**THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in **National Agricultural Holdings Limited**, you should at least once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.



# NATIONAL AGRICULTURAL HOLDINGS LIMITED
# 國農控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1236)**

## MAJOR TRANSACTION IN RELATION TO (1) THE FORMATION OF A JOINT VENTURE TO ENGAGE IN AGRICULTURAL FINANCE BUSINESS IN CHINA AND (2) THE INVESTMENT IN A COMPANY WHICH ENGAGES IN FINANCIAL LEASING BUSINESS IN CHINA

A letter from the Board is set out on pages 5 to 23 of this circular.

6 June 2014

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

| | |
|---|---|
| "789 Investments" | 789 Investments Limited, a limited liability company incorporated in the United Kingdom |
| "All China Federation" | All China Federation of Supply and Market Cooperatives* (中華全國供銷合作總社), an institutional organisation under the State Council of the Central People's Government of the PRC |
| "Articles" | the existing memorandum and articles of association of the Company |
| "Board" | the board of Directors |
| "Call Option" | the call option granted by Hebei Mingde in favour of Ever Harvest to acquire all interests held by Hebei Mingde in China Coop Mengda |
| "Capital Contribution Option" | the capital contribution option granted by Ever Harvest in favour of Xinyuan to contribute additional capital to the New Joint Venture such that Xinyuan and Ever Harvest will be holding 40% and 60% of the total registered capital of the New Joint Venture, respectively after such capital contribution |
| "China Coop Mengda" | China Coop Financial Leasing Co., Ltd.* (中合盟達融資租賃有限公司), a limited liability company established in the PRC on 17 August 2012 |
| "Company" | National Agricultural Holdings Limited (國農控股有限公司) (formerly known as Qianlong Technology International Holdings Limited (乾隆科技國際控股有限公司*)) a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange |
| "Coopinvest" | Coopinvest Company Limited* (中合聯投資有限公司), a company established in the PRC and an indirect subsidiary of All China Federation |
| "Director(s)" | director(s) of the Company |
| "Enlarged Group" | the Group, China Coop Mengda and the New Joint Venture |

| | |
|---|---|
| "Ever Harvest" | Ever Harvest Inc Limited (禾恒有限公司), a limited company incorporated in Hong Kong and a wholly-owned subsidiary of the Company |
| "Group" | the Company and its subsidiaries |
| "Hebei AMP" | Hebei Agricultural Means of Production Company Limited* (河北省農業生產資料有限公司), a company established in the PRC |
| "Hebei Mingde" | Hebei Mingde Machinery Limited Liability Company* (河北明德機械有限責任公司), a company established in the PRC |
| "Hebei New Cooperation" | Hebei New Cooperation Group Holdings Limited* (河北省新合作控股集團有限公司), a company established in the PRC |
| "Hebei SMC" | Hebei Supply and Marketing Cooperative* (河北省供銷合作總社), Parko's ultimate controlling shareholder and an institutional organisation of the People's Government of Hebei Province of the PRC |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Independent Third Party(ies)" | an individual(s) or a company(ies) who or which is(are) independent of and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders of any of the Company and its subsidiaries |
| "Investment in China Coop Mengda" | the capital contribution in China Coop Mengda by Ever Harvest pursuant to the JV Agreement 2 and the transactions contemplated thereunder (including the Call Option) |
| "Investments" | the New Joint Venture Formation and the Investment in China Coop Mengda |
| "JV Agreement 1" | a joint venture agreement dated 21 March 2014 entered into between Ever Harvest and Xinyuan |

| | |
|---|---|
| "JV Agreement 2" | a joint venture agreement dated 21 March 2014 entered into among Ever Harvest, Coopinvest, 789 Investments, Shandong Jindu and Hebei Mingde |
| "JV Agreements" | JV Agreement 1 and JV Agreement 2 |
| "Latest Practicable Date" | 4 June 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Million Rich" | Million Rich Hong Kong Holdings Company Limited, a limited company incorporated in Hong Kong |
| "New Joint Venture" | a sino-foreign joint venture to be formed by Ever Harvest and Xinyuan pursuant to the JV Agreement 1 |
| "New Joint Venture Formation" | the formation of the New Joint Venture pursuant to the JV Agreement 1 and the transactions contemplated thereunder (including the Capital Contribution Option) |
| "Parko" | Parko (Hong Kong) Limited, a limited company incorporated in Hong Kong |
| "PRC" or "China" | the People's Republic of China |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) as amended from time to time |
| "Shandong Jindu" | Shandong Jindu Dazhan Group Company Limited* (山東金都大展集團有限公司), a company established in the PRC |
| "Share(s)" | ordinary share(s) of HK0.025 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

| | |
|---|---|
| "Subscription Agreement" | the subscription agreement dated 15 July 2013 (as supplemented by two supplemental agreements dated 16 August 2013 and 10 October 2013 respectively) entered into between the Company and Parko in respect of the subscription and issue of the convertible bonds in the maximum aggregate principal amount of HK$247,925,000 by the Company |
| "Xinyuan" | Xinyuan Taifeng Agricultural Asset Management (Beijing) Company Limited* (新源泰豐農業資產管理(北京)有限公司), a company established in the PRC which is controlled by Coopinvest |
| "%" | per cent |

* *for identification purpose only*

# NATIONAL AGRICULTURAL HOLDINGS LIMITED
# 國農控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1236)**

*Executive Directors:*
Mr. Chen Li-Jun *(Chairman)*
Mr. Zhang Yanhui
Mr. Ren Hai
Mr. Peng Guojiang
Mr. Zhang Yuliang
Ms. Wen Yuanyi

*Independent Non-executive Directors:*
Ms. Chiu Kam-Hing Kathy
Mr. Tsai Jeng-Yang
Mr. Ting Tit Cheung
Mr. Shum Wan Lung
Mr. Law Yee Kwan Quinn

*Registered office:*
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

*Head office and principal place of business in Hong Kong:*
Suites 1604–5, Prudential Tower,
Harbour City, 21 Canton Road,
Tsimshatsui, Kowloon, Hong Kong

6 June 2014

*To the Shareholders*

Dear Sir/Madam,

## MAJOR TRANSACTION IN RELATION TO (1) THE FORMATION OF A JOINT VENTURE TO ENGAGE IN AGRICULTURAL FINANCE BUSINESS IN CHINA AND (2) THE INVESTMENT IN A COMPANY WHICH ENGAGES IN FINANCIAL LEASING BUSINESS IN CHINA

## INTRODUCTION

Reference is made to the announcement of the Company dated 23 March 2014 in which the Board announced that:

(1) the Group entered into the JV Agreement 1 dated 21 March 2014 with Xinyuan to form the New Joint Venture which will engage in agricultural finance business in China; and

(2) Ever Harvest entered into the JV Agreement 2 dated 21 March 2014 with the shareholders of China Coop Mengda which principally engages in general leasing business, regarding the investment Ever Harvest.

Pursuant to the JV Agreement 1, Ever Harvest has conditionally agreed to make a capital contribution of RMB35.50 million to the New Joint Venture in cash, equivalent to 71% of the total registered capital of the New Joint Venture.

Pursuant to the JV Agreement 2, Ever Harvest has conditionally agreed to make a capital contribution of RMB70 million to China Coop Mengda in cash. After the investment by Ever Harvest, China Coop Mengda will be held as to approximately 41.18% by Ever Harvest and approximately 20.08%, 14.71%, 14.12% and 9.91% by the other shareholders, respectively.

As at the Latest Practicable Date, Parko, the controlling Shareholder of the Company which held 711,733,948 Shares, representing approximately 53.58% of the issued share capital of the Company had given its written approval in lieu of holding a general meeting to approve each of the Investments in accordance with Rule 14.44 of the Listing Rules. Accordingly, the written Shareholder's approval of Parko will therefore be relied on in lieu of holding a general meeting for approving the Investments.

The purposes of this circular is to provide you with, among other things, (i) further information on the Investments; (ii) certain relevant financial information of the Group; (iii) the accountants' report of China Coop Mengda; and (iv) the unaudited pro forma financial information of the Enlarged Group.

**THE INVESTMENTS**

**(1) New Joint Venture Formation**

| | |
|---|---|
| Principal business: | New Joint Venture will be mainly focused on provision of agricultural financial services, in particular finance and payment services (e.g. provision of credit card services that are specifically designed to cater for the needs of farmers such as payment for agricultural products). |

Geographical focus and business plan:

The target market of the New Joint Venture will be the entire PRC. The New Joint Venture will focus on developing its business in Beijing and Hebei Province of the PRC at the initial stage. It is expected that the New Joint Venture will continue to explore different types of agricultural financial services so as to cater for the ever changing needs of the "agricultural sector, rural areas and farmers". It is currently planned that, immediately after its formation, the New Joint Venture would launch and promote a new payment service to farmers with payment cards issued by ordinary banks with a focus on the agricultural sector through cooperation with other financial service provider(s) which has/have established infrastructure and network (e.g. internet platform or electronic banking systems) in providing financial services and payment services. The new payment service provides a more convenient and favorable payment method for farmers whereby farmers will be able to purchase agricultural products at a certain discount at designated merchants only by presenting their payment cards upon payment, and through the provision of such service the New Joint Venture could derive revenue through the following ways:

(i) Commission income – merchants will have to pay commission at 0.38% over purchases that are settled through such service, and such commission income will be received as to 50% by the New Joint Venture and as to 50% by other financial services provider(s) that will be cooperating with the New Joint Venture; and

(ii) Interest income – the purchase monies for agricultural products that are settled through such service will, before being remitted to the relevant merchants, first be deposited into the bank account of the New Joint Venture pending completion of all the necessary administrative work, and interest income will be generated between the day when such purchase monies are deposited into the bank account of the New Joint Venture and the day before the purchase monies are remitted to the relevant merchants.

The New Joint Venture will, through the Company, seek to leverage on its relationship with Hebei SMC and its connection with agricultural enterprises to promote agricultural financial services. For example, the financial service providers may through their own electronic platforms or systems provide payment services for customers who carry out transactions with the agricultural enterprises under Hebei SMC.

The details of the JV Agreement 1 are as follow:

Date of the JV Agreement 1: 21 March 2014

Parties:

(i) Ever Harvest; and

(ii) Xinyuan.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Xinyuan and its ultimate beneficial owner(s) are Independent Third Parties.

Business scope: Provision of agricultural financial services.

Term: 20 years from the date of formation of the New Joint Venture.

Initial investment amount: RMB125 million

Total registered capital and capital contributions by the parties: The total registered capital of the New Joint Venture is RMB50 million (or RMB80 million upon the exercise of the Capital Contribution Option by Xinyuan), out of which:

(i) RMB35.5 million, representing 71% of the total registered capital of the New Joint Venture (or RMB48.0 million, representing 60% of the total registered capital of the New Joint Venture upon the exercise of the Capital Contribution Option by Xinyuan), will be contributed by Ever Harvest; and

(ii) RMB14.5 million, representing 29% of the total registered capital of the New Joint Venture (or RMB32.0 million, representing 40% of the total registered capital of the New Joint Venture upon the exercise of the Capital Contribution Option by Xinyuan), will be contributed by Xinyuan.

The contributions were determined after arm's length negotiation of the parties and with reference to the initial funding needs of the New Joint Venture and the agreed share of each party in the total registered capital of the New Joint Venture.

The capital contributions shall be payable in cash in accordance with the following schedule:

(1) 20% of the registered capital (as enlarged by the Capital Contribution Option if exercised by Xinyuan by such time) shall be paid up within 2 months from the date of issuance of the business licence of the New Joint Venture;

(2) 50% of the registered capital (as enlarged by the Capital Contribution Option if exercised by Xinyuan by such time) shall be paid up within 6 months from the date of issuance of the business licence of the New Joint Venture; and

(3) 100% of the registered capital (as enlarged by the Capital Contribution Option if exercised by Xinyuan by such time) shall be paid up within 12 months from the date of issuance of the business licence of the New Joint Venture.

If Xinyuan shall exercise the Capital Contribution Option and the new business licence is issued after the 12 month period mentioned in (3) above, the parties shall pay up the entire amount of the enlarged registered capital within 10 business days after issuance of the new business licence.

| | |
|---|---|
| Conditions precedent of capital contributions: | The obligations of the parties regarding capital contribution are conditional upon:<br><br>(i) the approval of the JV Agreement 1 and the articles of association of the New Joint Venture by the approval authorities, and such other necessary approvals; and<br><br>(ii) the issue of business licence to the New Joint Venture.<br><br>As at the Latest Practicable Date, the conditions precedent set out above had not been fulfilled. |
| Board composition: | The board of directors will comprise 5 directors, 4 of which will be nominated by Ever Harvest and 1 of which will be nominated by Xinyuan. Chairman of the board will be nominated by Ever Harvest. A quorum of a board meeting shall comprise more than two-thirds of all directors. |
| Restriction on creation of encumbrances and transfer of interests: | None of the joint venture parties shall, except with the prior written consent of the other party, transfer, pledge or create any encumbrance over all or any of the interests in the New Joint Venture held by it. |
| Capital Contribution Option: | Xinyuan is granted by Ever Harvest the Capital Contribution Option pursuant to which Xinyuan has the right at any time within 1 year from the date of the JV Agreement 1 to increase the total registered capital of the New Joint Venture from RMB50 million to RMB80 million, out of which RMB48 million and RMB32 million will be contributed by Ever Harvest and Xinyuan respectively, representing 60% and 40% of the total registered capital of the New Joint Venture respectively.<br><br>The amount of capital contribution shall be determined by the chief financial officer of the New Joint Venture if Ever Harvest and Xinyuan fail to agree on the determination of amount of capital contribution of the Capital Contribution Option. |

As the New Joint Venture has not been formed yet, the required licences and permits are still being obtained from the relevant government authorities. The provision of financial services and payment services in China would require licences such as Payment Business Permit (支付業務許可證) for handling prepaid card issuance and acceptance business. It is expected that after its formation, the New Joint Venture would cooperate with other financial service provider(s) which holds such licence(s) in providing the regulated services.

Upon completion of the JV Agreement 1, the New Joint Venture will become an indirect non-wholly owned subsidiary of the Company and the financial information of the New Joint Venture will be consolidated into the consolidated financial statements of the Company.

**(2) Investment in China Coop Mengda**

| | |
|---|---|
| Principal business: | China Coop Mengda will be mainly focused on general leasing business, in particular leasing of movable properties (such as industrial equipment) and financial leasing. |
| Geographical focus and business plan: | The target market of the China Coop Mengda will be the entire PRC. China Coop Mengda will focus on developing its business in Shanghai and Jiangxi Province of the PRC at the initial stage. It is expected that China Coop Mengda will continue to focus on developing its general leasing business. China Coop Mengda plans to focus on the provision of general leasing of movable properties and financial leasing to PRC state-owned enterprises and the enterprises of supply and marketing cooperatives (供銷社) which are under the supervision and guidance of the All China Federation. It is expected that the investment by Ever Harvest would enhance the financing capability of China Coop Mengda to provide large scale leasing services. |

The details of the JV Agreement 2 are as follow:

| | |
|---|---|
| Date of the JV Agreement 2: | 21 March 2014 |
| Parties: | (i) Ever Harvest;<br>(ii) Coopinvest;<br>(iii) 789 Investments;<br>(iv) Shandong Jindu; and<br>(v) Hebei Mingde. |

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Coopinvest, 789 Investments, Shandong Jindu and Hebei Mingde and each of their ultimate beneficial owner(s) are Independent Third Parties.

| | |
|---|---|
| Business scope: | Financial leasing, general leasing business, acquisition of leasing properties, treatment and maintenance of leasing properties and the provision of consultancy and guarantee in leasing transactions. |
| Term: | 30 years from the date of formation of China Coop Mengda. |
| Total registered capital: | RMB170 million |
| Capital contributions by the parties: | Ever Harvest has conditionally agreed to make capital contribution to China Coop Mengda in the amount of RMB70 million. |

The following sets forth the interests to be held by each of the joint venture parties in China Coop Mengda immediately after the investment by Ever Harvest:

| **Party** | **Amount of capital contribution made** | **Approximate percentage of interest in China Coop Mengda** |
|---|---|---|
| Coopinvest | RMB34.15 million | 20.08% |
| 789 Investments | RMB25.00 million | 14.71% |
| Shandong Jindu | RMB24.00 million | 14.12% |
| Hebei Mingde | RMB16.85 million | 9.91% |
| Ever Harvest | RMB70 million | 41.18% |
| **Total** | **RMB170 million** | **100.00%** |

| | |
|---|---|
| | The contribution by Ever Harvest was determined after arm's length negotiation of the joint venture parties and with reference to the funding needs of China Coop Mengda and the agreed share of each party in the total registered capital of China Coop Mengda, and shall be payable in two installments. The first installment, being 50% of the agreed contribution amount, shall be paid within 60 days after the fulfilment of conditions precedent. The remaining 50% of the agreed contribution amount, shall be paid within 10 business days after the issuance of the new users licence of China Coop Mengda. |
| Conditions precedent of capital contributions: | The obligations of the parties regarding capital contribution are conditional upon:<br><br>(i) the approval of the JV Agreement 2 and the articles of association of China Coop Mengda by the approval authorities; and<br><br>(ii) the issue of business licence to China Coop Mengda.<br><br>As at the Latest Practicable Date, the conditions precedent set out above had been fulfilled. Ever Harvest made the capital contribution of RMB70 million in full under the JV Agreement 2 on 4 June 2014. |
| Board composition: | The board of directors will comprise 7 directors, 4 of which will be nominated by Ever Harvest and each of Coopinvest, 789 Investments and Shandong Jindu will nominate 1 director. Chairman of the board will be nominated by Ever Harvest. A quorum of a board meeting shall comprise more than two-thirds of all directors. |
| Restriction on creation of encumbrances: | None of the joint venture parties shall, except with the prior written consent of the other parties, pledge or create any encumbrance over all or any of the interests in China Coop Mengda held by it. |

| | |
|---|---|
| Restriction on transfer of interests: | The joint venture parties agree to waive their pre-emptive rights in connection with the interests in Coopinvest Menda in case there is any transfer and will fully assist in executing the relevant documents and completing the approval and registration procedures in connection with the transfer. |
| Call Option: | Ever Harvest is granted by Hebei Mingde the Call Option pursuant to which Ever Harvest has the right at any time within 2 years after the date of JV Agreement 2 to acquire from Hebei Mingde its entire equity interest (representing approximately 9.91% of the total registered capital) in China Coop Mengda. |

The exercise price of the Call Option shall be determined in accordance with the following formula:

9.91% x (annualised annual income generated from the subsisting lease contracts entered into by China Coop Mengda at the time of the exercise of the Call Option – annualised direct finance costs in connection with such subsisting lease contracts) x 8 (being a price-earnings multiple which is within the range of price-earnings multiples of comparable companies)

provided that the exercise price of the Call Option shall not exceed RMB80.86 million in any event.

To exercise the Call Option, Ever Harvest shall issue a written exercise notice (by post or by e-mail) which specifies the completion date, the exercise price and the calculation method. The exercise price shall be determined by the chief financial officer of China Coop Mengda if Ever Harvest and Hebei Mingde fail to agree on the determination of exercise price of the Call Option.

Within 90 business days after completion of the relevant registrations with the relevant authorities, Ever Harvest shall pay Hebei Mingde the exercise price of the Call Option.

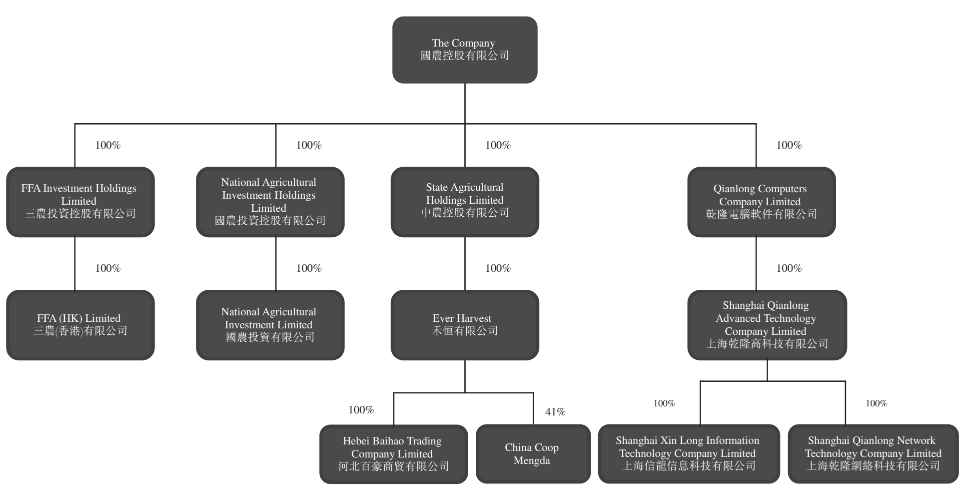
Coopinvest, 789 Investments and Shandong Jindu agree to waive their pre-emptive rights in connection with the interests of Hebei Mingde and will fully assist in executing the relevant documents and completing the approval and registration procedures in connection with the transfer.

Upon completion of the contribution of capital by Ever Harvest under the JV Agreement 2, China Coop Mengda will become an indirect non-wholly owned subsidiary of the Company and the financial information of China Coop Mengda will be consolidated into the consolidated financial statements of the Company on the following bases: (i) the Group would be able to appoint four out of seven members through Ever Harvest in the board of directors of China Coop Mengda; (ii) pursuant to the terms and conditions of the JV Agreement 2, the quorum for a board meeting is five board members, however, the Group is able to secure the quorum for the board meeting since, Coopinvest, which is entitled to appoint a member to the board of directors of China Coop Mengda, has irrevocably undertaken to Ever Harvest to attend the board meetings of China Coop Mengda; and (iii) under this arrangement as set out in (i) and (ii), the Group will be able to control the board of directors of China Coop Mengda and approve decisions on activities that significantly affect the returns of China Coop Mengda by simple majority votes in board meetings. After such completion of the contribution of capital, China Coop Mengda will be an indirect non-wholly owned subsidiary of the Company before and after the exercise of the Call Option.

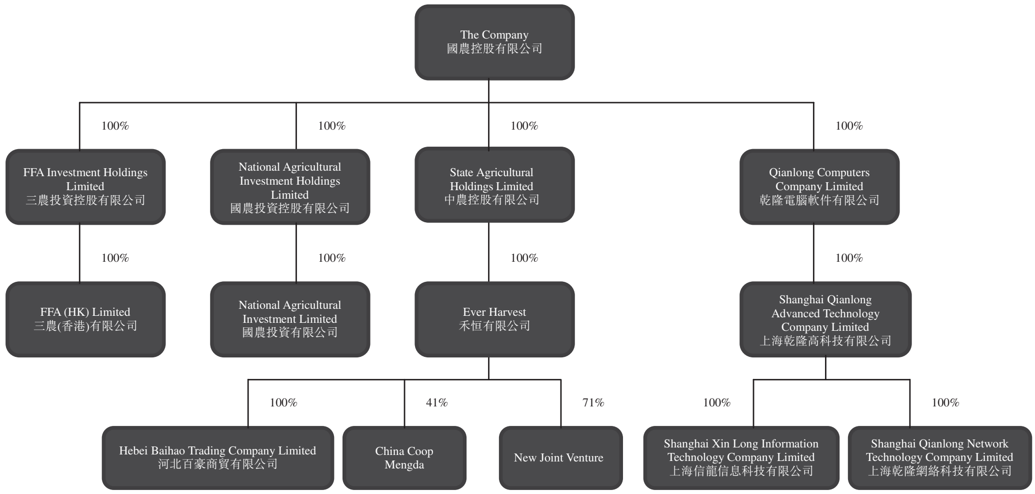
As at the Latest Practicable Date, China Coop Mengda had obtained all the required licences and permits from the relevant government authorities.

The parties to the JV Agreements may consider the detailed arrangement after expiry of the terms in the future according to the then business plan or economic conditions.

The following corporate chart depicts the shareholding structure of the Group as at the Latest Practicable Date:



Upon completion of the JV Agreements, the shareholding structure of the Group will be as follows:




## INFORMATION ON CHINA COOP MENGDA

China Coop Mengda was established in the PRC on 17 August 2012 with limited liability. China Coop Mengda is principally engaged in financial leasing, general leasing business, acquisition of leasing properties, treatment and maintenance of leasing properties and the provision of consultancy and guarantee in leasing transactions.

The shareholding structure of China Coop Mengda before the investment by Ever Harvest as conditionally agreed in the JV Agreement 2 is set out below:

| **Name of shareholder** | **Amount of capital contribution made** | **Approximate percentage of interest in China Coop Mengda** |
|---|---|---|
| Coopinvest | RMB34.15 million | 34.15% |
| 789 Investments | RMB25.00 million | 25.00% |
| Shandong Jindu | RMB24.00 million | 24.00% |
| Hebei Mingde | RMB16.85 million | 16.85% |
| **Total** | **RMB100 million** | **100.00%** |

The shareholding structure of China Coop Mengda immediately after the investment by Ever Harvest as conditionally agreed in the JV Agreement 2 is set out below:

| Name of shareholder | Amount of capital contribution made | Approximate percentage of interest in China Coop Mengda |
|---|---|---|
| Coopinvest | RMB34.15 million | 20.08% |
| 789 Investments | RMB25.00 million | 14.71% |
| Shandong Jindu | RMB24.00 million | 14.12% |
| Hebei Mingde | RMB16.85 million | 9.91% |
| Ever Harvest | RMB70.00 million | 41.18% |
| **Total** | **RMB170 million** | **100.00%** |

According to the audited financial statements of China Coop Mengda, the net asset value of China Coop Mengda was approximately RMB96.82 million (equivalent to approximately HK$123.18 million) as at 31 December 2013. The following table shows the audited results of China Coop Mengda for the year ended 31 December 2013 as extracted from the accountants' report of China Coop Mengda as included in Appendix II to this circular.

| | For the period from 17 August 2012 (date of establishment) to 31 December 2012 *(RMB'000)* | For the year ended 31 December 2013 *(RMB'000)* |
|---|---|---|
| Net (loss) profit before tax and extraordinary items | (13) | 3,215 |
| Net (loss) profit after tax and extraordinary items | (13) | 2,399 |

**MANAGEMENT DISCUSSION AND ANALYSIS ON CHINA COOP MENGDA**

The following discussion and analysis should be read in conjunction with the financial information of China Coop Mengda for the period from 17 August 2012 (date of establishment) to 31 December 2012 and for the year ended 31 December 2013, as set out in Appendix II of this circular.

**Liquidity, financial position and capital structure**

During the period from 17 August 2012 (date of establishment) to 31 December 2012, China Coop Mengda funded its operation mainly by proceeds from capital contribution from equity owners. As at 31 December 2012, the cash and cash equivalents were approximately RMB37,000.00, and the bank borrowings were nil. The cash and cash equivalents were held in RMB.

During the year ended 31 December 2013, China Coop Mengda funded its operation mainly by repayment from equity owners. As at 31 December 2013, the cash and cash equivalents were approximately RMB9,295,000.00, and the bank borrowings were nil. The cash and cash equivalents were held in RMB.

As at 31 December 2012, the current assets and current liabilities of China Coop Mengda were approximately RMB74,987,000 and nil, respectively. Current assets of China Coop Mengda as at 31 December 2012 comprise mainly of amounts due from equity owners. The current ratio, represented by current assets as a percentage of current liabilities, was nil as at 31 December 2012.

As at 31 December 2013, the current assets and current liabilities of China Coop Mengda were approximately RMB19,918,000 and RMB944,000, respectively. Current assets of China Coop Mengda as at 31 December 2013 comprise mainly of finance lease receivables as well as cash and cash equivalents, and current liabilities of China Coop Mengda as at 31 December 2013 comprise mainly of tax liabilities. The current ratio, represented by current assets as a percentage of current liabilities, was 21.10 times.

As at 31 December 2012, China Coop Mengda's total assets and total liabilities amounted to approximately RMB74,987,000 and nil, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was nil as at 31 December 2012.

As at 31 December 2013, China Coop Mengda's total assets and total liabilities amounted to approximately RMB97,764,000 and RMB944,000, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was 0.97% as at 31 December 2013.

**Revenue**

In terms of finance lease income arising from finance leasing business in the PRC, China Coop Mengda did not generate any finance lease income for the period from 17 August 2012 (date of establishment) to 31 December 2012 and it generated approximately RMB5.28 million finance lease income for the year ended 31 December 2013.

**Other income**

China Coop Mengda recorded interest income of approximately RMB5,000 and approximately RMB12,000 for the period from 17 August 2012 (date of establishment) to 31 December 2012 and for the year ended 31 December 2013, respectively, and it also recorded a gain of approximately RMB81,000 for the year ended 31 December 2013 as a result of the compensation income from cancellation of lease contract.

**Administrative expenses**

China Coop Mengda incurred administrative expenses of approximately RMB18,000 and RMB2,480,000 for the period from 17 August 2012 (date of establishment) to 31 December 2012 and for the year ended 31 December 2013, respectively. The increase of administrative expenses in 2013 was mainly due to the increasing number of projects that China Coop Mengda had to deal with in 2013 which resulted in higher administrative fees.

**(Loss)/profit for the period/year under review**

China Coop Mengda incurred a loss of approximately RMB13,000 for the period from 17 August 2012 (date of establishment) to 31 December 2012 and recorded a profit of approximately RMB2,400,000 for the year ended 31 December 2013.

**Employment and remuneration policies**

China Coop Mengda had no employees as at 31 December 2012 and its business operations between 17 August 2012 (date of establishment) and 31 December 2013 were administered by personnel who are employed by Coopinvest, and it had 13 employees as at 31 December 2013. China Coop Mengda did not incur any employee benefit expenses for the period from 17 August 2012 (date of establishment) to 31 December 2012, and its total employee benefit expenses for the year ended 31 December 2013 were approximately RMB1,120,000.

**Significant investment held and future plans for material investments or capital assets**

As at 31 December 2012 and 31 December 2013, China Coop Mengda did not have any significant investments and it does not have any future plans for material investments or capital assets.

**Capital commitment and contingent liabilities**

As at 31 December 2012 and 31 December 2013, China Coop Mengda had no material capital commitments for the acquisition of fixed assets and intangible assets and contingent liabilities.

**Foreign exchange exposure**

As at 31 December 2012 and 31 December 2013, the operation of China Coop Mengda was principally in the PRC and the principal assets and liabilities of China Coop

Mengda were denominated in Renminbi. As such, China Coop Mengda considered that it did not have any material exposure to fluctuations in exchange rate and hence no hedging measures were taken.

As of 31 December 2012 and 2013, there was no charge on China Coop Mengda's assets.

**Acquisition and disposal**

There were no material acquisitions and disposals of subsidiary, jointly controlled entity and associated company by China Coop Mengda from 17 August 2012 (date of establishment) to 31 December 2013.

**Outlook**

The agricultural sector is playing a pivotal role in the overall development of the PRC and in 2013, the total value of the PRC's output of agricultural products reached approximately RMB9,700 billion and the total sales of the PRC's agricultural means of production reached approximately RMB2,700 billion. To keep up with the momentum for such development going forward, participants of the agricultural sector require a channel to obtain funds in a more efficient manner such that their production facilities could be optimised to capture the opportunities, and this has created demands for financial services in the rural areas including but not limited to asset management, financial leasing, rural banks and micro-lending. The importance of rural finance was confirmed by the "Certain Comments relating to the Deepening Reform of the Rural Areas for Accelerating the Modernisation of Agriculture" ("關於全面深化農村改革加快推進農業現代化的若干意見") issued by the State Council of the PRC on 19 January 2014, which stressed the importance of developing innovations in terms of rural finance and strengthening the function of finance to the rural sector.

Against the backdrop of the increasing demand for rural finance and the implementation of supportive government policies, China Coop Mengda will, on one hand, leverage the resources and relationship of Hebei SMC in the rural market and develop its business network with a view to strengthening its presence in the rural market and, on the other hand, capture the opportunities to be presented by the Group which will be actively creating demands and transaction volume for rural finance through its participation in urbanisation projects as well as different agricultural projects that are spearheaded by various agricultural cooperatives nationwide. With the support given by the government together with the growing needs of funds that are pivotal to the long-term development of the agricultural sector, the Board is confident that the cooperation between the Group and China Coop Mengda which involve the contribution of expertise and network by the Group will eventually transform China Coop Mengda into an integral service organization for rural market which would, in turn, ensure the sustainable growth for the Group and China Coop Mengda as a whole.

## REASONS AND BENEFITS OF THE INVESTMENTS

### Background of rural finance

According to the "Several opinions on thoroughly deepening of the rural reform and promoting the rural modernization" issued by the State Council in January 2014 ("No. 1 Central Document"), the "agricultural sector, rural areas and farmers" has been remaining as the national development focus for 11 consecutive years. The No. 1 Central Document promotes the strengthening of the provision of commercial and financial services to the "agricultural sector, rural areas and farmers" and small enterprises at counties level, the development of rural cooperative finance and rural finance institution and the improvement of the rural finance management system. The Directors believe that these government policies would bring huge opportunities to the development of rural finance. The implementation of the supportive agricultural policies by the central government to promote the modernization of agricultural sector would raise capital demand for the development of the "agricultural sector, rural areas and farmers".

The Company wishes to seize the opportunities brought by the "agricultural sector, rural areas and farmers" reform to lay a solid foundation of the Group's business and provide a driving force to its continuous business development.

### Reasons and benefits for entering into the JV Agreement 1

The business objective of the New Joint Venture is to provide efficient and speedy finance and payment services and integrated solutions platform to the "agricultural sector, rural areas and farmers" with the use of modern information technology. To achieve this objective, the New Joint Venture will seek to cooperate with business partners who have an expertise or technological capabilities in the use of various types of modern information technology (e.g. internet platform or electronic banking systems). The Directors believe that the use of modern information technology would help minimise the time and resources in the provision of our finance and payment services, thereby improving the overall efficiency and quality of our services. The Directors further believe that the implementation of the "agricultural sector, rural areas and farmers" supportive government policies would continuously increase the rural capital demand, and the Group could benefit from its operation of the rural finance business through its investment in the New Joint Venture.

### Reasons and benefits for entering into the JV Agreement 2

The business objectives of China Coop Mengda are to provide financial leasing service and to play an important role in the development of the "agricultural sector, rural areas and farmers" in the PRC. The Directors believe that the implementation of the supportive government policies for the "agricultural sector, rural areas and farmers" would continuously increase the rural capital demand, and the Investment in China Coop Mengda would help the Group to establish its foothold in the rural finance business which could bring new source of income and benefits to the Group.

The Directors consider that the terms of the JV Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## FINANCIAL EFFECTS OF THE INVESTMENTS ON THE GROUP

### Earnings

Upon completion of the New Joint Venture Formation, the Group will own 71% (before the exercise of the Capital Contribution Option by Xinyuan) or 60% (after the exercise of the Capital Contribution Option by Xinyuan) of the registered capital of the New Joint Venture. Therefore, the results of the New Joint Venture will be consolidated in the Company's financial statements.

Upon completion of the contribution of capital by Ever Harvest under the JV Agreement 2, China Coop Mengda will become an indirect non-wholly owned subsidiary of the Company and the financial information of China Coop Mengda will be consolidated into the consolidated financial statements of the Company on the following bases: (i) the Group would be able to appoint four out of seven members through Ever Harvest in the board of directors of China Coop Mengda; (ii) pursuant to the terms and conditions of the JV Agreement 2, the quorum for a board meeting is five board members, however, the Group is able to secure the quorum for the board meeting since, Coopinvest, which is entitled to appoint a member to the board of directors of China Coop Mengda, has irrevocably undertaken to Ever Harvest to attend the board meetings of China Coop Mengda; and (iii) under this arrangement as set out in (i) and (ii), the Group will be able to control the board of directors of China Coop Mengda and approve decisions on activities that significantly affect the returns of China Coop Mengda by simple majority votes in board meetings. After such completion of the contribution of capital, China Coop Mengda will be an indirect non-wholly owned subsidiary of the Company before and after the exercise of the Call Option.

### Assets and liabilities

Upon completion of the New Joint Venture Formation, the assets and liabilities of the New Joint Venture will be consolidated into the consolidated financial statements of the Company.

Upon completion of the Investment in China Coop Mengda, the assets and liabilities of China Coop Mengda will be consolidated into the consolidated financial statements of the Company.

Further details of the financial effect of the Investments on the earnings and the assets and liabilities of the Enlarged Group together with the bases in preparing the unaudited pro forma financial information are set out in Appendix III to this circular.

## GENERAL

The Group is principally engaged in businesses which include rural financial services, trading in agricultural means of production, urbanisation and the development, production and sale of IT products in the financial sector. Its line of products covers various sectors including real-time market data, entrusted trading platforms, real-time securities analysis terminals, financial databases, data services for real-time information, information dissemination services, web-based financial service platform and financial education system.

The proposed New Joint Venture will bring together the Group's expertise in financial information technology with Xinyuan's financing capabilities and together with the investment in China Coop Mengda will provide the Group with robust opportunities in the rural financial services sector, including but not limited to agricultural financial services, guarantee and financial leases. Xinyuan is financially supported by Coopinvest and the ultimate controlling shareholder of Coopinvest, All China Federation which is an institutional organisation under the State Council of the Central People's Government of the PRC.

Through the relationship with Hebei SMC, which indirectly controls Parko, the controlling Shareholder of the Company, it is expected that the Enlarged Group would have exposures to other new and potential business opportunities in China's "agricultural sector, rural areas and farmers", which encompass the businesses of rural financial services, trading in agricultural means of production, and urbanization.

The Group currently has specified personnel for the management of the new businesses. Mr. Deng Jinjun (鄧晉鈞) ("Mr. Deng") joined the Company as asset management assistant manager in April 2014. Prior to joining the Company, Mr. Deng had over 13 years of experience in information technology applications in the financial services sector. He will oversee the business of the New Joint Venture after its establishment. Mr. Liu Yong (劉勇) ("Mr. Liu") is currently the chairman of Coopinvest and China Coop Mengda. Prior to joining China Coop Mengda, Mr. Liu had over 8 years of experience in general leasing business. He will oversee the business of China Coop Mengda. Such personnel have considerable experience in the finance and payment industry and general leasing industry which enables them to manage the New Joint Venture and China Coop Mengda. Going forward, the Group will ensure that it has sufficient experienced personnel for the management of the new businesses.

Xinyuan is an investment holding company controlled by Coopinvest.

Coopinvest is principally engaged in pawn business, microfinance, financial leases, equity investment and fund investment.

789 Investments is principally engaged in equity investment, commercial property investment and investment consultancy.

Shandong Jindu is principally engaged in the production and sale of fire refractory materials, fine chemicals, calcium oxide, specialty waxes and wax emulsions.

Hebei Mingde is principally engaged in the production and international trading of auto parts. Auto parts are mainly exported to North America and Europe.

## LISTING RULES IMPLICATION

Since certain relevant percentage ratios in respect of the Investments (including the Call Option and the Capital Contribution Option, the calculation of relevant percentage ratios of which is based on the maximum exercise price of the Call Option at RMB80.86 million and the maximum capital contribution by Ever Harvest in the amount of RMB48 million upon exercise of the Capital Contribution Option by Xinyuan) in aggregate are more than 25% but less than 100%, the entering into of the JV Agreements (including the Call Option and the Capital Contribution Option) constitute a major transaction under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and Shareholders' approval requirements under the Listing Rules.

Under Rule 14.44 of the Listing Rules, Shareholders' approval for the Investments, the exercise of the Call Option and the grant of the Capital Contribution Option (approvals for which are also sought pursuant to Rule 14.76(2) of the Listing Rules) may be obtained by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting to obtain such Shareholders' approval; and (b) written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to vote and attend at that general meeting to approve such transactions.

The Directors confirm that, to the best of their knowledge, information and belief after having made all reasonable enquiries, the counterparties to the JV Agreements are Independent Third Parties and therefore no Shareholder would be required to abstain from voting were the Company to convene a general meeting. As at the Latest Practicable Date, Parko, the controlling Shareholder of the Company which held 711,733,948 Shares, representing approximately 53.58% of the issued share capital of the Company, had given its written approval in lieu of holding a general meeting to approve each of the Investments in accordance with Rule 14.44 of the Listing Rules. Accordingly, the written Shareholder's approval of Parko will therefore be relied on in lieu of holding a general meeting for approving the Investments.

The Company will comply with the relevant requirements under Chapter 14 of the Listing Rules if the amount of a finance lease made by China Coop Mengda to any customer exceeded the notifiable transaction threshold.

## ADDITIONAL INFORMATION

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

By order of the Board
**National Agricultural Holdings Limited**
**Chen Li-Jun**
*Chairman*

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2011, 2012 and 2013 are disclosed in the following documents which have been published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk):

- the annual report of the Company for the year ended 31 December 2011 published on 23 April 2012 (pages 37 to 118);

- the annual report of the Company for the year ended 31 December 2012 published on 22 April 2013 (pages 48 to 144); and

- the annual report of the Company for the year ended 31 December 2013 published on 25 April 2014 (pages 42 to 108).

## 2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 April 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group and the Target Company had outstanding bank borrowing of RMB23,000,000 secured by the Target Company's finance lease receivables.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group and the Target Company did not have outstanding at the close of business on 30 April 2014 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## 3. WORKING CAPITAL

The Directors are of the opinion that after taking into account of the Enlarged Group's financial resources including the available credit facilities, internally generated cash flows and cash on hand as well as cash flow impact of the Investments, in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its requirements, that is for at least 12 months from the date of this circular.

## 4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Following the acquisition of the Shares by Parko in 2013 which made it the single largest shareholder of the Company, the Group's business focus is contemplated to be gradually expanding into new areas which are related to the development of China's "agricultural sector, rural areas and farmers".

As a sector that is so essential to the well being of the entire population of the state, it is expected that policy support would be put firmly in place in the foreseeable future and with the new policy that allows certain families to raise an additional child, the Board believes that there will be a growing demand for both the quality and quantity of agricultural products. The Board also believes that such demand will be satisfied by the modernised development of the agricultural sector and whilst the Group plans to make its contribution by leveraging its expertise in electronic commerce, at the same time the Board noted that such development also requires intensive capital which, in turn, creates opportunities for rural finance.

Looking forward in 2014, whilst the global economy is expected to improve further, it is anticipated to go though uncertainties and fluctuations but the Directors believe that the Group's customers will continue to use the financial information services and software terminal operations which constitute the main businesses of the Group to analyse the financial markets and assist them to capture the best opportunities and formulate the best course of action, and hence the Directors expect that the demand for such financial information services and software terminal operations will continue to be stable. In respect of the PRC's economy, outlook of the PRC's economy is expected to experience a robust and sustained growth and developments of the "agricultural sector, rural areas and farmers" are gathering pace after the State Council of the PRC issued (1) "Certain Comments relating to the Deepening Reform of the Rural Areas for Accelerating the Modernisation of Agriculture" ("關於全面深化農村改革加快推進農業現代化的若干意見") on 19 January 2014 and (2) comprehensive proposals which laid down the detailed plans for supporting the "agricultural sector, rural areas and farmers" with financial initiatives by various governmental departments on 22 April 2014. With the foregoing supportive government policies, the Enlarged Group will position itself as an influential player of rural finance by participating in the business opportunities through the backing of Hebei SMC and Coopinvest and, at the same time, capture the opportunities in the areas of agricultural products and urbanisation which would provide a stable source of income for the Enlarged Group.

Deloitte.
德勤

6 June 2014

The Directors
National Agricultural Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China Coop Financial Leasing Co., Ltd. ("China Coop Mengda"), which comprises the statements of financial position as at 31 December 2012 and 2013, and statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows for the period from 17 August 2012 (date of establishment) to 31 December 2012 and for the year ended 31 December 2013 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory notes (the "Financial Information") for inclusion in the circular of National Agricultural Holdings Limited (the "Company") dated 6 June 2014 (the "Circular") in connection with the investment of approximately 41.18% equity interests of China Coop Mengda with a call option granted by an equity owner of China Coop Mengda, Hebei Mingde Machinery Limited Liability Company ("Hebei Mingde") to acquire its entire equity interest (approximately 9.91% of the total registered capital) in China Coop Mengda and the formation of a joint venture.

China Coop Mengda, which is engaged in finance leasing business including the leasing of machineries, motor vehicles, fixtures and electrical equipment in the People's Republic of China (the "PRC"), was established and registered in the PRC with limited liability on 17 August 2012.

No statutory audited financial statements had been prepared for China Coop Mengda for the period from 17 August 2012 (date of establishment) to 31 December 2012 since there is no statutory requirement to do so.

The statutory financial statements of China Coop Mengda for the year ended 31 December 2013 were prepared by 北京中澤永誠會計師事務所有限公司 (Beijing ZZYC Certified Public Accountants Co., Ltd.*), certified public accountants registered in the PRC, in accordance with the relevant accounting principles and financial regulations in the PRC.

For the purpose of this report, the directors of China Coop Mengda have prepared the financial statements of China Coop Mengda for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") ("Underlying Financial

* *English name is for identification purpose only.*

Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The accompanying Financial Information has been prepared based on the Underlying Financial Statements and in accordance with HKFRSs.

For the purpose of this report, we have examined the Financial Information, and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of China Coop Mengda who approve their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of China Coop Mengda as at 31 December 2012 and 2013, and of China Coop Mengda's results and cash flows for the Relevant Periods.

## A. FINANCIAL INFORMATION

### Statements of profit or loss and other comprehensive income

| | *NOTES* | **17.8.2012 to 31.12.2012** *RMB'000* | **1.1.2013 to 31.12.2013** *RMB'000* |
|---|---|---|---|
| Revenue | *7* | – | 5,279 |
| Other income | *8* | 5 | 93 |
| Exchange gain | | – | 326 |
| Administrative expenses | | (18) | (2,483) |
| (Loss) profit before tax | | (13) | 3,215 |
| Income tax expense | *9* | – | (816) |
| (Loss) profit and total comprehensive (expense) income for the period/year | *10* | (13) | 2,399 |

**Statements of financial position**

| | NOTES | 31.12.2012 RMB'000 | 31.12.2013 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Office equipment | 14 | – | 36 |
| Finance lease receivables | 15 | – | 77,810 |
| | | – | 77,846 |
| **Current assets** | | | |
| Finance lease receivables | 15 | – | 8,673 |
| Deposits and other receivables | 16 | – | 1,950 |
| Amounts due from equity owners | 20 | 74,950 | – |
| Cash and bank balances | 17 | 37 | 9,295 |
| | | 74,987 | 19,918 |
| **Current liabilities** | | | |
| Other payables and accruals | | – | 128 |
| Tax liabilities | | – | 816 |
| | | – | 944 |
| **Net current assets** | | 74,987 | 18,974 |
| **Net assets** | | 74,987 | 96,820 |
| **Capital and reserve** | | | |
| Paid-in capital | 18 | 75,000 | 94,434 |
| Accumulated (loss) profit | | (13) | 2,386 |
| **Total equity** | | 74,987 | 96,820 |

**Statements of changes in equity**

| | **Paid-in capital** *RMB'000* | **Accumulated (loss) profit** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| At the date of establishment | – | – | – |
| Loss and total comprehensive expense for the period | – | (13) | (13) |
| Capital contribution | 75,000 | – | 75,000 |
| At 31 December 2012 | 75,000 | (13) | 74,987 |
| Profit and total comprehensive income for the year | – | 2,399 | 2,399 |
| Capital contribution | 19,434 | – | 19,434 |
| At 31 December 2013 | 94,434 | 2,386 | 96,820 |

**Statements of cash flows**

| | 17.8.2012 to 31.12.2012 *RMB'000* | 1.1.2013 to 31.12.2013 *RMB'000* |
|---|---|---|
| OPERATING ACTIVITIES | | |
| (Loss) profit before tax | (13) | 3,215 |
| Adjustments for: | | |
| Depreciation of office equipment | – | 5 |
| Bank interest income | (5) | (12) |
| Operating cash flows before movements in working capital | (18) | 3,208 |
| Increase in finance lease receivables | – | (86,483) |
| Increase in deposits and other receivables | – | (1,950) |
| Increase in other payables and accruals | – | 128 |
| NET CASH USED IN OPERATING ACTIVITIES | (18) | (85,097) |
| INVESTING ACTIVITIES | | |
| (Advance to) repayment from equity owners | (74,950) | 74,950 |
| Purchases of office equipment *(note 14)* | – | (41) |
| Bank interest received | 5 | 12 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (74,945) | 74,921 |
| CASH FROM FINANCING ACTIVITIES | | |
| Proceeds from capital contribution | 75,000 | 19,434 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 37 | 9,258 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR | – | 37 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by cash and bank balances | 37 | 9,295 |

## Notes to Financial Information

### 1. GENERAL

China Coop Mengda is a sino-foreign equity joint venture established in the PRC on 17 August 2012. As at 31 December 2012 and 2013, Coopinvest Company Limited* (中合聯投資有限公司) ("Coopinvest"), a company established in the PRC holding 51% equity interests in China Coop Mengda, is its immediate parent. Its ultimate parent is All China Federation of Supply and Marketing Cooperatives ("All China FSMC") which is led by the State Council of the PRC. The remaining equity interests of 24% and 25% are held by Shandong Jindu Dazhan Group Company Limited* (山東金都大展集團有限公司) ("Shandong Jindu"), a company established in the PRC, and 789 Investments Limited ("789 Investments"), being a foreign equity company, respectively. The address of the registered office of China Coop Mengda is Room 1401, Haiying Apartment 8, Huanghai Road, Economic Development District, Tianjin, the PRC (中國天津經濟開發區黃海路8號海盈公寓1401室) and its principal place of business is 5/F, Block B, A1 Xuanwumenwai Avenue, Xicheng District, Beijing, the PRC (中國北京市西城區宣武門外大街甲1號B座5層).

The principal activity of China Coop Mengda is the provision of finance leasing business including the leasing of machineries, motor vehicles, fixtures and electrical equipment in the PRC.

The Financial Information is presented is Renminbi ("RMB"), which is also China Coop Mengda's functional currency.

* The English name is for identification purpose only.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, China Coop Mengda has consistently applied HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations issued by the HKICPA that are effective for annual accounting periods beginning on 1 January 2013.

China Coop Mengda has not early applied the following new and revised HKFRSs, HKASs, amendments and interpretations that have been issued by HKICPA at the date of this report but are not yet effective:

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entities[1] |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions[2] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[1] |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets[1] |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010 – 2012 Cycle[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011 – 2013 Cycle[2] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 14 | Regulatory Deferral Accounts[5] |
| HK(IFRIC) – Int 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of China Coop Mengda anticipate that the application of these new and revised HKFRSs, HKASs, amendments and interpretation in the future will not have material impact on the Financial Information of China Coop Mengda.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods are services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, China Coop Mengda takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Revenue recognition**

Finance income from finance leases of which China Coop Mengda is a lessor, is allocated to accounting periods so as to reflect a constant periodic rate of return on China Coop Mengda's net investment outstanding in respect of the finance leases.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to China Coop Mengda and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Office equipment**

Office equipment for administrative purposes are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of office equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The office equipment is depreciated on a straight-line basis over their estimated useful lives of five years, after taking into account their residual values.

An item of office equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of office equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Leasing**

Classification of lease as a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Examples and indicators that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications;

(f) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(g) gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(h) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

All other leases are classified as operating leases.

*China Coop Mengda as lessor*

Amounts due from lessees under finance leases are recorded as receivables at the amount of China Coop Mengda's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on China Coop Mengda's net investment outstanding in respect of the leases.

*China Coop Mengda as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**Foreign currency**

In preparing the Financial Information of China Coop Mengda, transactions in currencies other than functional currency of China Coop Mengda (foreign currencies) are recognised at the rates of exchange on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on settlement of monetary items and on the translation of the monetary items, are recognised in profit or loss in the period in which they arise.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. China Coop Mengda's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which China Coop Mengda expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when China Coop Mengda becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

China Coop Mengda's financial assets are generally classified as loans and receivables. The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets (other than finance lease receivables) with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including deposits, amounts due from equity owners and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Loans and receivables and finance lease receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as finance lease receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include China Coop Mengda's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period given and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of finance lease receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a finance lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by China Coop Mengda are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Other payables are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Derecognition***

China Coop Mengda derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

China Coop Mengda derecognises financial liabilities when, and only when, China Coop Mengda's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Impairment losses on tangible assets**

At the end of each reporting period, China Coop Mengda reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss if any. Where it is not possible to estimate the recoverable amount of an individual asset, China Coop Mengda estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior period. A reversal of an impairment loss is recognised immediately in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of China Coop Mengda's accounting policies, which are described in note 3, the directors of China Coop Mengda are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgement in applying accounting policies**

The following is the critical judgement, apart from those involving estimation (see below), that the directors have made in the process of applying China Coop Mengda's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

**Classification of lease contracts as finance leases**

The directors of China Coop Mengda examined the terms of the existing two lease contracts as at 31 December 2013 and evaluated the extent to which the risks and rewards incidental to the ownership of leased asset lie with China Coop Mengda as the lessor, or the lessee. In making their judgement, the directors considered the indicators of classification of a lease as a finance lease set out in HKAS 17 "Leases". Taking into account the facts and circumstances, among others, that (i) the lessees have the option to purchase the leased assets at the end of the lease term at a nominal price of RMB1 and RMB100; and (ii) the lessee is required to compensate China Coop Mengda for an amount equivalent to the outstanding finance lease receivable if the lessee cancels the lease, the directors are satisfied that the terms of the leases transferred substantially all the risks and rewards of ownership to the lessees and the lease contracts as at 31 December 2013 are classified as finance leases. See note 15 for details.

The following is the key assumption 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 within the next financial year.

**Estimated impairment of finance lease receivables**

When there is objective evidence of impairment loss, China Coop Mengda takes into consideration the estimation of future cash flows expected to arise from the settlement of the finance lease receivables and fair value of the secured leased assets less cost to sell. The amount of the impairment loss is measured as the difference between the financial asset's carrying amount and higher of the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) and the fair value of the secured leased assets less cost to sell. Where the actual future cash flows or the net selling price of the secured leased assets are less than expected, a material impairment loss may arise.

During the Relevant Periods, no impairment loss has been recognised for finance lease receivables. As at 31 December 2012 and 2013, the carrying amount of finance lease receivables is nil and approximately RMB86,483,000 respectively.

## 5. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 31.12.2012 | 31.12.2013 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Financial assets** | | |
| Loan and receivables (including cash and cash equivalents) | 74,987 | 9,346 |
| Finance lease receivables | – | 86,483 |
| **Financial liabilities** | | |
| Amortised cost | – | 29 |

### b. Financial risk management objectives and policies

China Coop Mengda's major financial instruments for application of HKFRS 7 *Financial Instruments: Disclosures* purposes include finance lease receivables, amounts due from equity owners, cash and cash equivalents and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Currency risk*

China Coop Mengda has only minimal foreign currencies transactions, which expose the Company to foreign currency risk. In management's opinion, the Company has no inherent currencies risk as at 31 December 2012 and 2013 and no sensitivity analysis is presented.

*(ii) Interest rate risk*

China Coop Mengda is exposed to cash flow interest rate risk due to the fluctuation of market interest rate on variable-rate bank deposits in note 17. However, the cash flow interest rate risk is insignificant as they are all short term. China Coop Mengda is also exposed to fair value interest rate risk in relation to fixed-rate finance lease receivables.

In management's opinion, China Coop Mengda's exposure to cash flow interest rate risk for bank deposits is insignificant and hence no sensitivity analysis is presented.

***Credit risk***

As at 31 December 2012 and 2013, China Coop Mengda's maximum exposure to credit risk which will cause a financial loss to China Coop Mengda due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management of China Coop Mengda has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, China Coop Mengda reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that China Coop Mengda's credit risk is significantly reduced.

Before accepting any new finance lease borrower, China Coop Mengda assesses the credit quality of each potential finance lease borrower and defined limits for each finance lease borrower. In addition, China Coop Mengda has reviewed the repayment records of finance lease payments from each finance lease borrower with reference to the repayment schedule from the date of inception of finance lease up to the reporting date to determine the recoverability of a finance lease receivable.

The credit risk on bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

China Coop Mengda's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% of the amount due from equity owners and finance lease receivables as at 31 December 2012 and 2013 respectively.

China Coop Mengda also has concentration of credit risk from totally two finance lease borrowers in its finance leasing business. 76% of the total finance lease receivables was due from China Coop Mengda's largest finance lease borrower as at 31 December 2013. China Coop Mengda's two finance lease borrowers are within hospitality and financial service industries. One of the two finance lease borrowers is a related company to China Coop Mengda, which is indirectly controlled by All China FSMC. The finance lease receivable from the related company is nil and approximately RMB66,054,000 as at 31 December 2012 and 2013 respectively. The finance lease income received from the related company is nil and approximately RMB5,029,000 for the years ended 31 December 2012 and 2013 respectively. During the year ended 31 December 2013, both finance lease customers do not have record of late payment.

***Liquidity risk***

In the management of the liquidity risk, China Coop Mengda monitors and maintains a level of bank balances and cash deemed adequate by the management to finance China Coop Mengda's operations and mitigate the effects of fluctuations in cash flows.

The following table details China Coop Mengda's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which China Coop Mengda can be required to pay.

The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

*Liquidity table*

| | Weighted average interest rate | On demand or less than 1 month | Total undiscounted cash flows and as at 31.12.2013 | Carrying amount at 31.12.2013 |
|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31.12.2013** | | | | |
| Other payables | – | 29 | 29 | 29 |

**c. Fair value measurements of financial instruments**

*Fair value of China Coop Mengda's financial assets and financial liabilities that are not measured at fair value on a recurring basis*

The directors of China Coop Mengda consider that the carrying amounts of financial assets and financial liabilities recognised in the Financial Information at amortised costs approximate their fair values.

**6. CAPITAL RISK MANAGEMENT**

China Coop Mengda manages its capital to ensure that China Coop Mengda will be able to continue as a going concern while maximising the return to owners, to support China Coop Mengda's stability and growth, and to strengthen China Coop Mengda's financial management capability. China Coop Mengda's overall strategy remains unchanged since its establishment.

The capital structure of China Coop Mengda consists of cash and cash equivalents and equity attributable to owners of China Coop Mengda, comprising paid-in capital and accumulated profit. In order to maintain or adjust the capital structure, China Coop Mengda may adjust the amount of dividends paid to owners, return capital to owners, receive capital contribution from owners or issue new debts.

**7. REVENUE AND SEGMENT INFORMATION**

Revenue represents finance lease income arising from finance leasing business in the PRC during the period/year.

Information reported to the executive directors of China Coop Mengda, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on services provided. The CODM regularly reviews the revenue and profit/loss of China Coop Mengda as a whole reported using accounting policies set out in note 3 to the Financial Information.

**(a) Operating and reportable segment**

China Coop Mengda operates in a single segment, which is the finance leasing business in the PRC.

**(b) Geographical information**

All office equipment and operations of China Coop Mengda for the Relevant Periods were located in the PRC.

**(c) Information about a major customer**

Revenue from a related company, individually contributing over 10% of the total revenue of China Coop Mengda under reportable segment of finance leasing are as follows:

| | **17.8.2012 to 31.12.2012** | **1.1.2013 to 31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| A related company | – | 5,029 |

## 8. OTHER INCOME

| | 17.8.2012 to 31.12.2012 *RMB'000* | 1.1.2013 to 31.12.2013 *RMB'000* |
|---|---|---|
| Bank interest income | 5 | 12 |
| Compensation income from cancellation of a lease contract | – | 81 |
| | 5 | 93 |

## 9. INCOME TAX EXPENSE

| | 17.8.2012 to 31.12.2012 *RMB'000* | 1.1.2013 to 31.12.2013 *RMB'000* |
|---|---|---|
| Current tax – PRC Enterprise Income Tax ("EIT") | | |
| – Charge for the period/year | – | 816 |

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of China Coop Mengda is 25% from 1 January 2008 onwards.

The income tax expense for the period/year can be reconciled to the (loss) profit before tax in the statements of profit or loss and other comprehensive income as follows:

| | 17.8.2012 to 31.12.2012 *RMB'000* | 1.1.2013 to 31.12.2013 *RMB'000* |
|---|---|---|
| (Loss) profit before tax | (13) | 3,215 |
| Income tax calculated at PRC EIT rate of 25% | (3) | 804 |
| Tax effect of expenses not deductible for tax purpose | 3 | 10 |
| Others | – | 2 |
| Income tax expense for the period/year | – | 816 |

## 10. (LOSS) PROFIT FOR THE PERIOD/YEAR

| | 17.8.2012 to 31.12.2012 *RMB'000* | 1.1.2013 to 31.12.2013 *RMB'000* |
|---|---|---|
| (Loss) profit for the period/year has been arrived at after charging: | | |
| Directors' remuneration | – | 356 |
| Other staff costs: | | |
| Salaries and other benefits | – | 739 |
| Contributions to retirement benefits scheme | – | 25 |
| Total staff costs | – | 1,120 |
| Auditor's remuneration | – | 2 |
| Depreciation of office equipment | – | 5 |
| Minimum lease payment in respect of office premises | – | 26 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

**Directors**

The emoluments paid or payable to each of the five directors for the Relevant Periods were as follows:

| | Directors' fees *RMB'000* | Salaries *RMB'000* | Contributions to retirement benefits scheme *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **31.12.2013** | | | | |
| *Executive directors (appointed on 17 August 2012):* | | | | |
| Liu Yong | – | 144 | – | 144 |
| Zhang Jing | – | 106 | – | 106 |
| Li Long Qun | – | – | – | – |
| Han Ding | – | 106 | – | 106 |
| Ruiya Qin | – | – | – | – |
| | – | 356 | – | 356 |

During the period from 17 August 2012 (date of establishment) to 31 December 2012, none of the directors had received emoluments paid or payable from China Coop Mengda.

Contributions to retirement benefits scheme was borne by Coopinvest, immediate parent of China Coop Mengda.

No Chief Executive was appointed by China Coop Mengda up to the report date of the Financial Information on 6 June 2014.

No emoluments were paid by China Coop Mengda to the directors as an inducement to join, or upon joining China Coop Mengda, or as compensation for loss of office during the Relevant Periods.

There were no arrangements under which a director waived or agreed to waive any remuneration during the Relevant Periods.

**Employees**

The five highest paid individuals of China Coop Mengda included three directors for the year ended 31 December 2013, details of their emoluments are set out above. The emoluments of the remaining two individuals, for the year ended 31 December 2013 whose emoluments are individually below HK$1,000,000 (equivalent to approximately RMB786,000) are as follows:

| | **17.8.2012 to 31.12.2012** | **1.1.2013 to 31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other benefits | – | 301 |
| Contributions to retirement benefits scheme | – | 25 |
| | – | 326 |

**12. RETIREMENT BENEFITS SCHEME**

The employees of China Coop Mengda are members of a central pension scheme operated by the local government, which are required to contribute a certain percentage of the employees' monthly salaries to the central pension scheme to fund the employees' retirement benefits.

China Coop Mengda does not have any liabilities to the retirement benefits of the employees other than the monthly contributions to the central pension scheme. China Coop Mengda's contributions to the central pension scheme for the year ended 31 December 2013 amounted to RMB25,000.

**13. (LOSS) EARNINGS PER SHARE**

No (loss) earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

**14. OFFICE EQUIPMENT**

| | *RMB'000* |
|---|---|
| COST | |
| At date of establishment and 31 December 2012 | – |
| Additions | 41 |
| At 31 December 2013 | 41 |
| ACCUMULATED DEPRECIATION | |
| At date of establishment and 31 December 2012 | – |
| Provided for the year | 5 |
| At 31 December 2013 | 5 |
| CARRYING VALUES | |
| At 31 December 2013 | 36 |
| At 31 December 2012 | – |

## 15. FINANCE LEASE RECEIVABLES

| | Minimum lease receipts | | Present value of minimum lease receipts | |
|---|---|---|---|---|
| | **31.12.2012** | **31.12.2013** | **31.12.2012** | **31.12.2013** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finance lease receivables comprise: | | | | |
| Within one year | – | 15,972 | – | 8,673 |
| In more than one year but not more than two years | – | 15,972 | – | 9,095 |
| In more than two years but not more than five years | – | 80,783 | – | 68,715 |
| | – | 112,727 | – | 86,483 |
| Less: Unearned finance lease income | – | (26,244) | N/A | N/A |
| Present value of minimum lease receipts | – | 86,483 | – | 86,483 |

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Analysed as: | | |
| Current finance lease receivables (receivable within twelve months) | – | 8,673 |
| Non-current finance lease receivables (receivable after twelve months) | – | 77,810 |
| | – | 86,483 |
| Finance lease receivables from a related company *(note 20)* | – | 66,054 |
| Finance lease receivables from a third party | – | 20,429 |
| | – | 86,483 |

Effective interest rates (which are also equal to contracted interest rates) per annum of the above finance lease receivables on two lease agreements as at 31 December 2013 are as follows:

| | |
|---|---|
| Effective interest rates | |
| Fixed-rate finance lease receivables | 8.6% and 12.6% |

Finance lease receivables as at 31 December 2012 and 2013 are neither past due nor impaired, and the directors assessed that the balances are with good credit quality according to their repayment records.

Finance lease receivables are secured over the machineries, motor vehicles, fixtures and electrical equipment leased. China Coop Mengda is not permitted to sell or repledge the collateral in the absence of default by the lessee. The lessees are entitled to exercise an option to purchase the entire leased assets at the end of the lease term at a nominal price of RMB1 and RMB100 respectively.

Specifically, finance lease receivable of RMB66,054,000 at 31 December 2013 involved a sale and lease back arrangement with a related party, whereby the related party sold certain motor vehicles, fixtures and electrical equipment and immediately leased back these assets from China Coop Mengda under a non-cancellable lease term of 5 years. The directors of China Coop Mengda evaluated that the leaseback is a finance lease, and China Coop Mengda in substance provided finance to the related party with these assets as security. The outstanding receivable is also secured over certain land and hotels located in Lushan in Jiangxi Province, owned by another related party. The relationship with these related parties is set out in note 20.

The lease term of the other lease agreement is 3 years. The lessee is required to compensate China Coop Mengda for an amount equivalent to the outstanding finance lease receivable if the lessee cancels the lease.

All China Coop Mengda's finance lease receivables are denominated in RMB, the functional currency of China Coop Mengda.

## 16. DEPOSITS AND OTHER RECEIVABLES

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Other tax recoverables | – | 1,899 |
| Deposits | – | 51 |
| | – | 1,950 |

## 17. CASH AND CASH EQUIVALENTS

China Coop Mengda's bank deposits carry interest at prevailing bank saving deposits rate of 0.35% per annum as at 31 December 2012 and 2013.

## 18. PAID-IN CAPITAL

| | |
|---|---|
| | *RMB'000* |
| Registered capital: | |
| At the date of establishment, and 31 December 2012 and 2013 | 100,000 |
| Paid-in capital: | |
| At the date of establishment | – |
| Addition during the period | 75,000 |
| At 31 December 2012 | 75,000 |
| Addition during the year | 19,434 |
| At 31 December 2013 | 94,434 |

## 19. OPERATING LEASE

**China Coop Mengda as lessee**

Minimum lease payments paid under operating lease in respect of office premises for the years ended 31 December 2012 and 2013 was nil and approximately RMB26,000 respectively.

At 31 December 2012 and 2013, China Coop Mengda had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | – | 13 |

China Coop Mengda leases office premises under operating leases, which are negotiated for a term of one year. None of the leases includes contingent rentals.

## 20. RELATED PARTY TRANSACTIONS

China Coop Mengda operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). In addition, as at 31 December 2012 and 2013, the immediate parent of China Coop Mengda is Coopinvest which is controlled by All China FSMC led by the State Council of the PRC. China Coop Mengda is also a government-related entity.

The transactions and balances with All China FSMC and its subsidiaries (collectively referred to as "All China FSMC Group"), other equity owners as well as other PRC government-related entities are disclosed below.

### (a) Balances with All China FSMC Group

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Amount due from Coopinvest | 71,950 | – |
| Amount due from a related company (included in finance lease receivables *(note 15)*) | – | 66,054 |
| | 71,950 | 66,054 |

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Carrying amount repayable: | | |
| On demand or within one year | 71,950 | 1,866 |
| In more than one year but not more than two years | – | 1,674 |
| In more than two year but not more than five years | – | 62,514 |
| | 71,950 | 66,054 |

Amount due from Coopinvest is unsecured, non-interest bearing and repayable on demand. The balance of RMB71,950,000 as at 31 December 2012 was fully settled during the year ended 31 December 2013.

Amount due from a related company indirectly controlled by All China FSMC included in finance lease receivables is secured over machineries, motor vehicles and fixtures leased plus certain land and hotels located in Lushan in Jiangxi Province, owned by another related party which is also controlled by All China FSMC, and carries interest at the rate of 8.6% per annum and is repayable according to the lease schedule.

### (b) Transaction with All China FSMC Group

| | **17.8.2012 to 31.12.2012** | **1.1.2013 to 31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Finance lease income | – | 5,029 |

In addition to the above, Coopinvest performed certain administrative services for China Coop Mengda, for which a management fee of RMB870,000 was charged during the year ended 31 December 2013.

**(c) Balances with other PRC government-related entities**

Apart from the balances with All China FSMC Group as disclosed above, China Coop Mengda has entered into various transactions in its ordinary course of business including bank deposits, with certain banks which are government-related entities. As at 31 December 2012 and 2013, 100% and 99.99% of bank balances are held with these government-related banks.

There was no individually material bank balance with any single government related banks.

**(d) Balances with equity owners (other than All China FSMC)**

| | **31.12.2012** | **31.12.2013** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Amount due from Shandong Jindu | 3,000 | – |

Amount due from Shandong Jindu is unsecured, non-interest bearing and repayable on demand. The balance of RMB3,000,000 as at 31 December 2012 was fully settled during the year ended 31 December 2013.

The remuneration of key management personnel included directors' remuneration which is classified as short term employee benefit, and disclosed in note 11.

Other than disclosed elsewhere in the Financial Information, China Coop Mengda had no other significant related party transactions during the Relevant Periods.

## 21. EVENTS AFTER REPORTING PERIOD

(i) On 10 January 2014, China Coop Mengda declared final dividends of RMB4,561,000, RMB413,000 and RMB235,000 to Coopinvest, Shandong Jindu and 789 Investments respectively pursuant to the resolution from the Board of Directors of China Coop Mengda.

(ii) Pursuant to share transfer agreement dated 20 February 2014, Hebei Mingde acquired 16.85% equity interest of China Coop Mengda from Coopinvest for the amount of RMB16,850,000. This transaction has no financial impact to China Coop Mengda.

(iii) Ever Harvest Inc Limited ("Ever Harvest"), a wholly owned subsidiary of the Company, entered into a joint venture agreement dated 21 March 2014 with the equity owners of China Coop Mengda regarding its investment in China Coop Mengda. Pursuant to the agreement, Ever Harvest has conditionally agreed to make a capital contribution of RMB70 million to China Coop Mengda in cash for approximately 41.18% of the equity interests of China Coop Mengda with a call option granted by Hebei Mingde to acquire its entire equity interest in China Coop Mengda, details are set out in the "Letter from the Board" to the Circular. Upon completion of this transaction, China Coop Mengda will become an indirectly non-wholly owned subsidiary of the Company and the financial information of China Coop Mengda will be consolidated into the consolidated financial statements of the Company.

## B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by China Coop Mengda in respect of any period subsequent to 31 December 2013.

Yours faithfully,

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

## (1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group ("Unaudited Pro Forma Financial Information"), being the Company and its subsidiaries (collectively referred to as the "Group") together with China Coop Financial Leasing Co., Ltd. ("Target Company"), and the joint venture to be formed ("New Joint Venture") by the Group and Xinyuan Taifeng Agricultural Asset Management (Beijing) Company Limited ("Xinyuan") as if the investments of approximately 41.18% equity interest in the Target Company, with a call option granted by Hebei Mingde Machinery Limited Liability Company ("Hebei Mingde") to acquire its entire equity interest (approximately 9.91% of the total registered capital) in the Target Company, and 71% of the total registered capital of the New Joint Venture (collectively referred to as the "Investments") had been completed on 31 December 2013. Details of the Investments are set out in the section headed "Letter from the Board" contained in this Circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), for the purpose of illustrating the effect of the Investments pursuant to the terms of both joint venture agreements dated 21 March 2014 entered into between Ever Harvest Inc Limited ("Ever Harvest"), a wholly-owned subsidiary of the Company and (i) the equity owners of the Target Company, and (ii) Xinyuan.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2013, which has been extracted from the Company's published annual report for the year ended 31 December 2013 and the audited statement of financial position of the Target Company as at 31 December 2013 as extracted from the accountants' report of the Target Company thereon set out in Appendix II to this Circular, and after making pro forma adjustments relating to the Investments that are (i) directly attributable to the Investments, and (ii) factually supportable, as if the Investments had been completed on 31 December 2013.

The Unaudited Pro Forma Financial Information is prepared by the directors of the Company (the "Directors") to provide information of the Group upon completion of the Investments. It is prepared for illustrative purpose only and based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group following the completion of the Investments or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the annual report of the

Company for the year ended 31 December 2013, accountants' report of the Target Company set out in Appendix II and other financial information included elsewhere in this Circular.

## (2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | The Group as at 31 December 2013 | The Target Company as at 31 December 2013 | Pro forma adjustments relating to the Target Company | | Subtotal | Pro forma adjustments relating to the New Joint Venture | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note a)* | *(Note b)* | *(Note c)* | *(Note e)* | | *(Note d)* | *(Note e)* | |
| **Non-current assets** | | | | | | | | |
| Property, plant and equipment | 26,059 | 36 | | | 26,095 | | | 26,095 |
| Investment properties | 14,791 | – | | | 14,791 | | | 14,791 |
| Goodwill | – | – | 1,304 | | 1,304 | | | 1,304 |
| Prepaid lease payments | 36,959 | – | | | 36,959 | | | 36,959 |
| Finance lease receivables | – | 77,810 | | | 77,810 | | | 77,810 |
| Deferred tax assets | 257 | – | | | 257 | | | 257 |
| | 78,066 | 77,846 | 1,304 | | 157,216 | | | 157,216 |
| **Current assets** | | | | | | | | |
| Inventories | 32 | – | | | 32 | | | 32 |
| Finance lease receivables | – | 8,673 | | | 8,673 | | | 8,673 |
| Trade and other receivables | 6,656 | 1,950 | | | 8,606 | | | 8,606 |
| Deposits and prepayments | 7,603 | – | | | 7,603 | | | 7,603 |
| Prepaid lease payments | 1,369 | – | | | 1,369 | | | 1,369 |
| Tax recoverable | 297 | – | | | 297 | | | 297 |
| Structured deposits | 37,300 | – | | | 37,300 | | | 37,300 |
| Cash and cash equivalent | 180,020 | 9,295 | | (1,669) | 187,646 | 14,500 | (1,249) | 200,897 |
| | 233,277 | 19,918 | | (1,669) | 251,526 | 14,500 | (1,249) | 264,777 |
| **Current liabilities** | | | | | | | | |
| Trade and other payables | 18,375 | 128 | | | 18,503 | | | 18,503 |
| Amounts due to a controlling shareholder | 1,068 | – | | | 1,068 | | | 1,068 |
| Deferred revenue | 41,241 | – | | | 41,241 | | | 41,241 |
| Tax payable | – | 816 | | | 816 | | | 816 |
| | 60,684 | 944 | | | 61,628 | | | 61,628 |
| **Net current assets** | 172,593 | 18,974 | | (1,669) | 189,898 | 14,500 | (1,249) | 203,149 |
| **Total assets less current liabilities** | 250,659 | 96,820 | 1,304 | (1,669) | 347,114 | 14,500 | (1,249) | 360,365 |

| | The Group as at 31 December 2013 | The Target Company as at 31 December 2013 | Pro forma adjustments relating to the Target Company | | Subtotal | Pro forma adjustments relating to the New Joint Venture | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note a)* | *(Note b)* | *(Note c)* | *(Note e)* | | *(Note d)* | *(Note e)* | |
| **Non-current liabilities** | | | | | | | | |
| Convertible loan notes | 71,226 | – | | | 71,226 | | | 71,226 |
| Deferred revenue | 9,219 | – | | | 9,219 | | | 9,219 |
| | 80,445 | – | | | 80,445 | | | 80,445 |
| **Net assets** | 170,214 | 96,820 | 1,304 | (1,669) | 266,669 | 14,500 | (1,249) | 279,920 |
| **Capital and reserves** | | | | | | | | |
| Share capital/Paid-in capital | 26,128 | 94,434 | (94,434) | | 26,128 | | | 26,128 |
| Reserves | 144,086 | 2,386 | (2,386) | (1,669) | 142,417 | | (1,249) | 141,168 |
| Equity attributable to owners of the Company | 170,214 | 96,820 | (96,820) | (1,669) | 168,545 | | (1,249) | 167,296 |
| Non-controlling interests | – | – | 98,124 | | 98,124 | 14,500 | | 112,624 |
| **Total equity** | 170,214 | 96,820 | 1,304 | (1,669) | 266,669 | 14,500 | (1,249) | 279,920 |

## (3) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

a. Figures are extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2013 which is mentioned in Appendix I to this Circular.

b. Figures are extracted from the statement of financial position included in the accountant's report of the Target Company as set out in Appendix II to this Circular.

c. Pursuant to the terms and conditions of the joint venture agreement dated 21 March 2014, Ever Harvest will invest RMB70 million in the Target Company, representing approximately 41.18% of the equity interest of the Target Company. In addition, Ever Harvest is granted a call option by an equity owner of the Target Company, Hebei Mingde (the "Call Option"), to acquire Hebei Mingde's entire equity interest of approximately 9.91% of the total registered capital of the Target Company at any time within 2 years after the date of the joint venture agreement, i.e. 21 March 2014. Upon completion of the investment in the Target Company, the Group would be able to obtain control over the Target Company pursuant to the terms and conditions of the joint venture agreement because (i) a related party of the Group, which is an existing equity owner that is entitled to appoint a member to the board of directors of the Target Company, has irrevocably committed to attend the board of directors' meetings of the Target Company; and (ii) the Group would be able to appoint four out of seven members to the board of directors of the Target Company to approve decisions on activities that significantly affect the returns of the Target Company by simple majority votes. As such, the Target Company is accounted for as a subsidiary of the Company in this Unaudited Pro Forma Financial Information.

In additon, the investment in the Target Company will be accounted for under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) ("HKFRS 3 (Revised)") "*Business Combinations*" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the fair values of the identifiable assets and liabilities of the Target Company approximate their carrying amounts as at 31 December 2013. In addition, the fair value of the Call Option is assumed to be nil as at 31 December 2013 as the Directors assessed that its fair value would be insignificant having regard to the exercise price of the Call Option set out in the joint venture agreement.

The recognition of pro forma net identifiable assets of the Target Company, goodwill and non-controlling interests as if the investment were completed on 31 December 2013 are as follows:

| | *RMB'000* | *RMB'000* |
|---|---|---|
| Cash consideration for investment of approximately 41.18% equity interest of the Target Company | | 70,000 |
| Add: Non-controlling interests (approximately 58.82% of pro forma fair value of the net identifiable assets of the Target Company) | | 98,124 |
| Less: Net identifiable assets of the Target Company before investment in the Target Company by the Group | (96,820) | |
| Capital contribution by the Group | (70,000) | |
| Pro forma fair value of the net identifiable assets of the Target Company | | (166,820) |
| Pro forma goodwill | | 1,304 |

The pro forma fair values of the net identifiable assets and liabilities, goodwill and non-controlling interests in relation to the investment in the Target Company are subject to change upon the purchase price allocation at the completion date of the investment (the "Valuation"), which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information and subject to impairment assessment in accordance with Hong Kong Accounting Standard 36 ("HKAS 36") "*Impairment of Assets*" issued by the HKICPA.

The Directors have assessed whether there is any impairment on the pro forma goodwill as at 31 December 2013 in accordance with HKAS 36 and concluded that there is no impairment in respect of the pro forma goodwill of approximately RMB1,304,000 shown in this Unaudited Pro Forma Financial Information.

The Directors confirmed that they will apply consistent accounting policies, principal assumptions and methodology in goodwill impairment assessement in subsequent reporting periods in accordance with the requirement of HKAS 36.

d. Pursuant to the terms and conditions of joint venture agreement dated 21 March 2014 with Xinyuan, Ever Harvest and Xinyuan have agreed to make cash capital contributions of RMB35.5 million and RMB14.5 million, representing 71% and 29% of the equity interest of the New Joint Venture.

The recognition of non-controlling interests for the investment on the New Joint Venture as if the investment were completed on 31 December 2013 is as follows:

| | *RMB'000* |
|---|---|
| Capital contribution by the Group | 35,500 |
| Capital contribution by Xinyuan | 14,500 |
| Total paid-in capital | 50,000 |
| Non-controlling interests | 14,500 |

e. The adjustments represent payments for estimated direct costs for the Investments of approximately RMB1,669,000 and RMB1,249,000 for the investment on the Target Company and the New Joint Venture which would be expensed in profit or loss upon completion of the Investments.

f. For the purpose of this Unaudited Pro Forma Financial Information, no adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2013.

*The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular in respect of the unaudited pro forma financial information of the Enlarged Group.*

**Deloitte.**
**德勤**

## (4) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

**TO THE DIRECTORS OF NATIONAL AGRICULTURAL HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of National Agricultural Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2013 and related notes (the "Pro Forma Financial Information") as set out in Appendix III of the circular issued by the Company dated 6 June 2014 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix III of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impacts of the investments of approximately 41.18% in China Coop Financial Leasing Co., Ltd. (the "Target Company"), with a call option granted by Hebei Mingde Machinery Limited Liability Company to acquire its entire equity interest (approximately 9.91% of the total registered capital) in the Target Company, and 71% of the total registered capital in a new joint venture to be formed by the Group and Xinyuan TaiFeng Agricultural Asset Management (Beijing) Company Limited (collectively referred to as the "Investments") on the Group's statement of consolidated financial position as at 31 December 2013 as if the Investments had taken place on 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2013 on which an audit report has been published.

**Directors' Responsibilities for the Pro Forma Financial Information**

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

**Reporting Accountant's Responsibilities**

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2013 would have been as presented.

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

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

6 June 2014

## 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 Group, the New Joint Venture and China Coop Mengda. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTEREST

### Interests of the Directors and chief executive in the Company and its associated corporations

As at the Latest Practicable Date, save as disclosed below, the interests and short positions, if any, of each Director and chief executive of the Company in any Shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

*(a) Interests in issued ordinary shares of the Company*

| Name of Director | Number of Shares | Capacity in which interest is held | Long/short position | Interest as to % of the issued share capital of the Company |
|---|---|---|---|---|
| Wen Yuanyi | 22,807,864 *(Note)* | Personal Interest | Long position | 1.71 |

*Note:* These Shares were held by Precursor Management Inc. ("PMI"), which was wholly owned by Cai Weiheng, the husband of Wen Yuanyi ("Ms. Wen"), a Director. By virtue of the SFO, Ms. Wen was deemed to be interested in the Shares held by PMI for the purpose of Part XV of the SFO.

*(b) Interests in issued ordinary shares of associated corporations*

As at the Latest Practicable Date, the Director below had interests or short positions in the Shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 (ii) entered in the register pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

| Name of Director | Number of shares | Name of associated corporation | Nature of interest | Long/short position | Approximate % of the issued share capital of the associated corporation |
|---|---|---|---|---|---|
| Chen Li-Jun | 13,950,000 *(Note)* | Hebei AMP | Corporate interest | Long position | 15.50 |

*Note:* Hebei AMP owned 51% of Million Rich which in turn owned 100% issued share capital in Parko. Parko owned approximately 53.58% of the issued share capital in the Company. As such, Hebei AMP was a holding company of and therefore an associated corporation of the Company pursuant to section 308 of the SFO. Chen Li-Jun held 15.5% interests in Hebei AMP.

**Disclosure of interests of substantial shareholders**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors or chief executive of the Company, the following shareholders (other than a Director or chief executive of the Company) had interests or short positions in the Shares or 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 other member of the Group:

| Name of Shareholder | Nature of interest | Number of Shares | Approximate % of the issued share capital of the Company |
|---|---|---|---|
| Parko | Beneficial owner | 711,733,948 *(Note)* | 53.58% |
| Million Rich | Beneficial owner/ interest of a controlled corporation | 711,733,948 *(Note)* | 53.58% |
| Hebei AMP | Beneficial owner/ interest of a controlled corporation | 711,733,948 *(Note)* | 53.58% |
| Hebei New Cooperation | Beneficial owner/ interest of a controlled corporation | 711,733,948 *(Note)* | 53.58% |
| Chou Shih Chung | Beneficial owner | 91,792,000 | 6.91% |

*Note:* Hebei AMP and Hebei New Cooperation owned 51% and 49% of Million Rich respectively. Million Rich in turn owned 100% issued share capital in Parko which owned approximately 53.58% of the issued share capital in the Company. Million Rich, Hebei AMP and Hebei New Cooperation are deemed to be interested in the Shares held by Parko for the purpose of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company was aware of any other person, other than a Director or the chief executive of the Company, who had interests or short positions in the Shares or 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 other member of the Group, or which was recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## 3. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any interest, either directly or indirectly, in any assets which have, since 31 December 2013 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

(b) None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

(c) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which will not expire or is not determinable by the employer within a year without payment of compensation (other than statutory compensation).

(d) As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors and their respective associates had any interests in business which competes, or are likely to compete, either directly or indirectly, with the businesses of the Group.

## 4. LITIGATION

As at the Latest Practicable Date, so far as was known to the Directors, none of the members of the Enlarged Group was engaged in any litigation, arbitration or administration proceedings of material importance and there was no litigation, arbitration or administration proceedings or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

## 5. MATERIAL CONTRACTS

The members of the Enlarged Group had, after the date of two years immediately preceding the date of this circular, entered into the following contracts which were or might be material, other than contracts in the ordinary course of business of the Enlarged Group:

(a) the Subscription Agreement;

(b) the JV Agreements; and

(c) joint operation agreement dated 4 June 2014 between the Company and Guangzhou Exchange Group Co., Ltd. (廣州交易所集團有限公司).

## 6. GENERAL

(a) The secretary of the Company is Mr. Ip Pui Sum who is a member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The Company's head office and principal place of business in Hong Kong is at Suites 1604–5, Prudential Tower, Harbour City, 21 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

(d) The branch share registrar of the Company is Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English language text of this circular shall prevail over the Chinese language in case of inconsistency.

## 7. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Company since 31 December 2013, the date to which the latest published audited consolidate financial statements of the Company have been made up.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Suites 1604–5, Prudential Tower, Harbour City, 21 Canton Road, Tsimshatsui, Kowloon, Hong Kong for a period of 14 days from the date of this circular:

(a) the Articles;

(b) the annual reports of the Company for the years ended 31 December 2012 and 31 December 2013;

(c) the interim report of the Company for the six months ended 30 June 2013;

(d) the accountant's report issued by Deloitte Touche Tohmatsu on the financial information on China Coop Mengda as set out in Appendix II to this circular;

(e) the report issued by Deloitte Touche Tohmatsu on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(f) the written consent referred to in the paragraph headed "Experts" in this Appendix;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and

(h) this circular.

**9. EXPERTS**

The qualification of the expert who has given its opinion or advice which is contained in this circular is set out below:

| Name | Qualification |
|---|---|
| Deloitte Touche Tohmatsu ("Deloitte") | Certified Public Accountants |

As at the Latest Practicable Date, Deloitte (i) had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) had no direct or indirect interest in any assets which had been, since 31 December 2013 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group; and (iii) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.