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 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)

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER RANGE HOLDINGS LIMITED AND SPECIFIC MANDATE TO ISSUE SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES AND REFRESHMENT OF SCHEME MANDATE LIMIT OF THE SHARE OPTION SCHEME

Independent Financial Adviser to the Independent Board Committee

博大資本國際有限公司
Partners Capital International Limited

A notice convening an extraordinary general meeting of Bio-Dynamic Group Limited to be held at Basement Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 8 September 2010 at 3:00 p.m. is set out on pages 165 to 168 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.

23 August 2010

CONTENTS

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

"ALI"	means Ace Loyalty International Limited, a company incorporated in the British Virgin Islands, being the vendor under the KVHL Agreement and an independent third party not connected with the Company;
"Announcement"	means the announcement of the Company dated 5 July 2010 in relation to the Proposed Acquisition;
"Articles"	means the articles of association of the Company 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;
"Business Operation"	means the core business operation of the Target Group involving distribution of liquor in the PRC;
"CEC"	means China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, the ultimate controlling shareholder of the Company;
"CEC Agricapital"	means CEC Agricapital Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CEC;
"CEC F&B"	means CEC F&B Limited, a company incorporated in the British Virgin Islands and the holding company of CFB;
"CFB"	means China Food and Beverage Group Limited, a company incorporated in the British Virgin Islands and an indirect subsidiary of CEC;
"Clarification Announcement"	means the clarification announcement of the Company dated 16 July 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;
"Conditions"	means conditions precedent to Completion, as set out in the paragraph headed "Conditions Precedent" under the section headed " Letter from the Board – Sale and Purchase Agreement" of this circular;
"Consideration Shares"	means 150,000,000 Shares to be allotted and issued to the Vendor as consideration for the Proposed Acquisition;
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules;
"Directors"	means the directors of the Company;
"Distribution Agreements"	means (i) 賣斷產品全國總代理合同 (the nation-wide exclusive distributorship agreement) dated 22 February 2008 between SZMM and JSS, as supplemented by the supplemental agreements dated 20 May 2008, 1 April 2009, 21 August 2009 and 4 May 2010; and (ii) 全國總代理合同 (the nation-wide exclusive distributorship agreement) dated 21 August 2009 between SZMM and JSS, in respect of the Distribution Rights;
"Distribution Rights"	means the rights granted to SZMM to distribute liquor under the brands of 典藏酒鬼 (Diancang Jiugui), 小湘泉 (Xiaoxiangquan) under 250ml and the Trademark in the PRC, expiring 3 May 2020 under the Distribution Agreements;
"EGM"	means the extraordinary general meeting of the Company to be convened to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder, allotment and issue of the Consideration Shares to the Vendor under the Special Mandate and renewal of the General Mandate;
"Enlarged Group"	means the Company, its subsidiaries and any entity which will become a subsidiary of the Company after Completion (including the Target Group) and by reason of any acquisition which has been agreed or proposed by the Company between 31 December 2009 and the Latest Practicable Date, including the KVHL Acquisition;

"General Mandate"	means the general mandate granted by the Shareholders to the Directors in the annual general meeting of the Company held on 26 May 2010 to issue up to 159,316,652 Shares, representing 20% of the then issued share capital of the Company;
"Group"	means the Company and its subsidiaries;
"GWLF"	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;
"HK$"	means the lawful currency of Hong Kong;
"HNMM"	means 湖南美名問世酒鬼酒銷售有限公司 (Hunan Meiming Wenshi Jiuguijiu Sales Limited), a limited liability company established in the PRC on 6 January 2010 and a wholly-owned subsidiary of SZMM;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	means the independent committee of the Board, comprising all of the independent non-executive Directors;
"Independent Financial Adviser"	means Partners Capital International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purpose of the SFO;
"Issue Price"	means the issue price of HK$0.44 per Consideration Share;
"JGJ"	means JGJ (China) Group Limited, a company incorporated in Hong Kong on 28 April 2010 and a wholly-owned subsidiary of PRHL;
"JSS"	means 酒鬼酒供銷有限責任公司 (Jiuguijiu Supply and Sales Limited Liability Company), a company established in the PRC and an independent third party not connected with the Company;
"KVHL"	means Keen Vitality Holdings Limited, a company incorporated in the British Virgin Islands;
"KVHL Acquisition"	means the proposed acquisition of the entire issued share capital of KVHL by the Company from ALI pursuant to the KVHL Agreement, details of which are set out in the announcements of the Company dated 4 August 2010 and 5 August 2010 and the circular of the Company dated 17 August 2010;

"KVHL Agreement"	means a sale and purchase agreement in relation to the KVHL Acquisition dated 4 August 2010 as supplemented by a supplemental agreement dated 5 August 2010, both entered into between the Company and ALI;
"KVHL Consideration Adjustment Shares"	means 30,000,000 Shares to be allotted and issued to ALI upon occurrence of the events after completion of the KVHL Acquisition as described in the subsection headed "Consideration Adjustment" under the section headed "Sale and Purchase Agreement" of the announcement of the Company dated 4 August 2010 and the circular of the Company dated 17 August 2010;
"KVHL Consideration Shares"	means 60,000,000 Shares to be allotted and issued to ALI as consideration for and upon completion of the KVHL Acquisition;
"Latest Practicable Date"	means 19 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;
"Non-operating Assets"	means assets of the Target Group that are not related to the Business Operation;
"Non-operating Debts"	means debts of the Target Group that are not related to the Business Operation;
"OIL"	means Orientelite Investments Limited, a company incorporated in the British Virgin Islands, a direct wholly-owned subsidiary of CEC;
"Option(s)"	means a right to subscribe for Shares pursuant to the Share Option Scheme;
"Placing"	means the placing of 90,000,000 Shares pursuant to the Placing and Subscription Agreement;
"Placing and Subscription Agreement"	means the placing and subscription agreement dated 2 August 2010 entered into between the Company, OIL and Shenyin Wanguo Securities (H.K.) Limited;
"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;

"PRHL"	means Power Range Holdings Limited, a company incorporated in the British Virgin Islands on 16 April 2010 and wholly-owned by the Vendor;
"PRHL Shares"	means ordinary share(s) of US$1.00 each in the capital of PRHL;
"Proposed Acquisition"	means the proposed acquisition of the Sale Share by the Company pursuant to the Sale and Purchase Agreement;
"Repurchase Mandate"	means the general mandate to repurchase Shares proposed to be granted to the Directors as described in the section headed "Letter from the Board – Specific Mandate, renewal of the General Mandate and the Repurchase Mandate" of this circular;
"Resulting Group"	means collectively, the Group and the Target Group but for the avoidance of doubt, excludes KVHL;
"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 PRHL dated 28 June 2010 entered into between the Vendor and the Company;
"Sale Share"	means one PRHL Share, representing the entire issued share capital of PRHL as at the date of the Sale and Purchase Agreement, to be sold by the Vendor to the Company;
"Scheme Mandate Limit"	has the meaning ascribed to such term in the section headed "Letter from the Board – Refreshment of Scheme Mandate Limit of the Share Option Scheme" of this circular;
"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;
"Share Option Scheme"	means the share option scheme adopted by the Company on 23 May 2007;
"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 issue and allotment of the Consideration Shares;

"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"Subscription"	means the subscription of 90,000,000 Shares by OIL pursuant to the Placing and Subscription Agreement;
"SZMM"	means 深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited), a limited liability company established in the PRC on 21 February 2008 and a wholly-owned subsidiary of JGJ;
"SZMM Group"	means collectively, SZMM and HNMM, the operating companies of the Target Group;
"Target Group"	means collectively, PRHL, JGJ, SZMM and HNMM;
"Trademark"	means the 美名問世 (Meiming Wenshi) trademark for liquor;
"US$"	means the lawful currency of the United States;
"Valuation Report"	means the valuation report prepared by the Valuer in relation to the Distribution Rights and the Trademark as set out in Appendix VI to this circular;
"Valuer"	means Grant Sherman Appraisal Limited, an independent valuer in connection with the valuations of the Distribution Rights and the Trademark; and
"Vendor"	means Ms. Wong Hui-Hung, being the vendor under the Sale and Purchase Agreement.

For the purposes of this circular, translations of RMB to HK$ have been calculated using the exchange rate RMB1.00 = HK$1.1463.

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

23 August 2010

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF POWER RANGE HOLDINGS LIMITED AND SPECIFIC MANDATE TO ISSUE SHARES AND RENEWAL OF GENERAL MANDATE TO ISSUE SHARES AND GENERAL MANDATE TO REPURCHASE SHARES AND REFRESHMENT OF SCHEME MANDATE LIMIT OF THE SHARE OPTION SCHEME

INTRODUCTION

Reference is made to the Announcement and the Clarification Announcement.

On 28 June 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 Share, representing the entire issued share capital of PRHL, to the Company for a consideration of HK$66,000,000. 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.

As at least one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are greater than 25% but less than 100%, the Proposed Acquisition constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. 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.

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 Specific Mandate, renewal of the General Mandate to issue Shares, the Repurchase Mandate and refreshment of the Scheme Mandate Limit of the Share Option Scheme;

(c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders and the recommendation and opinion of the Independent Board Committee as advised by the Independent Financial Adviser in relation to the renewal of the General Mandate and any extension thereof; and

(d) a notice of the EGM to consider and, if thought fit, to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder, the allotment and issue of the Consideration Shares to the Vendor under the Specific Mandate and the renewal of the General Mandate.

SALE AND PURCHASE AGREEMENT

Date: 28 June 2010

Seller: The Vendor

Purchaser: The Company

Subject matter of the Proposed Acquisition

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

Consideration

The total consideration for the Proposed Acquisition is HK$66,000,000, 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 aggregate values of the Distribution Rights and the Trademark; (ii) the unaudited consolidated net asset value of the Target Group as at 30 April 2010 of approximately RMB8,232,000 (HK$9,436,000); (iii) the opportunity for the Group to gain a larger market share in the liquor distribution market in the PRC and to broaden the income base of the Group; and (iv) the further business and growth potential of the Target Group in the liquor sector in the PRC.

The valuations of the Distribution Rights and the Trademark as at 30 June 2010 based on the income approach and the market approach as determined in the Valuation Report are at approximately RMB41,528,000 (HK$47,604,000) and RMB500,000 (HK$573,000), respectively. Details of the methodologies, bases and assumptions adopted by the Valuer for the valuations are set out in the Valuation Report in Appendix VI to this circular.

Consideration Shares

The Consideration Shares represent (i) approximately 16.92% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 14.47% of the issued share capital of the Company immediately after Completion and the allotment and issue of the Consideration Shares; (iii) approximately 13.68% of the issued share capital of the Company immediately after Completion and enlarged by the allotment and issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares; and (iv) approximately 13.31% of the issued share capital of the Company immediately after Completion and the allotment and issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares and the KVHL Consideration Adjustment Shares. The Consideration Shares shall be allotted and issued as fully paid pursuant to the Specific Mandate to be sought at the EGM. 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$0.44 represents:

a) a discount of approximately 38.89% to the closing price of HK$0.72 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

b) a discount of approximately 41.64% to the average closing price of HK$0.754 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 43.73% to the average closing price of approximately HK$0.782 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 37.59% to the average closing price of approximately HK$0.705 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 18.92% to the latest published audited consolidated net assets per Share of approximately HK$0.37 as at 31 December 2009.

Conditions Precedent

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

a) PRHL being the legal and beneficial owner of the entire issued share capital of JGJ;

b) JGJ being the legal and beneficial owner of the entire equity interest in SZMM;

c) SZMM being the legal and beneficial owner of the Trademark;

d) SZMM being the legal and beneficial owner of the entire equity interest in HNMM;

e) the Distribution Agreements between SZMM and JSS remaining valid and effective;

f) due completion of the transfer of the Non-operating Assets of the Target Group at book value by the relevant members of the Target Group to the Vendor or its designated party;

g) all Non-operating Debts of the Target Group having been repaid or settled by the Vendor as at the date of Completion;

h) the Company being satisfied that the Target Group will have sufficient cash to repay all debts existing as at the date of Completion relating to its Business Operation;

i) the Vendor having executed and delivered a deed of undertaking to the Company in relation to the Vendor's undertaking to indemnify the Company in respect of all contingent debts of the Target Group;

j) the Vendor having obtained or procured to obtain all necessary consents, waivers, approvals and authorisation from any relevant governmental or regulatory authority or third parties in relation to the direct or indirect acquisition of SZMM and HNMM by the Vendor;

k) completion of legal and financial due diligence on the Target Group by the Company to the satisfaction of the Company;

l) a valuation report in relation to the Distribution Rights and the Trademark having been issued by an independent valuation firm appointed by the Company, showing the values of the Distribution Rights and the Trademark being in aggregate not less than RMB25,000,000;

m) 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

n) 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 (or, if applicable, waiver) of all of the Conditions of the Sale and Purchase Agreement 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 pursuant to the Proposed Acquisition will not change the control (as defined in the Code) of the Company.

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; (iii) immediately after Completion and the allotment and issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares; and (iv) immediately after Completion and the allotment and issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares and the KVHL Consideration Adjustment 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 Completion and the allotment and issue of the Consideration Shares and KVHL Consideration Shares		Immediately after Completion and the allotment and issue of the Consideration Shares, the KVHL Consideration Shares and the KVHL Consideration Adjustment Shares	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
OIL	195,000,000	21.99	195,000,000	18.81	195,000,000	17.78	195,000,000	17.31
CEC Agricapital	128,960,000	14.55	128,960,000	12.44	128,960,000	11.76	128,960,000	11.45
CFB	78,556,263	8.86	78,556,263	7.58	78,556,263	7.17	78,556,263	6.97
Shareholders acting in concert with CEC and/or its associates	402,516,263	45.40	402,516,263	38.83	402,516,263	36.71	402,516,263	35.73
The Vendor	–	–	150,000,000	14.47	150,000,000	13.68	150,000,000	13.31
ALI	–	–	–	–	60,000,000	5.47	90,000,000	7.99
Existing public Shareholders	484,067,000	54.60	484,067,000	46.70	484,067,000	44.14	484,067,000	42.97
Total	886,583,263	100.00	1,036,583,263	100.00	1,096,583,263	100.00	1,126,583,263	100.00

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 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.

INFORMATION ON THE COMPANY

The Company is principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the PRC. The 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.

INFORMATION ON THE TARGET GROUP

PRHL

PRHL was incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Vendor. The sole asset of PRHL is the entire issued share capital of JGJ, which in turn owns the entire equity interest in SZMM. PRHL is principally engaged in investment holding and it has not carried out any business or trading since its incorporation.

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.

JGJ

JGJ was incorporated in Hong Kong and is wholly-owned by PRHL. The sole asset of JGJ is the entire equity interest in SZMM, which in turn owns the entire equity interest in HNMM. JGJ is principally engaged in investment holding and it has not carried out any business or trading since its incorporation.

SZMM

SZMM was established in the PRC as a limited liability company with a registered and paid-up capital of RMB10,000,000 and is wholly-owned by JGJ. The sole asset of SZMM is the entire equity interest in HNMM. SZMM, as one of the key operating companies of the Target Group, holds the Distribution Rights and, upon fulfilment of the Conditions, will own the Trademark. SZMM is principally engaged in the distribution of liquor through a distribution network in the PRC. The brands of liquor being sold by SZMM mainly include 典藏酒鬼 (Diancang Jiugui), 小湘泉 (Xiaoxiangquan) and the Trademark.

On 13 June 2010, JGJ acquired the entire equity interest in SZMM for a consideration of approximately HK$14,902,000. The Directors are given to understand that such consideration was determined based on the then term of the Distribution Rights of approximately four years. The Vendor, through JGJ and SZMM, successfully renewed the term of the Distribution Rights for a longer term of ten years. Taking into account, among other things, the renewed ten-year term of the Distribution Rights, which is considered by the Directors as a relatively extended term for a distribution right in the PRC liquor market, and the valuation of the Distribution Rights of RMB41,528,000 (HK$47,604,000) as determined in the Valuation Report, the Directors consider that the consideration of HK$66,000,000 for the Proposed Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

HNMM

HNMM was incorporated in the PRC as a limited liability company with a registered and paid-up capital of RMB5,000,000 and is wholly-owned by SZMM. HNMM is one of the key operating companies of the Target Group and principally engaged in the distribution of liquor in the PRC.

Financial information on SZMM Group

The following table shows certain audited financial information on the SZMM Group for (i) the period from 21 February 2008 (the date of establishment of SZMM) to 31 December 2008, (ii) the year ended 31 December 2009, and (iii) the six months ended 30 June 2010, prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants as extracted from the accountants' report of the SZMM Group as set out in Appendix IV to this circular:

	Period from 21 February 2008 to 31 December 2008	**Year ended 31 December 2009**	**Six months ended 30 June 2010**
	HK$'000	*HK$'000*	*HK$'000*
Net loss before tax	(1,553)	(718)	(858)
Net loss after tax	(1,553)	(718)	(787)
Net asset value	2,147	12,679	18,192
Revenue	53	1,210	263
Total assets	2,536	16,496	22,662

The accountants' report of the Target Group is set out in Appendix III to this circular.

VALUATION OF THE DISTRIBUTION RIGHTS

The valuation of the Distribution Rights was prepared by the Valuer based on the discounted cash flows method and therefore constitutes a profit forecast (the "**Profit Forecast**") under Rule 14.61 of the Listing Rules.

According to the Valuation Report, the valuation of the Distribution Rights as at 30 June 2010 based on the discounted cash flows method is at approximately RMB41,528,000 (HK$47,604,000).

Ernst & Young, the auditors of the Company, have reviewed the calculations of the discounted cash flows method, which do not involve the adoption of accounting policies, used by the Valuer as the basis of preparing the valuation of the Distribution Rights. The Directors confirm that they have made the Profit Forecast after due and careful enquiry.

A letter from the Board confirming its view that the Directors have made the Profit Forecast after due and careful enquiry, a letter from Ernst & Young relating to the discounted cash flows method in connection with the Distribution Rights, which is prepared pursuant to Rules 14.60A and 14.62 of the Listing Rules, is set out in Appendix VII to this circular.

THE TRADEMARK

The Trademark has an initial term of 10 years from 21 July 2005 to 20 July 2015. According to Articles 23 and 24 of the Trademark Law of the PRC, the term of a registered trademark in the PRC can be renewed every 10 years.

REASONS FOR AND BENEFIT OF THE PROPOSED ACQUISITION

Increase in market share in the alcoholic beverage market in the PRC

The Company is principally engaged in the production of premium grade consumable ethanol in the PRC. In October 2009, the Group obtained the licences to use the 不倒翁 (Budaoweng) brand and 北國春 (Beiguochun) brand for the production and sale of liquor in certain regions in the PRC, including but not limited to Heilongjiang, Jilin and Guangdong Provinces. Building on the Group's ability to produce high-quality consumable ethanol and leveraging on the Group's rights to use the two licensed liquor brands in the PRC, the Directors believe that investment in the Target Group will provide a good opportunity for the Group to increase its market share in the PRC alcoholic beverage market through the Target Group, the Distribution Rights and the Trademark.

Synergy of the businesses of the Group and of the Target Group

The Directors believe that the Proposed Acquisition will also enable integration of the business of the Target Group with that of the Group. The Group is developing a multi-brand strategy to target different segments of the PRC alcoholic beverage market through acquisition or licensing of existing liquor brands and the development of new liquor brands. The Group also plans to establish a regional sales and distribution network for wine and liquor in the Northeast region of the PRC, such as Harbin and Suihua. The Proposed Acquisition will allow the Group to capitalise on the Distribution Rights, the Trademark and the existing distribution network of the Target Group in the PRC, where the wine and liquor industry has experienced rapid growth and development in recent years. The Directors further believe that the Group will be able to benefit from the existing management infrastructure and other resources of the Target Group, which will strengthen the Group's business.

Diversification of business

The Directors consider that the investment in the Target Group will allow the Company to diversify its business and reduce the Company's reliance on the consumable ethanol production business. At the same time, the Proposed Acquisition will provide an opportunity to improve the Group's earnings base and enable the Group to benefit from the continuing growth in the PRC alcoholic beverage market, providing the Group with an additional avenue for growth.

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 Company and 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.

FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION ON THE GROUP

Set out below is a summary of the unaudited pro forma financial information of the Resulting Group before and after Completion, as extracted from the "Unaudited pro forma financial information of the Resulting Group" in Appendix V to this circular and prepared on the basis set out therein. The unaudited pro forma financial information is prepared to provide information as to how the Proposed Acquisition would affect the relevant financial information of the Resulting Group as at and for the year ended 31 December 2009. 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 Resulting Group for any future financial periods or dates.

	Before Completion	**After Completion**
	HK$'000	*HK$'000*
Total assets	474,447	563,300
Total liabilities	244,063	263,759
Net assets	230,384	299,541
Gearing ratio	52%	44%

Based on the above, upon Completion, the total assets, total liabilities and net assets of the Resulting Group will increase by 18.7%, 8.1% and 30.0%, respectively. The increase in net assets is mainly attributable to the Distribution Rights held by the Target Group. The gearing ratio of the Resulting Group, calculated as net debt divided by the sum of total adjusted equity and net debt, will decrease from 52% to 44% after Completion.

The Directors consider that the Proposed Acquisition will enhance the asset base of the Group. In light of the potential future prospects of the Target Group, the Directors are of the view that the Proposed Acquisition would likely to have a positive impact on the future earnings of the Resulting Group.

SPECIFIC MANDATE, RENEWAL OF THE GENERAL MANDATE AND THE REPURCHASE MANDATE

At the Company's annual general meeting held on 26 May 2010, 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 90,000,000 new Shares under the General Mandate for the Placing and Subscription, which were completed on 5 August 2010 and 6 August 2010, respectively. The Company raised net proceeds of approximately HK$42.38 million from the Placing and Subscription, which the Company has not utilised as at the Latest Practicable Date and will utilise as general working capital. Details of the Placing and Subscription are set out in the announcements of the Company dated 2 August 2010 and 6 August 2010. Since the annual general meeting held on 26 May 2010, 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 grant of 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 150,000,000 new Shares, representing (i) approximately 16.92% of the issued share capital of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 14.47% of the issued share capital of the Company immediately after Completion and the allotment and issue of the Consideration Shares; (iii) approximately 13.68% of the issued share capital of the Company immediately after Completion and enlarged by the issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares; and (iv) approximately 13.31% of the issued share capital of the Company immediately after Completion and the allotment and issue of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares and the KVHL Consideration Adjustment 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 886,583,263 Shares, 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 177,316,652 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 VIII to this circular as required by the Listing Rules.

Subject to the passing of the proposed resolutions in relation to 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 renewed General Mandate for the Directors to allot, issue and deal with further number of Shares equal to the number of Shares repurchased by the Company under the Repurchase Mandate.

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 and any extension thereof. As at the Latest Practicable Date, OIL, CEC Agricapital and CFB are beneficially interested in an aggregate of 402,516,263 Shares, representing 45.40% of the issued Share capital of the Company, and accordingly, will abstain from voting in favour of the ordinary resolution proposed in connection with the renewal of the General Mandate and any extension thereof. OIL, CEC Agricapital and CFB have no intention to vote against such ordinary resolution. 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 Shareholders as to whether the renewal of the General Mandate and any extension thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Company has also appointed the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Shareholders as to whether the renewal of the General Mandate and any extension thereof are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee and Independent Financial Adviser are of the opinion that the renewal of the General Mandate and any extension thereof are fair and reasonable.

REFRESHMENT OF SCHEME MANDATE LIMIT OF THE SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 23 May 2007. Pursuant to the Share Option Scheme and the Listing Rules, the maximum number of Shares which may be issued upon exercise of Options to be granted under the Share Option Scheme must not exceed 10% of the Shares in issue on the date of adoption (the "**Scheme Mandate Limit**"). The Company may refresh the Scheme Mandate Limit with Shareholders' approval provided that each such refreshment may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval. Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the 10% limit. The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme must not exceed 30% (or such other percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time (as at the Latest Practicable Date, such 30% was the equivalent of 265,974,978 Shares).

As at 23 May 2007 (being the date of adoption of the Share Option Scheme), the total number of Shares in issue was 332,000,000 and thus the Scheme Mandate Limit was 33,200,000 Shares. Pursuant to the Scheme Mandate Limit as approved by the Shareholders on 23 May 2007, the Company granted an aggregate of 29,600,000 Options under the Share Option Scheme, all of which were cancelled prior to the Latest Practicable Date.

At the annual general meeting of the Company held on 8 May 2008, the Scheme Mandate Limit was refreshed to allow the Company to grant Options entitling holders to subscribe for Shares not exceeding 10% of the issued share capital of the Company as at the date of approving the refreshment, which amounted to 56,600,000 Shares. Pursuant to the Scheme Mandate Limit as approved by the Shareholders on 8 May 2008, the Company granted an aggregate of 48,250,000 Options under the Share Option Scheme, of which 13,027,000 Options were exercised and no Options were lapsed or cancelled.

At the annual general meeting of the Company held on 26 May 2010, the Scheme Mandate Limit was refreshed to allow the Company to grant Options entitling holders to subscribe for Shares not exceeding 10% of the issued share capital of the Company as at the date of approving the refreshment, which amounted to 79,658,326 Shares. As at the Latest Practicable Date, the Company has granted an aggregate of 55,050,000 Options under the Share Option Scheme pursuant to the Scheme Mandate Limit as refreshed, of which 13,027,000 Options were exercised and no Options were lapsed or cancelled. Therefore, as at the Latest Practicable Date, there are 42,023,000 Options outstanding and unexercised under the Scheme Mandate Limit as refreshed on 26 May 2010 to which holders were entitled to subscribe for Shares.

Unless the Scheme Mandate Limit under the Share Option Scheme is refreshed, only up to 24,608,326 Options may be granted under the Share Option Scheme pursuant to the Scheme Mandate Limit as refreshed on 26 May 2010.

In order to provide the Company with greater flexibility in granting Options to eligible persons under the Share Option Scheme as incentives or rewards for their contributions to the Group, an ordinary resolution will be proposed to seek Shareholders' approval at the EGM to refresh the Scheme Mandate Limit of the Share Option Scheme to 10% of the Shares in issue as at the date of passing of the resolution. As at the Latest Practicable Date, there were 886,583,263 Shares in issue. Assuming there is no further issue or repurchase of Shares prior to the EGM, upon the approval of the refreshment of the Scheme Mandate Limit by the Shareholders at the EGM, the Company may grant Options entitling holders thereof to subscribe for up to 88,658,326 Shares, representing 10% of the Shares in issue as at the date of the refreshment of the Scheme Mandate Limit.

The refreshment of the Scheme Mandate Limit is conditional upon:

(a) the Shareholders' approval at the EGM; and

(b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares (representing 10% of the total Shares in issue at the date of the EGM approving the refreshment of the Scheme Mandate Limit) which may fall to be issued pursuant to the exercise of any Options granted under the refreshed Scheme Mandate Limit.

Application will be made to the Listing Committee of the Stock Exchange for the approval mentioned in paragraph (b) above.

IMPLICATIONS UNDER THE LISTING RULES

Major Transaction

As at least one of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Proposed Acquisition are greater than 25% but less than 100%, the Proposed Acquisition constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. 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.

EGM

Set out on pages 165 to 168 in this circular is a notice convening the EGM which will be held at Basement Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 8 September 2010 at 3:00 p.m., at which resolutions will be proposed to approve, among other things, the Sale and Purchase Agreement, the transactions contemplated thereunder, the Specific Mandate, the renewal of the General Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit.

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, the Specific Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit 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, the Specific Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit and is required to abstain from voting at the EGM. On the other hand, OIL, CEC Agricapital and CFB shall abstain from voting in favour of the ordinary resolution proposed in connection with the renewal of the General Mandate and any extension thereof at the EGM.

The Company has established an Independent Board Committee comprising all the independent non-executive Directors to consider and advise the Shareholders with respect to the renewal of the General Mandate and any extension thereof. The Company has appointed Partners Capital International Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders with respect to the renewal of the General Mandate and any extension thereof.

Pursuant to Article 80 of the Articles, at any general meeting a resolution put to the vote of 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 Sale and Purchase Agreement, the transactions contemplated thereunder, the Specific Mandate, the renewal of the General Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit will be taken by poll.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 of this circular which contains its advice to the Shareholders regarding to the renewal of the General Mandate and any extension thereof and to the Letter from the Independent Financial Adviser set out on page 22 of this circular which contains its advice to the Independent Board Committee and the Shareholders regarding the renewal of the General Mandate and any extension thereof 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 Sale and Purchase Agreement, the transactions contemplated thereunder, the Specific Mandate, the renewal of the General Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit 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, the Specific Mandate, the renewal of the General Mandate, the Repurchase Mandate and the refreshment of the Scheme Mandate Limit. 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.

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)

RENEWAL OF GENERAL MANDATE TO ISSUE SHARES

23 August 2010

To the Shareholders

Dear Sir or Madam,

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the renewal of the General Mandate and any extension thereof, details of which are set out in the Letter from the Board in the circular of the Company dated 23 August 2010 (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 renewal of the General Mandate and any extension thereof.

RECOMMENDATION

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

博大資本國際有限公司
Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

23 August 2010

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RENEWAL OF GENERAL MANDATE TO ALLOT AND ISSUE SHARES

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Shareholders other than OIL, CEC Agricapital and CFB and their respective associates (the "Independent Shareholders") in respect of the renewal of the General Mandate and the extension thereof, particulars of which are set out in the letter from the Board (the "Letter from the Board") of the circular to the Shareholders dated 23 August 2010 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Pursuant to Rule 13.36(4) of the Listing Rules, the renewal of the General Mandate is subject to the approval of the Independent Shareholders at the EGM by way of poll with the controlling Shareholders and their associates or, where there are no controlling Shareholders, Directors (excluding the independent non-executive Directors) and the chief executive and their respective associates shall abstain from voting in favour of the relevant resolution at the EGM. In this regard, the Independent Board Committee has been established to advise the Independent Shareholders on the renewal of the General Mandate, and Partners Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the same. Meanwhile, OIL, CEC Agricapital and CFB shall abstain from voting in favour for the ordinary resolution proposed in connection with the renewal of the General Mandate at the EGM.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Group and the renewal of the General Mandate, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and their respective associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion regarding the renewal of the General Mandate, we have considered the following principal factors and reasons:

1. Background of and reasons for the renewal of the General Mandate

The Company is principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the PRC. The 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.

We understand from the Directors that the Company was authorized to allot and issue up to 159,316,652 Shares ("Authorized Shares") pursuant to the General Mandate which was granted by the Shareholders at the annual general meeting of the Company held on 26 May 2010. As at the Latest Practicable Date, the General Mandate had been largely utilized as to 90,000,000 new Shares in association with the Placing and Subscription which was completed on 5 August 2010 and 6 August 2010, respectively, representing approximately 56.5% of Authorized Shares.

Given that the General Mandate has been largely utilized, should any business development and investment opportunities arise that would require the issuance of new Shares and a specific mandate has to be sought, we understand from the Directors that it is uncertain as to whether the requisite approval from Shareholders or Independent Shareholders, as the case may be, could be obtained in a timely manner. Accordingly, to enhance the flexibility for the Company to manage its business and to raise additional equity capital for any future business development and investment opportunities, the Directors propose to seek the approval of the Independent Shareholders at the EGM for the renewal of the General Mandate and the extension thereof. Based on the 886,583,263 Shares in issue as at the Latest Practicable Date and upon approval of the renewal of the General Mandate at the EGM, the Directors will be able to allot and issue up to 177,316,652 new Shares, representing approximately 20.00% of the existing issued share capital of the Company as at the Latest Practicable Date and 16.67% of the issued share capital of the Company as enlarged by the shares to be issued in full under the General Mandate. In addition, 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.

In the light of the above, we are of the opinion that the renewal of the General Mandate and the extension thereof could provide the Company the flexibility and ability to capture any capital raising or investment or business opportunity as and when it arises. Such ability is crucial in a competitive and rapidly changing capital market and investment environment.

2. Fund raising activities of the Company

According to the information provided by the Directors, we summarise the fund raising activities of the Company during the past 12 months immediately preceding the Latest Practicable Date in the following table:

Date of announcement	Description	Net Amount raised (approximate)	Number of Shares issued	% of the total issued share capital of the Company as at the then date of announcement (approximate)	Proposed use of proceeds	Actual use of proceeds
2 December 2009	placing of 36,000,000 Shares and subscription of 36,000,000 new shares	HK$15.02 million	36,000,000 Shares	6.23%	General working capital purposes	Utilised in full (as to approximately HK$11.4 million for purchasing raw materials and the remaining balance as general working capital)
18 January 2010	placing of 103,000,000 Shares and subscription of 103,000,000 new shares	HK$40.40 million	103,000,000 Shares	14.88%	General working capital purposes	As to approximately HK$18.3 million used for purchase of raw materials and as to approximately HK$13.9 million as general working capital. The remaining balance of approximately HK$8.2 million remains unutilised
2 August 2010	placing of 90,000,000 Shares and subscription of 90,000,000 new shares	HK$42.38 million	90,000,000 Shares	11.30%	General working capital purposes	Yet to be utilised

As noted from the table above, the Group has raised aggregate net proceeds of approximately HK$97.8 million during the past 12 months immediately preceding the Latest Practicable Date. Save for the fact that the net proceeds of approximately HK$8.2 million from the placing of shares which was completed in January 2010 and approximately HK$42.38 million from the placing of shares which was just completed in August 2010 have not yet been utilized (both of which are intended to be utilized as additional general working capital of the Group), all other net proceeds have been fully utilized, Accordingly, we are of the view that the actual use of proceeds was in line with the intended use of proceeds.

Meanwhile, according to the annual report of the Company for the year ended 31 December 2009, we note that the Group had cash and bank deposits of approximately HK$10.3 million and recorded total liabilities of approximately HK$244.1 million, of which approximately HK$216.7 million were short-term liabilities (comprising secured short-term bank loans and other borrowings of approximately HK$79.5 million and trade and other payables of approximately HK$102.5 million) as at 31 December 2009 respectively. We also note that the Company has been loss-making for the last five years and recorded net current liabilities as at 31 December 2009. Besides, according to the unaudited pro forma statement of assets and liabilities of the Resulting Group as set out in Appendix V to the Circular, the Group will remain in net current liabilities position after taking into account the effect of the possible completion of the Proposed Acquisition. Furthermore, as advised by the Company, the Group remains in net current liabilities position as at the Latest Practicable Date.

On the other hand, we note that the Company has completed the acquisition of Rightsouth Limited (the "RSL Acquisition"), details of which are set out in the circular of the Company dated 24 December 2009, subsequent to the year ended 31 December 2009. In addition, the Company has announced two acquisitions recently, namely the KVHL Acquisition and the Proposed Acquisition, which have not completed yet. As advised by the Company, although cash was not needed to settle the respective consideration for the RSL Acquisition, the KVHL Acquisition and/or the Proposed Acquisition (as the RSL Acquisition has been settled by issuance of consideration shares and the KVHL Acquisition and the Proposed Acquisition are expected to be settled by issuance of consideration shares), the Company may need additional cash to fund its daily operations of existing ethanol operation and wine and liquor businesses and develop the wine and liquor businesses of the Target Group after the possible completion of the Proposed Acquisition and the forage business after the possible completion of the KVHL Acquisition. As further advised by the Company, most of the net proceeds from the three rounds of placing as set out in the table above have been utilized as at the Latest Practicable Date. We also understand from the Directors that further investments would be needed for the Group's Harbin production facility in the future and the internally generated fund from the Group's Harbin production facility was not substantial as it was still in its early stage of production as at the Latest Practicable Date. Moreover, we were further advised by the Directors that, although short-term bank loans could be extended, funding from short-term loans alone, which has been assigned for general operation use, would not be sufficient for funding the Group's Harbin production facility and the future development of the forage business after possible completion of the KVHL Acquisition and the wine and liquor businesses of the Target Group after the possible completion of the Proposed Acquisition. Taking into account the above, we consider that it is reasonable for the Group to maintain a strong capital base to fund the operation of the Group's Harbin production facility and/or investment opportunities as they may arise from time to time and prepare itself for future development purposes after the possible completion of the KVHL Acquisition and the Proposed Acquisition. We are of the view that the renewal of the General Mandate could provide the Company with flexible financing option to raise additional capital for any future investment or as working capital of the Group and therefore is fair and reasonable.

3. Significant utilization of the General Mandate

Since the last annual general meeting of the Company held on 26 May 2010 up to the Latest Practicable Date, 90,000,000 Shares had been issued under the existing General Mandate. Accordingly, a major portion (representing approximately 56.5%) of the General Mandate of 159,316,652 Shares was utilized. As a result, only 69,316,652 Shares could further be issued under the existing General Mandate, which represents approximately 7.8% of the total issued share capital of the Company as at the Latest Practicable Date.

Given that the existing General Mandate was granted in the last annual general meeting of the Company held on 26 May 2010, we were advised by the Directors that the next annual general meeting will not be held until around May 2011, which is about nine months away from the Latest Practicable Date. If the existing General Mandate (which had already been largely utilized) is not to be refreshed in the EGM, the Company will not have sufficient general mandate, if so required to be utilized, until a new general mandate is approved in the next annual general meeting.

4. Other financing alternatives

We understand that it is the Directors' belief that the renewal of the General Mandate will provide the Company with an additional alternative of equity funding when there is funding requirement or when any business opportunities arise in the future. It is anticipated that the renewal of the General Mandate could enhance the financing flexibility of the Company to raise equity fund, if and when required, by way of issue of new Shares or other convertible instruments (subject to the stock market condition from time to time) for future development of the Group. In addition, the Directors consider that if investment or acquisition opportunities arise, it would be possible that decisions may have to be made within a limited period of time. The renewal of the General Mandate would provide the Group with a higher degree of flexibility as allowed under the Listing Rules to issue new Shares or other convertible instruments to raise capital and strengthen the capital base of the Company as consideration or otherwise for such potential investments and/or acquisitions in the future as and when such opportunities arise. However, upon our enquiry, the Directors confirmed that at present there is no concrete proposal for any new investment or acquisition for the Group except for the KVHL Acquisition and the Proposed Acquisition.

On the above basis, we consider there are acceptable grounds for the Directors to propose the renewal of the General Mandate and the extension thereof in the EGM.

5. Potential dilution to shareholding interests of the Independent Shareholders

Based on information available from public source and from the Directors, we set out below a table illustrating the shareholding structure of the Company as at the Latest Practicable Date and upon full utilization of the new General Mandate:

	As at the Latest Practicable Date		**Upon full utilization of the new General Mandate**	
	(No. of Shares)	*%*	*(No. of Shares)*	*%*
OIL	195,000,000	21.99	195,000,000	18.33
CEC Agricapital	128,960,000	14.55	128,960,000	12.12
CFB	78,556,263	8.86	78,556,263	7.38
Public Shareholders	484,067,000	54.60	484,067,000	45.50
Shares to be issued under the new General Mandate	**–**	**–**	**177,316,652**	**16.67**
Total	**886,583,263**	**100.00**	**1,063,899,915**	**100.00**

Assuming that (i) the renewal of the General Mandate will be approved at the EGM; (ii) no Shares will be repurchased and no new Shares will be issued from the Latest Practicable Date up to the date of the EGM (both dates inclusive); and (iii) upon full utilization of the new General Mandate, 177,316,652 new Shares are to be issued, representing approximately 20.00% of the existing issued share capital as at the Latest Practicable Date and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of new Shares. The aggregate shareholding of the existing public Shareholders will be diluted from approximately 54.6% to approximately 45.5% upon full utilization of the new General Mandate.

Taking into consideration that the renewal of the General Mandate will increase the amount of capital which may be raised thereunder and will provide more options to the Group for financing further development of its business as well as other investments/ acquisitions as and when such opportunities arise and the fact that the shareholding of all the Shareholders will be diluted to the same extent upon any utilization of the new General Mandate, we consider that the potential dilution to the shareholding of the Shareholders is acceptable.

Shareholders should note that the existing General Mandate will be revoked upon approval at the EGM of the new General Mandate which will be and continue to be in force until the earliest of (i) the conclusion of the Company's next annual general meeting; (ii) 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 law to be held; and (iii) the revocation or variation of the authority given under the relevant resolution to be proposed at the EGM by ordinary resolution of the Shareholders in general meeting. Such duration is in compliance with the Listing Rules.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the renewal of the General Mandate is fair and reasonable so far as the Independent Shareholders are concerned and the renewal of the General Mandate is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders and we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution approving the renewal of the General Mandate and the extension thereof at the EGM.

Yours faithfully,
For and on behalf of
Partners Capital International Limited
Alan Fung
Managing Director

1. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 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 2009.

	Year ended 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
RESULTS			
Revenue			
Continuing operations	2,214	3,780	65,815
Discontinued operations	–	–	98,641
	2,214	3,780	164,456
Loss for the year			
Continuing operations	(61,907)	(117,555)	(34,067)
Discontinued operations	–	–	(5,271)
	(61,907)	(117,555)	(39,338)

	As at 31 December		
	2009	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
ASSETS AND LIABILITIES			
Total assets	474,447	476,770	437,093
Total liabilities	(244,063)	(206,811)	(85,254)
Minority interests	(45,523)	(54,296)	(62,245)
	184,861	215,663	289,594

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009 ("2009 Annual Report") are set out below. The page reference in this report is the same as those in the 2009 Annual Report.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
REVENUE	*5*	2,214	3,780
Cost of sales		(13,670)	(9,923)
Gross loss		(11,456)	(6,143)
Other income	*5*	1,144	1,265
Selling and distribution costs		–	(52)
Administrative expenses		(39,071)	(43,300)
Other expenses		(10,126)	(76,581)
Finance costs	*7*	(2,941)	(882)
LOSS BEFORE TAX	*6*	(62,450)	(125,693)
Income tax credit	*10*	543	8,138
LOSS FOR THE YEAR		(61,907)	(117,555)
Attributable to:			
Owners of the parent	*11*	(53,134)	(104,916)
Minority interests		(8,773)	(12,639)
		(61,907)	(117,555)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*13*	HK(9.23) cents	HK(18.54) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2009

	Note	**2009** *HK$'000*	**2008** *HK$'000*
LOSS FOR THE YEAR		(61,907)	(117,555)
Exchange differences on translation of foreign operations		(2)	16,210
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(2)	16,210
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(61,909)	(101,345)
Attributable to:			
Owners of the parent	*11*	(53,136)	(93,396)
Minority interests		(8,773)	(7,949)
		(61,909)	(101,345)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	333,714	355,440
Prepaid land lease payments	*15*	32,370	33,173
Other intangible assets	*17*	75,203	77,939
Prepayments for acquisition of property, plant and equipment	*21*	1,442	1,487
Total non-current assets		442,729	468,039
CURRENT ASSETS			
Inventories	*19*	5,854	461
Trade receivables	*20*	48	–
Prepayments, deposits and other receivables	*21*	15,245	3,969
Due from the immediate holding company	*33*	–	17
Due from fellow subsidiaries	*33*	263	560
Cash and cash equivalents	*22*	10,308	3,724
Total current assets		31,718	8,731
CURRENT LIABILITIES			
Trade payables	*23*	2,969	–
Other payables and accruals	*24*	99,562	99,240
Interest-bearing bank and other borrowings	*25*	79,502	44,864
Due to a fellow subsidiary	*33*	615	286
Due to a minority shareholder of a subsidiary	*33*	34,072	34,074
Total current liabilities		216,720	178,464
NET CURRENT LIABILITIES		(185,002)	(169,733)
TOTAL ASSETS LESS CURRENT LIABILITIES		257,727	298,306
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*26*	14,917	15,460
Deferred income	*27*	12,426	12,887
Total non-current liabilities		27,343	28,347
Net assets		230,384	269,959
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	61,351	57,301
Reserves	*30(a)*	123,510	158,362
		184,861	215,663
Minority interests		45,523	54,296
Total equity		230,384	269,959

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Notes	Attributable to owners of the parent							Minority interests	Total equity
		Issued capital	Share premium account	Share option reserve	Merger reserve	Exchange fluctuation reserve	Accumulated losses	Total		
		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
Total comprehensive loss for the year		–	–	–	–	11,520	(104,916)	(93,396)	(7,949)	(101,345)
Issue of shares	28	701	9,795	(8,478)	–	–	–	2,018	–	2,018
Equity-settled share option arrangements	29	–	–	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
At 1 January 2009		57,301	369,232	24,277	2,150	19,156	(256,453)	215,663	54,296	269,959
Total comprehensive loss for the year		–	–	–	–	(2)	(53,134)	(53,136)	(8,773)	(61,909)
Issue of shares	28	4,050	17,521	(4,795)	–	–	–	16,776	–	16,776
Share issue expenses	28	–	(477)	–	–	–	–	(477)	–	(477)
Equity-settled share option arrangements	29	–	–	6,035	–	–	–	6,035	–	6,035
At 31 December 2009		61,351	386,276*	25,517*	2,150*	19,154*	(309,587)*	184,861	45,523	230,384

* *These reserve accounts comprise the consolidated reserves of HK$123,510,000 (2008: HK$158,362,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(62,450)	(125,693)
Adjustments for:			
Finance costs	*7*	2,941	882
Interest income	*5*	(9)	(56)
Loss on disposal of items of property, plant and equipment	*6*	96	–
Depreciation	*14*	10,669	3,420
Amortisation of prepaid land lease payments	*15*	999	1,034
Amortisation of other intangible assets	*17*	2,735	5,474
Amortisation of deferred income	*27*	(460)	(454)
Impairment of property, plant and equipment	*14*	10,126	9,662
Impairment of other intangible assets	*17*	–	64,591
Impairment of goodwill	*16*	–	2,328
Write-down of inventories to net realisable value	*19*	8,724	–
Equity-settled share option expense	*29*	6,035	17,447
		(20,594)	(21,365)
Decrease/(increase) in inventories		(14,117)	2,155
Increase in trade receivables		(48)	–
Increase in prepayments, deposits and other receivables		(11,474)	(261)
Increase in trade payables		2,969	–
Increase in other payables and accruals		4,871	14,330
Decrease/(increase) in an amount due from the immediate holding company		17	(17)
Decrease/(increase) in an amount due from fellow subsidiaries		297	(125)
Increase in an amount due to a fellow subsidiary		329	286
Cash generated used in operations		(37,750)	(4,997)
Interest paid		–	–
Tax paid		–	–
Net cash flows used in operating activities		(37,750)	(4,997)

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		9	56
Purchase of items of property, plant and equipment		(6,631)	(76,181)
Proceeds from disposal of items of property, plant and equipment		2,709	–
Disposal of subsidiaries		–	1,560
Net cash flows used in investing activities		(3,913)	(74,565)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*28*	16,776	2,018
Share issue expenses	*28*	(477)	–
New bank and other borrowings		57,810	44,864
Repayment of bank and other borrowings		(23,170)	–
Interest paid		(2,706)	(576)
Net cash flows from financing activities		48,233	46,306
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		6,570	(33,256)
Cash and cash equivalents at beginning of year		3,724	32,854
Effect of foreign exchange rate changes, net		14	4,126
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,308	3,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	10,308	3,724

STATEMENT OF FINANCIAL POSITION
31 December 2009

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		10	25
Investments in subsidiaries	*18*	209,517	209,517
Total non-current assets		209,527	209,542
CURRENT ASSETS			
Prepayments and deposits	*21*	281	262
Due from subsidiaries	*18*	86,296	74,329
Due from the immediate holding company	*33*	–	17
Cash and cash equivalents		1,919	3,373
Total current assets		88,496	77,981
CURRENT LIABILITIES			
Other payables and accruals	*24*	3,419	964
Total current liabilities		3,419	964
NET CURRENT ASSETS		85,077	77,017
Net assets		294,604	286,559
EQUITY			
Issued capital	*28*	61,351	57,301
Reserves	*30(b)*	233,253	229,258
Total equity		294,604	286,559

NOTES TO FINANCIAL STATEMENTS
31 December 2009

1. Corporate information

BIO-DYNAMIC GROUP LIMITED is a limited liability company incorporated in the Cayman Islands. The registered address of the Company 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 is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the financial statements.

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

2.1 Basis of presentation

At 31 December 2009, the Group had net current liabilities of HK$185,002,000, inclusive of bank and other borrowings of HK$79,502,000 which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated loss of HK$61,907,000 for the year ended 31 December 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 ultimate holding company has agreed to provide continuous financial support to the Group. In addition, in late August 2009, one of the Company's subsidiaries started its trial-runs of operation. Up to the date of approval of these financial statements, the Company had completed certain application procedures for the manufacturing permit. The Company expects to obtain the manufacturing permit from the government authority in the year 2010.

In light of the financial support mentioned above and that the Company further raised net proceeds of approximately HK$40,429,000 by way of placing 103,000,000 new shares at HK$0.40 each on 25 January 2010 *(note 36(b))*, 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 and all values are rounded to the nearest thousand except when otherwise indicated.

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 2009. 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 Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and *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	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
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 – Embedded Derivatives*
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*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

* *Included in Improvements to HKFRSs 2009 (as issued in May 2009).*

** *The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary, which is effective for annual periods beginning on or after 1 July 2009.*

Other than as further explained below regarding the impact of HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.4 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
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* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[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 annual periods beginning on or after 1 February 2010*
[4] *Effective for annual periods beginning on or after 1 July 2010*
[5] *Effective for annual periods beginning on or after 1 January 2011*
[6] *Effective for annual periods beginning on or after 1 January 2013*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to 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 statement of financial position 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 the end of each reporting period 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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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%-4%
Plant and machinery	7%-20%
Leasehold improvements, furniture and fixtures	20%
Motor vehicles	10%-14%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Technology

Purchased technology is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life 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 life 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 life 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

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and bank balances, trade and other receivables and loans receivable.

Subsequent measurement of loans and receivables

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

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade 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 borrowings.

Subsequent measurement of loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

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 expected 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 for grants after 7 November 2002 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 29 to the financial statements.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service 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, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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 end of the reporting period. 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 end of the reporting period, 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 non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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. Further details are given in note 17 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 the end of each reporting period 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.

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 2009 was nil (2008: Nil) as the goodwill was fully impaired during the year ended 31 December 2008.

4. Operating segment information

During the years ended 31 December 2009 and 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

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

An analysis of revenue and other income is as follows:

	2009	**2008**
	HK$'000	*HK$'000*
Revenue		
Sale of goods	2,214	3,780
Other income		
Government grants*	675	672
Amortisation of deferred income *(note 27)*	460	454
Bank interest income	9	56
Others	–	83
	1,144	1,265

* *The government grants have been received by the Group from the local government for the transformation of new pattern of industrialisation. There are no unfulfilled conditions or contingencies relating to these grants.*

6. Loss before tax

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

	Notes	**2009** *HK$'000*	**2008** *HK$'000*
Cost of inventories sold		4,946	9,069
Depreciation	*14*	10,669	3,420
Amortisation of prepaid land lease payments	*15*	999	1,034
Amortisation of other intangible assets	*17*	2,735	5,474
Minimum lease payments under operating leases in respect of land and buildings		360	360
Auditors' remuneration		640	720
Employee benefit expense (including directors' remuneration) *(note 8)*:			
Wages and salaries		7,836	9,864
Equity-settled share option expense		6,035	17,447
Pension scheme contributions		868	1,307
		14,739	28,618
Foreign exchange differences, net		–	33
Write-down of inventories to net realisable value	*19*	8,724	–
Other expenses:			
Impairment of property, plant and equipment	*14*	10,126	9,662
Impairment of other intangible assets	*17*	–	64,591
Impairment of goodwill	*16*	–	2,328
		10,126	76,581
Bank interest income	*5*	(9)	(56)
Loss on disposal of items of property, plant and equipment		96	–

7. Finance costs

	Group **2009** *HK$'000*	**2008** *HK$'000*
Interest on bank loans and other loans wholly repayable within five years	4,834	2,337
Less: Interest capitalised	(1,893)	(1,455)
	2,941	882

8. Directors' remuneration

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

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Fees	1,000	1,500
Other emoluments:		
Salaries, allowances and benefits in kind	1,120	2,700
Equity-settled share option expense	3,801	11,133
Pension scheme contributions	10	16
	4,931	13,849
	5,931	15,349

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

		2009			**2008**	
	Fees	**Equity-settled share option expense**	**Total**	**Fees**	**Equity-settled share option expense**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Dr. Loke Yu	100	18	118	150	–	150
Dr. Leung Kwan-Kwok	100	–	100	150	–	150
Mr. Zuchowski Sam	100	18	118	150	–	150
	300	36	336	450	–	450

There were no other emoluments payable to the independent non-executive directors during the year (2008: 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*
2009					
Executive directors:					
Mr. Lo Peter	100	–	472	5	577
Mr. Sun David Lee	100	–	472	5	577
Mr. Li Wentao	100	500	576	–	1,176
Mr. Zhao Difei	100	300	804	–	1,204
Mr. Lu Gui Pin	100	20	619	–	739
Mr. Li Jian Quan	100	300	804	–	1,204
	600	1,120	3,747	10	5,477
Non-executive director:					
Mr. Yeung Ting-Lap Derek Emory	100	–	18	–	118
	700	1,120	3,765	10	5,595
2008					
Executive directors:					
Mr. Lo Peter	150	–	1,746	8	1,904
Mr. Sun David Lee	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. Yeung Ting-Lap Derek Emory	150	–	–	–	150
	1,050	2,700	11,133	16	14,899

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

9. Five highest paid employees

The five highest paid employees during the year include four (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year is as follows:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	690	540
Equity-settled share option expense	407	1,469
Pension scheme contributions	12	12
	1,109	2,021

10. Income 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.

	2009	**2008**
	HK$'000	*HK$'000*
Group:		
Deferred tax credit for the year *(note 26)*	(543)	(8,138)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate 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 (i.e., the statutory tax rates) to the effective tax rate, are as follows:

	2009		**2008**	
	HK$'000	*%*	*HK$'000*	*%*
Loss before tax	(62,450)		(125,693)	
Tax at the statutory tax rate	(10,304)	16.50	(20,739)	16.50
Expenses not deductible for tax	2,532	(4.05)	3,263	(2.60)
Tax losses not recognised	8,862	(14.19)	12,105	(9.63)
Effect of different tax rates of subsidiaries	(1,633)	2.61	(2,767)	2.20
Tax credit at the Group's effective rate	(543)	0.87	(8,138)	6.47

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 owners of the parent

The consolidated loss attributable to owners of the parent for the year ended 31 December 2009 includes a loss of approximately HK$14,289,000 (2008: HK$25,703,000) which has been dealt with in the financial statements of the Company *(note 30(b))*.

12. Dividends

The directors do not recommend the payment of any dividend for the year ended 31 December 2009 (2008: Nil).

13. Loss per share attributable to ordinary equity holders of the parent

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 575,801,521 (2008: 566,019,197) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

14. Property, plant and equipment

Group

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvements, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation and impairment	81,125	14,177	78	72	259,988	355,440
Additions	–	–	–	–	1,893	1,893
Impairment	–	(8,059)	(29)	(63)	(1,975)	(10,126)
Disposals	–	(96)	–	–	(2,709)	(2,805)
Depreciation provided during the year	(3,095)	(7,468)	(31)	(75)	–	(10,669)
Transfers	–	251,290	–	5,612	(256,902)	–
Exchange realignment	(4)	(2)	–	–	(13)	(19)
At 31 December 2009, net of accumulated depreciation and impairment	78,026	249,842	18	5,546	282	333,714
At 31 December 2009:						
Cost	84,430	275,695	166	5,750	2,821	368,862
Accumulated depreciation and impairment	(6,404)	(25,853)	(148)	(204)	(2,539)	(35,148)
Net carrying amount	78,026	249,842	18	5,546	282	333,714

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Leasehold improvements, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'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$10,126,000 (2008: HK$9,662,000) 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.

At 31 December 2009, certain of the Group's plant and machinery with a net book value of approximately HK$39,047,000 (2008: Nil) were pledged to secure bank loans of the Group *(note 25)*.

15. Prepaid land lease payments

	Group 2009	2008
	HK$'000	*HK$'000*
Carrying amount at 1 January	34,370	33,297
Recognised during the year	(999)	(1,034)
Exchange realignment	(2)	2,107
Carrying amount at 31 December	33,369	34,370
Current portion included in prepayments and other receivables	(999)	(1,197)
Non-current portion	32,370	33,173

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

16. Goodwill

	Group 2009	2008
	HK$'000	*HK$'000*
At 1 January:		
Cost	2,328	2,328
Accumulated impairment	(2,328)	–
Net carrying amount	–	2,328
Cost at 1 January, net of accumulated impairment	–	2,328
Impairment during the year	–	(2,328)
At 31 December	–	–

17. Other intangible assets

Group	Technology *HK$'000*	Trademark *HK$'000*	Customer base *HK$'000*	Total *HK$'000*
31 December 2009				
Cost at 1 January 2009, net of accumulated amortisation and impairment	61,839	16,100	–	77,939
Amortisation provided during the year	(2,170)	(565)	–	(2,735)
Exchange realignments	–	(1)	–	(1)
At 31 December 2009	59,669	15,534	–	75,203
At 31 December 2009:				
Cost	95,888	27,633	27,742	151,263
Accumulated amortisation and impairment	(36,219)	(12,099)	(27,742)	(76,060)
Net carrying amount	59,669	15,534	–	75,203
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

No impairment loss (2008: HK$64,591,000) was recognised for other intangible assets due to the fact that the recoverable amounts of these intangible assets were estimated to be the carrying amounts.

18. Investments in subsidiaries

	Company 2009	2008
	HK$'000	*HK$'000*
Unlisted shares, at cost	209,517	209,517
Due from subsidiaries	86,296	74,329
	295,813	283,846

The amounts due from subsidiaries included in the Company's current assets of HK$86,296,000 (2008: HK$74,329,000) are unsecured, interest-free and have no fixed terms of repayments.

Particulars of the subsidiaries 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 Direct	Indirect	Principal activities
CEC Ethanol (Northeast) Limited	British Virgin Islands (the "BVI")/ Hong Kong	US$12,750,315	100	–	Investment holding
哈爾濱中國釀酒有限公司 Harbin China Distillery Co., Ltd. ("Harbin China Distillery") [(a)(c)]	People's Republic of China/ Mainland China	RMB230,000,441	–	72.7	Manufacture and sale of ethanol
BAPP Ethanol Holdings Limited	BVI/Hong Kong	US$4,450,682	100	–	Investment holding
BAPP (Northwest) Limited	BVI/Hong Kong	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	RMB45,010,558	–	100	Dormant
Skymax International Investment Enterprise Limited	Hong Kong	HK$1	–	100	Inactive
Bio-Dynamic China Limited	Hong Kong	HK$1	100	–	Inactive
Mutual Zone Limited	Hong Kong	HK$1	100	–	Inactive

(a) For identification purposes only.

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

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

19. Inventories

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Raw materials	2,643	461
Work in progress	9,661	–
Finished goods	2,274	–
	14,578	461
Write-down of inventories to net realisable value	(8,724)	–
	5,854	461

20. Trade receivables

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to two months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the 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.

None of the above trade receivables is either past due or impaired. The age of the trade receivables as at the end of the reporting period is within one month.

21. Prepayments, deposits and other receivables

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current:				
Prepayments	1,281	1,461	218	199
Deposits and other receivables	12,635	1,274	63	63
Tax recoverable	1,329	1,234	–	–
	15,245	3,969	281	262
Non-current:				
Prepayments	1,442	1,487	–	–

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 cash equivalents

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to HK$3,234,000 (2008: HK$184,000). 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. Trade payables

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

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Within 1 month	1,032	–
1 to 2 months	1,583	–
2 to 3 months	–	–
Over 3 months	354	–
	2,969	–

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

24. Other payables and accruals

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables*	89,650	96,920	–	–
Accruals	9,912	2,320	3,419	964
	99,562	99,240	3,419	964

* *The directors believe that the Group will be able to negotiate for the deferral of repayment when they fall due.*

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

25. Interest-bearing bank and other borrowings

Group	2009			2008		
	Effective interest rate *(%)*	Maturity	*HK$'000*	Effective interest rate *(%)*	Maturity	*HK$'000*
Current						
Bank loan – secured	6.37	2010	34,072	–	–	–
Bank loan – unsecured	5.31	2010	18,626	7.47	2009	18,627
Other loans – unsecured	0-9.72	2010	26,804	9.72	2009	26,237
			79,502			44,864

	Group 2009 *HK$'000*	Group 2008 *HK$'000*
Analysed into:		
Bank loans and other borrowings:		
Within one year	79,502	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 loan of HK$18,626,000 (2008: HK$18,627,000) are guaranteed by the pledged deposit of US$2,680,793 held by a fellow subsidiary of the Group.

(c) The Group's bank loan of HK$34,072,000 (2008: Nil) is secured by:

(i) mortgages over the Group's plant and machinery, which had an aggregate carrying value at the end of the reporting period of approximately HK$39,047,000 (2008: Nil) *(note 14)*;

(ii) a guarantee of a third party holding a pledged deposit of approximately HK$11,357,000 (2008: Nil) from the Group; and

(iii) a personal guarantee of Mr. Wang Ming Yan, a director of Harbin China Distillery.

The directors believe that the Group will be able to negotiate for the renewal of the bank loans when they fall due.

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

26. Deferred tax

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

Deferred tax assets

Group

	2009 *HK$'000*	**2008** *HK$'000*
At 1 January	–	505
Deferred tax charged to the income statement during the year *(note 10)*	–	(505)
Gross deferred tax assets at 31 December	–	–

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of subsidiaries	
	2009 *HK$'000*	**2008** *HK$'000*
At 1 January	15,460	24,103
Deferred tax credited to the income statement during the year *(note 10)*	(543)	(8,643)
Gross deferred tax liabilities at 31 December	14,917	15,460

The Group has accumulated tax losses arising in Mainland China of HK$68,782,000 (2008: HK$32,146,000) that will expire in the next five years for offsetting against future taxable profits. 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.

27. Deferred income

The table below presents the movements in deferred income:

	Group	
	2009 *HK$'000*	**2008** *HK$'000*
At 1 January	12,887	12,548
Amortised during the year *(note 5)*	(460)	(454)
Exchange realignment	(1)	793
	12,426	12,887

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 statement of financial position. Such deferred income is amortised on the straight-line basis to the consolidated income statement over the expected useful lives of the relevant assets acquired.

28. Share capital

	2009	**2008**
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2008: 1,000,000,000) ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
613,507,000 (2008: 573,007,000) ordinary shares of HK$0.1 each	61,351	57,301

During 2008 and 2009, the movements in share capital were as follows:

(a) During the year ended 31 December 2008, the subscription rights attaching to 7,007,000 share options were exercised at the subscription price of HK$0.288 per share *(note 29)*, 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.

(b) During the year ended 31 December 2009, the subscription rights attaching to 4,500,000 share options were exercised at the subscription price of HK$0.288 per share *(note 29)*, resulting in the issue of 4,500,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$1,296,000.

(c) On 15 December 2009, 36,000,000 new shares of HK$0.1 each were issued at HK$0.43 per share to the immediate holding company of the Company pursuant to a placing and subscription agreement. These shares rank pari passu in all aspects with the existing shares. The net proceeds amounted to approximately HK$15,003,000.

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2008	566,000,000	56,600	359,437	416,037
Share options exercised (a)	7,007,000	701	9,795	10,496
At 31 December 2008 and 1 January 2009	573,007,000	57,301	369,232	426,533
Share options exercised (b)	4,500,000	450	5,641	6,091
Issue of shares (c)	36,000,000	3,600	11,880	15,480
Share issue expenses	–	–	(477)	(477)
At 31 December 2009	613,507,000	61,351	386,276	447,627

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

29. 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.

The following share options were outstanding under the Scheme during the year:

	2009		2008	
	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	0.288	32,123	2.21	29,600
Granted during the year	0.19	600	0.288	39,130
Exercised during the year	0.288	(4,500)	0.288	(7,007)
Cancelled during the year	–	–	2.21	(29,600)
At 31 December	0.286	28,223	0.288	32,123

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.59 per share (2008: HK$0.22).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
10,308	0.288	31-10-2008 to 30-10-2011
17,315	0.288	31-10-2009 to 30-10-2012
300	0.19	11-02-2009 to 10-02-2012
300	0.19	11-02-2010 to 10-02-2013
28,223		

2008

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

* *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$57,000 (HK$0.10 each) (2008: HK$5,393,000, HK$0.14 each) of which the Group recognised a share option expense of HK$6,035,000 (2008: HK$17,447,000) during the year ended 31 December 2009.

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:

	2009		**2008**	
	Grant dates			
	11-02-2009	**11-02-2009**	**31-10-2008**	**31-10-2008**
Dividend yield *(%)*	–	–	–	–
Expected volatility *(%)*	104.44	98.22	105.84	96.78
Historical volatility *(%)*	104.44	98.22	105.84	96.78
Risk-free interest rate *(%)*	0.922	1.209	1.221	1.804
Expected life of options *(year)*	3	4	3	4
Weighted average share price *(HK$ per share)*	0.19	0.19	0.288	0.288

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 4,500,000 share options exercised during the year resulted in the issue of 4,500,000 ordinary shares of the Company and new share capital of HK$450,000 and share premium of HK$5,641,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 28,223,000 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 28,223,000 additional ordinary shares of the Company and additional share capital of HK$2,822,000 and share premium of HK$5,247,000 (before issue expenses).

Subsequent to the end of the reporting period, the subscription rights attaching to 1,520,000 share options were exercised at the subscription price of HK$0.19 per share and HK$0.288 per share, resulting in the issue of 1,520,000 shares of HK$0.1 each for a total cash consideration, before share expenses, of HK$418,000.

At the date of approval of these financial statements, the Company had 26,703,000 share options outstanding under the Scheme, which represented approximately 3.4% of the Company's shares in issue as at that date.

30. 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 27 of the financial statements.

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.

The exchange fluctuation 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**	**Share option reserve**	**Accumulated losses**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2008		359,437	15,308	(138,548)	236,197
Share options exercised		9,795	(8,478)	–	1,317
Equity-settled share option expense	*29*	–	17,447	–	17,447
Loss for the year		–	–	(25,703)	(25,703)
At 31 December 2008		369,232	24,277	(164,251)	229,258
Issue of shares	*28*	11,880	–	–	11,880
Share issue expenses	*28*	(477)	–	–	(477)
Share options exercised	*28*	5,641	(4,795)	–	846
Equity-settled share option expense	*29*	–	6,035	–	6,035
Loss for the year		–	–	(14,289)	(14,289)
At 31 December 2009		386,276	25,517	(178,540)	233,253

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.

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 accumulated losses should the related options expire or be forfeited.

31. Operating lease arrangements

The Group and the Company leases certain of its office properties under operating lease arrangement. Lease for properties is negotiated for terms of two years.

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	270	360	270	360
In the second year	–	270	–	270
	270	630	270	630

32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	**2008**
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of trademarks	2,272	–
Acquisition of an additional interest in a non-wholly-owned subsidiary*	–	68,148
	2,272	68,148

* *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 an additional interest in a non-wholly-owned subsidiary.*

33. Related party transactions and balances

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

	2009	**2008**
	HK$'000	*HK$'000*
Related company:		
Rental paid to a related company*	360	360

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

(b) Outstanding balances with related parties:

	Group		Company	
	2009	**2008**	**2009**	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from related parties				
Due from the immediate holding company	–	17	–	17
Due from fellow subsidiaries	263	560	–	–
	263	577	–	17
Due to related parties				
Due to a fellow subsidiary	615	286	–	–
Due to a minority shareholder of a subsidiary*	34,072	34,074	–	–
	34,687	34,360	–	–

* *The directors believe that the Group will be able to negotiate for the deferral of repayment when they fall due.*

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

	2009	**2008**
	HK$'000	*HK$'000*
Short term employee benefits	2,120	4,200
Post-employment benefits	10	16
Equity-settled share option expense	3,801	11,133
Total compensation paid to key management personnel	5,931	15,349

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

34. Financial instruments by category

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

Financial assets

	Group		Company	
	2009	**2008**	**2009**	**2008**
	Loans and receivables	**Loans and receivables**	**Loans and receivables**	**Loans and receivables**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	48	–	–	–
Financial assets included in prepayments, deposits and other receivables	12,635	1,274	63	63
Due from subsidiaries	–	–	86,296	74,329
Due from the immediate holding company	–	17	–	17
Due from fellow subsidiaries	263	560	–	–
Cash and cash equivalents	10,308	3,724	1,919	3,373
	23,254	5,575	88,278	77,782

Financial liabilities

	Group	
	2009	**2008**
	Financial liabilities at amortised cost	**Financial liabilities at amortised cost**
	HK$'000	*HK$'000*
Trade payables	2,969	–
Financial liabilities included in other payables and accruals	89,650	99,240
Interest-bearing bank and other borrowings	79,502	44,864
Due to a fellow subsidiary	615	286
Due to a minority shareholder of a subsidiary	34,072	34,074
	206,808	178,464

35. 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 bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The 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 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 and United States dollars. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period 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$'000*
2009		
If HK$ weakens against RMB	5	9,379
If HK$ strengthens against RMB	(5)	(9,379)
2008		
If HK$ weakens against RMB	5	7,799
If HK$ strengthens against RMB	(5)	(7,799)

* *Excluding accumulated losses*

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 fellow subsidiaries 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 trade receivables and other receivables are disclosed in note 20 and 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 the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	**2009**		**2008**	
	Within 1 year	**Total**	**Within 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	2,969	2,969	–	–
Financial liabilities included in other payables and accruals	89,650	89,650	99,240	99,240
Interest-bearing bank and other borrowings	79,502	79,502	44,864	44,864
Due to a fellow subsidiary	615	615	286	286
Due to a minority shareholder of a subsidiary	34,072	34,072	34,074	34,074
	206,808	206,808	178,464	178,464

Company	**2009**		**2008**	
	Within 1 year	**Total**	**Within 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	–	–	964	964

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 2009 and 31 December 2008.

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 owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

Group

	2009	**2008**
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings	79,502	44,864
Trade payables	2,969	–
Other payables and accruals	89,650	99,240
Due to a fellow subsidiary	615	286
Due to a minority shareholder of a subsidiary	34,072	34,074
Less: Cash and cash equivalents	(10,308)	(3,724)
Net debt	196,500	174,740
Capital	184,861	215,663
Capital and net debt	381,361	390,403
Gearing ratio	52%	45%

36. Events after the reporting period

(a) On 12 January 2010, the Group acquired a 100% interest in Rightsouth Limited, which is engaged in the wholesale and retail sales of wine and liquor, from China Food and Beverage Group Limited. The purchase consideration of HK$37,000,000 for the acquisition was satisfied through the allotment and issuance of 78,556,263 shares of the Company at an issue price of HK$0.471 each. The acquisition is considered as a business combination under common control because both China Food and Beverage Group Limited and the Company are ultimately controlled by China Enterprise Capital Limited before and after the business combination.

(b) On 25 January 2010, 103,000,000 new shares of HK$0.1 each were issued at HK$0.40 per share to the immediate holding company of the Company pursuant to a placing and subscription agreement. These shares rank pari passu in all aspects with the existing shares. The net proceeds amounted to approximately HK$40,429,000.

37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 16 April 2010.

1. INDEBTEDNESS STATEMENT

At the close of business on 30 June 2010, 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$22,238,000, unsecured other loans of approximately HK$27,052,000, unsecured amount due to a minority shareholder of a subsidiary of approximately HK$34,388,000, and unsecured amounts due to related parties of approximately HK$25,328,000. The secured bank loans of HK$3,439,000 of the Enlarged Group as at 30 June 2010 were secured by certain buildings with carrying value of approximately HK$9,950,000 owned by a fellow subsidiary of the Enlarged Group. The remaining secured bank loans of HK$18,799,000 were secured by bank deposits of the Enlarged Group of approximately HK$20,776,000. Save as aforesaid or as otherwise disclosed herein, there was no guarantee for the other unsecured indebtedness of the Enlarged Group of approximately HK$86,768,000.

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 30 June 2010, 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, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group shall, immediately following Completion, and taking into account that the Company has obtained financial support from its ultimate holding company by way of shareholder's loan as well as the proceeds of the Placing and the Subscription, have sufficient working capital for at least 12 months from the Latest Practicable Date. However, the Directors would like to draw the Shareholders' attention to the "Unaudited pro forma financial information of the Resulting Group" as set out in Appendix V to this circular which discloses that, upon Completion, the consolidated current liabilities of the Resulting Group will exceed its consolidated current assets by approximately HK$182,332,000. This condition and taking into consideration the net current assets of KVHL of approximately HK$274,000 as at 30 June 2010 indicate the existence of a material uncertainty which may cast significant doubt about the adequacy of working capital of the Enlarged Group.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the production, sale and distribution of premium grade consumable ethanol in the PRC. On 12 January 2010, the Group acquired a 100% interest in Rightsouth Limited, which is engaged in the wholesale and retail sales of wine and liquor, from CFB. The purchase consideration of HK$37,000,000 for the acquisition was satisfied through the allotment and issuance of 78,556,263 Shares at an issue price of HK$0.471 each. The acquisition is considered as a business combination under common control because both CFB and the Company are ultimately controlled by CEC before and after the business combination. As at the Latest Practicable Date, there has not been any variation to the aggregate remuneration payable to and benefits in kind receivable by the Directors and the directors of Rightsouth Limited in consequence of the acquisition of Rightsouth Limited by the Group. Details of the acquisition of Rightsouth Limited and the financial information of Rightsouth Limited and its subsidiaries are set out in the announcements of the Company dated 1 December 2009 and 13 January 2010 and the circular of the Company dated 24 December 2009.

On 4 August 2010 and 5 August 2010, the Company and ALI entered into a sale and purchase agreement and a supplemental agreement, respectively, pursuant to which ALI has conditionally agreed to sell the entire issued share capital of KVHL to the Company for a consideration of HK$36,000,000, subject to an upward adjustment of HK$18,000,000 upon occurrence of certain events after completion of the KVHL Acquisition . The consideration is to be satisfied by the Company by allotting and issuing to ALI the KVHL Consideration Shares and the KVHL Consideration Adjustment Shares. KVHL holds an intellectual property in relation to a technique and know-how that utilises liquid waste from the ethanol production process and corn stalk to produce high-protein forage. There will be no variation to the aggregate remuneration payable to and benefits in kind receivable by the Directors and the directors of KVHL in consequence of the KVHL Acquisition. Details of the KVHL Acquisition are set out in the announcements of the Company dated 4 August 2010 and 5 August 2010 and the circular of the Company dated 17 August 2010.

Going forward, the Group will focus on developing ethanol-related businesses and products, including sale and distribution of wine and liquor in the PRC and production of forage from corn stalk and ethanol waste. The Group will continue to look for acquisition opportunities that are in line with its business development strategy to strengthen its competitiveness in the ethanol industry by diversifying its business and products and exploring markets related to the ethanol industry in order to enhance the long-term growth potential and income base of the Group. The expansion plans of the Group will be principally financed by the internal resources of the Group or other financial sources (such as issue of new Shares) as the Directors may think fit.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF SZMM GROUP

Set out below is the management discussion and analysis of the SZMM Group for the period from 21 February 2008 (date of establishment of SZMM) to 31 December 2008, the year ended 31 December 2009 and the six months ended 30 June 2010. The following should be read in conjunction with the historical consolidated financial information of the SZMM Group together with the accompanying notes set out in the accountants' report contained in Appendix IV to this circular.

Business and financial review

SZMM is a limited liability company established in the PRC on 21 February 2008. SZMM only holds the Distribution Rights and performs limited distribution activities. Most of the distribution activities in respect to the Distribution Rights were performed by a company affiliated with, but not part of, the Target Group.

HNMM is a limited liability company established in the PRC on 6 January 2010. HNMM is principally engaged in the distribution of liquor in the PRC. On 11 May 2010, SZMM completed the acquisition of the entire equity interest in HNMM at a consideration of RMB5,000,000 from the then shareholders of HNMM. Since then, HNMM has become a direct wholly-owned subsidiary of SZMM.

As SZMM performed limited distribution activities and HNMM was newly established in 2010, the SZMM Group recorded revenue of RMB53,000, RMB1,210,000 and RMB263,000 during the period from 21 February 2008 to 31 December 2008, the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Loss before tax of SZMM Group was RMB1,553,000, RMB718,000 and RMB858,000 during the period from 21 February 2008 to 31 December 2008, the year ended 31 December 2009 and the six months ended 30 June 2010, respectively. Higher Loss was recorded in 2008 and 2010 as SZMM and HNMM were newly established in these two years, respectively.

Liquidity, financial resources and capital structure

As at 31 December 2008 and 2009 and 30 June 2010, the net assets of SZMM Group was approximately RMB2,147,000, RMB12,679,000 and RMB18,192,000, respectively. Non-current assets of the SZMM Group as at 31 December 2008 and 2009 and 30 June 2010 was approximately RMB15,000, RMB14,744,000 and RMB14,660,000, respectively. The SZMM Group had net current assets of approximately RMB2,132,000 and RMB3,532,000 as at 31 December 2008 and 30 June 2010, respectively, and net current liabilities of RMB2,065,000 as at 31 December 2009.

As at 31 December 2008 and 2009 and 30 June 2010, the SZMM Group's cash and cash equivalents amounted to approximately RMB239,000, RMB5,000 and RMB431,000, respectively. Except for an amount due to a related party of approximately RMB506,000 as at 30 June 2010, the SZMM Group had no other borrowings as at 31 December 2008 and 2009 and 30 June 2010. The gearing ratio of the SZMM Group as at 31 December 2008 and 2009 and 30 June 2010, calculated as net debt divided by total equity plus net debt, was 0%, 0% and 2%, respectively.

The SZMM Group did not use any financial instruments for financial hedging purposes during the period from 21 February 2008 to 31 December 2008, the year ended 31 December 2009 and the six months ended 30 June 2010.

The SZMM Group's business transactions, assets and liabilities are principally denominated in Renminbi. Fluctuations in Renminbi will not impact the SZMM Group's results and net asset value as SZMM's consolidated financial statements are presented in Renminbi. The SZMM Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the SZMM Group. The SZMM 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 and contingent liabilities

As at 31 December 2008 and 2009 and 30 June 2010, there was no charge on the SZMM Group's assets and the SZMM Group had no material contingent liabilities.

Employee and remuneration policy

As at 31 December 2008 and 2009 and 30 June 2010, the SZMM Group had 21, 19 and 35 employees, respectively, and remuneration expenses incurred for the period from 21 February 2008 to 31 December 2008, the year ended 31 December 2009 and the six months ended 30 June 2010 amounted to approximately RMB377,000, RMB379,000 and RMB389,000, respectively. Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Enlarged Group will focus on the production and distribution of premium grade consumable ethanol in the PRC and the development of a multi-brand sales network for wine and liquor in the PRC. The Proposed Acquisition will (i) enable the Enlarged Group to increase its market share in the alcoholic beverage market in the PRC, (ii) enable synergy between the businesses of the Target Group and of the Group, and (iii) enable the Enlarged Group to diversify its business.

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

1. ACCOUNTANTS' REPORT OF THE TARGET GROUP

ERNST & YOUNG
安 永

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

23 August 2010

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 Power Range Holdings Limited (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group"), prepared on the basis set out in note 2 of the Financial Information below, for the period from 16 April 2010 (date of incorporation) to 30 June 2010 (the "Relevant Period") for inclusion in the shareholders' circular of BIO-DYNAMIC GROUP LIMITED (the "Company") dated 23 August 2010 (the "Circular") in relation to the proposed acquisition of the 100% equity interest in the Target Company.

The Target Company was incorporated in the British Virgin Islands (the "BVI") on 16 April 2010 with limited liability under the International Business Companies Ordinance of the BVI. As at the date of this report, the Target Company owned 100% equity interest in JGJ (China) Group Limited ("JGJ").

JGJ was incorporated in Hong Kong on 28 April 2010 with limited liability. It is an investment holding company whose principal asset is the 100% equity interest in Shenzhen Meiming Wenshi Trading Limited (深圳市美名問世商貿有限公司, formerly known as 深圳市龍匯天戈商務有限公司) ("SZMM").

SZMM is a limited liability company established in the People's Republic of China ("the PRC") on 21 February 2008. SZMM is principally engaged in the distribution of liquor and operates a liquor distribution network in the PRC and entered into distribution contracts with Jiuguijiu Supply and Sales Limited Liability Company (酒鬼酒供銷有限責任公司) ("JSS") to distribute liquor under the brands of 典藏酒鬼 (Diancang Jiugui), 小湘泉 (Xiaoxiangquan) under 250ml and 美名問世 (Meiming Wenshi) in the PRC. As at the date of this report, SZMM owned 100% equity interest in Hunan Meiming Wenshi Jiuguijiu Sales Limited (湖南美名問世酒鬼酒銷售有限公司) ("HNMM").

HNMM is a limited liability company established in the PRC on 6 January 2010. HNMM is principally engaged in the distribution of liquor in the PRC.

All companies now comprising the Target Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Target Company, JGJ and HNMM since their dates of incorporation as there is no statutory requirement for them to prepare audited financial statements. SZMM was established in the PRC and has prepared statutory accounts in accordance with accounting principles and relevant financial regulations of the PRC ("PRC GAAP").

For the purpose of this report, the director of the Target Company has prepared the statement of financial position of the Target Company as at 30 June 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow of the Target Group for the Relevant Period and consolidated statement of financial position of the Target Group as at 30 June 2010, together with the notes thereto, set out in this report (collectively the "Financial Information") 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") and accounting principles generally accepted in Hong Kong.

The director of the Target Company is 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 Period Financial Information

For the purpose of this report, we have carried out independent audit procedures on the Relevant Period 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 Period Financial Information and to report our opinion thereon.

Opinion

In our opinion, the Relevant Period Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company as at 30 June 2010, of the consolidated results and cash flows of the Target Group for the Relevant Period, and of the state of affairs of the Target Group as at 30 June 2010.

2. FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Period from 16 April 2010 (date of incorporation) to 30 June 2010** *HK$*
REVENUE	*7*	–
Cost of sales		–
Gross profit		–
Other income and gains	*7*	45,278,833
Selling and distribution costs		(24,072)
Administrative expenses		(256,827)
Profit before tax	*8*	44,997,934
Tax	*10*	55,279
PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		45,053,213

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2010** *HK$*
NON-CURRENT ASSETS		
Property, plant and equipment	*11*	16,723,190
Other intangible assets	*12*	52,183,447
Deferred tax assets	*14*	81,063
Total non-current assets		68,987,700
CURRENT ASSETS		
Inventories	*15*	5,374,035
Trade receivables	*16*	317,067
Prepayments, deposits and other receivables	*17*	2,987,286
Cash and cash equivalents	*18*	498,463
Total current assets		9,176,851
CURRENT LIABILITIES		
Trade payables	*19*	82,388
Other payables and accruals	*20*	202,944
Tax payable		4,298,625
Due to related parties	*25*	15,481,511
Total current liabilities		20,065,468
NET CURRENT LIABILITIES		(10,888,617)
TOTAL ASSETS LESS CURRENT LIABILITIES		58,099,083
NON-CURRENT LIABILITIES		
Deferred tax liabilities	*14*	13,045,862
Total non-current liabilities		13,045,862
Net assets		45,053,221
EQUITY		
Issued capital	*21*	8
Reserves	*22*	45,053,213
Total equity		45,053,221

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital *HK$* *(note 21)*	**Retained profits** *HK$*	**Total equity** *HK$*
Issue of share	8	–	8
Total comprehensive income for the period	–	45,053,213	45,053,213
At 30 June 2010	8	45,053,213*	45,053,221

* *It comprised the reserves of HK$45,053,213 in the consolidated statement of financial position as at 30 June 2010.*

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**Period from 16 April 2010 (date of incorporation) to 30 June 2010** *HK$*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		44,997,934
Adjustments for:		
Excess over the cost of a business combination recognised in the income statement	*23*	(45,278,833)
Depreciation and amortisation	*11,12*	245,189
		(35,710)
Increase in prepayments, deposits and other receivables		(8)
Increase in other payables and accruals		39,980
Cash generated from operations		4,262
Overseas taxes paid		–
Net cash flows from operating activities		4,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a subsidiary	*23*	494,193
Net cash flows from investing activities		494,193
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from issue of share		8
Net cash flows from financing activities		8
NET INCREASE IN CASH AND CASH EQUIVALENTS		498,463
Cash and cash equivalents at beginning of period		–
CASH AND CASH EQUIVALENTS AT END OF PERIOD		498,463
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	*18*	498,463

STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2010** *HK$*
NON-CURRENT ASSETS		
Interest in a subsidiary	*13*	1
Total non-current assets		1
CURRENT ASSETS		
Other receivables	*17*	8
Total current assets		8
CURRENT LIABILITIES		
Other payables and accruals	*20*	12,481
Total current liabilities		12,481
NET CURRENT LIABILITIES		(12,473)
TOTAL ASSETS LESS CURRENT LIABILITIES		(12,472)
Net liabilities		(12,472)
EQUITY		
Issued capital	*21*	8
Reserves		(12,480)
Total deficit		(12,472)

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information and reorganisation

The Target Company was incorporated in the BVI on 16 April 2010 with limited liability under the International Business Companies Ordinance of the BVI. 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") outlined below. The registered office address of the Target Company is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, BVI.

Reorganisation

JGJ was incorporated in Hong Kong on 28 April 2010. It was wholly owned by the Target Company and has no significant business transactions since its incorporation.

SZMM was established in the PRC on 21 February 2008 with limited liability. Pursuant to an agreement dated 6 May 2010, Mr. Jiang Jian-Jun ("Mr. Jiang") and Shenzhen Huaqin Investment Development Limited（深圳市華欽投資發展有限公司）("SZ Huaqin"), a company wholly owned by Mr. Jiang, agreed to transfer all of their 3.8% and 96.2% equity interests in SZMM to JGJ at the consideration of HK$566,272 and HK$14,335,628, respectively. The transaction was completed on 13 June 2010. Since then, SZMM became a wholly-owned subsidiary of JGJ.

HNMM was established by Mr. Jiang in the PRC on 6 January 2010 with limited liability. Pursuant to an agreement dated 29 April 2010, Mr. Jiang agreed to transfer all of his 100% equity interests in HNMM to SZMM at a consideration of HK$5,732,000. The transaction was completed on 11 May 2010. Since then, HNMM became a wholly-owned subsidiary of SZMM.

Upon completion of the Reorganisation on 13 June 2010, the Target Company has direct or indirectly interests in the following subsidiaries 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 Target Group	Principal activities
JGJ	Hong Kong 28 April 2010	HK$1	100	Investment holding
SZMM	Mainland China 21 February 2008	RMB10,000,000	100	Distribution of liquor
HNMM	Mainland China 6 January 2010	RMB5,000,000	100	Distribution of liquor

2. Basis of presentation

At 30 June 2010, the Target Group had net current liabilities of HK$10,888,617, which including the consideration payable of HK$14,901,900. Ms. Wong Hui-Hung ("Ms. Wong"), the existing shareholder of the Target Company, has confirmed to inject additional capital of HK$14,901,900 by cash to the Target Company, which will be used to settle the consideration payable of HK$14,901,900 before the completion of the Proposed Acquisition (as defined in the Circular).

In light of the capital injection from the Ms. Wong mentioned above, the director is satisfied that the Target 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 Information on a going concern basis.

Should the Target 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 Information.

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$). The accounting policies set out below have been consistently applied throughout the Relevant Period.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2008. For the purpose of preparing the Financial Information, the Target Group has adopted all these new and revised HKFRSs for the Relevant Period, except for those new standards or interpretations that are not yet effective for the Relevant Period. The new and revised accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in note 3.

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

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective in the Financial Information:

HKFRS 9	*Financial Instruments*[4]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-*Int 14 Prepayments of a Minimum Funding Requirements*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16, which are effective for annual periods beginning on or after 1 July 2009, and no effective date or transitional provisions for the amendment to Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for certain standards*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 January 2013*

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the director of the Target Company preliminarily anticipate that the adoption of the new and revised HKFRSs is unlikely to have a significant impact on the Target Group's results of operations and financial position.

4. Summary of significant accounting policies

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Target Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivative in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with HKAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Target Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Target Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

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 Target 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 investment in a subsidiary is stated at cost less any impairment losses.

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 Target 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 Target Group; (ii) has an interest in the Target Group that gives it significant influence over the Target Group; or (iii) has joint control over the Target Group;

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

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

(d) 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 (b) or (c).

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciation.

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:

Buildings	25 years
Office equipment	3-5 years
Motor vehicles	4 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 financial year end.

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Distribution rights

Distribution rights are stated at cost less any impairment losses and is amortised on the straight-line basis over its economic life of 10 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 Target Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target 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.

The Target Group's financial assets include cash and cash equivalents and trade and other receivables.

Subsequent measurement of loans and receivables

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

Derecognition of financial assets

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

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

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 Target Group's continuing involvement in the asset. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Target Group's financial liabilities include trade payables, other payables and accruals and amounts due to related parties.

Subsequent measurement of loans and borrowings

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

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

Derecognition of financial liabilities

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

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

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

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

Provisions

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target 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 Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(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.

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Pensions and other post employment benefits

The employees of the Target 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 Target Group contributes a percentage of the employees' salaries to these retirement benefit schemes on a monthly basis. Under these schemes, the Target 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 Target 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 reporting 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 reporting 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 Target 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 14 to the Financial Information.

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 Target 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 Target 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.

Purchase price allocation and fair value estimation on initial recognition of identifiable intangible assets from a business combination

The purchase prices and fair values of the distribution rights that are not traded in an active market are determined by using price allocation and valuation techniques. The Target Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market condition existing at each acquisition date.

6. Segment information

During the Relevant Period, no operations related to the distribution of liquor were incurred. Accordingly, no segment information has been disclosed.

7. Revenue, other income and gains

During the Relevant Period, the Target Group did not generate any revenue or turnover.

Other income and gains represents the excess over the cost of a business combination recognised in the income statement.

8. Profit before tax

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

		Period from 16 April 2010 (date of incorporation) to 30 June 2010
	Note	*HK$*
Depreciation and amortization	*11,12*	245,189
Excess over the cost of a business combination recognised in the income statement	*23*	45,278,833

9. Director's and senior executive's remuneration

No director or senior executive received any fees or emoluments in respect of his services rendered to the Target Company during the Relevant Period.

10. Tax

No Hong Kong profits tax has been provided because the Target Group did not generate any assessable profits arising in Hong Kong during the Relevant Period.

Both SZMM and HNMM are subject to corporate income tax at a rate of 25% during the Relevant Period.

No PRC corporate income tax has been provided because the Target Group did not generate any assessable profits arising in Mainland China during the Relevant Period.

	Period from 16 April 2010 (date of incorporation) to 30 June 2010
	HK$
Target Group	
Deferred tax credit for the period *(note 14)*	(55,279)

A reconciliation of tax credit applicable to profit 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 the Relevant Period, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Period from 16 April 2010 (date of incorporation) to 30 June 2010	
	HK$	*%*
Profit before tax	44,997,934	
Income tax at the statutory tax rate	7,424,659	16.5
Tax losses not recognised	(10,977)	–
Income not subject to tax	(7,471,007)	(16.6)
Effect of different tax rates of subsidiaries	2,046	–
Tax credit at the Target Group's effective rate	(55,279)	(1)

11. Property, plant and equipment

Target Group	Buildings *HK$*	Office equipment *HK$*	Motor vehicles *HK$*	Total *HK$*
30 June 2010				
Acquisition of a subsidiary *(note 23)*	16,599,571	72,493	75,199	16,747,263
Depreciation provided during the period	(24,073)	–	–	(24,073)
At 30 June 2010, net of accumulated depreciation	16,575,498	72,493	75,199	16,723,190
At 30 June 2010:				
Cost	17,194,500	80,984	83,458	17,358,942
Accumulated depreciation	(619,002)	(8,491)	(8,259)	(635,752)
Net carrying amount	16,575,498	72,493	75,199	16,723,190

12. Other intangible assets

Target Group	Distribution rights *HK$*
Acquisition of a subsidiary *(note 23)*	52,404,563
Amortisation provided during the period	(221,116)
At 30 June 2010	52,183,447
At 30 June 2010:	
Cost	52,404,563
Accumulated amortisation	(221,116)
Net carrying amount	52,183,447

13. Interest in a subsidiary

Target Company

	As at 30 June 2010 *HK$*
Unlisted investment, at cost	1
Due to a subsidiary	1

The Target Company has a direct 100% interest in JGJ, which was incorporated in Hong Kong with an issued capital of HK$1. JGJ's principal activity is investment holding.

14. Deferred tax

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

Deferred tax assets

Target Group	**Losses available for offsetting against future taxable profits**
	HK$
Acquisition of a subsidiary *(note 23)*	81,063
At 30 June 2010	81,063

Deferred tax liabilities

Target Group	**Fair value adjustments arising from acquisition of subsidiaries**
	HK$
Acquisition of a subsidiary *(note 23)*	13,101,141
Deferred tax credited to the consolidated income statements during the period *(note 10)*	(55,279)
At 30 June 2010	13,045,862

The Target Group has accumulated tax losses arising in Mainland China of HK$2,282,320 as at 30 June 2010, that will expire in the next five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in SZMM that has 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.

15. Inventories

Target Group	**As at 30 June 2010**
	HK$
Finished goods	5,022,482
Packing materials	351,553
	5,374,035

16. Trade receivables

The Target Group's trade receivables mainly arise from the sale of liquor to distributors. The sales to the distributors normally required payment in advance, except for the major customers, where a 30 to 60 days credit period is allowed. Each customer has a maximum credit limit.

The Target 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 Target 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.

The trade receivables are within 30 days and are not considered to be impaired.

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 Target Group. The carrying amounts of the trade receivables approximate to their fair values.

17. Prepayments, deposits and other receivables

	Target Group As at 30 June 2010 *HK$*	**Target Company As at 30 June 2010** *HK$*
Prepayments	1,895,281	–
Deposits and other receivables	1,092,005	8
	2,987,286	8

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.

18. Cash and cash equivalents

The Target Group's cash and bank balances denominated in Renminbi ("RMB") amounted to HK$494,193 as at 30 June 2010. 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 Target 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.

19. 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.

20. Other payables and accruals

	Target Group As at 30 June 2010 *HK$*	Target Company As at 30 June 2010 *HK$*
Accruals	34,780	12,480
Other payables	168,164	1
	202,944	12,481

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.

21. Share capital

Target Company	**As at 30 June 2010** *HK$*
Authorised:	
50,000 shares of US$1.00 each	390,000
Issued and fully paid:	
1 ordinary share of US$1.00 each	8

22. Reserves

(a) Target Group

The amounts of the Target Group's reserves and the movements therein for the Relevant Period are presented in the consolidated statement of changes in equity of the Financial Information.

(b) Target Company

	Accumulated loss *HK$*
Total comprehensive loss for the period	(12,480)
At 30 June 2010	(12,480)

23. Business combination

On 13 June 2010, JGJ acquired a 100% interest in SZMM from Mr. Jiang and SZ Huaqin. Further details of the transaction are included in note 1 to the Financial Information. The purchase consideration of HK$14,901,900 for the acquisition was in the form of cash, which has not been paid up to the date of this report.

The fair values of the identifiable assets and liabilities of SZMM as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition *HK$*	Previous carrying amount *HK$*
Property, plant and equipment	*11*	16,747,263	16,747,263
Other intangible assets	*12*	52,404,563	–
Deferred tax assets	*14*	81,063	81,063
Inventories		5,374,035	5,374,035
Trade receivables		317,067	317,067
Prepayments, deposits and other receivables		2,987,278	2,987,278
Cash and cash equivalents		494,193	494,193
Trade payables		(82,388)	(82,388)
Other payables and accruals		(162,964)	(162,964)
Tax payable		(4,298,625)	(4,298,625)
Due to related parties		(579,611)	(579,611)
Deferred tax liabilities	*14*	(13,101,141)	–
		60,180,733	20,877,311
Excess over the cost of a business combination recognised in the income statement	*8*	(45,278,833)	
Satisfied by cash		14,901,900	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK$
Cash consideration	14,901,900
Consideration payables	(14,901,900)
Cash and cash equivalents acquired	494,193
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	494,193

Since its acquisition, SZMM contributed nil to the Target Group's turnover and nil to the consolidated loss for the period from 16 April 2010 (date of incorporation of the Target Company) to 30 June 2010.

24. Operating lease arrangements

As lessee

The Target Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

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

	Target Group As at 30 June 2010 *HK$*
Within one year	82,534
In the second year	75,656
	158,190

25. Related party balances

	Target Group As at 30 June 2010 *HK$*
Due to then shareholders of a subsidiary	
SZ Huaqin	14,335,628
Mr. Jiang	1,145,883
	15,481,511

26. Financial instruments by category

Financial assets

All the Target Group's and the Target Company's financial assets at the end of the Relevant Period, including trade receivables, prepayments, deposits and other receivables and cash and cash equivalents are categorised as loans and receivables.

Financial liabilities

All the Target Group's and the Target Company's financial liabilities at the end of the Relevant Period, including trade payables, other payables and accruals and amounts due to related parties are categorised as financial liabilities at amortised cost.

27. Financial risk management objectives and policies

The Target Group's principal financial instruments comprise amount due to related party and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target 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 Target Group's financial instruments are liquidity risk and credit risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Liquidity risk

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade finance facilities. The Target Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Target Group's operations.

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

The maturity profile of the Target Group's financial liabilities at the end of each of the Relevant Period, based on the contractual undiscounted payments, is as follows:

	As at 30 June 2010		
Target Group	**On demand**	**Less than 1 year**	**Total**
	HK$	*HK$*	*HK$*
Trade payables	–	82,388	82,388
Other payables and accruals	–	202,944	202,944
Due to related parties	15,481,511	–	15,481,511
	15,481,511	285,332	15,766,843
Target Company			
Other payables and accruals	1	12,480	12,481

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 Target Group's maximum exposure to credit risk in relation to financial assets.

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

Foreign currency risk

The Target 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 Target Group are not significant. The Target Group has not entered into any hedging transaction to reduce the Target 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 Target Group's profit or loss during the Relevant Period and there would be no material impact on the Target Group's equity.

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target 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 Target 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 for managing capital during the Relevant Period.

The Target Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. The Target Group's policy is to maintain the gearing ratio at a reasonable level. Net debt is calculated as the sum of trade payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents. Capital represents equity attributable to the owner of the parent.

The gearing ratios as at 30 June 2010 were as follows:

Target Group	**As at 30 June 2010** *HK$*
Trade payables	82,388
Other payables and accruals	202,944
Due to related parties	15,481,511
Less: Cash and cash equivalents	(498,463)
Net debt	15,268,380
Equity	45,053,221
Equity and net debt	60,321,601
Gearing ratio	25.3%

28. 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 30 June 2010.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

1. ACCOUNTANTS' REPORT OF THE SZMM GROUP

ERNST & YOUNG
安 永

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

23 August 2010

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 Shenzhen Meiming Wenshi Trading Limited（深圳市美名問世商貿有限公司, formerly known as 深圳市龍匯天戈商務有限公司）("SZMM") and its subsidiary (collectively referred to as the "SZMM Group"), prepared on the basis set out in note 2 of Section 2 below, for the period from 21 February 2008 (date of establishment) to 31 December 2008, the year ended 31 December 2009 and the six-month period ended 30 June 2010 (the "Relevant Periods") and the six-month period ended 30 June 2009 (the "30 June 2009 Financial Period") for inclusion in the shareholders' circular of BIO-DYNAMIC GROUP LIMITED (the "Company") dated 23 August 2010 (the "Circular") in relation to the proposed acquisition of the 100% equity interest in Power Range Holdings Limited (the "Target Company"), which holds 100% of equity interest in SZMM (hereinafter collectively referred to as the "Target Group").

SZMM is a limited liability company established in the People's Republic of China ("the PRC") on 21 February 2008. SZMM is principally engaged in the distribution of liquor and operates a liquor distribution network in the PRC and entered into distribution contracts with Jiuguijiu Supply and Sales Limited Liability Company（酒鬼酒供銷有限責任公司）("JSS") to distribute liquor under the brands of 典藏酒鬼 (Diancang Jiugui), 小湘泉 (Xiaoxiangquan) under 250ml and 美名問世 (Meiming Wenshi) in the PRC. As at the date of this report, SZMM owned 100% equity interest in Hunan Meiming Wenshi Jiuguijiu Sales Limited（湖南美名問世酒鬼酒銷售有限公司）("HNMM").

HNMM is a limited liability company established in the PRC on 6 January 2010. HNMM is principally engaged in the distribution of liquor in the PRC.

All companies now comprising the SZMM Group have adopted 31 December as their financial year end date. No audited financial statements have been prepared for HNMM since its date of establishment as it was established in 2010 and there is no statutory requirement for it to prepare audited financial statements until year end. SZMM 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").

For the purpose of this report, the director of SZMM has prepared the statements of financial position of SZMM as at 31 December 2008 and 2009 and 30 June 2010, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the SZMM Group for each of the Relevant Periods and the 30 June 2009 Financial Period and consolidated statements of financial position of the SZMM Group as at 31 December 2008 and 2009 and 30 June 2010, together with the notes thereto, set out in this report (collectively the "Financial Information") 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") and accounting principles generally accepted in Hong Kong. The Financial Information in respect of the Relevant Periods and the 30 June 2009 Financial Period are hereinafter referred to as the "Relevant Periods Financial Information" and the "30 June 2009 Financial Information", respectively.

The director of SZMM is 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 30 June 2009 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2009 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 30 June 2009 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 SZMM as at 31 December 2008 and 2009 and 30 June 2010, of the consolidated results and cash flows of the SZMM Group for each of the Relevant Periods, and of the state of affairs of the SZMM Group as at 31 December 2008 and 2009 and 30 June 2010.

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 30 June 2009 Financial Information does not give a true and fair view of the results and cash flows of the SZMM Group for the six-month period ended 30 June 2009.

2. FINANCIAL INFORMATION OF THE SZMM GROUP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Period from 21 February 2008 (date of establishment) to 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	Six-month period ended 30 June 2009 RMB'000 (Unaudited)	2010 RMB'000
REVENUE	7	53	1,210	984	263
Cost of sales		(11)	(964)	(863)	(86)
Gross profit		42	246	121	177
Selling and distribution costs		(1,183)	(579)	(250)	(687)
Administrative expenses		(412)	(385)	(189)	(348)
Loss before tax	8	(1,553)	(718)	(318)	(858)
Tax	10	–	–	–	71
LOSS FOR THE YEAR/PERIOD		(1,553)	(718)	(318)	(787)
OTHER COMPREHENSIVE INCOME					
Gains on discharged liability to a shareholder	24(a)(ii)	–	15,000	–	–
Income tax effect		–	(3,750)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		–	11,250	–	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		(1,553)	10,532	(318)	(787)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		As at 30 June
		2008	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	15	14,744	14,589
Deferred tax assets	*13*	–	–	71
Total non-current assets		15	14,744	14,660
CURRENT ASSETS				
Inventories	*14*	976	86	4,688
Trade receivables	*15*	–	–	277
Prepayments, deposits and other receivables	*16*	345	149	2,606
Due from a related party	*24*	604	1,512	–
Pledged deposits	*17*	357	–	–
Cash and cash equivalents	*17*	239	5	431
Total current assets		2,521	1,752	8,002
CURRENT LIABILITIES				
Trade and bills payables	*18*	357	–	72
Other payables	*19*	32	67	142
Tax payable		–	3,750	3,750
Due to a related party	*24*	–	–	506
Total current liabilities		389	3,817	4,470
NET CURRENT ASSETS/ (LIABILITIES)		2,132	(2,065)	3,532
TOTAL ASSETS LESS CURRENT LIABILITIES		2,147	12,679	18,192
Net assets		2,147	12,679	18,192
EQUITY				
Paid-in capital	*20*	3,700	3,700	10,000
Reserves	*21*	(1,553)	8,979	8,192
Total equity		2,147	12,679	18,192

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000* *(note 20)*	Equity contribution surplus *RMB'000* *(note 21)*	Accumulated losses *RMB'000*	Total equity *RMB'000*
Capital contribution by shareholders	3,700	–	–	3,700
Total comprehensive loss for the period	–	–	(1,553)	(1,553)
At 31 December 2008 and at 1 January 2009	3,700	–*	(1,553)*	2,147
Total comprehensive income for the year	–	11,250	(718)	10,532
At 31 December 2009 and at 1 January 2010	3,700	11,250*	(2,271)*	12,679
Capital contribution by shareholders	6,300	–	–	6,300
Total comprehensive loss for the period	–	–	(787)	(787)
At 30 June 2010	10,000	11,250*	(3,058)*	18,192
(Unaudited)				
At 31 December 2008 and at 1 January 2009	3,700	–	(1,553)	2,147
Total comprehensive loss for the period	–	–	(318)	(318)
At 30 June 2009	3,700	–	(1,871)	1,829

* *These components of equity comprise negative reserves of RMB1,553,000 and reserves of RMB8,979,000 and RMB8,192,000 in the consolidated statements of financial position as at 31 December 2008 and 2009, and 30 June 2010, respectively.*

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Period from 21 February 2008 (date of establishment) to 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	Six-month period ended 30 June 2009 RMB'000 (Unaudited)	Six-month period ended 30 June 2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax		(1,553)	(718)	(318)	(858)
Adjustments for:					
Depreciation	11	–	271	1	283
		(1,553)	(447)	(317)	(575)
(Increase)/decrease in inventories		(976)	890	810	(4,602)
Increase in trade receivables		–	–	–	(277)
(Increase)/decrease in prepayments, deposits and other receivables		(345)	196	175	(2,457)
(Increase)/decrease in balance with a related party		(604)	(908)	6,436	2,018
Increase/(decrease) in trade and bills payables		357	(357)	(357)	72
Increase in other payables		32	35	1	75
Cash generated from/(used in) operations		(3,089)	(591)	6,748	(5,746)
PRC income tax paid		–	–	–	–
Net cash flows from/(used in) operating activities		(3,089)	(591)	6,748	(5,746)
CASH FLOWS FROM INVESTING ACTIVITIES					
Increase in amount due to a shareholder		–	15,000	–	–
Purchases of items of property, plant and equipment		(15)	(15,000)	–	(128)
Net cash flows used in investing activities		(15)	–	–	(128)
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital contribution by shareholders	20	3,700	–	–	6,300
Net cash flows from financing activities		3,700	–	–	6,300
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		596	(591)	6,748	426

	Note	Period from 21 February 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009	Six-month period ended 30 June 2009	Six-month period ended 30 June 2010
		RMB'000	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		596	(591)	6,748	426
Cash and cash equivalents at beginning of year/period		–	596	596	5
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		596	5	7,344	431
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents as stated in the consolidated statements of financial position		239	5	7,344	431
Time deposits with original maturity of less than three months when acquired, pledged as security for bank acceptance notes		357	–	–	–
Cash and cash equivalents as stated in the consolidated statements of cash flows	*17*	596	5	7,344	431

STATEMENTS OF FINANCIAL POSITION

		As at 31 December		As at 30 June
		2008	**2009**	**2010**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*11*	15	14,744	14,473
Interest in a subsidiary	*12*	–	–	5,000
Total non-current assets		15	14,744	19,473
CURRENT ASSETS				
Inventories	*14*	976	86	313
Prepayments, deposits and other receivables	*16*	345	149	279
Due from a related party	*24*	604	1,512	2,256
Pledged deposits	*17*	357	–	–
Cash and cash equivalents	*17*	239	5	29
Total current assets		2,521	1,752	2,877
CURRENT LIABILITIES				
Trade and bills payables	*18*	357	–	–
Other payables	*19*	32	67	–
Tax payable		–	3,750	3,750
Total current liabilities		389	3,817	3,750
NET CURRENT ASSETS/ (LIABILITIES)		2,132	(2,065)	(873)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,147	12,679	18,600
Net assets		2,147	12,679	18,600
EQUITY				
Paid-in capital	*20*	3,700	3,700	10,000
Reserves	*21*	(1,553)	8,979	8,600
Total equity		2,147	12,679	18,600

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information

SZMM was established in the PRC on 21 February 2008 with limited liability. The registered office and principal place of business of SZMM is located at Xinqiao Village, Shajin town, Shenzhen City, Guangdong Province, China. Pursuant to an agreement dated 6 May 2010, Mr. Jiang Jian-Jun ("Mr. Jiang") and Shenzhen Huaqin Investment Development Limited (深圳市華欽投資發展有限公司) ("SZ Huaqin"), a company wholly owned by Mr. Jiang, agreed to transfer their 3.8% and 96.2% equity interests in SZMM to JGJ (China) Group Limited ("JGJ") at the consideration of RMB494,000 and RMB12,506,000, respectively.

HNMM was established by Mr. Jiang in the PRC on 6 January 2010 with limited liability. Pursuant to an agreement dated 29 April 2010, Mr. Jiang agreed to transfer all of his 100% equity interests in HNMM to SZMM at a consideration of RMB5,000,000. Since then, HNMM became a wholly-owned subsidiary of SZMM.

At the date of this report, SZMM is wholly owned by JGJ, a wholly-owned subsidiary of the Target Company.

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 Renminbi ("RMB") 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 2008. For the purpose of preparing the Financial Information, the SZMM 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

SZMM's acquisition of the 100% equity interest in HNMM is considered as a business combination under common control because SZMM and HNMM are ultimately controlled by Mr. Jiang both before and after the business combination. Accordingly, the business combination 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 SZMM Group includes the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows and the consolidated statements of financial position of the companies now comprising the SZMM Group, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of establishment, 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 SZMM Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective in the Financial Information:

HKFRS 9	*Financial Instruments*[4]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirements*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]

1 *Effective for annual periods beginning on or after 1 February 2010*

2 *Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16, which are effective for annual periods beginning on or after 1 July 2009, and no effective date or transitional provisions for the amendment to Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for certain standards*

3 *Effective for annual periods beginning on or after 1 January 2011*

4 *Effective for annual periods beginning on or after 1 January 2013*

The SZMM Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the director of SZMM preliminary anticipate that the adoption of the new and revised HKFRSs is unlikely to have a significant impact on the SZMM 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 SZMM controls, directly or indirectly, so as to obtain benefits from its activities. The results of the subsidiary is consolidated from the date of acquisition, being the date on which the SZMM Group obtains control, and continue to be consolidated until the date that such control ceases.

The results of the subsidiary are included in SZMM's income statement to the extent of dividends received and receivable. SZMM's investment in a subsidiary is stated at cost less any impairment losses.

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 SZMM 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 SZMM Group; (ii) has an interest in the SZMM Group that gives it significant influence over the SZMM Group; or (iii) has joint control over the SZMM Group;

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

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

(d) 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 (b) or (c).

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the SZMM Group recognises such parts as individual assets with specific useful lives and depreciation.

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:

Buildings	25 years
Office equipment	3-5 years
Motor vehicles	4 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 financial year end.

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

Operating leases

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

Investments and other financial assets

Initial recognition and measurement

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the SZMM 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.

The SZMM Group's financial assets include cash and cash equivalents, pledged deposits, trade and other receivables and an amount due from a related party.

Subsequent measurement of loans and receivables

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

Derecognition of financial assets

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

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

When the SZMM Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 SZMM Group's continuing involvement in the asset. In that case, the SZMM Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the SZMM Group has retained.

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The SZMM Group's financial liabilities include trade, bills and other payables and an amount due to a related party.

Subsequent measurement of loans and borrowings

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

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

Derecognition of financial liabilities

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

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

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

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

Provisions

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

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the SZMM 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 SZMM Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(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.

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Pensions and other post employment benefits

The employees of the SZMM 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 SZMM Group contributes a percentage of the employees' salaries to these retirement benefit schemes on a monthly basis. Under these schemes, the SZMM Group has no legal obligation for retirement benefits beyond the contributions made. Contributions to these schemes are expensed as incurred.

5. Significant accounting judgements and estimates

The preparation of the SZMM 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 10 to the Financial Information.

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 SZMM 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 SZMM 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.

6. Segment information

During the Relevant Periods and the 30 June 2009 Financial Period, all of the SZMM Group's operations related to the distribution of liquor and 100% of the SZMM Group's products were sold to customers located in Mainland China. Accordingly, the director is of the opinion that the distribution of liquor in Mainland China is a single reportable segment of the SZMM Group.

7. Revenue

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

8. Loss before tax

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

	Note	Period from 21 February 2008 (date of establishment) to 31 December 2008 RMB'000	Year ended 31 December 2009 RMB'000	Six-month period ended 30 June 2009 RMB'000 (Unaudited)	2010 RMB'000
Cost of inventories sold		11	964	863	86
Depreciation	*11*	–	271	1	283
Minimum lease payments under operating leases		–	–	–	6
Employee benefit expenses:					
Wages, salaries and staff welfare		377	379	186	380
Retirement benefit contributions*		–	–	–	9
		377	379	186	389

* *The retirement benefit contributions during the Relevant Periods and the 30 June 2009 Financial Period were borne by Mr. Jiang.*

9. Director's and senior executive's remuneration

No director or senior executive received any fees or emoluments in respect of his services rendered to SZMM during the Relevant Periods and the 30 June 2009 Financial Period.

10. Tax

SZMM and HNMM are subject to corporate income tax at a rate of 25% during the Relevant Periods and the 30 June 2009 Financial Period.

No PRC corporate income tax has been provided because the SZMM Group did not generate any assessable profits arising in Mainland China during the Relevant Periods and the 30 June 2009 Financial Period.

	Six-month period ended 30 June 2010 *RMB'000*
SZMM Group:	
Deferred tax credit for the period *(note 13)*	(71)

A reconciliation of tax credit applicable to loss before tax using the statutory income tax rates for the jurisdiction in which SZMM and its subsidiary are domiciled to tax expense at the effective income tax rate for each of the Relevant Periods and the 30 June 2009 Financial Period, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Period from 21 February 2008 (date of establishment) to 31 December 2008		Year ended 31 December 2009		Six-month period ended 30 June 2009		2010	
	RMB'000	%	*RMB'000*	%	*RMB'000* (Unaudited)	%	*RMB'000*	%
Loss before tax	(1,553)		(718)		(318)		(858)	
Income tax at the statutory tax rate	(388)	25	(180)	25	(80)	25	(215)	25
Expenses not deductible for tax	158	(10)	6	(1)	15	(5)	42	(5)
Tax losses not recognised	230	(15)	174	(24)	65	(20)	102	(12)
Tax credit at the SZMM Group's effective rate	–		–		–		(71)	(8)

11. Property, plant and equipment

SZMM Group

	Buildings *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2008				
Additions	–	15	–	15
At 31 December 2008, net of accumulated depreciation	–	15	–	15
At 31 December 2008:				
Cost	–	15	–	15
Accumulated depreciation	–	–	–	–
Net carrying amount	–	15	–	15

SZMM Group

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2009				
At 1 January 2009:				
Cost	–	15	–	15
Accumulated depreciation	–	–	–	–
Net carrying amount	–	15	–	15
At 1 January 2009, net of accumulated depreciation	–	15	–	15
Additions	15,000	–	–	15,000
Depreciation provided during the year	(270)	(1)	–	(271)
At 31 December 2009, net of accumulated depreciation	14,730	14	–	14,744
At 31 December 2009:				
Cost	15,000	15	–	15,015
Accumulated depreciation	(270)	(1)	–	(271)
Net carrying amount	14,730	14	–	14,744
30 June 2010				
At 1 January 2010:				
Cost	15,000	15	–	15,015
Accumulated depreciation	(270)	(1)	–	(271)
Net carrying amount	14,730	14	–	14,744
At 1 January 2010, net of accumulated depreciation	14,730	14	–	14,744
Additions	–	55	73	128
Depreciation provided during the period	(270)	(6)	(7)	(283)
At 30 June 2010, net of accumulated depreciation	14,460	63	66	14,589
At 30 June 2010:				
Cost	15,000	70	73	15,143
Accumulated depreciation	(540)	(7)	(7)	(554)
Net carrying amount	14,460	63	66	14,589

SZMM

	Buildings *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
31 December 2008				
Additions	–	15	–	15
At 31 December 2008, net of accumulated depreciation	–	15	–	15
At 31 December 2008:				
Cost	–	15	–	15
Accumulated depreciation	–	–	–	–
Net carrying amount	–	15	–	15
31 December 2009				
At 1 January 2009:				
Cost	–	15	–	15
Accumulated depreciation	–	–	–	–
Net carrying amount	–	15	–	15
At 1 January 2009, net of accumulated depreciation	–	15	–	15
Additions	15,000	–	–	15,000
Depreciation provided during the year	(270)	(1)	–	(271)
At 31 December 2009, net of accumulated depreciation	14,730	14	–	14,744
At 31 December 2009:				
Cost	15,000	15	–	15,015
Accumulated depreciation	(270)	(1)	–	(271)
Net carrying amount	14,730	14	–	14,744
30 June 2010				
At 1 January 2010:				
Cost	15,000	15	–	15,015
Accumulated depreciation	(270)	(1)	–	(271)
Net carrying amount	14,730	14	–	14,744
At 1 January 2010, net of accumulated depreciation	14,730	14	–	14,744
Depreciation provided during the period	(270)	(1)	–	(271)
At 30 June 2010, net of accumulated depreciation	14,460	13	–	14,473
At 30 June 2010:				
Cost	15,000	15	–	15,015
Accumulated depreciation	(540)	(2)	–	(542)
Net carrying amount	14,460	13	–	14,473

12. Interest in a subsidiary

SZMM

	As at 30 June 2010 *RMB'000*
Unlisted investment, at cost	5,000

SZMM has a direct 100% interest in HNMM. HNMM has a registered capital of RMB5,000,000 and is principally engaged in the distribution of liquor in the PRC.

No audited financial statements have been prepared for HNMM since its date of establishment as it was established in 2010 and there is no statutory requirement for it to prepare audited financial statements until year end.

13. Deferred tax assets

The movements in deferred tax assets are as follows:

SZMM Group

	Losses available for offsetting against future taxable profits *RMB'000*
At 1 January 2010	–
Deferred tax credited to the consolidated income statements during the period *(note 10)*	71
At 30 June 2010	71

The SZMM Group has accumulated tax losses arising in Mainland China of RMB920,000, RMB1,616,000 and RMB1,991,000 as at 31 December 2008 and 2009, and 30 June 2010, respectively, that will expire in the next five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in SZMM that has 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.

14. Inventories

	As at 31 December		As at 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
SZMM Group			
Finished goods	976	86	4,381
Packing materials	–	–	307
	976	86	4,688
SZMM			
Finished goods	976	86	313

15. Trade receivables

The SZMM Group's trade receivables mainly arise from the sale of liquor to distributors. The sales to the distributors normally required payment in advance, except for the major customers, where a 30 to 60 days credit period is allowed. Each customer has a maximum credit limit.

The SZMM 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 SZMM 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.

The trade receivables are within 30 days and are not considered to be impaired.

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 SZMM 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 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
SZMM Group			
Prepayments	90	–	1,653
Deposits and other receivables	255	149	953
	345	149	2,606
SZMM			
Prepayments	90	–	–
Deposits and other receivables	255	149	279
	345	149	279

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 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
SZMM Group			
Cash and bank balances	596	5	431
Less: Pledged deposits for issuing bank acceptance notes	(357)	–	–
Cash and cash equivalents	239	5	431
SZMM			
Cash and bank balances	596	5	29
Less: Pledged deposits for issuing bank acceptance notes	(357)	–	–
Cash and cash equivalents	239	5	29

The SZMM Group's cash and bank balances were denominated in Renminbi ("RMB"). Cash at banks earns interest at floating rates based on daily bank deposit rates.

18. Trade and bills 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.

The bills payables are all due to mature within 90 days.

19. Other payables

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. Paid-in capital

	As at 31 December		As at 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Authorised	10,000	10,000	10,000
Issued and fully paid	3,700	3,700	10,000

On 20 April 2010, a capital of RMB6,300,000 was contributed by the shareholders. The above capital contributions were verified by the Certified Public Accountant of the PRC and the capital verification reports were issued.

During the Relevant Periods, the movements in paid-in capital were as follows:

	Paid-in capital
	RMB'000
Capital contribution by shareholders	3,700
At 31 December 2008, 1 January 2009 and 31 December 2009	3,700
Capital contribution by shareholders	6,300
At 30 June 2010	10,000

21. Reserves

(a) SZMM Group

The amounts of the SZMM Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity of the Financial Information.

The equity contribution surplus of the SZMM Group represents the discharged liability from SZ Huaqin *(note 24(a)(ii))*.

(b) SZMM

	Equity contribution surplus	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
Total comprehensive loss for the period	–	(1,553)	(1,553)
At 31 December 2008 and at 1 January 2009	–	(1,553)	(1,553)
Total comprehensive income for the year	11,250	(718)	10,532
At 31 December 2009 and at 1 January 2010	11,250	(2,271)	8,979
Total comprehensive loss for the period	–	(379)	(379)
At 30 June 2010	11,250	(2,650)	8,600
(Unaudited)			
At 31 December 2008 and at 1 January 2009	–	(1,553)	(1,553)
Total comprehensive loss for the period	–	(318)	(318)
At 30 June 2009	–	(1,871)	(1,871)

22. Notes to the consolidated statements of cash flows

During the Relevant Period, the SZMM Group had the following major non-cash transactions:

During the Relevant Period, SZ Huaqin discharged a liability of RMB15,000,000 of SZMM *(note 24(a)(ii))*.

23. Operating lease arrangements

As lessee

The SZMM Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated in terms of two years.

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

SZMM Group

	As at 31 December		As at 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	72
In the second year	–	–	66
	–	–	138

24. Related party transactions and balances

In addition to the transactions detailed elsewhere in the Financial Information, the SZMM Group had the following transactions with related parties during the Relevant Periods and 30 June 2009 Financial Period:

(a) Transactions with fellow subsidiaries

SZMM Group

		Period from 21 February 2008 (date of establishment) to 31 December	Year ended 31 December	Six-month period ended 30 June	
		2008	2009	2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Purchase of a warehouse from Shenzhen City Jiangshi Longhui trading limited (深圳市江氏龍匯商貿有限公司) ("Jiangshi Longhui")*	*(i)*	–	15,000	–	–
A liability discharged by SZ Huaqin	*(ii)*	–	15,000	–	–
Sales of products to Hunan Diancang Jiuguijiu Distribution Limited (湖南典藏酒鬼酒銷售有限公司) ("HN Diancang")*	*(iii)*	53	687	656	–

* *Fellow subsidiary of the SZMM Group*

(i) The purchases from the Jiangshi Longhui were made according to the published prices and conditions offered by Jiangshi Longhui to their major customers.

(ii) Pursuant to the agreement entered into between SZMM and SZ Huaqin on 31 December 2009, SZ Huaqin waived the amount of RMB15,000,000 due from SZMM to it without any condition.

(iii) The sales to HN Diancang were made at agreed prices by both parties.

(b) Distribution arrangement between JSS, SZMM and HN Diancang

During the Relevant Periods, except for the distribution conducted by the SZMM Group included in this report, the other operation of distributing liquor under the brands of 典藏酒鬼 (Diancang Jiugui), 小湘泉 (Xiaoxiangquan) under 250ml and the 美名問世 (Meiming Wenshi) in the PRC, under the distribution agreements with JSS, was carried out by HN Diancang.

(c) Outstanding balances with related party

	As at 31 December		As at 30 June
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
SZMM Group			
Due from/(to) a related party			
Mr. Jiang	604	1,512	(506)
SZMM			
Due from a related party			
Mr. Jiang	604	1,512	2,256

Pursuant to an agreement dated 6 May 2010, Mr. Jiang and SZ Huaqin agreed to transfer their 3.8% and 96.2% equity interests in SZMM to JGJ. Since then, Mr. Jiang ceased to be the ultimate shareholder of SZMM.

The balances with Mr. Jiang 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.

25. Financial instruments by category

Financial assets

All the SZMM Group's and SZMM's financial assets as at the end of each of the Relevant Periods, including trade receivables, prepayments, deposits and other receivables, an amount due from a related party, pledged deposits and cash and cash equivalents are categorised as loans and receivables.

Financial liabilities

All the SZMM Group's and SZMM's financial liabilities as at the end of each of the Relevant Periods, including trade and bills payables, other payables and an amount due to a related party are categorised as financial liabilities at amortised cost.

26. Financial risk management objectives and policies

The SZMM Group's principal financial instruments comprise amount due from/to a related party and cash and bank balances. The main purpose of these financial instruments is to raise finance for the SZMM Group's operations. The SZMM 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 SZMM Group's financial instruments are liquidity risk and credit risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Liquidity risk

The SZMM Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade finance facilities. The SZMM Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the SZMM Group's operations.

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

The maturity profile of the SZMM Group's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

SZMM Group

	As at 31 December 2008 Less than 1 year *RMB'000*	**Total** *RMB'000*
Trade and bills payables	357	357
Other payables	32	32
	389	389

	As at 31 December 2009 Less than 1 year *RMB'000*	**Total** *RMB'000*
Other payables	67	67

	As at 30 June 2010		
	On demand	Less than 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	–	72	72
Other payables	–	142	142
Due to a related party	506	–	506
	506	214	720

SZMM

	As at 31 December 2008	
	Less than 1 year	Total
	RMB'000	*RMB'000*
Trade and bills payables	357	357
Other payables	32	32
	389	389

	As at 31 December 2009	
	Less than 1 year	Total
	RMB'000	*RMB'000*
Trade and bills payables	–	–
Other payables	67	67
	67	67

	As at 30 June 2010	
	Less than 1 year	Total
	RMB'000	*RMB'000*
Trade and bills payables	–	–
Other payables	–	–
	–	–

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 SZMM 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.

Capital management

The primary objectives of the SZMM Group's capital management are to safeguard the SZMM 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 SZMM 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 for managing capital during the Relevant Periods.

The SZMM Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. The SZMM Group's policy is to maintain the gearing ratio at a reasonable level. Net debt is calculated as the sum of trade and bills payables, other payables and an amount due to a related party, less pledged deposits and cash and cash equivalents. Capital represents equity attributable to the owner of the parent.

The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December		**As at 30 June**
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	357	–	72
Other payables	32	67	142
Due to a related party	–	–	506
Less: pledged deposits and cash and cash equivalents	(596)	(5)	(431)
Net debt	(207)	62	289
Equity	2,147	12,679	18,192
Equity and net debt	1,940	12,741	18,481
Gearing ratio	–	–	2%

27. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by SZMM or its subsidiary in respect of any period subsequent to 30 June 2010.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

A. INTRODUCTION

The following unaudited pro forma statement of assets and liabilities of the Resulting Group (as defined in this circular) has been prepared to illustrate the effect of the Proposed Acquisition (as defined in this circular) on the assets and liabilities of the Group as if the Proposed Acquisition had taken place on 31 December 2009.

The unaudited pro forma financial information of the Resulting Group is based on the audited consolidated financial information of the Group as at 31 December 2009 as set out in Appendix I to this circular and the audited consolidated financial information of the Target Group as at 30 June 2010 as set out in the accountants' report in Appendix III 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 Proposed Acquisition that are (i) directly attributable to the transactions; (ii) expected to have an impact on the Group and the Target Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Resulting 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 Resulting Group does not purport to describe the actual financial position of the Resulting Group that would have been attained had the Proposed Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Resulting Group does not purport to predict the Resulting Group's future financial position.

The unaudited pro forma financial information of the Resulting 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 Target Group as set out in Appendix III to this circular and other financial information included elsewhere in this circular.

	The Group as at 31 December 2009	**The Target Group as at 30 June 2010**	**Pro forma combined**	**Pro forma adjustments**		**Pro forma Resulting Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note 1)	*(Note 2)*				
NON-CURRENT ASSETS						
Property, plant and equipment	333,714	16,723	350,437			350,437
Prepaid land lease prepayments	32,370	–	32,370			32,370
Goodwill	–	–	–	10,115	*5*	10,115
Other intangible assets	75,203	52,184	127,387	573	*5*	127,960
Prepayments for acquisition of property, plant and equipment	1,442	–	1,442			1,442
Deferred tax assets	–	81	81			81
Total non-current assets	442,729	68,988	511,717			522,405
CURRENT ASSETS						
Inventories	5,854	5,374	11,228			11,228
Trade receivables	48	317	365			365
Prepayments, deposits and other receivables	15,245	2,988	18,233			18,233
Due from fellow subsidiaries	263	–	263			263
Cash and cash equivalents	10,308	498	10,806			10,806
Total current assets	31,718	9,177	40,895			40,895

	The Group as at 31 December 2009 HK$'000 (Note 1)	The Target Group as at 30 June 2010 HK$'000 (Note 2)	Pro forma combined HK$'000	Pro forma adjustments HK$'000	Notes	Pro forma Resulting Group HK$'000
CURRENT LIABILITIES						
Trade payables	2,969	82	3,051			3,051
Other payables and accruals	99,562	198	99,760	1,343	6	101,103
Interest-bearing bank and other borrowings	79,502	–	79,502			79,502
Due to a fellow subsidiary	615	–	615			615
Due to a minority shareholder of a subsidiary	34,072	–	34,072			34,072
Due to related parties	–	15,487	15,487	(14,902)	3	585
Tax payable	–	4,299	4,299			4,299
Total current liabilities	216,720	20,066	236,786			223,227
NET CURRENT LIABILITIES	(185,002)	(10,889)	(195,891)			(182,332)
TOTAL ASSETS LESS CURRENT LIABILITIES	257,727	58,099	315,826			340,073
NON-CURRENT LIABILITIES						
Deferred tax liabilities	14,917	13,046	27,963	143	5	28,106
Deferred income	12,426	–	12,426			12,426
Total non-current liabilities	27,343	13,046	40,389			40,532
Net assets	230,384	45,053	275,437			299,541
EQUITY						
Equity attributable to owners of the parent						
Issued capital	61,351	–	61,351	15,000	4	76,351
Reserves	123,510	45,053	168,563	14,902	3	177,667
				55,500	4	
				(59,955)	5	
				(1,343)	6	
	184,861	45,053	229,914			254,018
Minority interests	45,523	–	45,523			45,523
Total equity	230,384	45,053	275,437			299,541

Notes:

1. The balances are extracted from the audited consolidated financial information of the Group as at 31 December 2009 as set out in Appendix I to this circular.

2. The balances are extracted from the audited consolidated financial information of the Target Group as at 30 June 2010 as set out in Appendix III to this circular.

3. The adjustment represents the settlement of the consideration payable of approximately HK$14,902,000 by additional capital injection from the Vendor (as defined in this circular) before the completion of the Proposed Acquisition.

4. The adjustment represents the issue of the Consideration Shares (as defined in the circular), which results additional share capital of approximately HK$15,000,000 and share premium of approximately HK$55,500,000, for the acquisition of the Target Group as if the Proposed Acquisition had taken place on 31 December 2009. The fair value of the Consideration Shares is estimated to be approximately HK$70,500,000 based on the closing price of HK$0.47 per share of the Company as at 31 December 2009.

   The fair value of the shares of the Company was HK$0.72 as at 19 August 2010, being the latest practicable date prior to the printing of this circular. If the consideration was based on the fair value of the shares of the Company on the latest practicable date, it would be HK$108,000,000.

   The fair value of the Consideration Shares will be adjusted at the date of completion of the Proposed Acquisition with reference to the closing price of the share of the Company at that date.

5. The adjustment represents the elimination of the Group's investment in the Target Group and the recognition of goodwill arising from the acquisition of the Target Group. The goodwill of approximately HK$10,115,000 is the difference between the fair value of the Consideration Shares amounting to approximately HK$70,500,000 as mentioned in note 4 above and the fair value of the net assets of the Target Group of approximately HK$60,385,000 as at 30 June 2010.

   The fair values of the net assets of the Target Group were calculated as follows:

	HK$'000
Carrying values of net assets of the Target Group	45,053
Additional capital injection by the Vendor before the completion of Proposed Acquisition *(note 3)*	14,902
Estimated fair value adjustment on 美名問世 (Meiming Wenshi) trademark, net of deferred tax liability*	430
Fair value of net assets of the Target Group	60,385

* *The 美名問世 (Meiming Wenshi) trademark will be owned by the Target Group upon completion of the Proposed Acquisition.*

   If the consideration was based on the fair value of the shares of the Company on the Latest Practicable Date, the Proposed Acquisition would result in a goodwill of approximately HK$47,615,000.

   The fair value of the net assets of the Target Group will be adjusted at the date of completion of the Proposed Acquisition with reference to the fair value of the Target Group's assets and liabilities at that date. As such, the goodwill to be recognised in connection with the Proposed Acquisition could be different from the amounts stated therein.

6. The adjustment represents the accrual for the estimated legal and professional costs directly attributable to the Proposed Acquisition amounting to approximately HK$1,343,000 in accordance to HKFRS 3 (revised). The legal and professional costs will not have a continuing effect on the financial statements on the Resulting Group in subsequent years.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE RESULTING GROUP

ERNST & YOUNG
安 永

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

23 August 2010

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 V to the circular dated 23 August 2010 (the "Circular") issued by the Company, in connection with the acquisition of the entire issued share capital of Power Range Holdings Limited and its subsidiaries (the "Target Group") (the "Proposed Acquisition") by the Company, pursuant to a sale and purchase agreement dated 28 June 2010. The Unaudited Pro Forma Financial Information is unaudited and has been prepared by the directors of the Company, solely for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the historical financial information in respect of the Group presented in Appendix I to the Circular. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in section A in Appendix V 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 31 December 2009 had the Proposed Acquisition actually been completed on that date or any future dates.

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

The following is the text of a letter prepared for the purpose of incorporation in this circular received from Grant Sherman Appraisal Limited, an independent valuer, in connection with its valuation as at 30 June 2010 of the values of the Distribution Rights and the Trademark.

GRANT SHERMAN APPRAISAL LIMITED

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

23 August 2010

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

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of the distribution rights of Diancang Jiugui, Xiaoxiangquan and Meiming Wenshi Jiugui ("Distribution Rights") and a trademark of Meiming Wenshi ("Trademark"). On 28 June 2010, Bio-Dynamic Group Limited (the "Company") announced that it has entered into an agreement for the purchase of the entire issued share capital of Power Range Holdings Limited ("PRHL") for a consideration of HK$66,000,000 (the "Proposed Acquisition"). PRHL is an investment holding company and its sole asset is the entire equity interest in JGJ (China) Group Limited ("JGJ"), which in turn owns the entire equity interest in Shenzhen Meiming Wenshi Trading Limited ("SZMM"). At present, the Distribution Rights are held by SZMM and the Trademark will be held by it upon the completion of the Proposed Acquisition.

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

Fair market value is defined as the estimated amount at which the asset 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.

The purpose of this appraisal is to express an independent opinion of the fair market value of the Distribution Rights and Trademark the (together referred to as the "Intangible Assets") as of 30 June 2010 (the "Appraisal Date"). It is our understanding that the Company will use this appraisal for acquisition purposes.

I. INTRODUCTION

Background

On 28 June 2010, the Company announced that it has entered into the agreement for the purchase of the entire issued share capital of Power Range Holdings Limited ("PRHL") for a consideration of HK$66,000,000 (the "Proposed Acquisition"). The consideration for the Proposed Acquisition is to be satisfied by the Company by allotting and issuing to the vendor 150,000,000 ordinary shares of the Company at an issue price of HK$0.44 per share.

The Company

The Company is principally engaged in the production and distribution of ethanol and distribution and retail sales of wine and liquor in the PRC. The Company operates a production facility in Harbin, PRC, for premium consumable ethanol, industrial ethanol and other food and feed ingredients. The Company also operates a multi-brand sales network for wine and liquor in the PRC.

PRHL

PRHL is an investment holding company and its sole asset is the entire equity interest in JGJ.

JGJ

JGJ was incorporated in Hong Kong and its sole asset is the entire equity interest in SZMM.

SZMM

SZMM was established in the PRC as a limited liability company. The assets of SZMM include the entire equity interest in Hunan Meiming Wenshi Jiuguijiu Sales Limited ("HNMM") and the Distribution Rights and SZMM will own the Trademark upon completion of the Proposed Acquisition.

HNMM

HNMM was incorporated in the PRC as a limited liability company. It is principally engaged in the distribution of liquor in the PRC.

The Intangible Assets

SZMM has entered into distribution agreements ("Distribution Agreements") with Jiuguijiu Supply and Sales Limited Liability Company ("Jiuguijiu") which allows SZMM to distribute liquor under the brands of Diancang Jiugui, Xiaoxiangquan under 250 ml and Meiming Wenshi Jiugui from 4 May 2010 to 3 May 2020.

Meanwhile, upon completion of the Proposed Acquisition, SZMM will be the legal and beneficial owner of the Trademark – Meiming Wenshi. SZMM has the right to assign manufacturers to produce the liquor under the Trademark.

II. INDUSTRY OVERVIEW

The Spirits Market in the PRC

Alcoholic spirits remain part of Chinese tradition appearing in many social activities. Traditionally spirits are the main drink denoting happiness or respect. China produces distilled spirits for the local market in great quantities. The most famous Chinese spirit is Maotai, a 55% spirit made of wheat and sorghum.

The Chinese spirits market is large but is facing the threat from consumers shifting allegiance over to beer and wine, largely thanks to consumers becoming more aware of health issues concerned with consumption of strong spirits. However, the market still supports some large companies, competing for an increasingly high-end market. The market is also competitive with over 1,100 Chinese spirit producers competing for the custom of increasingly sophisticated alcoholic drinks consumers.

Having been protected from the economic crisis seen in much of the rest of the world, the Chinese consumer economy has remained booming, and consumer spending continues to grow. With the rise in affluence, consumers are looking for higher-quality products, and manufacturers now need to provide products which appeal to increasingly sophisticated tastes. Older people (previously the majority spirit drinkers in China) are drinking less traditional spirits, replacing these with beer, due to the lower alcohol levels in beer, thus reducing the health risks associated with drinking of traditional spirits. Spirits manufacturers, especially traditional domestic grain spirits distillers, are now having to alter their products to suit the tastes of new consumer groups, especially younger, more middle-class consumers.

Along with China's stable economic growth, consumers become wealthier in the PRC as their disposable income continuously increasing, enabling the liquor market in China to keep growing rapidly. Amongst others, high-end liquor products, especially the Chinese baijiu liquors, are gaining popularity in market, which have driven their prices soaring. This trend will benefit the supply chain of the whole liquor industry ranging from manufacturers, distributors to retailers.

III. BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the Intangible Assets on the basis of fair market value. Fair market value is defined as the estimated amount at which the asset 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.

Our investigation included a review of the statutory documents relating to SZMM and its subsidiary-HNMN (the "SZMM Group"), historical financial information, Distribution Agreements, as well as other relevant documents. We have assumed that the data, information, opinions and representation provided to us by the management of SZMM (the "Management") in the course of the valuation are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

– The business nature of SZMM Group ;

– The financial condition of SZMM Group;

– The specific economic and competitive elements affecting the business of SZMM Group , its industry and its markets;

– The potential of the target markets to be served;

– The nature and prospect of the liquor industry in the PRC;

– Appropriate rates of return as indicated by alternative investment opportunities of comparable magnitude, character and risk;

– The business risks of SZMM Group and inherent uncertainties involved in their operation and;

– The financial forecast (the "Projection") prepared by the Management.

Due to the changing environment in which SZMM Group is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the Intangible Assets. The major assumptions adopted in this appraisal are:

– There will be no major changes in the existing political, legal, fiscal and economic conditions in the PRC in which SZMM Group will operate;

– There will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

– Industry trends and market conditions for related industries will not deviate materially from economic forecasts;

– Exchange rates and interest rates will not differ materially from those presently prevailing;

– SZMM will be the legal and beneficial owner of the Trademark – Meiming Wenshi;

– SZMM can renew the Trademark successfully after expiration;

– The Distribution Agreements will remain valid and effective;

– There will be no infringement of intellectual property rights to Intangible Assets;

– The Management will successfully maintain the competitiveness of SZMM Group;

– The Management will utilize and maintain the current operational, administrative and technical capabilities to maximize the revenue to be generated by SZMM Group;

– Competent management, key personnel, and technical staff of SZMM Group can be retained to support its ongoing operations;

We were furnished by the Management, for the purpose of this appraisal, with audited/unaudited financial data as well as other records and documents. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public 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 on the above-mentioned information.

IV. VALUATION METHODOLOGY

In our appraisal of the Intangible Assets, we were furnished by the Management for the purpose of this appraisal, with future trading prospects of SZMM Group's products as well as other relevant records and documents. In arriving at our opinion of value, we have relied upon such estimations, records and documents, as well as financial and business information from other sources.

To develop our opinion of value for the 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 are considered in the valuation of intangible assets, the nature and characteristics of the subject intangible asset will indicate which approach, or approaches, are most applicable.

Distribution Rights

We considered three generally accepted valuation approaches: the cost approach, market approach and income approach. While each of these approaches are considered in the valuation of intangible assets, the nature and characteristics of the subject intangible asset will indicate which approach, or approaches, are most applicable. Since the future economic benefits, that is the periodic income, generated by the Distribution Rights can be projected, we have concluded that the most appropriate method for valuing the Distribution Rights in this appraisal is the income approach. As the Distribution Rights have the most direct relationship to the revenue and cash flow streams of SZMM, with the other assets playing as a supporting role, the income approach technique adopted in this appraisal is known as the Multi-period Excess Earnings Method ("MPEEM").

MPEEM is generally reserved for the critical value drivers, the intangibles with the most direct relationship to the revenue and cash flow streams of an enterprise. MPEEM measures the present value of the future earnings to be generated during the remaining lives of the subject assets. Using the business enterprise analysis as a starting point, pretax cash flows attributable to the acquired assets as at the Acquisition Date are calculated. Contributory charges on the other identified assets are then taken. Contributory asset charge is the product of the asset's fair value and the required rate of return on the asset.

It is important to note that the assumed fair value of the contributory asset is not necessarily static over time. The tangible assets may fluctuate throughout the forecast period, and returns are typically taken on estimated average balances in each year. Average balance of individual tangible asset subject to accelerated depreciation may decline as the deprecation outstrips capital expenditures in the early years of the forecast. While the carrying value of amortizable intangible assets declines over time, there is a presumption that such assets are replenished each year, so the contributory charges usually takes the form of a fixed charge each year.

After the contributory charges and taxes are deducted from the pretax cash flows attributable to the Distribution Rights, after-tax residual cash flows attributable to the Distribution Rights can be arrived at. The fair value of the Distribution Rights is then calculated as the sum of the discounted residual cash flows at market-derived rates of return appropriate for the risks and hazards (i.e. discount rate) associated with the comparable business.

Discount Rate of the Distribution Rights

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest. When developing discount rates to apply to the cash flow streams attributable to the Distribution Rights, the discount rate is the sum of the weighted average cost of capital ("WACC") and the intangible asset premium.

WACC is the weighted sum of cost of equity and after tax cost of debt. The cost of equity is the expected rate of return that an investor would demand for investing in a business enterprise given the risks of the investment. WACC was developed through the application of the Capital Asset Pricing Model ("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 cost of equity for SZMM Group is the sum of the risk-free rate return, equity risk premium, small capitalization risk premium and company specific risk premium inherent in SZMM Group's intended operations. Our analysis suggests that discount rate of 27.27% is appropriate for valuing the Distribution Rights as of the Acquisition Date.

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 size company. This premium reflects the fact that the 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 CAPM. We concluded that a small capitalization risk premium of 12.06% is appropriate for SZMM Group after considering the size of business of SZMM Group and its competitiveness and market share in the spirits market in the PRC.

Company Specific Risk Premium

The success of SZMM Group's products depends greatly on SZMM Group's ability to expand its distribution network to gain greater market share. To reflect such risk, an additional risk premium of 2% is applied in developing the cost of equity of SZMM Group.

Intangible Asset Premium

In arriving at the discount rate for the Distribution Rights, we usually incorporate an intangible asset premium to reflect that intangible asset is generally viewed as to be riskier than the business enterprise itself. Our analysis concluded that an intangible asset premium of 4% is applicable to the Distribution Rights as at the Acquisition Date.

Trademark

To value the Trademark, the cost approach and the income approach were both considered not to be the appropriate methods in this appraisal. It is difficult to accurately identify all necessary costs to re-create the Trademarks, and thus, we consider that it is not appropriate to adopt the cost approach in this case. Also, it is hard to forecast the future available cash flows to be generated from the Trademark on a reasonable basis since it is a newly created trademark without much market recognition.

The market approach provides an indication of value by comparing the price at which similar property has been exchanged between willing buyers and sellers. Transactions occurring in a free and open market can serve as a proxy for the property being valued. Since there was a recent transaction of the Trademark, we used it as the proxy to value the Trademark. Therefore, we have concluded that the most appropriate method for valuing the Trademark in this appraisal is the market approach.

Summary of the recent transaction of the Trademark

Type of transaction	Source of information	Transaction Date	Transaction price
Private Negotiation	Management of SZMM	20 July 2009	RMB500,000

CONCLUSION OF VALUE

Based on the above investigation and analysis, it is our opinion that the fair market values of the Trademarks and the Distribution Rights as of 30 June 2010 are reasonably stated by the amounts of **RENMINBI FIVE HUNDRED THOUSAND (RMB500,000) AND RENMINBI FORTY ONE MILLION FIVE HUNDRED AND TWENTY EIGHT THOUSAND (RMB41,528,000) respectively.**

This conclusion of value was based on the International Valuation Standards (Eighth Edition 2007) and 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 have not investigated the title to or any liabilities against the property appraised. We hereby certify that we have neither present nor prospective interests in the Company, PRHL, JGJ, SZMM and HNMM 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) and he has been conducting business valuation of various industries, including computer software, in the Greater China 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

23 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 23 August 2010 as prepared by Grant Sherman Appraisal Limited (the "**Valuer**") in relation to the valuation of the distribution rights of Diancang Jiugui, Xiaoxiangquan and Meiming Wenshi Jiugui (the "**Distribution Rights**"). The valuation of the Distribution Rights was prepared based on the discounted cash flow 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 Distribution Rights 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
BIO-DYNAMIC GROUP LIMITED
Peter Lo
Chairman

B. LETTER FROM THE ACCOUNTANTS

ERNST & YOUNG
安 永

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

23 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 the distribution rights (the "Distribution Rights") as of RMB41,528,000 included in the circular of Bio-Dynamic Group Limited (the "Company") dated 23 August 2010 (the "Circular").

The Valuation has been arrived at based on the income approach, which takes into account the net discounted cash flows of the Distribution Rights during its operating period from 30 June 2010 to 30 April 2020 (hereinafter referred to as the "Underlying Projection"). We have reviewed the calculation of the Underlying Projection on which the fair value of the Distribution Rights is determined.

RESPONSIBILITIES

The Directors of the Company are responsible for the Underlying Projection. Because the Underlying Projection relates to cash flows, 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 Rule 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 Distribution Rights.

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

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 was 886,583,263 Shares. On the basis that no Shares is 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 88,658,326 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 Articles 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 of association and Articles 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 2009) 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$*
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	0.60	0.375
January 2010	0.57	0.43
February 2010	0.55	0.45
March 2010	0.85	0.47
April 2010	0.80	0.64
May 2010	0.75	0.54
June 2010	0.67	0.54
July 2010	0.67	0.56
August 2010 (up to the Latest Practicable Date)	0.88	0.56

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, the memorandum of association and Articles of the Company and the Companies Laws. So far as the Directors are aware, the Company does not have any present intention to repurchase Shares pursuant to the Repurchase Mandate.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of 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 Shareholder's 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, CEC Agricapital and CFB held 195,000,000 Shares, 128,960,000 Shares and 78,556,263 Shares, respectively, representing in aggregate 402,516,263 Shares and 45.40% of the issued share capital of the Company. Immediately after Completion and the issuance of the Consideration Shares and, assuming completion of the KVHL Acquisition, the KVHL Consideration Shares, and assuming no other change to the Company's shareholding, OIL, CEC Agricapital and CFB, and the parties acting in concert with them (which would include CEC, CEC F&B) would be interested or deemed to be interested in an aggregate of 402,516,263 Shares, representing 36.71% 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 and completion of the KVHL Acquisition, the interest of OIL, CEC Agricapital and CFB, and the parties acting in concert with them, would be increased to approximately 40.78% of the issued share capital of the Company. Such increase would 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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon the issue of the Consideration Shares, the KVHL Consideration Shares and the KVHL Consideration Adjustment 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		
4,000,000,000	Shares	400,000,000
Issued and fully paid share capital		
886,583,263	Shares	88,658,326

Upon the issue of the Consideration Shares, KVHL Consideration Shares and the KVHL Consideration Adjustment Shares

Issued and fully paid share capital		
886,583,263	Shares	88,658,326
60,000,000	KVHL Consideration Shares	6,000,000
30,000,000	KVHL Consideration Adjustment Shares	3,000,000
150,000,000	Consideration Shares	15,000,000
1,126,583,263	Shares	112,658,326

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 the 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 Shareholders, and any minority Shareholder in the Company's subsidiaries. The Share 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 has 42,023,000 Options outstanding under the Share Option Scheme, which represents approximately 4.74% of the Shares in issues as at that date.

3. DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Executive Directors

Mr. LO Peter, aged 54, 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 Asia Coal 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. Prior to his position at McKinsey, Mr. Sun practised law as an associate in the corporate group at Linklaters. Mr. Sun holds a Juris Doctor from the University of Illinois College of Law and a Bachelor of Art degree from Cornell University.

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 52, 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 54, 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 Asia Coal 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 of the Company in June 2005. Dr. Loke 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. He 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 Hong Kong Institute of Chartered Secretaries and a member of Malaysian Institute of Accountants. He is the Chairman of MHL Consulting Limited and serves as an independent non-executive director of Vodone Limited, Matrix Holdings Limited, China Fire Safety Enterprise Group Limited, Winfair Investment Company Limited, Scud Group Limited, and Zhong An Real Estate Limited, companies currently listed on the Main Board of the Stock Exchange.

Dr. LEUNG Kwan-Kwok, aged 58, was appointed an independent non-executive director of the Company in May 2005. He is the 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 63, 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

Mr. FU Hui, aged 47, is the chief operating officer of the Company. He was appointed a director of the Company in July 2006 and resigned in July 2007. Mr. Fu is responsible for monitoring the daily operations of the 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.

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.

Ms. CHAN So Fong, aged 37, is the chief financial officer 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.

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 Shares of the Company

	Number of Shares held, capacity and nature of interest			
Name of Directors	**Director beneficially owned**	**Through spouse**	**Total**	**Percentage of the Company's issued share capital**
Mr. Lo Peter	3,160,000	–	3,160,000	0.36
Mr. Li Wentao	950,000	–	950,000	0.11
Mr. Sun David Lee	1,320,000	230,000	1,550,000	0.17
Mr. Zhao Difei	2,220,000	–	2,220,000	0.25
Mr. Li Jian Quan	4,296,000	–	4,296,000	0.49
Mr. Lu Gui Pin	5,932,000	–	5,932,000	0.67
Mr. Yeung Ting-Lap Derek Emory	200,000	–	200,000	0.02
	18,078,000	230,000	18,308,000	2.07

Long positions in Options of the Company

Name of Directors	**Number of Options directly beneficially owned**
Mr. Lo Peter	5,000,000
Mr. Li Wentao	4,050,000
Mr. Sun David Lee	2,680,000
Mr. Zhao Difei	3,000,000
Mr. Lu Gui Pin	2,400,000
Mr. Yeung Ting-Lap Derek Emory	100,000
Dr. Loke Yu	300,000
Mr. Zuchowski Sam	300,000
	17,830,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had registered an interest or short position in the Shares, underlying Shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of Listed Issuers.

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	45.40
OIL	Beneficial interest	195,000,000	21.99
	Interest of controlled corporation[(3)]	128,960,000	14.55
CEC Agricapital	Beneficial interest	128,960,000	14.55
CFB	Beneficial interest	78,556,263	8.86
CEC F&B	Interest of controlled corporation[(4)]	78,556,263	8.86
The Vendor	Beneficial interest[(5)]	150,000,000	16.92
ALI	Beneficial interest[(6)]	60,000,000	6.77

(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 OIL, which in turn owns 100% of CEC Agricapital. CEC also indirectly holds approximately 88.6% of the issued share capital of CFB. Accordingly, CEC is taken under the SFO to be interested in the Shares in which OIL, CEC Agricapital and CFB have an interest.

(3) OIL owns 100% of CEC Agricapital. Accordingly, OIL is taken under the SFO to be interested in the Shares which CEC Agricapital has an interest.

(4) CEC F&B owns 88.6% of the issued share capital of CFB. Accordingly, CEC F&B is taken under the SFO to be interested in the Shares in which CFB has an interest.

(5) The 150,000,000 Shares are Consideration Shares and have not been allotted as at the Latest Practicable Date. Allotment is subject to the Sale and Purchase Agreement being approved by the 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.

(6) The 60,000,000 Shares are KVHL Consideration Shares and have not been allotted as at the Latest Practicable Date. Allotment is subject to completion of the KVHL Acquisition. 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.

(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
PRHL	The Vendor	Beneficial interest	US$1.00	100.0
JGJ	PRHL	Beneficial interest	HK$1.00	100.0
SZMM	JGJ	Beneficial interest	RMB10,000,000	100.0
HNMM	SZMM	Beneficial interest	RMB5,000,000	100.0
Harbin China Distillery Co., Ltd.	Independent third party	Beneficial interest	RMB255,890,000	27.3
GWLF	Independent third party	Beneficial interest	RMB12,500,000	30.0
KVHL	ALI	Beneficial interest	US$50,000	100

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have, any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, 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 other members of the Enlarged Group or held any option in respect of such capital.

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 KVHL Agreement dated 4 August 2010 as supplemented by a supplemental agreement dated 5 August 2010 entered into between the Company and ALI in relation to the purchase of the entire issued share capital of KVHL by the Company at a consideration of HK$36,000,000;

(ii) the Placing and Subscription Agreement dated 2 August 2010 entered into between the Company, OIL and Shenyin Wanguo Securities (H.K.) Limited in relation to the placing and subscription of 90,000,000 Shares;

(iii) the Sale and Purchase Agreement dated 28 June 2010 entered into between the Company and the Vendor in relation to the purchase of the entire issued share capital of PRHL by the Company at a consideration of HK$66,000,000;

(iv) a placing and subscription agreement dated 18 January 2010 entered into between the Company, OIL and First Shanghai Securities Limited in relation to 103,000,000 Shares;

(v) a placing and subscription agreement dated 2 December 2009 entered into between the Company, OIL and First Shanghai Securities Limited in relation to 36,000,000 Shares;

(vi) a sale and purchase agreement dated 25 November 2009 entered into between CFB and the Company in relation to the purchase of the entire issued share capital of Rightsouth Limited by the Company at a consideration of HK$37,000,000 (subject to adjustment), the details of which and the financial information of Rightsouth Limited and its subsidiaries are set out in the announcements of the Company dated 1 December 2009 and 13 January 2010 and the circular of the Company dated 24 December 2009;

(vii) an option agreement dated 25 November 2009 entered into between CFB and the Company in relation to an option to purchase the equity interest in GWLF;

(viii) a deed of assignment and control in relation to GWLF dated 25 November 2009 entered into between CFB and Rightsouth;

(ix) an 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.;

(x) 全國總代理合同 (the nation-wide exclusive distributorship agreement) dated 21 August 2009 entered into between SZMM and JSS, as supplemented by the supplemental agreement dated 4 May 2010, in respect of the Distribution Rights; and

(xi) 賣斷產品全國總代理合同 (the nation-wide exclusive distributorship agreement) dated 22 February 2008 entered into between SZMM and JSS, as supplemented by the supplemental agreements dated 20 May 2008, 1 April 2009, 21 August 2009 and 4 May 2010, in respect of the Distribution Rights.

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 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**
Partners Capital International Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO
Grant Sherman Appraisal Limited	Professional valuers and surveyors
Ernst & Young	Certified Public Accountants

The Independent Financial Adviser, the Valuer 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 report and letter (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, the Valuer and Ernst & Young was beneficially interested in the share capital of any member of the Enlarged 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 Enlarged 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 Enlarged Group or which were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

None of the Independent Financial Adviser, the Valuer and Ernst & Young had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2009 (being the date to which the latest published audited accounts of the Group were made up).

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 has 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 has 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 Company were made up) acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be 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 Enlarged Group's financial or trading position since 31 December 2009.

12. MISCELLANEOUS

(a) The secretary of the Company is Mr. Chan Kwong Leung, Eric. He is an associate member of the Institute of Chartered Secretaries and Administrators, United Kingdom and Hong Kong Institute of Company Secretaries. He is also a member of the Hong Kong Securities Institute.

(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 head office and principal place of business of the Company during normal business hours from the date of this circular up to and including 7 September 2010:

(i) the memorandum of association and the Articles of the Company;

(ii) the annual reports of the Company for each of the three years ended 31 December 2007, 2008 and 2009;

(iii) the accountants' report of the Target Group as set out in Appendix III to this circular;

(iv) the accountants' report of SZMM Group as set out in Appendix IV to this circular;

(v) the report on unaudited pro forma financial information on the Resulting Group as set out in Appendix V to this circular;

(vi) the Valuation Report as set out in Appendix VI to this circular;

(vii) the letter from the Independent Board Committee as set out on page 21 of this circular;

(viii) the letter from the Independent Financial Adviser, Partners Capital International Limited, as set out on page 22 of this circular;

(ix) the material contracts referred to in the paragraph headed "Material Contracts" of this appendix;

(x) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix;

(xi) this circular; and

(xii) the circular of the Company dated 17 August 2010 in relation to the KVHL Acquisition.

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 Basement Falcon Room I, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 8 September 2010 at 3:00 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 shareholders of the Company (the "**Shareholders**") dated 23 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 Ms. Wong Hui-Hung, 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 150,000,000 new ordinary shares of HK$0.10 each in the capital of the Company ("**Shares**") to Ms. Wong Hui-Hung (or its nominee) at an issue price of HK$0.44 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 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/her (or their) opinion necessary or desirable in connection with the issue of the 150,000,000 Shares (the "**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."

(2) "**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 26 May 2010, 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 Shares) 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 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 share 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 in general meeting, including the issue of the Consideration Shares upon the completion of the Sale and Purchase Agreement 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 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 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)."

(3) "**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 of Hong Kong Limited 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 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 or any applicable laws to be held."

(4) "**THAT** conditional upon the passing of the ordinary resolutions nos. 2 and 3 as set out in the notice convening this meeting, 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. 3 as set out in the notice convening this meeting 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 pursuant to and in accordance with the resolution no. 2 as set out in the notice convening this meeting."

(5) "**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options granted under the Refreshed Scheme Mandate Limit (as defined below), the refreshment of the existing scheme mandate limit in respect of granting of options to subscribe for Shares under the share option scheme adopted by the Company on 23 May 2007 (the "**Share Option Scheme**"), up to 10% of the total number of Shares in issue of the Company as at the date of passing this resolution (the "**Refreshed Scheme Mandate Limit**") be and is hereby approved and that the Directors be and are hereby authorised, at their absolute discretion, to grant options under the Share Option Scheme up to the Refreshed Scheme Mandate Limit and to allot and issue Shares pursuant to the exercise of such options."

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

Hong Kong, 23 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 joint holding.