shares in the capital of the Company which may fall to be allotted and issued;

(2) **THAT:**

(a) the Option Agreement (as defined in the Circular) (a copy of which has been produced to this meeting marked "B" and initialled by the chairman of this meeting for the purpose of identification) entered between the Company and China Food and Beverage Group Limited, and the transactions contemplated thereunder be and are hereby approved, and any one Director be and is hereby authorised with full power to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the Option Agreement or any matters in relation thereto; and

(b) the exercise of the Option by the Company and doing all such acts and executing all such documents as may be necessary in connection therewith (including the service of the option exercise notice) be and are hereby approved, and that any one Director be and is hereby authorised with full power, to do all things and sign or execute all documents on behalf of the Company which may in his opinion be necessary or desirable for the purpose of giving effect to the exercise of the Option or any matters relation thereto;

(3) **THAT:**

(a) the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the unissued Shares at the annual general meeting of the Company held on 3 June 2009, to the extent not yet exercised prior to the date of passing of this resolution, be and is hereby revoked (without prejudice to any valid exercise of such mandate prior to the date of passing of this resolution);

(b) subject to paragraph (c) below, the Directors be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined in paragraph (d) below) all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements, and options (including warrants, bonds and debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any of such powers during or after the end of the Relevant Period;

(c) the aggregate nominal amount of the shares of the Company allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph (b) of this resolution, other than pursuant to (i) a Rights Issue (as defined below); (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of Shares or rights to acquire Shares; (iii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles; (iv) the exercise of the rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into Shares; or (v) a specific authority granted by the shareholders of the Company in general meeting, including the issue of the 78,556,263 Shares (the "**Consideration Shares**") upon the completion of the Acquisition pursuant to the approval in resolution no. 1 as set out in the notice convening this meeting if such resolutions are passed, shall not in total exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the approval granted in paragraph (b) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution,

(A) "**Relevant Period**" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; and

(iii) the expiration of the period within which the next annual meeting of the Company is required by the Articles, or any applicable laws to be held."

(B) "**Rights Issue**" means an offer of Shares open for a period fixed by the directors of the Company to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or of the requirements of any recognised regulatory body or any stock exchange in, or in any territory outside Hong Kong);

(4) **THAT:**

(a) the exercise by the Directors during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Company to purchase its own shares, subject to and in accordance with the applicable laws, rules and regulations of The Securities and Futures Commission of Hong Kong and the Stock Exchange and paragraph (b) of this resolution, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of passing of this resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this resolution, "**Relevant Period**" means the period from the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company's shareholders in general meeting; and

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(5) **THAT** conditional upon the passing of the ordinary resolutions nos. (3) and (4) as set out in the notice convening this EGM, the aggregate nominal amount of the share capital of the Company which is purchased by the Company pursuant to and in accordance with the resolution no. (4) as set out in the notice convening this EGM shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the directors of the Company pursuant to and in accordance with the resolution no. (3) as set out in the notice convening this EGM, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution.

By Order of the Board
Bio-Dynamic Group Limited
Peter Lo
Chairman

Hong Kong, 24 December 2009

Notes:

(1) A shareholder of the Company entitled to attend and vote at the extraordinary general meeting (or at any adjournment thereof) is entitled to appoint another person as his/her/its proxy to attend and vote in his/her/its stead in accordance with the Articles. A proxy need not be a shareholder of the Company.

(2) A form of proxy for use at the extraordinary general meeting is enclosed. A proxy need not be a member of the Company.

(3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified true copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or any adjourned meeting thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting (or any adjourned meeting thereof) should they so wish.

(4) In the case of joint holders, the vote of the senior who tenders the vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of such shares.

(5) Completion and return of the form of proxy will not preclude a member from attending the EGM and voting in person at the EGM or any adjourned meeting if he so desires. If a member attends the EGM after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.