

CHINA MINZHONG FOOD CORPORATION LIMITED
(Incorporated in the Republic of Singapore)
(Registration No. 200402715N)

China Minzhong Food Corporation Limited (the “Company”) Strongly Refutes Allegations in Report Released By Glaucus Research Group (“Glaucus”)

Further to our announcement on 29 August 2013, we have completed our review of the report released by Glaucus on 26 August 2013 (“**Report**”) and strongly refute what we view as reckless opinions and inferences drawn by Glaucus without due regard as to the accuracy of such statements. The manner in which they made these statements and the conclusions which they drew from them were mischievous and calculated to cause panic and impose maximum damage on the price of the Company's securities for their own benefit. They have used terms such as "Doctored SAIC Financials", "Fabricated Sales" and "Cover Up" which they know or ought reasonably to have known are false or misleading.

We reiterate that most of the issues raised by Glaucus with regard to the financials of the Company arose out of a complete lack of understanding of the way we conduct our business as well as the operating environment in the People's Republic of China (“**PRC**” or “**China**”). Before we proceed to respond to the specific issues raised by Glaucus in the Report, it will be beneficial first to understand in brief our business and the environment in which we operate.

(A) Our Business

We are an integrated vegetable processor based in the PRC with cultivation bases of approximately 56,405 mu (37.6 million sq m) and industrial land of approximately 630 mu (420,331 sq m). We produce fresh vegetables on these cultivation bases and also purchase fresh vegetables from local farmers. Our vegetable processing facilities are situated on our industrial land.

Our revenue comprises domestic sales in the PRC and export sales to overseas-based customers. Export sales consists of processed vegetables whereas domestic sales comprise (i) fresh produce and branded products (such as beverages and instant noodles) that we sell to local distributors and customers and (ii) processed vegetables that we sell to PRC-based exporters.

Income derived from sales of fresh produce is tax-exempt whereas income derived from processed vegetables and branded products is taxable.

(B) Operating Environment in China

We are an investment holding company incorporated in Singapore but our operating subsidiaries are all located in the PRC. Any filings by these subsidiaries with the PRC authorities are made on a calendar year basis based on PRC Generally Accepted Accounting Principles (“**PRC GAAP**”). On the other hand, the financial year end for our Company for our accounts prepared under Singapore Financial Reporting Standards (“**FRS**”) is 30 June.

In addition, there are differences in accounting practices between our PRC GAAP financial reporting and our FRS financial reporting. For example, in our PRC GAAP financial statements, we would classify payments relating to our capital expenditure as property, plant and equipment (“**PP&E**”) or construction in progress (“**CIP**”) only upon receipt of relevant tax invoices. In our FRS financial statements, we would classify such payments as PP&E or CIP even before receipt of the relevant invoices (as long as risks and rewards for the asset have been transferred).

Thus, a simple comparison between our PRC GAAP financial statements and FRS financial statements without considering the differences between the accounting practices and performing the relevant reconciliations would lead to misleading conclusions.

The main function of the State Administration for Industry and Commerce (中华人民共和国国家工商行政管理总局) (“**SAIC**”) is similar to a company registry, whose primary responsibilities include business registration, issuing permits and maintaining the corporate status of a company. While financial reports comprise part of the documents required to be filed with the SAIC for annual inspection, the purpose is to show that the company is still operating and maintains good corporate standing.

On the other hand, the State Administration of Taxation (国家税务总局) (“**Tax Authority**”) is the PRC government agency that is the legal authority to receive the annual financial reports of a PRC business and collect taxes based on such reports.

The various issues raised by Glaucus in the Report and the Company's response to the same (“**Response**”) can be summarised as follows and full details of our Response are set out in the Appendix hereto:

(1) Genuine Sales: No Fabricated Sales

Glaucus claimed that the Company has fabricated its sales and premised its conclusion on:

- the Company's largest customer for the pre-IPO track record period, Hong Kong Yifenli Trading Co. Ltd (香港一分利贸易有限公司), was incorporated only in November 2009; and
- the Company's second largest customer during the same period, Putian Daziran Vegetable Produce Co., Ltd (莆田市大自然蔬菜制品有限公司) (“**Putian Vegetables**”), did not record any cost of goods sold in its filing with the SAIC in the PRC.

Our Response:

- **Genuine Sales to Hong Kong Yifenli prior to 2009:** *We commenced trading with Hong Kong Yifenli in 2006 and have the relevant sales contracts as well as export sales and customs documents from the relevant PRC authorities to support this. The legal representative of Hong Kong Yifenli Trading Co. Ltd has also provided written confirmation of such sales to Hong Kong Yifenli and confirmed our trading relationship with Hong Kong Yifenli for the period in question.*
- **Genuine Sales to Putian Vegetables:** *We have the relevant VAT invoices from the PRC authorities to show sales to Putian Vegetables for the period in question. Putian Vegetables has also provided us their tax filings for 2009 which shows that their cost of goods sold was approximately RMB227.4 million. The legal representative of Putian Vegetables has also confirmed the quantum of sales made by our Group to Putian Vegetables for the period in question.*

(2) Genuine Purchases from Top Supplier

Glaucus claimed that the Company's largest supplier for the pre-IPO track record period had its business licence revoked in February 2010 and cast doubts on the sales made by it to the Company.

Our Response:

Dealings with top supplier continued after IPO: We were neither informed nor aware of the revocation of our supplier's business licence and continued trading with them till October 2010 when the quality of their mushroom spores failed to meet our requirements. We have the relevant purchase related documents to show our purchases from Chengdu Shufeng for the period in question. During that period, we had also started obtaining mushroom spores from other suppliers, one of whom remains our top supplier today.

(3) No Undisclosed Interested Person Transactions or Related Party Sales

Glaucus alleged that our Chairman and Chief Executive Officer Mr. Lin Guo Rong (“**Chairman Lin**”) and former legal representative of Sichuan Minzhong Mr. Lin Guo Ping, are interested in one of our customers and there was no disclosure of any related party transactions with this customer.

Our Response:

Chairman Lin and Mr. Lin Guo Ping had no direct or indirect shareholding interest in Putian Vegetables during the period in question. Save for Mr. Lin Guo Ping who held a non-executive supervisory role for a brief period of 1 year, both Chairman Lin and Mr. Lin Guo Ping were never involved in day-to-day management and operations of Putian Vegetables and also did not directly or indirectly control Putian Vegetables. The legal representative of Putian Vegetables has also confirmed this fact. Transactions with Putian Vegetables were on normal commercial terms and were neither interested person transactions nor related party transactions.

(4) No Cover-up

Glaucus alleged that the Company had fabricated its accounts and had tried to cover up in 2011 after a wave of accounting scandals and de-listings among other S-Chips in 2011.

Our Response:

We had previously outsourced our SAIC filings to an external agent but started filing these on our own in 2011. Each year's filing has comparative figures for the preceding year. The 2010 comparative figures in our 2011 filing was prepared based on our tax filings to the Tax Authority, which is the PRC government agency that has the legal authority to receive the annual financial reports of a business and collect taxes based on such reports.

(5) Capital Expenditures Well Substantiated

Glaucus alleged that the Company had overstated its capital expenditures as part of an elaborate attempt to mask fake sales on its balance sheet.

Our Response:

Glaucus had mischievously presented only part of the balance sheets for the years 2010 to 2012 and had not considered differences in financial reporting under PRC GAAP and FRS and has misled the public. In addition, we have all the relevant documents as well as photographs to confirm and support that such capital expenditures have been incurred.

(6) Financial Performance can be Substantiated

Glaucus cast doubts over the credibility of the Company's financial performance on the premise that its EBITDA for the past five years were exceptionally high when compared to the industry average and that the Company's receivables have significantly increased recently. Coupled with the Company's negative cash flow, Glaucus alleged that the Company is guilty of financial impropriety.

Our Response:

- ***Inappropriate computation of EBITDA margins by Glaucus:*** *The definition of EBITDA varies. Glaucus' calculation of our EBITDA margins for fresh produce included gains on fair value adjustment which we do not include as they are non-cash in nature. As such, EBITDA is not an appropriate financial measure for fresh produce.*
- ***Receivables as at end of FY2012 all collected:*** *All receivables at the end of FY2012 (including those not due) were collected by the end of 2QFY2013.*
- ***Positive net cash flows from operating and investing activities for FY2013:*** *Our cash flow from operations has been positive, and we have been investing to grow our business since IPO. We also now have positive net cash flows from operating and investing activities of RMB359 million for FY2013 and a dividend has been declared for the first time since IPO.*

Conclusion

While we respect the right of our shareholders and the public to raise their concerns and queries regarding the published results and performance of the Group, what Glaucus (as a short seller) did in their report has gone beyond fair comment. It is apparent from the above as well as other similar allegations made in their Report that their sole and main objective was to benefit from the decline in the Company's stock prices brought about by their Report. While they claimed to have acted on information obtained from public sources, they have drawn conclusions which are reckless, and selectively used facts for that purpose.

We wish to reiterate that our accounts have been prepared in accordance with FRS and audited by external auditors Crowe Horwath First Trust LLP, and whose reports and opinions for the material period are without qualification. The external auditors have not withdrawn their unqualified audit opinions with regard to our financial results for the material periods after reviewing the Report and this Response.

We view the Report as damaging the value that we have created for shareholders over the years and are consulting our legal advisers on possible recourse. We will not hesitate to take legal action to defend our rights and reputation, including reporting any party to the authorities for possible breach of securities legislation.

By Order of the Board

Lin Guo Rong
Executive Chairman and Chief Executive Officer
1 September 2013

Appendix

(1) Genuine Sales: No Fabricated Sales

Glaucus claimed that the Company has fabricated its sales and premised its conclusion on:

- the Company's largest customer for the pre-IPO track record period, Hong Kong Yifenli Trading Co. Ltd (香港一分利贸易有限公司), was incorporated only in November 2009; and
- the Company's second largest customer during the same period, Putian Daziran Vegetable Produce Co., Ltd (莆田市大自然蔬菜制品有限公司), did not record any cost of goods sold in its filing with the SAIC in the PRC.

Genuine sales to Hong Kong Yifenli prior to November 2009

We have made genuine sales to Hong Kong Yifenli (香港一分利) (“**Hong Kong Yifenli**”) during the pre-IPO track record period from FY2007 to 1QFY2010 (“**Relevant Period**”) and have the relevant sales contracts as well as export sales and custom documents from the relevant PRC authorities to support the same.

The Company and its subsidiaries (the “**Group**”) started dealing with Taiwanese businessman Mr. Zhao Li (赵莉) in 2006, who operated a trading business under the name of Hong Kong Yifenli. Mr. Zhao had employed Mr. Wu Hongzhou (吴鸿州) to assist him. Mr. Zhao would place orders with the Group usually through our Shenzhen office general manager, Mr. Wu Yiqun (吴奕群), and we would then arrange for the goods to be delivered directly to his customers overseas. The relevant export and shipping documents would then be arranged by the Group. Please refer to **Annex A** for samples of the relevant Export VAT Invoices (出口商品销售统一发票), Customs Declarations (报关单) and Bills of Lading (提单) and ancillary documents for sales to Hong Kong Yifenli for each year from 2007 to 2009 and **Annex B** for corresponding sales contracts with them during that period.

The aforesaid Export VAT Invoices (which were also submitted to the Tax Authority) further confirm that sales made to Hong Kong Yifenli prior to November 2009 were genuine. In addition, as part of their audit of the financial statements of the Group, our external auditors have also

tested the revenue and trade receivables of the Group in accordance with the Singapore Standards of Auditing.

For clarity, Export VAT Invoices in the PRC are used by the government to monitor the tax paid on any transaction. These are printed, distributed, and administrated by tax authorities, and taxpayers are required to provide such official tax invoices to its customers. We also have records of Customs Declarations (which include declarations made by the Group on the value of goods) in respect of goods sold to Hong Kong Yifenli. These export documents would need to be verified by the relevant tax/customs authorities before shipment.

Mr. Zhao subsequently transferred his business to Mr. Zeng Xiaomin (曾小敏), who then corporatised Hong Kong Yifenli under the name Hong Kong Yifenli Trading Co. Ltd in November 2009, which Mr. Wu subsequently bought over in 2011. We continued to deal with them throughout this period and Mr. Wu Hongzhou has provided a written confirmation of the purchases by Hong Kong Yifenli from the Group for the Relevant Period. Mr. Wu Yiqun, the general manager of our Shenzhen office, has also provided a written confirmation in respect of the relationship with Hong Kong Yifenli. Please refer to **Annex C** for the written confirmations from Mr. Wu Hongzhou and Mr. Wu Yiqun.

Genuine sales to Putian Vegetables for the Relevant Period

We have made genuine sales to Putian Daziran Vegetable Produce Co., Ltd (莆田市大自然蔬菜制品有限公司) (“**Putian Vegetables**”) for the Relevant Period and have the relevant VAT Invoices to support these sales.

Putian Vegetables was a major customer of the Group during the Relevant Period. VAT Invoices (增值税发票) provided by us to our customers (which were also submitted to the Tax Authority) substantiate all sales made to Putian Vegetables. Taxes were duly paid to the Tax Authority in respect of the invoices issued to Putian Vegetables above. Please refer to **Annex D** for a sample of such VAT Invoices for sales to Putian Vegetables each year from 2007 to 2009.

As explained above, as part of their audit of the financial statements of the Group, our external auditors have also tested the revenue and trade receivables of the Group in accordance with the Singapore Standards of Auditing.

We have further obtained tax filings from Putian Vegetables for the calendar year 2009 which showed costs of goods sold of RMB227.4 million. Tax filings are the proper source for ascertaining business transactions carried out by a company and the amount of tax due.

Extract of Putian Vegetables' tax filing (CY2009)

企业所得税年度纳税申报表附表二 (1)

成本费用明细表

填报时间: 2010年04月08日 金额单位: 元 (列至角分)

行次	项 目	金 额
1	一、销售 (营业) 成本合计 (2+7+12)	227,814,616.62
2	(一) 主营业务成本 (3+4+5+6)	227,362,154.25
3	(1) 销售货物成本 Cost of goods sold	227,362,154.25
4	(2) 提供劳务成本	
5	(3) 让渡资产使用权成本	
6	(4) 建造合同成本	
7	(二) 其他业务成本 (8+9+10+11)	452,462.37
8	(1) 材料销售成本	452,462.37
9	(2) 代购代销费用	
10	(3) 包装物出租成本	
11	(4) 其他	

Mr. Wang Lei (王磊), the current legal representative of Putian Vegetables, has also provided a written confirmation of the purchases made by Putian Vegetables from the Group for the Relevant Period. Please refer to **Annex E** for Mr. Wang's written confirmation on the Group's dealings with them.

(2) Genuine Purchases from Top Supplier

Glaucus claimed that our largest supplier for the pre-IPO track record period had its business licence revoked in February 2010 and cast doubts on the sales made by it to the Company.

Dealings with top supplier continued after IPO

Business dealings between Sichuan Minzhong Organic Food Co., Ltd. (四川省闽中有机食品有限公司) (“**Sichuan Minzhong**”) and Chengdu Shufeng Nong Ye (成都蜀丰农业开发有限公司) (“**Chengdu Shufeng**”) had increased from FY2008 to 1Q2010 as Sichuan Minzhong was a newly incorporated subsidiary and purchasing of mushroom spores increased as Sichuan Minzhong was ramping up its mushroom producing capabilities.

Chengdu Shufeng had failed to undergo annual inspections required under PRC law and the SAIC had revoked its business licence on 2 February 2010. However, we were neither informed nor aware of the revocation and continued to trade with Chengdu Shufeng until October 2010 when the quality of mushroom spores supplied by Chengdu Shufeng failed to meet our requirements. Please refer to **Annex F** for copies of our purchase related documents. As part of their audit of the financial statements of the Group, our external auditors have also tested the purchases of the Group in accordance with the Singapore Standards of Auditing.

Chengdu Shufeng's licence was revoked as a result of its own oversight and failure to comply with the prevailing regulatory requirements. **Such non-compliance on the part of Chengdu Shufeng does not have any bearing on the legitimacy of the Company's purchases from it.**

During that period, the Group had also started obtaining more of our mushroom spore supplies from other suppliers, including Mei Shan (眉山市东坡区兴鑫菌业发展有限公司) which subsequently became our major supplier of mushroom spores and remains so today.

Our Group's mushroom spore business which has always been segregated in our financials, is immaterial and has never exceeded 3.5% of our gross profit. Glaucus alleged that “the revocation of of Chengdu Shufeng's business licence prior to the IPO indicates that Minzhong was simply fabricating the amount of payments to its largest mushroom-spore supplier in order to deceive bankers, investors and regulators about the scale and profitability of its mushroom business...”. Glaucus seems to have confused our mushroom spore business with our mushroom business.

(3) No Undisclosed Interested Person Transactions or Related Party Sales

Glaucus alleged that our Chairman and Chief Executive Officer Mr. Lin Guo Rong and former legal representative of Sichuan Minzhong Mr. Lin Guo Ping, are interested in one of our customers and there was no disclosure of any related party transactions with this customer.

Transactions with Putian Vegetables not interested person transactions nor related party transactions

Putian Vegetables was set up by Putian Daziran Foods Co., Ltd (莆田市大自然食品有限公司) (“**Putian Foods**”) in a joint venture with a Hong Kong investor, Majubaru Enterprise (香港美成企业公司持有公司). At the time of Putian Vegetables’ incorporation on 9 May 1997, our Chairman and Chief Executive Officer Mr. Lin Guo Rong (“**Chairman Lin**”) held a 10% stake in Putian Foods, but did not hold any direct interest in Putian Vegetables nor did he control Putian Vegetables. Chairman Lin sold his stake in Putian Foods more than 10 years ago.

Mr. Lin Guo Ping (who was the executive director, general manager and legal representative of our subsidiary Sichuan Minzhong from January 2007 to June 2010) was the *jānshì* (监事) of Putian Vegetables from September 2007 to September 2008 but was not a director and did not own any shares in Putian Vegetables. The role of *jānshì* is non-executive in nature and Mr. Lin Guo Ping was not involved in the day-to-day management and operations of Putian Vegetables.

Notwithstanding that Mr. Lin Guo Ping was the executive director of our subsidiary Sichuan Minzhong and the *jānshì* of Putian Vegetables, transactions between the Group and Putian Vegetables during the Relevant Period were not “interested person transactions” requiring disclosure.

As Chairman Lin and Mr. Lin Guo Ping do not have equity interest and do not have control or significant influence over Putian Foods and Putian Vegetables, and Mr. Lin Guo Ping is not a key member of management, transactions by the Group with Putian Vegetables do not meet the definition of related party transaction under FRS.

All transactions between the Group and Putian Vegetables were on normal commercial terms.

(4) No Cover-up

Glaucus alleged that the Company had fabricated its accounts and had tried to cover up in 2011 after a wave of accounting scandals and de-listings among other S-Chips in 2011.

No cover-up by the Company

As explained above, for a PRC company, the tax filing is more important as the Tax Authority is the PRC government agency that has the legal authority to receive the annual financial reports of a business and collect taxes based on such reports.

As such, we have always been handling our own tax filings but outsourced our SAIC filings to an external agent, which is commonly the case for most companies. In 2011, we decided to handle our own SAIC filing by using our audited accounts and tax filing as the basis (“**Our 2011 Filing**”). As a result, for 2010, there are two sets of figures that did not tally as the 2010 comparative figures (“**Our 2010 Figures**”) set out in Our 2011 Filing differ from that filed by the external agent previously (“**Agent’s 2010 Filing**”). However, Our 2010 Figures were prepared based on our tax filings to the Tax Authority, which is the PRC government agency that has the legal authority to receive the annual financial reports of a business and collect taxes based on such reports.

(5) Capital Expenditures Well Substantiated

Glaucus alleged that the Company had overstated its capital expenditures as part of an elaborate attempt to mask fake sales on its balance sheet.

Capital expenditures well substantiated

Our capital expenditure is well supported by contracts entered into with relevant parties relating to the development of our new industrial park in Putian (“**New Industrial Park**”). The New Industrial Park is built on approximately 287 mu of land, and comprises, amongst others, production facilities, warehouses, staff quarters and sterilisation and filtration facilities. As part of the audit of the financial statements of the Group, these fixed assets have been audited by our external auditor in accordance with the Singapore Standards of Auditing. Numerous investors, bankers, research analysts and government officials have also visited our New Industrial Park.

Most of the facilities within the New Industrial Park have been substantially completed, and some have commenced production as evidenced by the pictures in **Annex G**. Our land use rights from the PRC government for the New Industrial Park site are exhibited in **Annex H**.

With regard to the evidence relied upon by Glaucus to support its allegations against us on overstated capital expenditures, the Company would like to point out that Glaucus had mischievously presented only part of the balance sheets for the years 2010 to 2012. Their extracts failed to show the prepayments that were made towards the capital expenditures, thereby misleading the public to believe that our capital expenditures were “massively exaggerated”. Please also refer to the full balance sheets extracted from Glaucus’ Supplemental Evidence.

In the full balance sheet, we have highlighted prepayments (预付账款) and long term deferred expenses (长期待摊费用) which would have been classified as PP&E under FRS. As explained above, for our financial reporting under PRC GAAP, a significant portion of our prepayment and deferred expenses would be classified as PP&E only upon receipt of the relevant tax invoices.

In addition, we also doubt the accuracy of the aforesaid balance sheets in the Glaucus Report and in their Supplemental Evidence. For example, in the 2011 income statement exhibited as part of Glaucus’ Supplemental Evidence, it was reported that Fujian Minzhong had a profit before tax of RMB15.3 million but incurred no tax expense, even though it is not a tax exempt company.

Balance Sheets Extract from Glaucus Report:

Fujian Minzhong Organic Food Co., Ltd.

	Year 2011	Year 2010
非流动资产:		
可供出售金融资产	0.00	0.00
持有至到期投资	0.00	0.00
长期应收款	0.00	0.00
长期股权投资	72,813,737.75	72,813,737.75
投资性房地产	0.00	0.00
固定资产 Fixed Assets	135,351,585.95	81,615,101.16
在建工程 ←	87,475,554.01	56,328,710.96
工程物资 Construction in Progress	0.00	0.00
固定资产清理	0.00	0.00
生产性生物资产	0.00	0.00
油气资产	0.00	0.00
无形资产	16,505,360.50	16,690,197.82
开发支出	0.00	0.00
商誉	0.00	0.00
长期待摊费用	187,736,306.71	187,742,791.11
递延所得税资产	0.00	0.00
其他非流动资产	0.00	0.00
非流动资产合计	499,882,526.92	395,190,538.82

Fujian Minzhong Organic Food Co., Ltd.

	Year 2012	Year 2011
非流动资产:		
可供出售金融资产	0.00	0.00
持有至到期投资	0.00	0.00
长期应收款	0.00	0.00
长期股权投资	72,813,737.75	72,813,737.75
投资性房地产	0.00	0.00
固定资产 Fixed Assets	239,690,519.23	135,351,585.95
在建工程 ←	81,435,337.13	87,475,554.01
工程物资 Construction in Progress	0.00	0.00
固定资产清理	0.00	0.00
生产性生物资产	0.00	0.00
油气资产	0.00	0.00
无形资产	16,505,360.50	16,505,360.50
开发支出	0.00	0.00
商誉	0.00	0.00
长期待摊费用	417,578,226.99	187,736,306.71
递延所得税资产	0.00	0.00
其他非流动资产	0.00	0.00
非流动资产合计	828,023,181.60	499,882,526.92

Balance Sheets from Glaucus Supplemental Evidence (with our highlights):

资产负债表		
货币单位: 人民币CNY		
资产	2011	2010
期末余额	年初余额	
流动资产:		
货币资金	66,448,293.82	33,020,320.68
交易性金融资产	0.00	0.00
应收票据	0.00	0.00
应收账款	Prepayments 76,928,004.65	53,138,199.52
预付账款	920,903,555.53	176,396,890.52
应收利息	0.00	0.00
应收股利	0.00	0.00
其他应收款	157,445,197.26	185,483,676.36
存货	104,748,115.46	112,691,095.45
一年内到期的非流动资产	0.00	0.00
其他流动资产	650,376.63	650,376.63
流动资产合计	1,327,321,543.35	561,780,529.16
非流动资产:		
可供出售金融资产	0.00	0.00
持有至到期投资	0.00	0.00
长期应收款	0.00	0.00
长期股权投资	72,613,737.75	72,613,737.75
投资性房地产	0.00	0.00
固定资产	135,351,565.95	81,615,101.18
在建工程	67,475,554.01	56,328,710.96
工程物资	0.00	0.00
固定资产清理	0.00	0.00
生产性生物资产	0.00	0.00
油气资产	0.00	0.00
无形资产	Long term 16,505,360.50	16,690,197.82
开发支出	deferred 0.00	0.00
商誉	expenses 0.00	0.00
长期待摊费用	167,736,308.71	187,742,791.11
递延所得税资产	0.00	0.00
其他非流动资产	0.00	0.00
非流动资产合计	499,882,526.92	395,190,538.82
资产总计	1,827,204,070.27	956,971,067.98

资产负债表		
货币单位: 人民币CNY		
资产	2012	2011
期末余额	年初余额	
流动资产:		
货币资金	55,140,465.06	66,448,293.82
交易性金融资产	0.00	0.00
应收票据	0.00	0.00
应收账款	Prepayments 257,919,216.85	76,928,004.65
预付账款	1,496,068,103.67	920,903,555.53
应收利息	0.00	0.00
应收股利	0.00	0.00
其他应收款	60,276,498.32	157,445,197.26
存货	182,159,915.60	104,748,115.46
一年内到期的非流动资产	0.00	0.00
其他流动资产	850,376.63	850,376.63
流动资产合计	2,052,414,576.13	1,327,321,543.35
非流动资产:		
可供出售金融资产	0.00	0.00
持有至到期投资	0.00	0.00
长期应收款	0.00	0.00
长期股权投资	72,613,737.75	72,613,737.75
投资性房地产	0.00	0.00
固定资产	239,690,519.23	135,351,565.95
在建工程	61,435,337.13	67,475,554.01
工程物资	0.00	0.00
固定资产清理	0.00	0.00
生产性生物资产	0.00	0.00
油气资产	0.00	0.00
无形资产	16,505,360.50	16,505,360.50
开发支出	Long term 0.00	0.00
商誉	deferred 0.00	0.00
长期待摊费用	expenses 417,578,226.99	187,736,308.71
递延所得税资产	0.00	0.00
其他非流动资产	0.00	0.00
非流动资产合计	828,023,181.60	499,882,526.92
资产总计	2,880,437,757.73	1,827,204,070.27

Group's financial standing and status allows for favourable banking terms

We have banking facilities with several onshore and offshore lenders. Due to our strong balance sheet and good credit history, we have been able to obtain unsecured borrowings from the following major banks: Agricultural Bank of China, Bank of China, China Citic Bank, China Merchants Bank, China Minsheng Bank, Citibank, Industrial and Commercial Bank of China, OCBC Bank (China) Ltd and Standard Chartered Bank. We believe that these unsecured

borrowings underlie the confidence shown in the Company by these banks. We have also received “AAA” and “AA” rating from several of our onshore lenders, copies of which are attached herein at **Annex I**.

Just because we do not pledge assets does not mean we do not have assets.

As substantiated above, our Group has significant unencumbered assets. Even though we are not required to provide assets as security for our banking facilities, some of them are secured by personal / corporate guarantees for the reasons set out below:

- (a) Corporate guarantee by Sichuan Minzhong:

It was highlighted in the Report that Sichuan Minzhong had guaranteed the borrowings of a fellow subsidiary in the Group. This is not unusual as it is fairly common for group companies to provide cross-guarantees for the borrowings of another group company. We saw no reason to provide assets as security for our borrowings given that we have a good credit record and no such security was requested by the lender.

- (b) Personal guarantees by Chairman Lin and Xia Rui Peng and corporate guarantee by Putian Puhua Agricultural Trading Co (“**Putian Supplier**”):

The RMB60 million facility guaranteed by Chairman Lin, the Putian Supplier and Xia Rui Peng was part of the commercial arrangement for Fujian Minzhong to buy raw materials from the Putian Supplier. We believe that such vendor support is beneficial to the Group. In addition, Chairman Lin was included as a personal guarantor in his capacity as the legal representative of Fujian Minzhong.

- (c) Corporate guarantee by Tianjin Huancheng Investment Co (“**Tianjin Huancheng**”):

As part of its effort to attract investment, the Tianjin Municipal Government had arranged for companies to provide credit support (at no cost to potential investors) to entice investors to set up in Tianjin. As such, when our Group expanded our operations to Tianjin, Tianjin Huancheng provided a corporate guarantee to secure a RMB30.0 million loan to our Group company. Photos of our Tianjin Industrial Farming Site are attached hereto in **Annex J**.

Highlighting these guarantee transactions shows a complete lack of understanding of the operating environment in the PRC on the part of Glaucus.

(6) Financial Performance can be Substantiated

Glaucus cast doubts over the credibility of the Company's financial performance on the premise that its EBITDA for the past five years was exceptionally high when compared to the industry average and that the Company's receivables have significantly increased recently. Coupled with the Company's negative cash flow, Glaucus alleged that the Company is guilty of financial impropriety.

Inappropriate computation of EBITDA margins by Glaucus

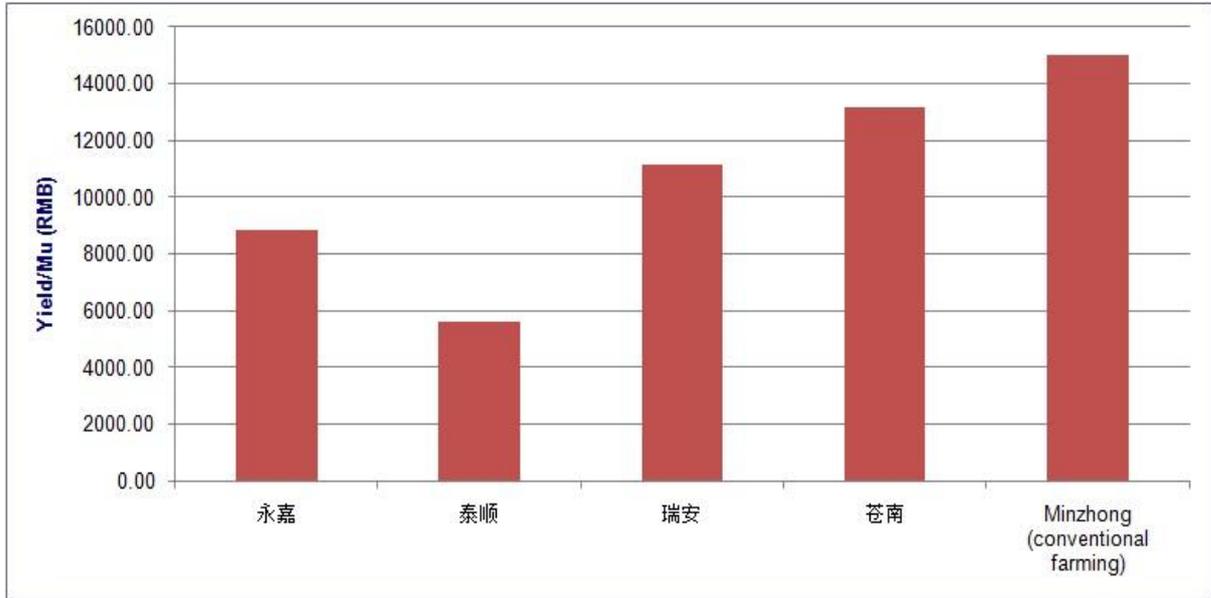
In deriving the EBITDA margins for fresh produce in the Report, Glaucus has included gains on fair value from biological assets as operating gains. Such gains on fair value from biological assets are attributable solely to our Group's bamboo plantations and should not be included in the calculation of EBITDA and EBITDA margins for fresh produce as they are non-cash in nature.

Excluding gains on fair value adjustments, the EBITDA margins for fresh produce for FY2007 to FY2013 are 71.4%, 64.1%, 54.9%, 62.2%, 66.3%, 62.9% and 58.8% respectively.

EBITDA margins for fresh produce are driven by labour and raw material costs, which are major cost components for fresh produce. We have seen certain cost pressures in this area in recent times, which has resulted in a direct co-relation to the drop in EBITDA margins for fresh produce.

A large determinant of EBITDA margin is also the yield extracted from every mu of farmland, which in turn is highly dependent on various factors as set out below. Based on publicly available sources, the following chart shows that the Group's yield/mu is better to those from the counties studied (Yongjia, Taisun, Rui'an and Changnan) as the Group has land aggregation capabilities where it is able, to an extent, to cherry-pick farmland that is conducive for the growth of the Group's portfolio vegetables, resulting in a competitive advantage over the average farmer who has farmland of varying quality.

Land infrastructure like drainage, irrigation and soil improvements also affect yield per mu. Land aggregation makes infrastructure improvement financially viable for the Group, as compared with the average farming household in the local PRC context with farmland sizes of 2 - 4 mu.



Source: *Journal of Changjiang Vegetables* 2011(02): 71-74, 温州地区蔬菜生产效益及其影响因素研究

In view of the aforesaid, the adoption of EBITDA margin as a financial measure is neither appropriate nor meaningful due to many factors that affect financial performance, such as differences in farming methodologies, crop variety, quality of seeds and agricultural land and economies of scale.

Receivables as at end of FY2012 all collected

We believe that the increased trade receivables at the end of FY2012 were due largely to the credit tightening in the PRC as well as the weather pattern in FY2012. The arrival of the winter season, whose cool temperature is essential for the cultivation of peak season crops, such as champignon mushrooms, was delayed in FY2012. This was previously highlighted in our quarterly financial statements as well as our annual report, extracts of which are exhibited in **Annex K**. This resulted in a shift in the operating peak season from the months of December to April in normal years to January to May in FY2012. This meant that receivables traditionally collected in the financial year had to be pushed back. As at the end of FY2012, the total trade receivables of the Group were RMB967.1 million (including those not due). All of these receivables were collected by the end of 2QFY2013.

As at 30 June 2013, 68% of our receivables were not due, while 31% (approximately RMB338 million) were 1 - 30 days past due. In the month of July 2013, the Group collected approximately

RMB 365 million of trade receivables. We typically provide 90 days credit for sales of processed goods and 30 to 60 days credit for sales of fresh produce. The average credit terms are affected by the proportion of sales generated from the processed goods and fresh produce. As such, the average credit terms would also be affected by the proportion of sales generated from the processed goods and fresh produce. In addition, credit terms commence from the day goods are received by the customer, whereas receivables are recorded once we issue invoices. In the case of overseas sales, the difference between the two will be larger taking into account shipping time and customs clearances.

Positive net cash flows from operating and investing activities for FY2013

Our cash flow from operations has been positive, and we have been investing to grow our business since IPO.

We embarked on our IPO with the intention of raising capital to position our growth for the medium to long term. We have used RMB525.7 million of IPO proceeds for (i) increasing our production and processing capacities, (ii) increasing our cultivation capacities by acquiring or leasing new farmlands, and (iii) land improvement costs. Pursuant to the above, 80% of the net IPO proceeds were used for capital expenditures and these capital expenditures are disclosed in our audited financial statements.

Because of our expansion and capital expenditure, net cash flows from operating and investing activities were negative for FY2011 and FY2012. However, this was not unexpected and had been highlighted previously. We now have positive net cash flows from operating and investing activities of RMB359 million for FY2013 and a dividend has been declared for the first time since IPO.