Sino Distillery Group Limited
中 國 釀 酒 集 團 有 限 公 司

(formerly known as "BIO-DYNAMIC GROUP LIMITED 生物動力集團有限公司")

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00039)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board of directors (the "Board") of Sino Distillery Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 together with the comparative amounts for 2011 as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
REVENUE	5	**199,325**	384,859
Cost of sales		**(184,850)**	(360,949)
Gross profit		**14,475**	23,910
Other income and gains	5	**5,300**	8,922
Selling and distribution expenses		**(31,900)**	(30,494)
Administrative expenses		**(87,912)**	(73,741)
Impairment of tangible and intangible assets	6	**(227,377)**	(74,311)
Finance costs	7	**(7,052)**	(5,534)
Share of loss of an associate		**(120)**	–
LOSS BEFORE TAX	6	**(334,586)**	(151,248)
Income tax credit	8	**12,928**	11,838
LOSS FOR THE YEAR		**(321,658)**	(139,410)
Attributable to:			
Owners of the parent		**(277,800)**	(125,547)
Non-controlling interests		**(43,858)**	(13,863)
		(321,658)	(139,410)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	10	**HK(23.31) cents**	HK(10.78) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(321,658)**	(139,410)
Exchange differences on translation of foreign operations	**498**	16,027
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**498**	16,027
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(321,160)**	(123,383)
Attributable to:		
Owners of the parent	**(277,253)**	(111,678)
Non-controlling interests	**(43,907)**	(11,705)
	(321,160)	(123,383)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**236,693**	339,888
Prepaid land lease payments		**32,170**	32,997
Goodwill		**–**	4,073
Other intangible assets		**12,140**	138,974
Investment in an associate		**3,612**	–
Total non-current assets		**284,615**	515,932
CURRENT ASSETS			
Inventories		**129,159**	96,815
Trade and bills receivables	11	**5,973**	15,204
Prepayments, deposits and other receivables		**44,843**	58,254
Due from related parties		**10,238**	446
Pledged deposits		**37,317**	27,418
Cash and cash equivalents		**8,398**	16,489
Total current assets		**235,928**	214,626
CURRENT LIABILITIES			
Trade and bills payables	12	**182,205**	65,033
Other payables and accruals		**128,132**	109,982
Interest-bearing bank and other borrowings		**36,087**	69,216
Due to related parties		**30,939**	18,106
Due to a non-controlling shareholder of a subsidiary		**31,263**	31,012
Tax payable		**6,886**	7,124
Total current liabilities		**415,512**	300,473
NET CURRENT LIABILITIES		**(179,584)**	(85,847)
TOTAL ASSETS LESS CURRENT LIABILITIES		**105,031**	430,085
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**120**	14,266
Deferred income		**12,097**	12,500
Total non-current liabilities		**12,217**	26,766
Net assets		**92,814**	403,319
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**119,516**	119,064
Reserves		**(37,396)**	229,654
		82,120	348,718
Non-controlling interests		**10,694**	54,601
Total equity		**92,814**	403,319

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. BASIS OF PRESENTATION

At 31 December 2012, the Group had net current liabilities of HK$179,584,000, inclusive of bank and other borrowings, other payables and the amount due to a non-controlling shareholder of a subsidiary of HK$36,087,000, HK$116,763,000 and HK$31,263,000, respectively, which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated loss of HK$321,658,000 for the year ended 31 December 2012.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, Able Turbo Enterprises Limited, Mr. Jiang Jianjun and King Wei Group (China) Investment Development Limited, all of which are shareholders of the Company, have agreed to jointly and severally provide continuous financial support to the Group.

Furthermore, the directors intend to negotiate for the deferral of repayment or renewal of the other payables, bank and other borrowings and the amount due to a non-controlling shareholder of a subsidiary when they fall due.

In light of the above, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the ethanol segment is engaged in the production and sale of ethanol products and ethanol by-products;

(b) the wine and liquor segment is engaged in the sale and distribution of wine and liquor; and

(c) the animal feed segment is engaged in the production and sale of forages.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results. Segment results are measured consistently with the Group's loss before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, the amounts due to related parties and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

No intersegment sale and transfer was transacted for the years ended 31 December 2012 and 2011.

	Ethanol	Wine and liquor	Animal feed	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2012				
Segment revenue:				
Sales to external customers	**54,587**	**144,738**	**–**	**199,325**
Other revenue	**1,717**	**3,488**	**–**	**5,205**
	56,304	**148,226**	**–**	**204,530**
Segment results	**(187,350)**	**(56,004)**	**(65,756)**	**(309,110)**
Reconciliation:				
Interest income				**95**
Corporate and other unallocated expenses				**(18,519)**
Finance costs				**(7,052)**
Loss before tax				**(334,586)**
Segment assets	**320,943**	**137,697**	**31,111**	**489,751**
Reconciliation:				
Elimination of intersegment receivables				**(18,179)**
Corporate and other unallocated assets				**48,971**
Total assets				**570,543**
Segment liabilities	**327,932**	**30,375**	**18,480**	**376,787**
Reconciliation:				
Elimination of intersegment payables				**(18,179)**
Corporate and other unallocated liabilities				**69,121**
Total liabilities				**427,729**
Other segment information:				
Share of loss of an associate	**–**	**(120)**	**–**	**(120)**
Impairment losses recognised in the income statement	**119,917**	**46,205**	**61,255**	**227,377**
Provision/(reversal of provision) for inventories	**5,471**	**(2,708)**	**–**	**2,763**
Provision for other receivables	**427**	**6,657**	**–**	**7,084**
Depreciation and amortisation	**28,867**	**7,036**	**3,691**	**39,594**
Investment in an associate	**–**	**3,612**	**–**	**3,612**
Capital expenditure*	**29,155**	**1,802**	**62**	**31,019**

	Ethanol	Wine and liquor	Animal feed	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2011				
Segment revenue:				
Sales to external customers	226,464	158,395	–	384,859
Other revenue	6,129	2,633	–	8,762
	232,593	161,028	–	393,621
Segment results	(119,170)	(2,628)	(5,787)	(127,585)
Reconciliation:				
Interest income				160
Corporate and other unallocated expenses				(18,289)
Finance costs				(5,534)
Loss before tax				(151,248)
Segment assets	471,655	163,630	79,525	714,810
Reconciliation:				
Elimination of intersegment receivables				(1,075)
Corporate and other unallocated assets				16,823
Total assets				730,558
Segment liabilities	166,746	68,858	1,504	237,108
Reconciliation:				
Elimination of intersegment payables				(1,075)
Corporate and other unallocated liabilities				91,206
Total liabilities				327,239
Other segment information:				
Impairment losses recognised in the income statement	74,311	–	–	74,311
Provision/(reversal of provision) for inventories	2,650	(10)	–	2,640
Provision for other receivables	983	–	–	983
Depreciation and amortisation	29,700	7,190	3,648	40,538
Capital expenditure*	29,478	151	–	29,629

* Capital expenditure consists of additions to property, plant and equipment.

Geographical information

Over 90% of the Group's customers are located in Mainland China and all revenue of the Group is derived from operations in Mainland China. The principal non-current assets held by the Group are located in Mainland China. The management considers that it is impracticable to allocate the revenue, segment results and assets to geographical locations.

Information about a major customer

During the year, there was no external customer accounted for 10% or more of the Group's total revenue (2011: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**199,325**	384,859
Other income and gains		
Government grants*	**1,168**	2,125
Amortisation of deferred income	**498**	488
Interest income	**95**	160
Gain on waived liability	**–**	3,333
Others	**3,539**	2,816
	5,300	8,922

* The government grants represent the subsidies received by the Group from the local government for environmental protection and the transformation of new patterns of industrialisation. There are no unfulfilled conditions or contingencies relating to these grants.

6. LOSS BEFORE TAX

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**182,087**	358,309
Depreciation	**28,199**	27,360
Amortisation of prepaid land lease payments	**1,081**	1,059
Amortisation of other intangible assets	**10,314**	12,119
Minimum lease payments under operating leases in respect of land and buildings	**5,356**	5,978
Auditors' remuneration	**1,150**	1,150
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**25,734**	27,350
Equity-settled share option expense	**9,373**	11,759
Pension scheme contributions	**2,449**	1,931
	37,556	41,040
Impairment of tangible and intangible assets:		
Impairment of items of property, plant and equipment	**106,475**	27,013
Impairment of goodwill	**4,073**	–
Impairment of other intangible assets	**116,829**	47,298
	227,377	74,311
Foreign exchange differences, net	**(25)**	13
Provision for inventories*	**2,763**	2,640
Provision for other receivables**	**7,084**	983
Loss on disposal of items of property, plant and equipment	**46**	336
Loss on disposal of subsidiaries	**3,367**	–
Interest income	**(95)**	(160)
Gain on waived liability	**–**	(3,333)

* The provision for inventories for the year is included in "Cost of sales" in the consolidated income statement.

** The provision for other receivables for the year is included in "Administrative expenses" in the consolidated income statement.

7. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**6,667**	5,534
Interest on trade payables	**385**	–
	7,052	5,534

8. INCOME TAX

During the year, no Hong Kong profits tax has been provided as there was no assessable profit arising from Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	2012	2011
	HK$'000	*HK$'000*
Group:		
Current	**1,298**	1,684
Deferred	**(14,226)**	(13,522)
Total tax credit for the year	**(12,928)**	(11,838)

The share of tax attributable to an associate amounting to HK$30,000 (2011: Nil) is included in "Share of loss of an associate" in the consolidated income statement.

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2012 (2011: Nil).

10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,191,659,822 (2011: 1,164,556,579) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

11. TRADE AND BILLS RECEIVABLES

Other than the cash and credit card sales, the Group allows a credit period which is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit.

None of the trade and bills receivables is impaired. An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**5,243**	12,783
1 to 2 months	**355**	1,234
2 to 3 months	**–**	560
Over 3 months	**375**	627
	5,973	15,204

12. TRADE AND BILLS PAYABLES

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

	2012	2011
	HK$'000	*HK$'000*
Within 1 month	**50,044**	47,628
1 to 2 months	**52,842**	11,830
2 to 3 months	**192**	5,289
Over 3 months	**79,127**	286
	182,205	65,033

Except for trade payables of HK$79,112,000 (2011: Nil) which bear interest rates ranging between 6.0% and 6.9% and are settled on 90-day terms and 300-day terms, the trade and bills payables are non-interest-bearing and are normally settled on 30-day terms and 180-day terms, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

For the year ended 31 December 2012, the Group's revenue was approximately HK$199.3 million, representing a decrease of 48.2% over last year. Loss attributable to owners of the parent was approximately HK$277.8 million, representing an increase of 121.3% over last year. Loss per share for the year was HK23.31 cents (2011: HK10.78 cents).

During the year, the Group's wine and liquor business constituted the key business of the Group. The substantial increase in loss attributable to owners of the parent was mainly due to the impairment of assets and the increase in loss of the Group's ethanol business.

Segmental Information

Ethanol business

The Group's ethanol business is principally engaged in the production and sale of ethanol products and ethanol by-products in the PRC. Currently, Harbin China Distillery Co., Limited ("Harbin Distillery"), a 75% owned subsidiary of the Group, manages and operates an ethanol production facility located in Harbin, PRC. This ethanol production facility is designed to have an annual production capacity of 60,000 tonnes.

During the year, the ethanol business recorded revenue of approximately HK$54.6 million, down 75.9% over last year and accounted for 27.4% (2011: 58.8%) of the total revenue. The substantial decrease in revenue was mainly attributable to the temporary suspension of the Group's ethanol production facility from February 2012 to October 2012. Due to elevated corn prices, Harbin Distillery temporarily suspended its production process to reduce the cash outflow and operating loss. Gross loss for the year was approximately HK$22.5 million (2011: HK$13.2 million).

Harbin Distillery resumed production in November 2012. However, the profitability of Harbin Distillery is highly sensitive to ethanol and corn price and the demand for ethanol products is partly correlated to the downstream liquor industry. Due to the recent weak liquor market in the PRC, prices for ethanol products are lower. In view of the elevated corn prices and declining selling prices for ethanol products, the future growth forecast of the Group's ethanol business was reduced and hence, an impairment of property, plant and equipment of approximately HK$106.5 million (2011: HK$27.0 million) and an impairment of intangible assets of approximately HK$13.4 million (2011: HK$47.3 million) were made during the year.

During the year, in order to enhance productivity and expand product portfolio, Harbin Distillery had undergone a plant modification from August 2012 onwards to expand its storage facilities, improve equipment to reduce production cost and for the production of anhydrous ethanol in addition to consumable ethanol. The plant modification was temporarily stopped in December 2012 due to the cold weather and will continue when the weather turns warm. In order to control the raw material costs, Harbin Distillery made advanced purchases of raw materials at year end when new grains were available on the market to cater for future demand.

Meanwhile, Harbin Distillery is actively looking for ways to increase the selling price of the ethanol products by transporting its products by rail to other parts of China. Harbin Distillery is also seeking to diversify its raw materials by producing ethanol with kenaf. In late June 2012, Harbin Distillery has signed a letter of intent with a Shanghai high-tech enterprise and two corporate partners for a kenaf cellulose ethanol production demonstration project. The demonstration project is expected to lay foundation for the future industrialisation of kenaf cellulose ethanol.

Looking forward, Harbin Distillery will continue to focus on improving efficiency in production and expanding product portfolio so as to strengthen its financial performance and position.

Wine and liquor business

The Group's wine and liquor business is principally engaged in the sale and distribution of wine and liquor in the PRC. Currently, the Group operates a retail and distribution network for selling wine and liquor in Guangzhou, Harbin and Hunan province of the PRC. As at 31 December 2012, the Group had 27 wine and liquor specialty stores and 26 franchise stores in Guangzhou. The Group is the exclusive distributor of Diancang Jiugui and Meiming Wenshi in China until May 2020.

During the year, the wine and liquor business recorded revenue of approximately HK$144.7 million, down 8.6% over last year and accounted for 72.6% (2011: 41.2%) of the total revenue. During the year, the Group focused on gross margin improvement in Guangzhou and network expansion in Harbin and Hunan province. Hence, the revenue from the operations in Harbin and Hunan province increased but the revenue from the operation in Guangzhou decreased, and a net decrease in revenue resulted. Despite the decrease in revenue, gross profit margin of this business improved from 23.4% to 25.5%, mainly attributed to price increases on selected products for the operation in Guangzhou. Gross profit was approximately HK$36.9 million, representing a decrease of 0.3% over last year.

From December 2012 onwards, the revenue of this business was hit by government calls for cracking down on extravagance in government departments and state-owned institutions and enterprises and plasticiser contamination scandal. In view of the recent adverse market conditions, the demand for the Group's products under the brands of Diancang Jiugui and Meiming Wenshi will be decreased and hence, the distribution rights of Diancang Jiugui and Meiming Wenshi with net book value of approximately HK$42.1 million and the goodwill with net book value of approximately HK$4.1 million were fully impaired during the year.

The operating environment of the liquor industry in China will remain difficult in the first half of 2013. The Group will closely monitor the market situations and trends and adopt corresponding measures of risk management to alleviate the negative impacts. Meanwhile, the Group will continue to improve the product mix and focus on higher margin products to grow its business. Apart from strengthening the established markets, the Group will strive to expand its retail and distribution network to other parts of China.

Animal feed business

The Group holds an intellectual property which involves a technique and know-how to produce high-protein forages from crop stalks. The Group's animal feed business will principally engage in the production and sale of forages.

During the year, as the Group directed most of its resources to the development of the Group's ethanol business and wine and liquor business, the development of the Group's animal feed business was hindered. In September 2012, the Group has confirmed to form a joint venture with a farm to produce and sell animal feed. The Group would have a 10% ownership interest in this joint venture and the formation of the joint venture is in progress. The Group's intellectual property will not be used in this joint venture due to its small size.

As there is no projected revenue for this business, a full impairment of the intellectual property of approximately HK$61.3 million was made during the year.

Nevertheless, the Group will continue to pursue additional potential locations for future facilities, which involve consideration of a number of criteria including availability of raw materials and infrastructure, potential strategic partnerships, logistics and other market factors.

Financial Review

The Group's total revenue for the year was approximately HK$199.3 million, representing a decrease of 48.2% over last year. The decrease was mainly attributable to the decrease in revenue of ethanol business.

Gross profit of the Group was approximately HK$14.5 million, representing a decrease of 39.5% over last year. Overall gross profit margin increased from 6.2% to 7.3%. The increase was because the higher margin wine and liquor business constituted the key business of the Group during the year.

Selling and distribution expenses was approximately HK$31.9 million, representing an increase of 4.6% over last year and 16.0% (2011: 7.9%) of the Group's revenue. The increase was mainly due to the expansion of the distribution network in Harbin and Hunan province. The substantial increase in selling and distribution expenses to revenue ratio was because the wine and liquor business has relatively higher selling and distribution expenses to revenue ratio than ethanol business.

Administrative expenses was approximately HK$87.9 million, representing an increase of 19.2% over last year. The increase was due to the depreciation provided during the temporary suspension of the Group's Harbin production facility and the increase in provision for other receivables of approximately HK$6.1 million.

Impairment of tangible and intangible assets amounted to approximately HK$227.4 million, representing an increase of 206.0% over last year. The impairment of tangible and intangible assets for the year represented impairment of assets of approximately HK$119.9 million, HK$46.2 million and HK$61.3 million in relation to the ethanol business, wine and liquor business and animal feed business, respectively.

Finance cost was approximately HK$7.1 million, representing an increase of 27.4% over last year. The increase was due to increase in loan arrangement fee.

Income tax credit was approximately HK$12.9 million, representing an increase of 9.2% over last year. The increase was due to the increase in impairment of intangible assets and hence the reversal of related deferred tax liabilities increased.

Liquidity, Financial Resources and Capital Structure

During the year, the issued share capital of the Company increased by 4,520,000 shares to 1,195,162,397 shares due to the exercise of share options by directors and an employee. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

As at 31 December 2012, the Group had equity attributable to owners of the parent of approximately HK$82.1 million (2011: HK$348.7 million). Net current liabilities of the Group as at 31 December 2012 amounted to approximately HK$179.6 million (2011: HK$85.8 million). The Group's unpledged cash and cash equivalents as at 31 December 2012 amounted to approximately HK$8.4 million (2011: HK$16.5 million), which were denominated in Hong Kong dollars and Renminbi.

As at 31 December 2012, the Group's total borrowings amounted to approximately HK$98.2 million (2011: HK$118.3 million). The Group's borrowings included bank loans of approximately HK$32.3 million (2011: HK$65.4 million), other borrowings of approximately HK$3.7 million (2011: HK$3.8 million), amounts due to related parties of approximately HK$30.9 million (2011: HK$18.1 million) and an amount due to a non-controlling shareholder of a subsidiary of approximately HK$31.3 million (2011: HK$31.0 million). Around 81.3% of the borrowings are denominated in Renminbi with the rest in Hong Kong dollars. The bank loans, other borrowings and amounts due to related parties of approximately HK$15.5 million (2011: Nil) are charged at fixed interest rates. The gearing ratio of the Group as at 31 December 2012, calculated as net debt divided by equity attributable to owners of the parent plus net debt, was 81.5% (2011: 41.7%).

Having considered the Group's current unpledged cash and cash equivalents, bank and other borrowings, banking facilities and the financial support from shareholders, the management believes that the Group's financial resources are sufficient for its day-to-day operations.

The Group did not use financial instruments for financial hedging purposes during the year.

The Group's business transactions, assets and liabilities are principally denominated in Renminbi and Hong Kong dollars. Fluctuations in Renminbi may impact the Group's results and net asset value as the Company's consolidated financial statements are presented in Hong Kong dollars. The Group's treasury policy is to manage its foreign currency exposure only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, utilise hedging tools, if available, to manage its foreign currency exposure.

Charge on Assets and Contingent Liabilities

As at 31 December 2012, certain of the Group's property, plant and equipment, leasehold land and bank deposits with aggregate net book value of approximately HK$89.5 million (2011: HK$109.1 million) were pledged to banks to secure the Group's bank loans and bills payable.

As at 31 December 2012, the Group had no material contingent liabilities (2011: Nil).

Employee and Remuneration Policy

As at 31 December 2012, the Group had approximately 541 (2011: 523) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$37.6 million (2011: HK$41.0 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications. The Company has adopted a share option scheme and the purpose of which is to provide incentives to participants for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's annual audited financial statements for the year ended 31 December 2012:

"**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2.1 in the consolidated financial statements which indicates that the Group incurred a consolidated net loss of HK$321,658,000 during the year ended 31 December 2012, and, as at that date, the Group's consolidated current liabilities exceeded its consolidated current assets by HK$179,584,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern."

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

REVIEW OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2012 have been reviewed by the audit committee.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all code provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save as disclosed as follows.

In respect of code provision A.6.5 of the CG Code, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Fu Hui had not provided a record of the training to the Company. Mr. Zhao Difei and Mr. Li Jian Quan retired as executive directors on 3 May 2012 and Mr. Fu Hui resigned as an executive director on 1 June 2012.

In respect of code provision A.6.7 of the CG Code, Mr. Han Dong, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Fu Hui, the executive directors of the Company, and Mr. Yeung Ting-Lap Derek Emory, the non-executive director of the Company, were unable to attend the annual general meeting of the Company held on 3 May 2012 due to their other business engagements.

By Order of the Board
Sino Distillery Group Limited
Qu Shuncai
Executive Director

The PRC, 15 March 2013

As at the date hereof, the executive directors are Mr. Han Dong and Mr. Qu Shuncai; the non-executive directors are Mr. Peter Lo, Mr. Huang Qingxi, Mr. Chen Hua and Mr. Kong Hor Fai; and the independent non-executive directors are Dr. Loke Yu alias Loke Hoi Lam, Mr. Zhang Yonggen and Mr. Li Xiaofeng.