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If you have sold or transferred all your shares in Bio-Dynamic Group Limited, you should at once hand this circular 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.

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BIO-DYNAMIC GROUP LIMITED

生物動力集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 039)

**DISCLOSEABLE TRANSACTION IN RELATION TO
THE PROPOSED ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
KEEN VITALITY HOLDINGS LIMITED
AND
SPECIFIC MANDATE TO ISSUE SHARES**

A notice convening an extraordinary general meeting of Bio-Dynamic Group Limited to be held at Vinson Room, Pacific Place Conference Centre, 5/F One Pacific Place, 88 Queensway, Hong Kong on 1 September 2010 at 4:00 p.m. is set out on pages 23 to 24 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.

17 August 2010

CONTENTS

| | <i>Page</i> |
|---|-------------|
| DEFINITIONS | 1 |
| LETTER FROM THE BOARD | 4 |
| APPENDIX I – VALUATION REPORT | 14 |
| APPENDIX II – LETTERS FROM THE BOARD AND THE ACCOUNTANTS IN RELATION TO THE VALUATION REPORT | 20 |
| NOTICE OF THE EXTRAORDINARY GENERAL MEETING | 23 |

DEFINITIONS

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

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| “Additional Consideration Shares” | means 30,000,000 Shares to be allotted and issued to the Vendor upon occurrence of the Adjustment Events as defined in the subsection headed “Consideration Adjustment” under the section headed “Letter from the Board – Sale and Purchase Agreement” of this circular; |
| “Announcement” | means the announcement of the Company dated 4 August 2010 in relation to the Proposed Acquisition; |
| “Articles” | means the articles of association of the Company dated 29 December 2000 as 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; |
| “CEC” | means China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, the ultimate controlling shareholder of the Company; |
| “Clarification Announcement” | means the clarification announcement of the Company dated 5 August 2010 in relation to the Proposed Acquisition; |
| “Code” | means the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong; |
| “Companies Laws” | means Companies Law, Cap.22 (as amended) of the Cayman Islands; |
| “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 Share in accordance with the terms and conditions of the Sale and Purchase Agreement; |

DEFINITIONS

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| “Conditions” | means conditions precedent to Completion, as set out in the subsection headed “Conditions Precedent” under the section headed “Letter from the Board –Sale and Purchase Agreement” of this circular; |
| “Consideration Shares” | means 60,000,000 Shares to be allotted and issued to the Vendor as consideration for the Proposed Acquisition; |
| “Directors” | means the directors of the Company; |
| “EGM” | means the extraordinary general meeting of the Company to be convened and held on 1 September 2010 to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder and the allotment and issue of the Consideration Shares and the Additional Consideration Shares to the Vendor under the Special Mandate; |
| “Group” | means the Company and its subsidiaries; |
| “HK\$” | means the lawful currency of Hong Kong; |
| “Hong Kong” | means the Hong Kong Special Administrative Region of the PRC; |
| “Intellectual Property” | means the intellectual property in relation to a technique and know-how that utilises, among other things, corn stalk and bacteria or a combination of bacteria to produce forage (State Intellectual Property Office of the PRC, patent application No. 200910073039.5); |
| “Issue Price” | means the issue price of HK\$0.60 per Consideration Share; |
| “KVHL” | means Keen Vitality Holdings Limited, a company incorporated in the British Virgin Islands on 15 October 2009 and wholly-owned by the Vendor; |
| “KVHL Shares” | means ordinary share(s) of US\$1.00 each in the capital of KVHL; |
| “Latest Practicable Date” | means 11 August 2010, being the latest practicable date for ascertaining certain information contained in this circular; |
| “Listing Rules” | means The Rules Governing the Listing of Securities on the Stock Exchange; |
| “PRC” | means The People’s Republic of China excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan; |
| “Production Facility” | means a production facility to be established by the Company or its subsidiary at Harbin, PRC employing the Intellectual Property to produce forage; |

DEFINITIONS

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|-------------------------------|---|
| “Proposed Acquisition” | means the proposed acquisition of the Sale Shares by the Company pursuant to the Sale and Purchase Agreement; |
| “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 KVHL dated 4 August 2010 entered into between the Vendor and the Company; |
| “Sale Shares” | means 50,000 KVHL Shares, representing the entire issued share capital of KVHL as at the date of the Sale and Purchase Agreement, to be sold by the Vendor to the Company; |
| “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; |
| “Specific Mandate” | means the specific mandate sought to be granted by the Shareholders at the EGM to the Directors in relation to the allotment and issue of the Consideration Shares and the Additional Consideration Shares; |
| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; |
| “Supplemental Agreement” | means the supplemental agreement to the Sale and Purchase Agreement dated 5 August 2010 entered into between the Vendor and the Company; |
| “US\$” | means the lawful currency of the United States; |
| “Valuation Report” | means the valuation report prepared by the Valuer in relation to the Intellectual Property as set out in Appendix I to this circular; |
| “Valuer” | means Grant Sherman Appraisal Limited, an independent valuer in connection with the valuation of the Intellectual Property; and |
| “Vendor” | means Ace Loyalty International Limited, being the vendor under the Sale and Purchase Agreement and an independent third party not connected with the Company. |

For the purposes of this circular, translations of RMB to HK\$ have been calculated using the exchange rate RMB1.00 = HK\$1.1457.

LETTER FROM THE BOARD



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. David Lee Sun
Mr. Zhao Difei
Mr. Li Jian Quan
Mr. Lu Gui Pin

Registered office:

P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Non-executive Director:

Mr. Yeung Ting-Lap Derek Emory

*Head office and principal place
of business in Hong Kong:*

2116 Hutchison House
10 Harcourt Road
Hong Kong

Independent Non-executive Directors:

Dr. Loke Yu
Dr. Leung Kwan-Kwok
Mr. Zuchowski Sam

17 August 2010

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION IN RELATION TO
THE PROPOSED ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
KEEN VITALITY HOLDINGS LIMITED
AND
SPECIFIC MANDATE TO ISSUE SHARES**

INTRODUCTION

Reference is made to the Announcement and the Clarification Announcement.

On 4 August 2010, the Company and the Vendor entered into the Sale and Purchase Agreement pursuant to which the Vendor has conditionally agreed to sell the Sale Shares, representing the entire issued share capital of KVHL, to the Company for a consideration of HK\$36,000,000, subject to adjustment as described in the subsection headed "Consideration Adjustment" under the section headed "Sale and Purchase Agreement" below. The consideration for the Proposed Acquisition is to be satisfied by the Company by allotting and issuing to the Vendor the Consideration Shares at the Issue Price.

LETTER FROM THE BOARD

On 5 August 2010, the Company and the Vendor entered into the Supplemental Agreement, pursuant to which the Company and the Vendor have agreed that Completion will be conditional upon, among other things, the approval by the Shareholders of the allotment and issue of the Consideration Shares under the Specific Mandate to the Vendor in accordance with the Listing Rules.

As the highest of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5% but is less than 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. The Consideration Shares and Additional Consideration Shares will be allotted and issued under the Specific Mandate. Accordingly, the Sale and Purchase Agreement and the transactions contemplated thereunder will be conditional upon, amongst other things, the approval by the Shareholders at the EGM.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Additional Consideration Shares.

The main purposes of this circular are to provide Shareholders with:

- (a) further information relating to, among other things, the Sale and Purchase Agreement and the Proposed Acquisition;
- (b) further information on the allotment and issue of the Consideration Shares and the Additional Consideration Shares under the Specific Mandate; and
- (c) a notice of the EGM convened to consider and, if thought fit, to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder and the allotment and issue of the Consideration Shares and the Additional Consideration Shares to the Vendor under the Specific Mandate.

SALE AND PURCHASE AGREEMENT

Date: 4 August 2010

Seller: The Vendor

Purchaser: The Company

Subject matter

The Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares.

LETTER FROM THE BOARD

Consideration

The consideration for the Proposed Acquisition is HK\$36,000,000 (subject to adjustment as described in the subsection headed “Consideration Adjustment” below), which will be satisfied by the Company by allotting and issuing to the Vendor the Consideration Shares at the Issue Price.

The consideration for the Proposed Acquisition was determined on the basis of normal commercial terms and after arm’s length negotiation between the Company and the Vendor with reference to, among other things, (i) the value of the Intellectual Property of approximately RMB47,539,000 as at 30 June 2010 based on the Relief-from-royalty method, which takes into account the future economic benefit brought about by the Intellectual Property, as determined in the Valuation Report; (ii) the opportunity for the Group to enter the forage industry in the PRC and to broaden the income base of the Group; and (iii) the future business and growth potential of employing the Intellectual Property to produce forage from corn stalk for the PRC market.

Consideration Shares

The Consideration Shares represent (i) approximately 6.77% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 6.34% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares shall be allotted and issued as fully paid pursuant to the Specific Mandate. The Consideration Shares shall rank *pari passu* in all respects with the Shares then in issue. 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 Issue Price of HK\$0.60 represents:

- a) a discount of approximately 27.71% to the closing price of HK\$0.83 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- b) a discount of approximately 25.74% to the average closing price of approximately HK\$0.808 per Share as quoted on the Stock Exchange over the last five trading days up to and including the Latest Practicable Date;
- c) a discount of approximately 16.32% to the average closing price of approximately HK\$0.717 per Share as quoted on the Stock Exchange over the last ten trading days up to and including the Latest Practicable Date;
- d) a discount of approximately 8.88% to the average closing price of approximately HK\$0.659 per Share as quoted on the Stock Exchange over the last twenty trading days up to and including the Latest Practicable Date; and
- e) a premium of approximately 62.16% to the latest published audited consolidated net assets per Share of approximately HK\$0.37 as at 31 December 2009.

LETTER FROM THE BOARD

Consideration Adjustment

If the following events occur (the “**Adjustment Events**”), the amount of consideration for the Sale Shares shall be adjusted upwards by an amount of HK\$18,000,000 which shall be satisfied by the Company by the allotment and issue, credited as fully paid, of the Additional Consideration Shares (subject to adjustment as described in the subsection headed “Adjustment mechanism for the Additional Consideration Shares” below) to the Vendor (the “**Consideration Adjustment**”) within 30 days after the occurrence of the Adjustment Events:

- a) completion of phase one of the Production Facility before 30 June 2011 with the forage produced by employing the Intellectual Property attaining a protein content level to the satisfaction of the Company;
- b) the approval by the Shareholders of the allotment and issue of the Additional Consideration Shares to the Vendor 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 Additional Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of definitive share certificate(s) representing the Additional Consideration Shares to the Vendor).

Upon occurrence of the Adjustment Events, the Additional Consideration Shares shall be allotted and issued as fully paid pursuant to the Specific Mandate. The Additional Consideration Shares shall rank *pari passu* in all respects with the Shares then in issue. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Additional Consideration Shares.

If the Adjustment Events do not occur, the Company will not have any obligation, and the Vendor will not be entitled to any rights or remedy to demand or claim against the Company, in relation to the Consideration Adjustment.

Adjustment mechanism for the Additional Consideration Shares

The Additional Consideration Shares shall be adjusted proportionally as a result of any consolidation or subdivision of Shares or an issue by the Company of Shares by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) (“**Bonus Issue**”) before the allotment and issue of the Additional Consideration Shares.

In the event of a consolidation of Shares, the number of Additional Consideration Shares shall be reduced in the same proportion as the number of total issued Shares is decreased. In the event of a subdivision of Shares or a Bonus Issue, the number of Additional Consideration Shares shall be increased in the same proportion as the number of total issued Shares is increased.

The proportional adjustment of the number of Additional Consideration Shares is the customary and correct method of adjustment and it maintains strict proportionality in making adjustments.

LETTER FROM THE BOARD

Conditions Precedent

Completion is conditional upon each of the following Conditions being fulfilled (or, if applicable, waived):

- a) KVHL being the legal and beneficial owner of the Intellectual Property and able to employ the Intellectual Property to produce forage;
- b) the approval by the Shareholders of the Sale and Purchase Agreement, the transactions contemplated thereunder and the allotment and issue of the Consideration Shares to the Vendor 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 (or waived) by 31 December 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 shall have any liability under them (without prejudice to the rights of any of the parties in respect of antecedent breaches).

The Company has absolute discretion, subject to all applicable laws and regulations, to waive any of the Conditions unilaterally by written notice to the Vendor.

Completion

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

CHANGES IN SHAREHOLDING STRUCTURE

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

LETTER FROM THE BOARD

The shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issue of the Consideration Shares; and (iii) immediately after the allotment and issue of the Consideration Shares and Additional Consideration Shares are as follows:

| Shareholders | As at the Latest Practicable Date | | Immediately after Completion and the allotment and issue of the Consideration Shares | | Immediately after the allotment and issue of the Consideration Shares and Additional Consideration Shares | |
|---------------------------------------|-----------------------------------|----------------------|--|----------------------|---|----------------------|
| | <i>No. of Shares</i> | <i>%</i> | <i>No. of Shares</i> | <i>%</i> | <i>No. of Shares</i> | <i>%</i> |
| Orientalite Investments Limited | 195,000,000 | 21.99 | 195,000,000 | 20.60 | 195,000,000 | 19.97 |
| CEC Agricapital Group Limited | 128,960,000 | 14.55 | 128,960,000 | 13.62 | 128,960,000 | 13.21 |
| China Food and Beverage Group Limited | <u>78,556,263</u> | <u>8.86</u> | <u>78,556,263</u> | <u>8.30</u> | <u>78,556,263</u> | <u>8.04</u> |
| Shareholders acting in concert with | | | | | | |
| CEC and/or its associates | 402,516,263 | 45.40 | 402,516,263 | 42.52 | 402,516,263 | 41.22 |
| The Vendor | – | – | 60,000,000 | 6.34 | 90,000,000 | 9.22 |
| Existing public Shareholders | <u>484,067,000</u> | <u>54.60</u> | <u>484,067,000</u> | <u>51.14</u> | <u>484,067,000</u> | <u>49.56</u> |
| Total | <u><u>886,583,263</u></u> | <u><u>100.00</u></u> | <u><u>946,583,263</u></u> | <u><u>100.00</u></u> | <u><u>976,583,263</u></u> | <u><u>100.00</u></u> |

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

The Company will seek the approval of the Shareholders at the EGM for, among other things, the allotment and issue of the Consideration Shares and the Additional Consideration Shares under the Specific Mandate 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 and the Additional Consideration Shares to be issued pursuant to the Sale and Purchase Agreement.

INFORMATION ON KVHL

KVHL was incorporated in the British Virgin Islands with limited liability and is wholly owned by the Vendor. The sole asset of KVHL is the Intellectual Property. KVHL is principally engaged in asset holding.

According to the unaudited financial statements of KVHL, KVHL did not record any net profit or net loss before and after taxation and extraordinary items for the period from 15 October 2009 (being the date of incorporation of KVHL) to 30 June 2010. The net assets of KVHL as at 31 December 2009 and 30 June 2010 were approximately RMB387,000 and RMB501,000, respectively.

LETTER FROM THE BOARD

INFORMATION ON THE VENDOR

The Vendor was incorporated in the British Virgin Islands with limited liability. The Vendor is principally engaged in investment holding. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

INFORMATION ON THE COMPANY

The Group is principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the PRC. The Group operates a production facility in Harbin, PRC for premium consumable ethanol, industrial ethanol and other food and feed ingredients. The Group also operates a multi-brand sales network for wine and liquor in the PRC. After Completion, the Group's core business will not change and the Group will continue its existing business operation.

VALUATION ON THE INTELLECTUAL PROPERTY

The valuation of the Intellectual Property was prepared by the Valuer based on the Relief-from-royalty method and constitutes a profit forecast under Rule 14.61 of the Listing Rules (the "**Profit Forecast**").

According to the Valuation Report, the valuation of the Intellectual Property as at 30 June 2010 is approximately RMB47,539,000. Ernst & Young, the auditors of the Company, have reviewed the calculations of the income approach-Relief-from-royalty method, which do not involve the adoption of accounting policies, used by the Valuer as the basis of preparing the valuation of the Intellectual Property. The Directors are given to understand that, in practice, the term of patents in the PRC is at least 10 years from the filing date of the relevant patent application. Accordingly, the Directors expect that the earliest expiry date of the patent in the PRC in relation to the Intellectual Property, if granted, will be 12 October 2019, or 10 years from the filing date of the relevant patent application. The Directors confirm that the Profit Forecast has been made after due and careful enquiry.

The followings are the qualifications of the experts who have given their opinion in this circular:

| Name | Qualification |
|---------------------------------|------------------------------------|
| Ernst & Young | Certified Public Accountants |
| Grant Sherman Appraisal Limited | Professional valuers and surveyors |

As at the Latest Practicable Date, none of the Valuer 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 2009 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group.

The Valuer and Ernst & Young have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion herein of their respective report and letter and all references to their respective names in the form and context in which they respectively appear.

LETTER FROM THE BOARD

A letter from the Board confirming its view that the valuation prepared by the Valuer in respect of the Intellectual Property has been made after due and careful enquiry, a report from Ernst & Young relating to the income approach-Relief-from-royalty method in connection with the Intellectual Property, which is prepared pursuant to Rules 14.60A and 14.62 of the Listing Rules, are set out in Appendix II to this circular.

REASONS FOR THE PROPOSED ACQUISITION

The Company is principally engaged in the production of premium grade consumable ethanol in the PRC with a production facility in Harbin, PRC. The Intellectual Property involves a technique and know-how that utilises liquid waste from the ethanol production process and corn stalk to produce high-protein forage. The Directors believe that the Proposed Acquisition will enable the Company to (i) increase the revenue of the Group; (ii) reduce sewage handling costs in relation to ethanol waste in a more environmentally friendly manner; and thereby, (iii) strengthen the competitiveness of the Company in the ethanol industry. The demand for high-protein ingredients, such as meat, egg and milk in the PRC and globally has been increasing in recent years with a corresponding growth in the stock feeds market. The Directors believe that the Proposed Acquisition will provide a good opportunity for the Company to enter the forage industry in the PRC with competitive advantages. The Directors further consider that the Proposed Acquisition will allow the Company to diversify its products and to broaden its income base.

The Directors are of the view that the terms of the Sale and Purchase Agreement, including the consideration for the Proposed Acquisition, 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 and the Additional Consideration Shares as consideration for the Proposed Acquisition is in the best interest of the Shareholders as a whole and is a preferred financing method for the Company given that the Company will not need to use substantial amount of its existing cash resources to fund the Proposed Acquisition.

SPECIFIC 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 grant of the Specific Mandate to allot and issue the Consideration Shares and the Additional Consideration Shares. Such Specific Mandate is proposed to be granted to the Directors by the Shareholders to issue not more than 90,000,000 new Shares, representing approximately 10.15% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 9.22% of the issued share capital of the Company as enlarged by the issue of Consideration Shares and the Additional 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 and the Additional Consideration Shares.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

Discloseable Transaction

As the highest of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition exceeds 5% but is less than 25%, the Proposed Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. The Consideration Shares and Additional Consideration Shares will be allotted and issued under the Specific Mandate. Accordingly, the Sale and Purchase Agreement and the transactions contemplated thereunder will be conditional upon, amongst other things, the approval by the Shareholders at the EGM.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Additional Consideration Shares.

EGM

Set out on pages 23 to 24 in this circular is a notice convening the EGM which will be held at Vinson Room, Pacific Place Conference Centre, 5/F One Pacific Place, 88 Queensway, Hong Kong on 1 September 2010 at 4:00 p.m., at which resolutions will be proposed to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder and the Specific 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 branch share registrar 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 Proposed Acquisition or the Specific Mandate shall abstain from voting for the approval in respect thereof at the EGM. The Directors are not aware of any Shareholder who has a material interest in the Proposed Acquisition or the Specific Mandate and is required to abstain from voting at the EGM.

Pursuant to Article 80 of the Articles, 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

LETTER FROM THE BOARD

- (iv) any member or members present in person (or in the case of a corporation, by its duly authorised 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 Sale and Purchase Agreement, the transactions contemplated thereunder and the Specific Mandate will be taken by poll.

RESPONSIBILITY STATEMENT

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

RECOMMENDATIONS

Taking into account the reasons set out above, the Directors consider that the Sale and Purchase Agreement, the transactions contemplated thereunder and the Specific Mandate are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and therefore recommend that the Shareholders vote in favour of the relevant ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement, the transactions contemplated thereunder and the Specific Mandate.

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

**GRANT SHERMAN APPRAISAL LIMITED**

Room 1701, 17/F
Jubilee Centre
18 Fenwick street
Wanchai
Hong Kong

3 August 2010

Bio-Dynamic Group Limited
2116 Hutchison House
10 Harcourt Road
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of an intellectual property (the “IP”), whose legal and beneficial owner is Keen Vitality Holdings Limited (“KVHL”). KVHL is a wholly-owned subsidiary of Ace Loyalty International Limited (the “Vendor”). In August 2010, Bio-Dynamic Group Limited (the “Company”) and the Vendor entered into a conditional sale and purchase agreement (the “S&P”), pursuant to which the Vendor agreed to sell the entire issued share capital of KVHL to the Company for a consideration of HK\$36,000,000, subject to adjustment. The IP involves a technique and know-how that utilises, among other things, corn stalk and bacteria or a combination of bacteria to produce forage.

This letter identifies the business appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

Fair value means the price that would be paid in an arm’s-length transaction between, an informed and willing seller under no compulsion to sell, and an informed and willing buyer under no compulsion to buy.

The purpose of this appraisal is to express an independent opinion of the fair market value of the IP as at 30 June 2010 (the “Appraisal Date”). It is our understanding that this appraisal will be used for internal reference only.

INTRODUCTION**The Company**

The Company and its subsidiaries (the “Group”) are principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the People’s Republic of China (the “PRC”). The Group operates a production facility in Harbin, the PRC for premium consumable ethanol, industrial ethanol and other food and feed ingredients. The Group also operates a multi-brand sales network for wine and liquor in the PRC.

The S&P

In August 2010, the Company and the Vendor entered into the S&P, pursuant to which the Vendor agreed to sell the entire issued share capital of KVHL to the Company for a consideration of HK\$36,000,000 (the “Consideration”). The Consideration is to be satisfied by the Company by allotting and issuing to the Vendor 60,000,000 ordinary shares of the Company. The Consideration shall be adjusted upwards by an amount of HK\$18,000,000 according to the terms and conditions of the S&P.

KVHL

KVHL was incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Vendor. The sole asset of KVHL is the IP.

The IP

The IP, patent application of which was submitted and is under review (Patent Application Number: 200910073039.5), utilizes corn stalk from corn field and liquid waste created during ethanol production to produce forage through two stages fermentation by yeasts and lactic bacteria. Bacteria and yeasts grow by degrading some cellulose in corn stalk into lactic acid and fatty acid. During the process, corn stalk is softened while protein, mineral and enzyme are produced and enriched. The resulting microbial forage grass is rich in protein and has lower cellulose content, which improves digestion and nutrition absorption in animals.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the IP on the basis of fair value. Fair value is defined as the estimated amount at which a product might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts. Implicit in this definition is the fact that a willing buyer will not pay more to acquire the asset appraised than he could reasonably expect to earn in the future from an investment in the asset.

For the valuation of the IP, we have been furnished with a revenue projection derived from the IP for ten years and other pertinent data concerning the IP. We have assumed that the data, information, opinions and representation provided to us by the management of the Group (the “Management”) in the course of valuation are true and accurate. The valuation of the IP requires consideration of all pertinent factors affecting the operation of the business and its ability to generate future economic benefits. Before arriving at our opinion of value, we have considered the following principal factors:

- The nature of the Group’s business and the IP;
- The economic outlook of the territories the Group intends to apply the IP (the “Territories”) in general and the specific economic and competitive elements affecting the IP, its industry, and its market;
- The projected revenues of the IP provided by the Management;
- The potential of the target markets to be served; and
- Appropriate rates of return as indicated by alternative investment opportunities of comparable magnitude, character and risk.

Due to the changing environment in the Territories, a number of assumptions have to be established in order to sufficiently support our concluded value of the IP. The major assumptions adopted in this appraisal are:

- There will be no major changes in the political, legal, fiscal and economic conditions in the Territories, which would materially affect the revenues attributable to the IP;
- There will be no major changes in the current taxation law in the Territories, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- There will be no major changes in forage industry in the Territories, which would materially affect the revenues attributable to the IP;

- The business plan and the ten-year revenue projection derived from the IP have been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the Management;
- Feasibility study prepared by 哈爾濱廣益農牧工程設計有限公司 presents a true and fair opinion about the IP;
- Exchange rates and interest rates will not differ materially from those presently prevailing;
- The patent of the IP will be successfully approved and will not be infringed upon in a manner which would materially affect the profitability of the IP owner;
- The remaining life expectancy of the IP is assumed to be ten years; and
- Industry trends and market conditions for related industries will not deviate materially from economic forecasts.

For the purposes of this valuation, we were furnished with records and documents by the Management. We have reviewed and examined the said information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent upon such data, records, documents, financial and business information from other sources, as well as a number of assumptions that are subjective and uncertain in nature. Any variation to these assumptions could seriously affect the fair value of the appraised IP.

VALUATION METHODOLOGY

To develop our opinion of value for intangible assets, we considered three generally accepted approaches to value: the Cost Approach, the Market Approach and the Income Approach. While each of these approaches is considered in the valuation of intangible assets, the nature and characteristics of the subject intangible asset will indicate which approach, or approaches, is/are the most applicable.

We consider that the Cost Approach is not applicable to this appraisal as it cannot reflect the fair value of the IP which is driven by the future economic benefits generated from the IP. For the Market Approach, we consider that it is not reliable and accurate enough to draw a conclusion of the fair value of the IP without historical earnings record. Thus, we have concluded that the most appropriate method for valuing the IP in this appraisal is the Income Approach.

Under the Income Approach, we have considered a number of alternative valuation methods. They are relief-from-royalty method, excess earnings method and premium profits method. After discussion with the Management, the excess earnings method is irrelevant as the value attributable to the IP should be separated from other assets by identifying the implied cost savings derived from market royalty rate. The premium profits method is also not considered because consistent above-average profits attributable to the IP, which is a key input of the premium profits method, are not observed. In this connection, the method adopted for valuing the IP in this appraisal is the relief-from-royalty approach.

Relief-From-Royalty

Under the relief-from-royalty approach, an asset is valued based upon the incremental after tax cash flow accruing to the owner by virtue of the fact that the owner does not have to pay a fair royalty to a third party for the use of that asset. Accordingly, a portion of the future economic benefits brought about by the IP, equal to the after-tax royalty that would have been paid for use of the IP, can be attributed to the IP. The value of the IP depends on the present worth of future after-tax royalties derived from ownership. Thus, indications of value are developed by discounting future after-tax royalties attributable to the IP to their present worth at market-derived rates of return appropriate for the risks of the IP.

We have considered various alternatives in determination of the fair royalty rate for the IP. The best evidence is to inquire whether the Company, as owner of the IP, has granted any arm's length licence(s) to other companies to use the IP. However, no such licensing agreements are in existence for the use of the IP. Thus, an estimate of the fair royalty rate must be determined on the assumption that the IP is licensed to licensees at fair rates as a result of arm's length negotiations. Our estimation of the fair royalty rate of the IP is then based on licensing contracts of technologies that are comparable to the IP in the market. Our analysis concludes that a range of royalty rate of 3.5% to 5.0%, depending on the time lapse since the IP's application, of gross revenue is applicable to the IP as at the Appraisal Date.

A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of available alternative investments that are comparable in terms of risk and other investment characteristics. When developing discount rates to apply to the cash flow stream attributable to the future economic benefits brought about by the IP, the discount rate is the sum of the cost of equity and an intangible asset premium. The cost of equity is the expected rate of return that an investor would demand for investing in the equity interest in a business enterprise given the risks of the investment. The cost of equity is developed through the application of the Capital Asset Pricing Model ("CAPM").

CAPM

CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as nonsystematic. The discount rate for the IP is the sum of the risk-free rate return, equity risk premium, small capitalization risk premium, intangible asset risk premium and specific risk premium reflecting the startup risk, technological risk, legal and regulatory risk inherent in the IP.

Small Capitalization Risk Premium

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small capitalization company. This premium reflects the fact that cost of capital increases with decreasing size of the company.

A number of studies were conducted in the U.S., which concludes that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of the company's systematic risk derived from the CAPM model. We concluded that a small capitalization risk premium of 10.01% is appropriate for the IP as at the Appraisal Date.

Intangible Asset Risk Premium

Intangible assets are considered to be the highest risk asset components of an overall business enterprise. These assets may have little, if any, liquidity, and poor versatility for redeployment elsewhere in the business which increase their risks. A higher rate of return on these assets is therefore warranted. In this appraisal, we have adopted an intangible asset risk premium of 2% to reflect additional risk consideration for the IP.

Our analysis concluded that a discount rate of 25.45% is appropriate for valuing the IP as at the Appraisal Date.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as at **30 June 2010**, the fair value of the IP is reasonably stated by the amount of **RENMINBI FORTY SEVEN MILLION FIVE HUNDRED AND THIRTY NINE THOUSAND (CNY47,539,000)** only.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Group, the Vendor, KVHL, the IP, or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED

Keith C.C. Yan, ASA
Managing Director

Kelvin C.H. Chan, FCCA, CFA
Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) who has engaged in valuation of business enterprises and intellectual properties in Hong Kong, the PRC and the Asian region for various purposes since 1988. Mr. Kelvin C.H. Chan is a CFA Charterholder and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation.

A. LETTER FROM THE BOARD

17 August 2010

The Listing Division
The Stock Exchange of Hong Kong Limited
11/F One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Dear Madams/Sirs,

Re: Bio-Dynamic Group Limited (Stock Code: 039) (the “Company”)

Rules 14.61 and 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)

We refer to the asset valuation report dated 3 August 2010 as prepared by Grant Sherman Appraisal Limited (the “Valuer”) in relation to the valuation of the intellectual property in relation to a technique and know-how that utilises, among other things, corn stalk and bacteria or a combination of bacteria to produce forage (State Intellectual Property Office of the PRC, patent application No. 200910073039.5) (the “Intellectual Property”). The valuation of the Intellectual Property was prepared based on the Relief-from-royalty method, which is regarded as a profit forecast (the “Profit Forecast”) under Rule 14.61 of the Listing Rules.

The Company discussed with the Valuer on different aspects including the bases and assumptions and the Profit Forecast upon which the valuation of the Intellectual Property has been prepared.

On the basis of the foregoing, we confirm that we have made the Profit Forecast after due and careful enquiry.

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

B. LETTER FROM THE ACCOUNTANTS

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

13 August 2010

The Directors
BIO-DYNAMIC GROUP LIMITED
2116 Hutchison House,
10 Harcourt Road,
Hong Kong

Dear Sirs,

We refer to the valuation dated 30 June 2010 (the “Valuation”) prepared by Grant Sherman Appraisal Limited in respect of the appraisal of the fair value of an intellectual property (the “Intellectual Property”) as of RMB47,539,000 included in the announcement of Bio-Dynamic Group Limited (“the Company”) dated 4 August 2010.

The Valuation has been arrived at based on the income approach-Relief-from-royalty method, which takes into account the future economic benefits brought about by the Intellectual Property during its operating period from 30 June 2010 to 31 May 2020 (hereinafter referred to as the “Underlying Projection”). We have reviewed the calculation of the Underlying Projection on which the fair value of the Intellectual Property is determined.

Responsibilities

The Directors of the Company are responsible for the Underlying Projection. Because the Underlying Projection relates to future economic benefits, no accounting policies of the Company have been adopted in its preparation. The Underlying Projection has been prepared using a set of assumptions (the “Assumptions”) that include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Projection and the variation may be material. The Directors of the Company are responsible for the reasonableness and validity of the Assumptions.

It is our responsibility to form an opinion, based on our work on the calculation of the Underlying Projection and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 14.62(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion whatsoever thereon. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Summary of our work

We conducted our work with reference to Auditing Guideline 3.341 “Accountants’ Report on Profit Forecasts” issued by the Hong Kong Institute of Certified Public Accountants. We reviewed the arithmetical accuracy of the Underlying Projection. Our work has been undertaken solely to assist the Directors of the Company in evaluating whether the Underlying Projection, so far as the calculations are concerned, has been properly compiled on the basis of the Assumptions made. Our work does not constitute any valuation of the Intellectual Property.

Opinion

Based on the review of the arithmetical accuracy of the Underlying Projection, so far as the calculations are concerned, the Underlying Projection has been properly compiled on the basis of the Assumptions made.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



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 Vinson Room, Pacific Place Conference Centre, 5/F One Pacific Place, 88 Queensway, Hong Kong on 1 September 2010 at 4:00 p.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 its shareholders dated 17 August 2010 (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 into between the Company and Ace Loyalty International 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 in relation thereto; and
- (b) the allotment and issue of 60,000,000 new ordinary shares of HK\$0.10 each in the capital of the Company (“**Shares**”) (the “**Consideration Shares**”) to Ace Loyalty International Limited (or its nominee) at an issue price of HK\$0.60 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 of association of the Company (the “**Articles**”) be and are hereby approved and that a share certificate (or certificates) representing the Consideration Shares be issued under the common seal of the Company in accordance with the Articles, and any one Director (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 (or their) opinion necessary or desirable in connection with the issue of the Consideration Shares, the share certificates or any matters in relation thereto.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (2) “**THAT** conditional upon the passing of the ordinary resolution no. 1 as set out in the notice convening this Extraordinary General Meeting, the allotment and issue of 30,000,000 Shares (the “**Additional Consideration Shares**”) to Ace Loyalty International Limited (or its nominee) at an issue price of HK\$0.60 per Share upon occurrence of the Adjustment Events (as defined in the Circular) in accordance with the terms of the Sale and Purchase Agreement and subject to the terms and conditions contained in the Articles be and are hereby approved and that a share certificate (or certificates) representing the Additional Consideration Shares be issued under the common seal of the Company in accordance with the Articles, and any one Director (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 (or their) opinion necessary or desirable in connection with the issue of the Additional Consideration Shares, the share certificates or any matters in relation thereto and the Directors 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.”

By Order of the Board
Bio-Dynamic Group Limited
Peter Lo
Chairman

Hong Kong, 17 August 2010

Notes:

- (1) A shareholder of the Company entitled to attend and vote at the extraordinary general meeting (or at any adjournment thereof) (the “**EGM**”) 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 needs not be a shareholder of the Company.
- (2) A form of proxy for use at the EGM is enclosed. 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.
- (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 26th Floor, 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.
- (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.