

GLAUCUS RESEARCH GROUP

格 勞 克 斯 研 究

"Things Gained Through Unjust Fraud Are Never Secure"

- Sophocles

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COMPANY: CHINA MINZHONG FOOD CORPORATION LIMITED | SGX: K2N | BB: MINZ

INDUSTRY: Agriculture

On August 26, 2013, we published our investment thesis on CHINA MINZHONG FOOD CORPORATION LIMITED ("Minzhong" or the "Company") opining that Minzhong has so significantly deceived regulators and investors about the scale of its business and its financial performance that we expected **trading in its shares to be halted and its shares to be worthless**. On September 1, Minzhong responded.

Although the Company tacitly acknowledged that the source materials upon which we based our opinions were **true and accurate**, Minzhong complained that the interpretations we made and the conclusions we drew from such evidence were not correct.

Our opinions were **based on publicly available documents from independent third parties such as government registries and SAIC filing offices**. To rebut our opinions, Minzhong has offered investors non-public records (such as tax filings), which **Minzhong knows that neither we nor any other investor can verify or obtain because of their non-public nature**. In our view, this is not a coincidence.

The balance of Minzhong's supporting documents were either generated by the Company, thus, in our view, undermining their credibility and importance, or were affidavits from suppliers and customers, who by the Company's own admission operated businesses without licenses or without being properly incorporated.

For investors, auditors and regulators, the most critical aspect of the response is with regards to the 2010 SAIC filings, which show that two key operating subsidiaries had tiny revenues, few assets and operated at either a net loss or at break even. In both cases, we presented SAIC filings from 2011, in each case audited by a different local accountant from the previous year, which mysteriously **showed completely different historical financials for 2010!** In our opinion, the Company simply doctored its historical filings to make them appear more consistent with the Singapore-filed financials.

The Company's response is that it used an "agent" to file their SAIC files before 2011, and as a result, those pre-2011 SAIC filings, which show a small and unprofitable business, were the false and inaccurate documents. Instead, Minzhong asks the market to believe that the 2011 SAIC files are the ones to be believed.

The problem with this argument is that **Minzhong's Chairman signed both the 2010 and 2011 SAIC filings**. One of the filings is inaccurate. You, the reader, must decide which set of documents, submitted with the signature of the Chairman to the Chinese government in order to comply with PRC law, are false. We have our view.

We did not and cannot cause any investor to buy or sell shares of Minzhong. We can only discuss our investment thesis and discuss the evidence upon which we base our conclusion. Investors must decide for themselves what they believe to be the true value of Minzhong's shares – but in reviewing our original report, the Company's response, and our rebuttal, market participants would be well served to remember that while we rely on publicly available documents which are verifiable and are generated by or submitted to independent third parties such as government offices, Minzhong is simply relying either on non-public records or documents generated by the Company – none of which can be independently verified by any investor.

Ultimately, based on the preponderance of the available information, we continue to believe that **the most plausible interpretation of the evidence available in the public domain is that the Company is a fraction of its reported size and profitability and that it has made materially false and misleading statements to the public in connection with its IPO and subsequent public market activities**.

FABRICATED SALES TO TOP CUSTOMERS

1) *The Customer That Did Not Exist?*

According to publicly available records from Hong Kong's Companies Registry, Hong Kong Yifenli (香港一分利) ("Hong Kong Yifenli"), which was supposedly Minzhong's largest customer during the track record period, was only incorporated on **November 6, 2009**. This begs the obvious question of how Hong Kong Yifenli could be Minzhong's biggest customer from June 2006 to September 2009 when it apparently did not exist prior to November 2009!

The Company never denies that its largest pre-IPO customer was incorporated after the track record period. Rather, Minzhong states that from 2006-2009, it was selling vegetables to a Taiwanese businessman named Mr. Zhao Li, "who operated a trading business under the name Hong Kong Yifenli." In other words, the Company is telling investors that it was doing business with an individual who was operating an unincorporated entity.

It is illegal to operate a business in Hong Kong (or anywhere in the world, to our knowledge) without a business registration. But the legal ramifications pale in comparison to the practical considerations. We are not aware of any jurisdiction in which a business can open a bank account without formation documents, so was the Company simply receiving **RMB 188 million** from a personal account?¹

Minzhong then provides Export VAT Invoices, Customs Declarations, Bills of Lading and other ancillary documents which, the Company argues, show that Minzhong was selling vegetables to Hong Kong Yifenli during the track record period. But investors would be wise to be suspicious of these documents for a number of reasons.

First, a few paltry invoices should not convince investors that an unincorporated entity was as large a customer as the Company claims. Minzhong provided three sales invoices for Hong Kong Yifenli with an average invoice amount of RMB 70,000. The invoices provided only substantiate a small fraction of 1% of the reported sales to its supposed best customer.

Further, with the order sizes provided in these invoices, Hong Kong Yifenli would have to be averaging nearly 9 orders per day, every day of the week, including weekends and holidays, in order to meet the reported sales figures in Minzhong's IPO prospectus.

Hong Kong Yifenli - Invoices Provided						<i>(RMB in mms)</i>
Invoice	Invoiced Sales	Reported Sales for the Year	% of Sales Substantiated by Invoices	Required Orders of this Size	Required Orders per Day	
Date	Amount					
3/8/2007	0.06	144	0.04%	2,281	6.3	
7/9/2008	0.10	38	0.25%	400	1.1	
4/28/2009	0.06	188	0.03%	3,254	8.9	

The invoices to Hong Kong Yifenli were so small, as we show in the chart above, that the customer would have needed to place an average of almost 9 such orders **per day in 2009 for its reported purchases from Minzhong to be true.**

Second, the documents provided in Annex A (shipping orders and invoices) and Annex B (sales contracts) do not appear to contain an address for Hong Kong Yifenli.



We also note that in its certificate of incorporation (excerpted below), Hong Kong Yifenli continues to use their HK accountants as their registered address:²

Company Particulars Search

Your Search: CR No.: = 1388763

CR No.:	1388763
Company Name:	HONG KONG YIFENLI TRADING LIMITED 香港一分利貿易有限公司
Company Type:	Local Company
Date of Incorporation:	06-NOV-2009
Company Status:	Private
Active Status:	Live
Remarks:	-
Winding Up Mode:	-
Date of Dissolution:	-
Register of Charges:	Unavailable
Important Note:	-

Name History

Effective Date	Name Used
06-NOV-2009	HONG KONG YIFENLI TRADING LIMITED 香港一分利貿易有限公司

Registered Office

Registered Office:	九龍旺角彌敦道794-802號 協成行旺角廣場11字樓1104室,香港
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² Hong Kong Company Registry

Minzhong produced documents to convince investors, auditors and regulators that it was selling vegetables to Hong Kong Yifenli within the track record period despite the fact that the business was not incorporated at the time. Yet, **not one document appears to provide an address for the customer or an address for where Hong Kong Yifenli would receive such vegetables.** Why not?

Third, it appears there are **no government stamps on ANY document bearing the name Hong Kong Yifenli.** The only documents that contain the name ‘Hong Kong Yifenli’ were generated by Minzhong (namely the invoices and the sales contract). On the few documents provided which bear government stamps, **the consignee** (i.e., the person to whom the shipment is to be delivered) is not Hong Kong Yifenli but Pancom Produce Pte Tld or Volume Buyers Ltd., which both appear to be fruit and vegetable brokers.

Without documents produced by an independent third party (such as a government office), investors are simply left to rely on Minzhong’s word for the veracity of its claims. The Company is essentially saying “just trust us” even though it cannot dispute that publicly available government records show that Hong Kong Yifenli was incorporated long after Minzhong claimed to be doing business with it. We believe that the simplest explanation is usually the right one.

2) SAIC Filings Suggest Fake Sales to Second Largest Customer

SAIC filings (excerpted in our original report) show that the Company’s second largest customer (reportedly accounting for over RMB 172 million in CY 2009), Putian Daziran Vegetables Produce Co., Ltd. (“Putian Vegetables”), **had zero revenues, zero COGS and a net profit of RMB 6,083 in calendar year 2009.** We believe that the absence of any COGS indicates that Minzhong’s supposed customer **did not purchase any goods from Minzhong (or anyone else) in 2009.**

In response, Minzhong has produced a tax filing that purportedly shows that Putian Vegetables had over RMB 227 million in COGS for CY 2009.

This rebuttal is troubling. This tax filing was not included in the Annex, so a full and complete copy has not been provided to investors. Further, the excerpt does not contain any stated revenue, net income or other financial line items to suggest it is authentic. Nor does the tax record reconcile with SAIC filings.

We produced publicly available documents showing that Minzhong’s reported customer had zero COGS and no change in inventory in 2009. The Company came back with an incomplete tax record; a document which, Minzhong presumably knows, cannot be obtained or verified by **any investor, including us, because of its non-public nature.**



3) Undisclosed Related Party

We noted that the Company failed to disclose to investors that its Chairman appears to have been a co-founder of Putian Vegetables or that the legal representative of its Sichuan Subsidiary (Lin Guo Ping) simultaneously served as the supervisor (the *jīanshì* - 监事) of its second largest customer during the track record period.

Minzhong responded that its Chairman had sold his equity interest prior to the track record period and as Mr. Lin Guo Ping did “not have control over influence over … 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 transactions under FRS.” In essence, the Company says it had no duty to disclose Mr. Lin Guo Ping’s role because he had no **power or influence over the customer**.

We disagree. The role of a supervisor at a Chinese company is to oversee the accounting and financial activity of the business.³ This is a powerful role, so we doubt how he could have such little influence.

Ultimately, the Company misses the point. The entire purpose of disclosing connections between the Company and its customers or suppliers is to enable auditors and bankers to apply a higher level of scrutiny to such transactions. A public company also has a duty to disclose such connections to investors, who have the option of reviewing such transactions with a more skeptical eye in order to determine whether the Company is benefiting from a special relationship.

It is our good-faith belief that Lin Guo Ping’s simultaneous service as the legal representative of the Company’s Sichuan subsidiary and as supervisor of its second largest customer was a material relationship which, in our opinion, calls into question the veracity of the reported transactions between the Company and its second largest customer.

TOP SUPPLIER’S BUSINESS LICENSE REVOKED BEFORE THE IPO

SAIC filings show that Chengdu Shufeng Nong Ye (成都蜀丰农业开发有限公司) (“Chengdu Shufeng”), Minzhong’s largest supplier during the pre-IPO track record period, was **deregistered and stripped of its business license for violating PRC law in February 2010**, a mere two months before Minzhong’s April 2010 IPO. In our opinion, the implication of this deregistration is that the supplier was not a major operating business and that Minzhong fabricated payments to its largest supplier.

Minzhong response is threefold: Chengdu Shufeng’s non-compliance with PRC law is not the Company’s problem, the Company switched mushroom spore suppliers in October 2010 and discontinued purchases from Chengdu Shufeng shortly thereafter, and its mushroom spore business is “**immaterial**.”

It is an obfuscation to suggest that the Company’s largest pre-IPO supplier was an immaterial aspect of its business. The Company clearly believed that its largest supplier was sufficiently material to merit disclosure in the IPO Prospectus under Singapore listing rules.

Note as well that it is illegal to operate in China without a business license. Yet the Company admits that its top supplier and its top customer both operated a business without a license in violation of law. These are the same people upon whom investors are expected to rely upon for the veracity of the reported sales and purchases.

Again, the supporting evidence is of dubious reliability. The contract in Annex F that Minzhong signed with Chengdu Shufeng is dated April 11, 2010, two months after the supplier’s business license was revoked and two months after it was instructed to hand over its corporate seal to the local SAIC office:

³<http://baike.baidu.com/view/279059.htm>

Mushrooms Purchase Contract

菌种收购合同书

甲方：福建省闽中有机食品有限公司

← Party A:
Fujian Minzhong Organic Food Co., Ltd.

乙方：成都蜀丰农业开发有限公司

← Party B:
Cheng Du Shu Feng Nong Ye

为了增强甲乙双方的责任感，加强经济核算，提高经济效益，确保双方实现各自的经济目的，经甲乙双方充分协商，特订立本合同，以便共同遵守。

一、由乙方负责自主生产双孢蘑菇菌种，甲方负责收购乙方生产的合格双孢蘑菇菌种；

二、生产的品种、数量、规格及收购标准

十一、其他约定

违约金或赔偿金，应在甲、乙双方确定责任后 10 天内偿付，否则，按逾期付款处理。

十二、本合同一式二份，甲方一份，乙方一份，具有同等法律效力。

十三、合同执行过程如有疑议，双方本着友好协商解决，协商不成由仲裁单位判决。

The Contract was signed on April 11, 2010 in Fujian Putian.

本合同于 2010 年 04 月 11 日在 福建莆田 签订。



甲方：福建省闽中有机食品有限公司

代表人：

授权代表人： _____



乙方：成都蜀丰农业开发有限公司

代表人：

授权代表人： _____

Party A: Fujian Minzhong Organic Food Co., Ltd.

Party B: Cheng Du Shu Feng Nong Ye

The additional documents supposedly showing purchases from the supplier are warehouse receipts generated by the Company, undermining their credibility and importance.

We believe that the Company's response misses the point. We did not presume to imply that the Company was responsible for its supplier's government filings. But we find it highly unlikely that a supplier receiving RMB 161 million in just over two years would allow its business license to be revoked for failure to submit routine filings and financial statements to its local SAIC office. Chengdu Shufeng was supposedly the largest supplier of mushroom spores to a soon-to-be public company. Its sales to Minzhong were supposedly increasing at the time of the IPO. Chengdu Shufeng had every incentive to maintain an operating business, yet it allowed its status to be revoked a mere two months before Minzhong's IPO.

We believe that all of this evidence supports the opinion that the supplier was **incorporated solely for the purpose of Minzhong's track record period (June 2006 – September 2009)**. Supposedly a thriving supplier, Chengdu Shufeng was incorporated two months before the beginning of Minzhong's track record period and **had its business license revoked two months before the Company's IPO**.

Investors can decide for themselves. But there are two possible explanations: either Chengdu Shufeng was a thriving business that was born just before the track record period and collapsed shortly thereafter because **of its failure to file routine paperwork or** it was established to create a paper trail for Minzhong's IPO and allow the Company to fabricate purchases from its largest supplier to artificially inflate the scale and profitability of its business.

ATTEMPTED COVER UP?

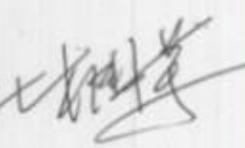
For investors, auditors and regulators, the most critical aspect of the response is with regards to the 2010 SAIC filings, which show that two key operating subsidiaries had tiny revenues, few assets and operated at either a net loss or at break even. In both cases, we presented SAIC filings from 2011, in each case audited by a different local accountant from the previous year, which mysteriously **showed completely different historical financials for 2010!** In our opinion, the Company simply doctored its historical filings to make them appear more consistent with its Singapore-filed financials.

The Company's response is that it used an "agent" to file their SAIC files before 2011, and as a result, those pre-2011 SAIC files, which show a small and unprofitable business, were the false and inaccurate documents. Instead, Minzhong asks the market to believe that the 2011 SAIC files are the ones to be believed.

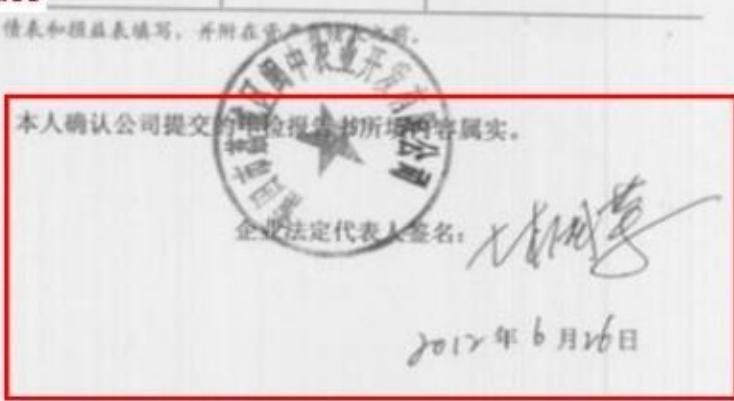
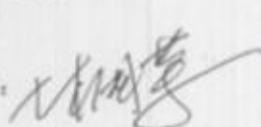
The problem with that argument is that Minzhong's Chairman signed both the 2010 and 2011 SAIC filings and each case represented that the documents were true and accurate.



2010 SAIC Filings

经营情况		Operation		页码, 1/1
经营情况				
企业名称	莆田市荔城区中农农业开发有限公司			注册号 350304100004439
	Putian Licheng Minzhong Agriculture Development Co., Ltd.			
营运状况	<input type="checkbox"/> 筹建 <input checked="" type="checkbox"/> 投产开业 <input type="checkbox"/> 停业 <input type="checkbox"/> 清算			
Annual Sales Revenue		410,900 Yuan		
全年销售(营业)收入	41.09 (万元)	其中: 服务营业收入		41.09 (万元)
Total Annual Profit	8.75 (万元)	全年净利润		8.75 (万元)
全年纳税总额	0.00 (万元)	Annual Net Profit		87,500 Yuan
全年亏损额				0.00 (万元)
年末资产总额	148.99 (万元)	其中: 长期投资		0.00 (万元)
End of Year Total assets				
年末负债总额	90.11 (万元)	其中: 长期负债		0.00 (万元)
End of Year Total Liabilities				
注: 本表内容应根据资产负债表和损益表填写, 并附在资产负债表之前。				
<div style="border: 2px solid red; padding: 5px; width: fit-content;"> 本人确认公司提交的年检报告书所填内容属实。   2011年5月30日 </div>				
I hereby confirm that the contents in the annual inspection report submitted by the company are true.				
Enterprise Legal Representative Signature: Lin Guo Rong				
May 30, 2011				

2011 SAIC Filings

经营情况		页码, 1/1	
Operation 经营情况			
企业名称	莆田市荔城区闽中农业开发有限公司	注册号	350304100004439
	Putian Licheng Minzhong Agriculture Development Co., Ltd.		
营运状况	<input type="checkbox"/> 筹建 <input checked="" type="checkbox"/> 投产开业 <input type="checkbox"/> 停业 <input type="checkbox"/> 清算		
Annual Sales Revenue	680,024,600 Yuan		
全年销售(营业)收入	68002.46 (万元)	其中: 服务营业收入	0.00 (万元)
Total Annual Profit	34287.01 (万元)	全年净利润	34287.01 (万元)
Total Annual Tax	6857.40 (万元)	Annual Net Profit	342,870,100 Yuan
全年亏损额	0.00 (万元)		
End of Year Total assets	139471.32 (万元)	其中: 长期投资	0.00 (万元)
End of Year Total Liabilities	18672.80 (万元)	其中: 长期负债	0.00 (万元)
注: 本表内容应根据资产负债表和损益表填写, 并附在资产负债表之后。  本人确认公司提交的年度报告书所填内容属实。 企业法定代表人签名:  2012年6月26日			
I hereby confirm that the contents in the annual inspection report submitted by the company are true. Enterprise Legal Representative Signature: Lin Guo Rong June 26, 2012			

One of the filings, submitted with the signature of the Chairman to the Chinese government in order to comply with PRC law, is false.

Minzhong also attempts to distract investors by discrediting SAIC filings, saying that financial reports are filed with SAIC offices only for the purpose of showing “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.” Minzhong then concludes that although its SAIC filings in 2010 are inaccurate, its 2010 filings to the Tax Authority are not.

This is a classic distraction. Minzhong demands to be trusted based on the accuracy of its filings to the Tax Authority **knowing full well that neither we, nor any other investor, can access such tax records because of their non-public nature. But this still does not change the fact that the Chairman signed off on SAIC financials that were materially inaccurate.**

Hopefully, investors will not ignore the absurdity of the implication that an arm of the PRC government (SAIC offices) demands that a company file financials every year but does not care whether such financials are accurate or that a company does not have a legal obligation to file accurate financial statements.

Put simply, SAIC filings matter. Sinopipe Holdings Ltd., another troubled S-Chip whose shares have been halted since March 2012, first came under scrutiny when its auditors discovered “significant discrepancies between the audited PRC GAAP financial statements of certain PRC subsidiaries for previous financial years filed with the local PRC authorities and audited PRC GAAP financial statements provided by management...” We believe that similar discrepancies appear in Minzhong’s records. For the Company to blame such discrepancies on an “agent” is simply not credible.

SUSPICIOUS CAPITAL EXPENDITURES

In fiscal years 2011 and 2012, Minzhong claims to have spent **RMB 1.2 billion** on the construction of the Putian New Industrial Park (“Putian Industrial Park”). Yet SAIC filings show an increase of only RMB 203 million in PP&E during the same period. Suspiciously, the industrial park was not pledged as collateral for Minzhong’s bank loans, and instead the Company’s creditors sought personal, unsecured guarantees from the Company’s Chairman and its suppliers, which, in our view, is further evidence that Minzhong inflated the value of its capital expenditure.

Laughably, the Company claims we were ‘mischievous’ because we only included part of the balance sheet in the body of the report, ignoring that we **included the full balance sheet in the supplementary evidence file on our website in order to allow investors to make an informed decision.**

1) Reinventing the "Current Asset"

Minzhong claims that under PRC GAAP, the vast majority of its capital expenditures on the Putian Industrial Park were classified on the balance sheet of its subsidiary Fujian Minzhong Organic Food Co., Ltd. (“Fujian Minzhong”) as **prepayments and deferred expenses**, which according to the Company, would be classified as PP&E “only upon receipt of the relevant tax invoices.”

Minzhong's categorization of RMB 1 billion in missing capital expenditures as ‘prepayments’ and ‘deferred expenses’ in the SAIC filings of Fujian Minzhong defies, in our view, the most basic accounting logic, within or outside of the PRC.

First, the PRC balance sheet contains a line item for ‘construction in progress,’ which happens to be a fraction of the reported capital expenditures for the Putian Industrial Park. What is the point of a ‘construction in progress’ line item if the asset is categorized as either a ‘prepayment’ or PP&E?

Second, the ‘prepayments’ to which Minzhong refers to are categorized as a ‘current asset.’ Current assets are a revolving door, defined as assets that can be turned into cash or will be used to pay current liabilities within 1 year. As the account summary below demonstrates, the “prepayments” balance for Fujian Minzhong appears to be a parking lot for assets of questionable authenticity – after all, if the prepayments become PP&E when the Company receives a tax invoice, then such prepayments should **disappear from the balance sheet as the project progresses.**

Fujian Minzhong - Prepayments (per SAIC filings)		<i>RMB</i>
	December	
2009	176,396,890.52	
2010	176,396,890.52	
2011	920,903,555.53	
2012	1,496,068,103.67	

Suspiciously the prepayment balance did not change at all from 2009 to 2010, after which it increased RMB 1.3 billion in a span of 2 years. Minzhong has told investors that its Putian Industrial Park finished Phase II of construction in December 2012 (SAIC filings are based on a calendar year). Yet the prepayments appear to enter as a current asset and never come out.

Third, included in our report the following press release⁴ from an important government website (the NRDC) stating that the expected investment in the Putian Industrial Park was RMB 450 million in aggregate in 2010 and 2011 and a total of USD \$120 million all phases. More importantly, the two projected phases (RMB 100MM in 2010 and RMB 350MM in 2011 corroborate the increase in PP&E in the SAIC filings that we presented in our initial report.

The May 2011 press release indicates a total project value, which encompasses all phases of the project from 2010 through 2012, of \$US 120 million, or around RMB 730 million. While this amount is higher than the RMB 200 million shown in the SAIC filings, it is still significantly less than the RMB 1.2 billion that management claimed was spent in on the Putian Industrial Park, and at the time of the press release, the project was still 19 months from completion. That leaves hundreds of millions missing or unexplained. Again, this situation is eerily similar to Chaoda, which prior to its trading halt, was under fire for suspicious levels of capital expenditures.



⁴ <http://www.putian.gov.cn/a/20110503/00065.shtml>

Source: <http://www.putian.gov.cn/a/20110503/00065.shtml>

2) Unsecured Borrowings

In what is nothing short of Orwellian double-speak, Minzhong then argues its “unsecured borrowings underlie the confidence shown in the Company” by its lenders. Minzhong then labors through a labyrinth of excuses about why its lenders supposedly preferred the unsecured guarantees of the Company’s Chairman and the Company’s supplier rather than require the Company to pledge hard assets such as the New Industrial Park to backstop its loans. We disagree.

If the Company’s credit profile were truly as robust as the Company claims, it would **not need personal guarantees of its Chairman or the guarantee of a random supplier to backstop a loan**. But in addition to unsecured guarantees, the banks also have required certain collateral (RMB 50 million of PP&E⁵ and RMB 3 million⁶ of land use rights) to be pledged:

As at 30 June 2012, leasehold buildings and plant and machinery with net carrying amount of approximately RMB49.5 million (2011: RMB40.2 million) were pledged as security for the Group’s bank loans (see Note 16).

As at 30 June 2012, the land use rights with net carrying amount of approximately RMB2.7 million (2011: RMB6.8 million) were pledged as security for the Group’s bank term loans (see Note 16).

No matter the business, banks are generally not in the habit of requiring personal guarantees or unsecured corporate guarantees when hard assets are available to backstop a loan. We continue to believe it is suspicious that Minzhong gleaming new PP&E is not pledged as collateral.

REINVENTING THE WHEEL

1) EBITDA Margins

We noted that the Company’s business model is as old as agriculture itself, yet it so vastly outperforms other fresh produce growers that its reported financial performance defies credibility. Minzhong’s reported EBITDA margins on fresh produce, its most profitable segment, averaged an absurd 66% during the past five years.

Minzhong cries foul, saying that we inappropriately calculated EBITDA by including gains on the fair value from biological assets. Even if we exclude such gains, EBITDA margins on fresh produce for FY 2007 to FY 2013 are 71.4%, 64.1%, 54.9%, 62.2%, 66.3%, 62.9% and 58.8% respectively.

Such margins are still extraordinarily high, and in our view, a significant red flag. The Company claims its margins are high because of its high yield, but farming is not software development, so it begs the question of why Minzhong is outperforming its peers (Chaoda, Le Gaga, China Green Holdings)?

It also bears repeating that Minzhong’s *pretax* margins on fresh vegetables should be inherently low because: a) unprocessed vegetables are the ultimate commodity; b) according to the Prospectus, Minzhong’s fresh vegetables are sold exclusively within the PRC, where vegetables are generally cheap and plentiful, and c) Minzhong appears to have several middlemen between their fresh vegetables and the end consumer.

⁵ Company AR FY2012, p.66

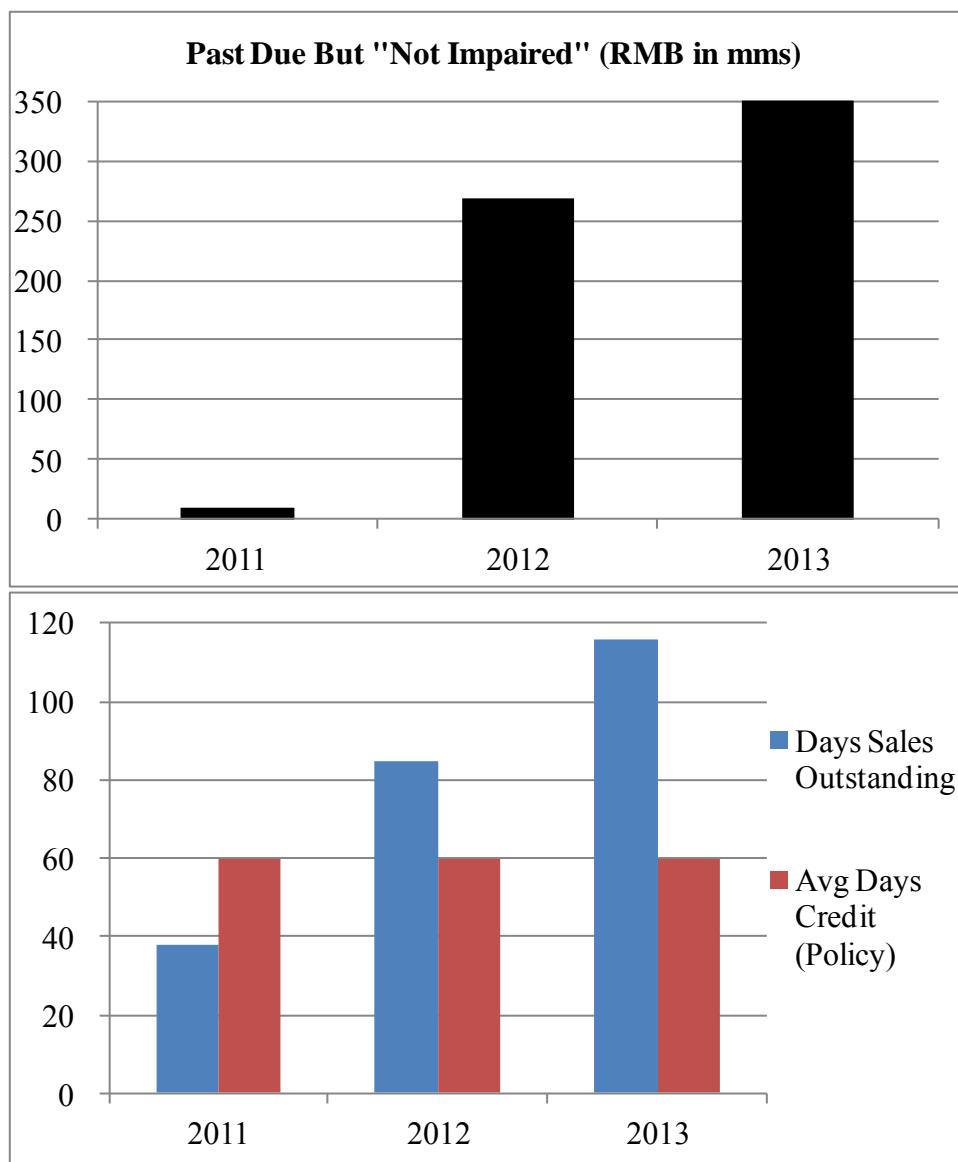
⁶ Company AR FY2012, p.67

2) *Receivables*

The Company's receivables have skyrocketed of late, despite the fact that its credit terms have not changed. We believe that the persistent and unexplained growth in receivables is caused by the need to account for fake income on the balance sheet.

In perhaps the most light-hearted paragraph of its response, Minzhong stated that its ballooning receivables can be explained by credit tightening in the PRC (which somehow did not seem to affect its ability to turn a profit) and ***the weather.***

No matter how the Company spins it, Minzhong's receivables are getting worse and worse. In the following charts, we have updated our calculation of the Company's 'Past Due But Not Impaired' receivables and its Day Sales Outstanding **in light of the recently released FY 2013 unaudited earnings.**



It is undisputable that the Company's receivables situation is getting worse every year. In our opinion, receivables are growing because Minzhong needs a place to park fake sales on its balance sheet.

CONCLUSION

After needing a full week to prepare answers to the most basic questions about its business, we believe that Minzhong's response is not only inadequate, but that it also raises a host of additional red flags which further corroborate our underlying thesis.

In an effort to distract the market, the Company has falsely accused us of acting mischievously and recklessly without due regard for the accuracy of our statements. The Company has also falsely accused us of seeking to cause panic and impose maximum damage on the price of the Company's stock. We reject all of these libelous accusations.

As the Company acknowledges, we are entitled to voice our opinions regarding the published results and performance of the Company. Our opinions of what we believe to be the true value of the Company's shares are based upon our analysis and due diligence. Our opinions regarding the Company are a matter of public interest, and publication of our opinions is justified due to the fact that investors and the capital markets are connected in a common interest in determining the true value of the Company and its stock price. The Company disagrees with our interpretation of the publicly available information, and has its own views, which are based upon its own information, none of which was available to us (or to anyone in the investing public).

We have disclosed the fact that we have a short interest in the securities of the Company and stand to realize gain in the event that the price of the securities falls – however, that does not in any way undermine the good faith belief in our opinions, nor does it support the Company's accusation that we are trying to harm the Company or its shareholders.

We did not and cannot cause investors to buy or sell shares of Minzhong. We can only express our investment thesis and discuss the evidence upon which we base our opinions and conclusions. We have not used any false or misleading language, or wrongful characterization of information that was available to us, and we believe our comments were entirely fair. Investors must decide for themselves if what they believe to be the true value of Minzhong's shares.

However, it bears repeating that in reviewing the Company's response, this rebuttal and our original report, market participants would be well served to remember that while we rely on publicly available documents which are verifiable and are generated by or submitted to independent third parties such as government offices, Minzhong is simply relying either on non-public records or documents generated by the Company – none of which can be independently verified by any investor.

Ultimately, based on the preponderance of the available evidence, we continue to believe that **the most plausible interpretation of the facts and documentation available in the public domain is that the Company is a fraction of its reported size and profitability and that it has made materially false and misleading statements to the public in connection with its IPO and subsequent public market activities.**

Disclaimer

We are short sellers. We are biased. So are long investors. So is Minzhong. So are the banks that raised money for the Company. If you are invested (either long or short) in Minzhong, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions and the underlying facts about the public companies we research is in the public interest.

You are reading a short-biased opinion piece. Obviously, we will make money if the price of Minzhong stock declines. This report and all statements contained herein are the opinion of Glaucus Research Group California, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available facts and evidence collected and analyzed, all of which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.

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