

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



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 ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF
KEEN VITALITY HOLDINGS LIMITED**

THE PROPOSED ACQUISITION

The Board announces that 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” of this announcement.

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. The Consideration Shares represent (i) approximately 7.53% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 7.00% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Issue Price represents a discount of approximately 22.08% to the closing price of HK\$0.77 per Share as quoted on the Stock Exchange on the Last Trading Day, and a discount of approximately 1.48% to the average closing price of approximately HK\$0.609 per Share as quoted on the Stock Exchange over the last ten trading days up to and including the Last Trading Day.

Completion of the Sale and Purchase Agreement is conditional upon the fulfilment (or if applicable, waiver) of the Conditions set out in subsection headed “Conditions Precedent” under the section headed “Sale and Purchase Agreement” of this announcement.

IMPLICATIONS UNDER 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 and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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

AS COMPLETION IS SUBJECT TO THE FULFILMENT (OR IF APPLICABLE, WAIVER) OF THE CONDITIONS, THE PROPOSED ACQUISITION MAY OR MAY NOT PROCEED. THE ISSUE OF THIS ANNOUNCEMENT DOES NOT IN ANY WAY IMPLY THAT THE SALE AND PURCHASE AGREEMENT WILL BE IMPLEMENTED OR COMPLETED. SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION WHEN DEALING IN THE SHARES.

DISCLOSEABLE TRANSACTION

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. Details of the principal terms of the Sale and Purchase Agreement are summarised below.

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.

Consideration

The total 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 approach, which takes into account the future economic benefit brought about by the Intellectual Property, as determined by Grant Sherman Appraisal Limited, an independent valuer; (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 7.53% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 7.00% 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 general mandate granted by the Shareholders to the Directors in the annual general meeting of the Company held on 26 May 2010. 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 22.08% to the closing price of HK\$0.77 per Share as quoted on the Stock Exchange on the Last Trading Day;
- b) a discount of approximately 4.15% to the average closing price of HK\$0.626 per Share as quoted on the Stock Exchange over the last five trading days up to and including the Last Trading Day;
- c) a discount of approximately 1.48% to the average closing price of approximately HK\$0.609 per Share as quoted on the Stock Exchange over the last ten trading days up to and including the Last Trading Day;
- d) a discount of approximately 1.56% to the average closing price of approximately HK\$0.610 per Share as quoted on the Stock Exchange over the last twenty trading days up to and including the Last Trading Day; 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.

Consideration Adjustment

If the following events occur, 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 within 30 days after the occurrence of such 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).

Adjustment mechanism for the Additional Consideration Shares

The Additional Consideration Shares shall be adjusted as provided in the Sale and Purchase Agreement in each of the following cases:

- (i) In the event of any consolidation or subdivision of Shares before the allotment and issue of the Additional Consideration Shares, the number of Additional Consideration Shares immediately before the consolidation or subdivision of Shares (as the case may be) shall be adjusted in accordance with the following formula (such adjustment to be effective from the close of business of the day before the consolidation or subdivision of Shares (as the case may be)):

Number of Adjusted Additional Consideration Shares =

$$\text{Number of Additional Consideration Shares} \times \frac{\text{Number of total issued Shares immediately before the consolidation or subdivision of Shares (as the case may be)}}{\text{Number of total issued Shares immediately after the consolidation or subdivision of Shares (as the case may be)}}$$

- (ii) In the event of 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) (the “**Bonus Issue**”), the number of Additional Consideration Shares immediately before the Bonus Issue shall be adjusted in accordance with the following formula:

Number of Adjusted Additional Consideration Shares =

$$\text{Number of Additional Consideration Shares} \times \frac{\text{Number of total issued Shares immediately before the Bonus Issue}}{\text{Number of total issued Shares immediately after the Bonus Issue}}$$

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; and
- b) 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.

IMPLICATIONS UNDER 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 and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

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

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

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

| Shareholders | As at the date of this announcement | | Immediately after Completion and the allotment and issue of the Consideration Shares | | Immediately after the allotment and issue of the Additional Consideration Shares | |
|---------------------------------------|-------------------------------------|---------------|--|---------------|--|---------------|
| | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| | Orientalite Investments Limited | 195,000,000 | 24.48 | 195,000,000 | 22.76 | 195,000,000 |
| CEC Agricapital Group Limited | 128,960,000 | 16.19 | 128,960,000 | 15.06 | 128,960,000 | 14.55 |
| China Food and Beverage Group Limited | 78,556,263 | 9.86 | 78,556,263 | 9.17 | 78,556,263 | 8.86 |
| Shareholders acting in concert | | | | | | |
| with CEC and/or its associates | 402,516,263 | 50.53 | 402,516,263 | 46.99 | 402,516,263 | 45.40 |
| The Vendor | – | – | 60,000,000 | 7.00 | 90,000,000 | 10.15 |
| Existing public Shareholders | 394,067,000 | 49.47 | 394,067,000 | 46.01 | 394,067,000 | 44.45 |
| Total | <u>796,583,263</u> | <u>100.00</u> | <u>856,583,263</u> | <u>100.00</u> | <u>886,583,263</u> | <u>100.00</u> |

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.

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 is a third party 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.

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 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.

AS COMPLETION IS SUBJECT TO THE FULFILMENT (OR IF APPLICABLE, WAIVER) OF THE CONDITIONS, THE PROPOSED ACQUISITION MAY OR MAY NOT PROCEED. THE ISSUE OF THIS ANNOUNCEMENT DOES NOT IN ANY WAY IMPLY THAT THE SALE AND PURCHASE AGREEMENT WILL BE IMPLEMENTED OR COMPLETED. SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION WHEN DEALING IN THE SHARES.

DEFINITIONS

In this announcement, the following expressions have the following meanings, unless otherwise specified.

| | |
|--|--|
| “Additional Consideration Shares” | means 30,000,000 Shares to be allotted and issued to the Vendor upon occurrence of the events as described in the subsection headed “Consideration Adjustment” under the section headed “Sale and Purchase Agreement” of this announcement; |
| “Adjusted Additional Consideration Shares” | means the Additional Consideration Shares after adjustment as described in the subsection headed “Adjustment mechanism for the Additional Consideration Shares” under the section headed “Sale and Purchase Agreement” of this announcement; |
| “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; |
| “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; |
| “Conditions” | means conditions precedent to Completion, as set out in the subsection headed “Conditions Precedent” under the section headed “Sale and Purchase Agreement” of this announcement; |
| “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; |
| “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; |
| “Last Trading Day” | means 4 August 2010, being the last day on which the Shares were traded on the Stock Exchange prior to the release of this announcement; |
| “Listing Committee” | means the Listing Committee of the Stock Exchange; |
| “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 announcement, 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; |
| “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 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; |
| “Stock Exchange” | means The Stock Exchange of Hong Kong Limited; and |
| “Vendor” | means Ace Loyalty International Limited, a company incorporated in the British Virgin Islands, being the vendor under the Sale and Purchase Agreement and an independent third party not connected with the Company. |

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

Hong Kong, 4 August 2010

As at the date hereof, the executive directors are Mr. Peter Lo, Mr. Li Wentao, Mr. David Lee Sun, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Lu Gui Pin; the non-executive director is Mr. Derek Emory Ting-Lap Yeung; and the independent non-executive directors are Dr. Leung Kwan-Kwok, Mr. Sam Zuchowski and Dr. Loke Yu alias Loke Hoi Lam.