Sino Distillery Group Limited
中國釀酒集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00039)

ANNOUNCEMENT OF INTERIM RESULTS FOR 2014

The board of directors (the "**Board**") of Sino Distillery Group Limited (the "**Company**") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2014 (the "**Period**") together with comparative figures. The results for the Period are unaudited, but have been reviewed by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Restated and unaudited)
	Notes	***HK$'000***	*HK$'000*
Continuing operations			
REVENUE	*4*	**39,013**	48,357
Cost of sales		**(33,204)**	(36,534)
Gross profit		**5,809**	11,823
Other income	*4*	**921**	555
Selling and distribution expenses		**(9,219)**	(11,259)
Administrative expenses		**(12,808)**	(9,502)
Finance costs	*5*	**(2,945)**	(1,770)
Share of loss of an associate		**(89)**	(171)

	Notes	Six months ended 30 June **2014** **(Unaudited)** ***HK$'000***	 2013 (Restated and unaudited) *HK$'000*
LOSS BEFORE TAX	*6*	**(18,331)**	(10,324)
Income tax credit/(expenses)	*7*	**8**	(58)
Loss from continuing operations		**(18,323)**	(10,382)
Discontinued operations			
Profit/(loss) from discontinued operations, net of tax	*11*	**143,493**	(61,614)
PROFIT/(LOSS) FOR THE PERIOD		**125,170**	(71,996)
Attributable to:			
Owners of the parent		**141,873**	(57,169)
Non-controlling interests		**(16,703)**	(14,827)
		125,170	(71,996)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
From continuing and discontinued operations		**HK9.96 cents**	HK(4.78) cents
From continuing operations		**HK(1.18) cents**	HK(0.79) cents
Diluted			
From continuing and discontinued operations		**HK9.76 cents**	N/A
From continuing operations		**N/A**	N/A

INTERIM CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**125,170**	(71,996)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Release of exchange difference upon the disposal of a subsidiary	**4,603**	–
Exchange differences arising on translation of foreign operations	**1,200**	1,664
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**5,803**	1,664
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**130,973**	(70,332)
Attributable to:		
Owners of the parent	**105,188**	(55,640)
Non-controlling interests	**25,785**	(14,692)
	130,973	(70,332)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2014 (Unaudited) HK$'000	31 December 2013 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**18,258**	18,982
Goodwill		**468**	468
Other intangible assets		**2,615**	2,620
Investment in an associate		**4,619**	6,200
Total non-current assets		**25,960**	28,270
CURRENT ASSETS			
Inventories		**50,346**	59,348
Trade and bills receivables	*10*	**8,366**	4,630
Prepayments, deposits and other receivables		**198,500**	80,645
Due from related parties		**92,890**	15,310
Pledged deposits		**7,717**	7,784
Cash and cash equivalents		**65,303**	25,487
		423,122	193,204
Assets of disposal groups classified as held for sale	*11*	**24,904**	339,125
Total current assets		**448,026**	532,329
CURRENT LIABILITIES			
Trade and bills payables	*12*	**25,786**	28,401
Other payables and accruals		**74,152**	14,642
Interest-bearing bank and other borrowings		**61,681**	67,419
Due to related parties		**31,834**	68,996
Tax payable		**6,666**	6,736
		200,119	186,194
Liabilities directly associated with the assets classified as held for sale	*11*	**26,080**	432,740
Total current liabilities		**226,199**	618,934

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
NET CURRENT ASSETS/(LIABILITIES)	**221,827**	(86,605)
TOTAL ASSETS LESS CURRENT LIABILITIES	**247,787**	(58,335)
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**98**	107
Net assets/(liabilities)	**247,689**	(58,442)
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**154,469**	119,516
Reserves	**84,688**	(160,705)
	239,157	(41,189)
Non-controlling interests	**8,532**	(17,253)
Total equity	**247,689**	(58,442)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

2. IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new and revised standards as of 1 January 2014, noted below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC)-INT 21	Levies

The adoption of these new and revised standards has had no significant financial effect on the interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the interim condensed consolidated financial statements.

3. 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, which was regarded as discontinued operations, 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.

No intersegment sale and transfer was transacted for the six months ended 30 June 2014 and 2013.

	Wine and liquor (Unaudited) *HK$'000*	Animal feed (Unaudited) *HK$'000*	Continuing operations (Unaudited) *HK$'000*	Discontinued operations (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Six months ended 30 June 2014					
Segment revenue:					
Sales to external customers	**39,013**	**–**	**39,013**	**115,256**	**154,269**
Other revenue	**888**	**–**	**888**	**12,270**	**13,158**
	39,901	**–**	**39,901**	**127,526**	**167,427**
Segment results	**(9,812)**	**(187)**	**(9,999)**	**(47,244)**	**(57,243)**
Reconciliation:					
Interest income			**33**	**3**	**36**
Finance costs			**(2,945)**	**(13,816)**	**(16,761)**
Corporate and other unallocated expenses			**(5,420)**	**–**	**(5,420)**
Gain on disposal of a subsidiary			**–**	**204,550**	**204,550**
Loss before tax			**(18,331)**	**143,493**	**125,162**

	Wine and liquor (Unaudited) *HK$'000*	Animal feed (Unaudited) *HK$'000*	Continuing operations (Restated and unaudited) *HK$'000*	Discontinued operations (Restated and unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Six months ended 30 June 2013					
Segment revenue:					
Sales to external customers	48,357	–	48,357	101,263	149,620
Other revenue	553	–	553	394	947
	48,910	–	48,910	101,657	150,567
Segment results	(5,844)	(170)	(6,014)	(55,893)	(61,907)
Reconciliation:					
Interest income			2	580	582
Finance costs			(1,770)	(6,301)	(8,071)
Corporate and other unallocated expenses			(2,542)	–	(2,542)
Loss before tax			(10,324)	(61,614)	(71,938)

4. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Restated and unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Revenue		
Sale of goods	**39,013**	48,357
Other income		
Interest income	**33**	2
Others	**888**	553
	921	555
Discontinued operations		
Revenue		
Sale of goods	**115,256**	101,263
Other income		
Amortisation of deferred income	**256**	–
Government grants	**11,230**	–
Interest income	**3**	580
Others	**784**	394
	12,273	974

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Restated and unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Interest on bank loans and other loans wholly repayable within five years	**2,945**	1,770
Discontinued operations		
Interest on bank loans and other loans wholly repayable within five years	**3,429**	725
Interest on trade payables	**10,387**	5,576
	13,816	6,301

6. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Restated and unaudited)
	HK$'000	*HK$'000*
Continuing operations		
Cost of inventories sold	**33,204**	36,534
Depreciation	**779**	971
Amortisation of other intangible assets	**74**	103
Discontinued operations		
Cost of inventories sold	**147,850**	129,197
Depreciation	**15,856**	10,456
Amortisation of prepaid land lease payments	**378**	561
Amortisation of other intangible assets	**194**	335
Provision for inventories	**–**	13,941

7. INCOME TAX

During the period, 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 rates of tax prevailing in Mainland China in which the Group operates.

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current	**–**	(73)
Deferred	**8**	15
Total tax credit/(expenses) for the period	**8**	(58)

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the six months ended 30 June 2014 (2013: Nil).

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(a) Basic

For continuing and discontinued operations

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the equity holders of the Company *(HK$'000)*	**141,873**	(57,169)
Weighted average number of ordinary shares in issue *('000)*	**1,424,454**	1,195,162
Basic earnings/(loss) per share *(HK cents)*	**9.96**	(4.78)

For continuing operations

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the equity holders of the Company *(HK$'000)*	**141,873**	(57,169)
Less: Profit/(loss) attributable to the equity holders of the Company from discontinued operations *(HK$'000)*	**158,672**	(47,749)
Loss attributable to the equity holders of the Company from continued operations *(HK$'000)*	**(16,799)**	(9,420)
Weighted average number of ordinary shares in issue *('000)*	**1,424,454**	1,195,162
Basic loss per share *(HK cents)*	**(1.18)**	(0.79)

For discontinued operations

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to the equity holders of the Company from discontinued operations *(HK$'000)*	**158,672**	(47,749)
Weighted average number of ordinary shares in issue *('000)*	**1,424,454**	1,195,162
Basic earnings/(loss) per share *(HK cents)*	**11.14**	(3.99)

(b) Diluted

The share options granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the exercise of all potential dilutive ordinary shares arising from share options granted by the Company. No adjustment is made to earnings.

For continuing and discontinued operations

	Six months ended 30 June 2014 (Unaudited)
Profit attributable to the equity holders of the Company *(HK$'000)*	**141,873**
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(Note) ('000)*	**1,453,182**
Diluted earnings per share (HK cents)	**9.76**

For continuing operations

	Six months ended 30 June 2014 (Unaudited)
Loss attributable to the equity holders of the Company from continued operations *(HK$'000)*	**(16,799)**
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(Note) ('000)*	**1,453,182**
Diluted loss per share *(HK cents)*	**(1.16)**

Diluted loss per share for the six months ended 30 June 2014 for continuing operations are not presented as the effect of share options are anti-dilutive and are not included in the calculation of diluted loss per share for the six months ended 30 June 2014.

For discontinued operations

	Six months ended 30 June 2014 (Unaudited)
Profit/(loss) attributable to the equity holders of the Company from discontinued operations *(HK$'000)*	**158,672**
Weighted average number of ordinary shares for the calculation of diluted earnings per share *(Note) ('000)*	**1,453,182**
Diluted earnings per share *(HK cents)*	**10.92**

Diluted earnings per share for the six months ended 30 June 2013 are not presented as the effect of share options are anti-dilutive and are not included in the calculation of diluted loss per share for the six months ended 30 June 2013.

Note:

	Six months ended 30 June 2014 *'000* (Unaudited)
Weighted average number of ordinary shares in issue	**1,424,454**
Effect of dilutive potential ordinary shares:	
Share options not yet exercised	**28,728**
Weighted average number of ordinary shares for the calculation of diluted earnings per share	**1,453,182**

10. 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:

	30 June 2014 (Unaudited) ***HK$'000***	31 December 2013 (Audited) *HK$'000*
Within 1 month	**8,202**	4,332
1 to 2 months	**–**	133
Over 3 months	**164**	165
	8,366	4,630

11. DISCONTINUED OPERATIONS

(i) On 24 February 2014, a wholly-owned subsidiary of the Company (the "**Vendor**"), entered into the Agreement with the Zhaodong Beidahuang Biotechnology Limited and Linxiang Huayin Changjiang Small and Medium Enterprises Guarantee Limited (the "**Purchasers**"), whereby the Purchasers have conditionally agreed to purchase and the Vendor has conditionally agreed to sell the 75% equity interest in Harbin China Distillery Limited held by the subsidiary at the consideration of RMB40 million. The ordinanry resolution to approve the disposal of Harbin China Distillery Company Limited was duly passed by the shareholders by way of poll at the adjourned EGM held on 6 June 2014 and after that date, Harbin China Distillery Company Limited ceased to be the subsidiary of the Group. All the conditions precedent to completion have been satisfied and completion took place on 18 June 2014. Retails of the completion of the disposal could be referreal to the announcement published on the same date.

(ii) On 26 March 2014, BAPP Ethanol Holdings Limited (the "**BAPP**"), a wholly-owned subsidiary of the Group, entered into the Agreement with an independent third party (the "**Purchaser**"), the BAPP has conditionally agreed to sell all 100% equity interest in the BAPP (Northwest) Limited held by the BAPP, which hold 100% equity interest of Ningxia West Bright New Resource Technology Company Limited at the consideration of RMB40 million (the "**Disposal of BAPP**").

The results of the discontinued operations for the period are presented below:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Restated and unaudited)
	HK$'000	*HK$'000*
Revenue	**127,529**	102,237
Expenses	**(174,770)**	(157,550)
Finance costs	**(13,816)**	(6,301)
Loss before tax from the discontinued operations	**(61,057)**	(61,614)
Income tax	**–**	–
	(61,057)	(61,614)
Gain on disposal of discontinued operation	**204,550**	–
Profit/(loss) for the period from the discontinued operations	**143,493**	(61,614)

The major classes of assets and liabilities of the discontinued operations classified as held for sale are as follows:

	30 June 2014	31 December 2013
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Assets		
Property, plant and equipment	**615**	198,372
Prepaid land lease payments	**16,499**	32,894
Other intangible assets	**–**	9,164
Inventories	**–**	65,732
Trade and bills receivables	**39**	11,120
Prepayments, deposit and other receivables	**7,658**	14,995
Due from related parties	**75**	4,019
Cash and cash equivalents	**18**	2,829
Assets of disposal groups classified as held for sale	**24,904**	339,125

	30 June 2014 (Unaudited) *HK$'000*	31 December 2013 (Audited) *HK$'000*
Liabilities		
Trade and bills payables	**7,038**	161,269
Other payables and accruals	**7,565**	131,420
Interest-bearing bank and other borrowings	**–**	92,863
Due to related parties	**–**	3,367
Due to a non-controlling shareholder of a subsidiary	**–**	31,967
	14,603	420,886
Non-current liabilities		
Deferred income	**11,477**	11,854
Liabilities directly associated with the assets classified as held for sale	**26,080**	432,740
Net liabilities directly associated with the disposal groups	**1,176**	93,615

At 30 June 2014, no item was pledged to secured bank loan.

At 31 December 2013, certain items of the discontinued operations' property, plant and equipment and leasehold land with a net carrying amount of approximately HK$44,362,000 and HK$16,027,000 were pledged to secure bank loans of the discontinued operations, respectively.

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:

	30 June 2014 (Unaudited) ***HK$'000***	31 December 2013 (Audited) *HK$'000*
Within 1 month	**5,762**	6,941
1 to 2 months	**19,260**	19,460
2 to 3 months	**–**	–
Over 3 months	**764**	2,000
	25,786	28,401

At 30 June 2014, trade payables from discontinued operations of approximately HK$101,132,000 (31 December 2013: HK$55,978,000) bore interest at 6% (31 December 2013: 6%) per annum and are settled on 300-day terms. The remaining trade and bills payables are non-interest-bearing and are normally settled on 30-day terms and 180-day terms, respectively. The bills payable from continuing operations of approximately HK$19,260,000 (31 December 2013: HK$19,460,000) were secured by the time deposits of the Group.

All the trade and bills payable are denominated in Renminbi.

13. DISPOSAL OF A SUBSIDIARY

The Group disposed the entire issued capital held of Harbin China Distillery Company Limited ("**Harbin China**") to independent third parties for a cash consideration of RMB40,000,000. The ordinary resolution to approve the disposal was duly passed by the shareholders by way of poll at the adjourned EGM held on 6 June 2014 and after that date, Harbin China ceased to be the subsidiary of the Group.

	2014
	HK$'000
	(Unaudited)
Total consideration	**50,352**
Less: Net liabilities including in assets of disposed groups of:	
Property, plant and equipment	**180,275**
Prepaid land lease payments	**15,679**
Other intangible assets	**8,876**
Inventories	**18,152**
Trade and bills receivables	**3,330**
Prepayments, deposits and other receivables	**11,519**
Cash and cash equivalents	**3,036**
Trade and bills payables	**(125,068)**
Other payables and accruals	**(88,066)**
Due to related parties	**(53,684)**
Due to a non-controlling shareholder of a subsidiary	**(31,638)**
Interest-bearing bank and other borrowings	**(92,006)**
	(149,595)
Add: Release of exchange difference upon disposal	**(38,101)**
Add: Non-controlling interests upon disposal	**42,704**
Gain on disposal of a subsidiary	**204,550**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal is as follows:

	2014
	HK$'000
	(Unaudited)
Cash consideration	**50,352**
Cash and cash equivalents disposed of	**(3,036)**
Net inflow of cash and cash equivalents in respect of the disposal	**47,316**

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Since the Group has signed the sales and purchase agreements with independent third parties for the disposal of 哈爾濱中國釀酒有限公司 (Harbin China Distillery Company Limited*, "**Harbin China**") (the "**Harbin Disposal**") and BAPP (Northwest) Limited (the "**BAPP Disposal**") on 24 February 2014 and 26 March 2014 respectively. It represented the entire ethanol business segment of the Group, so the Group reclassified the whole ethanol business segment as assets held for sale as at 31 December 2013. The revenue, cost of sales and various expenses related to the whole ethanol business segment for the six months ended 30 June 2014 (the "**Period**") were included in the profit from discontinued operations (net of tax) in the consolidated statement of profit or loss and other comprehensive income for the Period, as comparative figures.

For the Period, the continuing operations of the Group achieved a revenue of approximately HK$39.0 million (2013: HK$48.4 million), representing a decrease of 19.4% when compared with the corresponding period last year. Gross profit for the continuing operations of the Group was approximately HK$5.8 million (2013: HK$11.8 million). The loss (net of taxation) from continuing operations was HK$18.3 million and the gain from discontinued operations (net of tax) was HK$143.5 million.

Profit attributable to owners of the parent was approximately HK$141.9 million (Loss attributable to owners of the parent for 30 June 2013: HK$57.2 million). The profit was mainly due to the disposal gain arosed from the Harbin Disposal. Profit per share from continuing operations and discontinued operations for the Period was HK9.96 cents (Loss per share for 30 June 2013: HK4.8 cents).

The Group will continue to control the costs and focus on existing resources to further strengthen and grow the Group's businesses, both organically and through acquisitions when appropriate opportunities arise.

Segmental information

Ethanol business

The Group's ethanol business is principally engaged in the production and sale of ethanol products and ethanol byproducts in the People's Republic of China ("**PRC**").

During the Period, the profitability of Harbin China was highly sensitive to ethanol and corn price and the demand for ethanol products was partly correlated to the downstream liquor industry. The ethanol business recorded revenue of approximately HK$115.3 million and accounted for 74.7% (2013: 67.7%) of the total revenue.

The ordinary resolution to approve the Harbin Disposal was duly passed by the shareholders of the Company (the "**Shareholders**") by way of poll at the adjourned extraordinary general meeting held on 6 June 2014 and after that date, the Harbin China ceased to be the subsidiary of the Company.

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. The Group had 25 wine and liquor specialty stores and 20 franchise stores in Guangzhou.

The Group is the exclusive distributor of Diancang Jiugui and Meiming Wenshi in China until May 2020.

Since 2012, the revenue of this business was hit by PRC government calls for cracking down on extravagance in government departments and state-owned institutions and enterprises and plasticiser contamination scandal. The operating environment of the liquor industry in China remained difficult during the Period. 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.

Due to the government policy, during the Period, the wine and liquor business recorded revenue of approximately HK$39.0 million (2013: HK$48.4 million), down 19.4% when compared with the corresponding period last year and accounted for 25.3% (2013: 32.3%) of the total revenue. Gross profit for the Period was approximately HK$5.8 million (2013: HK$11.8 million), representing a decrease of 50.8% from the corresponding period last year.

Animal feed business

During the Period, as the Group directed most of its resources to the development of the Group's ethanol business and wine and liquor business, and as a result the development of the Group's animal feed business was hindered.

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. In addition, if the memorandum of understanding mentioned in the paragraph headed Memorandum of Understanding of this announcement materialises, the Company intends to utilise the land for development of an eco-pasture base.

Financial review

For the Period, the continuing operations of the Group achieved a revenue of approximately HK$39.0 million (2013: HK$48.4 million), representing a decrease of 19.4% when compared with the corresponding period last year.

Gross profit for the continuing operations of the Group was approximately HK$5.8 million (2013: HK$11.8 million). The loss (net of taxation) from continuing operations was HK$18.3 million and the gain from discontinued operations (net of tax) was HK$143.5 million. Profit attributable to owners of the parent was approximately HK$141.9 million (Loss attributable to owners of the parent for 30 June 2013: HK$57.2 million). Profit per share from continuing operations and discontinued operations for the Period was HK9.96 cents (Loss per share for 30 June 2013: HK4.8 cents).

Selling and distribution expenses were approximately HK$9.2 million (2013: HK$11.3 million), representing a decrease of 18.6% when compared with the corresponding period last year and 23.6% (2013: 23.3%) of the Group's revenue.

Administrative expenses were approximately HK$12.8 million (2013: HK$9.5 million), representing an increase of 34.7% when compared with the corresponding period last year.

Finance cost was approximately HK$2.9 million (2013: HK$1.8 million), representing an increase of 61.1% when compared with the corresponding period last year. The increase was due to increase in the loan interest.

Discontinued operations

Since the Group has signed the sales and purchase agreements with independent third parties for the Harbin Disposal and BAPP Disposal on 24 February 2014 and 26 March 2014 respectively, the Group reclassified the entire ethanol business segment of the Group from subsidiaries to assets held for sale in 2013. The net liabilities directly associated with the BAPP Disposal were classified as held for sale amounted to approximately HK$1.2 million in 2014. The gain on disposal from Harbin Disposal was approximately HK$204.6 million was stated in this announcement. It is estimated that the Group will realize gain from BAPP Disposal for the year ending 31 December 2014.

Business prospects

The Group will continue to explore the new markets and increase the promotion and marketing activities to expand the existing business. The Group would also look for other business and related profitable business for acquisition purpose.

Acquisition and disposal of subsidiaries

Acquisition

(i) On 7 July 2014, the Company entered into the share transfer agreement ("**Share Transfer Agreement**") with 黑龍江農墾北大荒商貿集團有限責任公司 (Heilongjiang Nongken Beidahuang Business Trade Liability Group Co., Ltd.*, "**Beidahuang Business Group**") and 黑龍江農墾北大荒物流集團有限公司 (Heilongjiang Nongken Beidahuang Logistics Group Limited*, "**Beidahuang Logistics Group**") (collectively, the "**Vendors**"), whereby the Company has conditionally agreed to purchase totally 51% equity interest in 北大荒食品產業園有限公司 (Beidahuang Food Industry Park Co. Ltd.*, the "**Target Company**") at the consideration of RMB300 million.

During the course of the due diligence review conducted by the Company, it has come to the attention of the Company and the Vendors that it is uncertain as to when and whether certain conditions precedent can be fulfilled. After careful consideration of all the circumstances surrounding the acquisition, the Board decided not to proceed with the acquisition. On 25 August 2014, the Company and the Vendors entered into a termination agreement to terminate the Share Transfer Agreement with immediate effect. Upon such termination, neither party shall have any further obligations or liabilities towards the other nor any claims against the other in connection with the Share Transfer Agreement.

The Board considers that the termination of the Share Transfer Agreement is in the interest of the Company and the Shareholders as a whole and has no material adverse impact on the existing business position of the Group.

(ii) On 25 August 2014, 深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited*, "**SZMM**"), an indirect wholly-owned subsidiary of the Company, entered into the share transfer agreement with 北大荒營銷股份有限公司 (Beidahuang Marketing Co. Ltd.*, "**Beidahuang Marketing Co.**") and Mr. Hu Guang Sheng (collectively, the "**Vendors**"), (i) the Company has conditionally agreed to acquire 10% equity interest in 深圳北大荒綠色食品配送有限公司 (Shenzhen Beidahuang Green Food Distribution Limited*, the "**Target Company**") from Beidahuang Marketing Co. and (ii) the Company has conditionally agreed to acquire 40% equity interest in the Target Company from Mr. Hu Guang Sheng at an aggregate consideration of RMB2,500,000. Upon completion of the acquisition (the "**Acquisition**"), Beidahuang Marketing Co. and SZMM have agreed to increase the registered capital of the Target Company from RMB500,000 to RMB10,000,000. The increased capital will be contributed by Beidahuang Marketing Co. and SZMM in equal shares in the amount of RMB4,750,000 each (the "**SZMM Capital Injection**"). Following completion of the Acquisition, the Company will have the right to appoint 3 directors on the board of directors of the Target Company which will comprise of 5 directors.

The consideration has been determined with reference to (i) the valuation report issued by an independent professional valuer, 深圳市玄德資產評估事務所 (Shenzhen Yunde Appraisal Firm*), appointed by the Target Company showing that the shareholder's equity value of the Target Company was RMB4.39 million as at 31 July 2014 and (ii) The Company also has its own distribution channel in Guangdong. By acquiring the Target Company, the Company can run the existing chain store business more effectively and efficiently by distributing the products currently sold by the Target Company in its wholesaling and retailing business. The Acquisition can also diversify the Group's business model, reduce its risk and increase its market shares in Guangdong and Shenzhen. As announced on 25 August 2014, the Acquisition and the SZMM Capital Injection are subjected to (among others) shareholders' approval requirement. The Shareholders' approval has not yet been obtained up to the date of this announcement.

Disposal

(i) On 24 February 2014, SZMM (as vendor) entered into the agreement (as supplemented by the supplemental agreement dated 26 February 2014) with 肇東北大荒生物科技有限公司 (Zhaodong Beidahuang Biotechnology Limited*) and 臨湘市華銀長江中小企業擔保有限公司 (Linxiang Huayin Changjiang Small and Medium Enterprises Guarantee Limited*) (as purchasers), pursuant to which SZMM has conditionally agreed to sell all 75% equity interest in Harbin China held by SZMM at the consideration of RMB40 million. The Harbin Disposal was completed on 18 June 2014.

(ii) On 26 March 2014, BAPP Ethanol Holdings Limited ("**BAPP**"), a wholly-owned subsidiary of the Company, entered into the agreement with an independent third party, pursuant to which BAPP has conditionally agreed to sell all its 100% equity interest in BAPP (Northwest) Limited, which held 100% equity interest of 寧夏西部光彩新能源高新技術有限公司 (Ningxia West Bright New Resource Technology Co., Ltd.*) at the consideration of RMB40 million.

The Harbin Disposal and BAPP Disposal provides a good opportunity for the Group to improve the financial performance and the sale proceeds could enhance the Group's working capital position as well as providing additional capital resources for the Group to make future investment in potential projects when opportunity arises and the disposal is in line with the Group's overall business strategy.

Memorandum of Understanding

On 12 August 2013, the Company entered into a non-legally binding memorandum of understanding ("**MOU**") with an independent third party ("**Vendor**") pursuant to which the Company intended to acquire and the Vendor intended to sell 100% of the issued share capital of a company (the "**Target**") ("**Possible Acquisition**"). The Target and its subsidiary ("**Target Group**") are in the process of acquiring a company incorporated in China which is holding a piece of multipurpose agricultural land (the "**Land**") in the Yinchuan City of Ningxia Province, China. The Company intended to acquire the Land for the development of an eco-pasture base.

Pursuant to the MOU, the Vendor and the Company will negotiate in good faith the terms of the formal agreement for the Possible Acquisition within 6 months after the date of the MOU. The terms for the formal agreement for the Possible Acquisition have not yet been finalized at the end of the 6 months, pending the results of the due diligence on the Target Group. After negotiation, the Company and the Vendor agreed that additional time is needed for the Company to complete its due diligence on the Target Group.

Accordingly, the Company and the Vendor entered into an extension agreement and second extension agreement on 24 February 2014 and 22 August 2014 respectively to further extend the MOU to 23 February 2015 in order to enable the Company to complete its due diligence on the Target Group. The Company will make further announcement on the progress of the Possible Acquisition as and when appropriate.

Business Cooperation

As announced on 28 January 2014, the Group has started to explore co-operation opportunity with 中電華通通信有限公司 (CECT-Chinacomm Communications Co., Limited*, "**CECT-Chinacomm**"), a company incorporated in the PRC with limited liability. CECT-Chinacomm and its ultimate beneficial owners are independent of and not connected with the Company and its connected persons. CECT-Chinacomm has the development right in respect of a parcel of land in Beijing Economic and Technological Development Area and will construct a project known as Beijing Wireless Broadband Industrial Park (the "**Project**") on the parcel of land. An indirect subsidiary of CECT-Chinacomm is appointed as the operating company of the Project, and has legally obtained the Land Use Right Certificate, the Planning Permit and the Construction Land Use Permit.

The co-operation is still in discussion stage and no formal agreement has been entered into by the parties at the date of this announcement. The Board expects that the Company will be able to join CECT-Chinacomm and its subsidiary to develop the project for commercial benefits.

Formation of Joint Venture Company

On 7 July 2014, SZMM entered into the joint venture agreement with Harbin China to form the joint venture company that principally engaged in developing logistic business in Southern China, such as Hong Kong and Shenzhen. The estimated total registered capital of the joint venture company will be RMB20,000,000. Each of SZMM and Harbin China is expected to contribute RMB10,200,000 and RMB9,800,000, representing 51% and 49% of the estimated total registered capital of the joint venture company respectively ("**JV Transaction**"). As announced on 11 July 2014 and 25 August 2014, the JV Transaction is subjected to (among others) shareholders' approval requirement. The Shareholders' approval has not yet been obtained up to the date of this announcement.

Liquidity, financial resources and capital structure

During the Period, the issued share capital of the Company increased 349,532,479 shares to 1,544,694,876 shares due to allotment and issue of subscription shares and exercise of share options by employees and consultants of the Group. As at 30 June 2014, the Group had net asset to owners of the parent of approximately HK$239.2 million (Net liabilities to owners of the parent at 31 December 2013: HK$41.19 million). Net current assets of the Group as at 30 June 2014 amounted to approximately HK$221.8 million (Net current liabilities as at 31 December 2013: HK$86.61 million).

The Group's unpledged cash and cash equivalents as at 30 June 2014 amounted to approximately HK$65.3 million (2013: HK$25.5 million), which were denominated in both Hong Kong dollars and Renminbi.

As at 30 June 2014, the Group had current assets of approximately HK$448.0 million (31 December 2013: approximately HK$532.3 million) and current liabilities of approximately HK$226.2 million (31 December 2013: approximately HK$618.9 million). The current ratio (calculated as current assets to current liabilities) increased from 0.86 as at 31 December 2013 to 1.98 as at 30 June 2014.

As at 30 June 2014, the Group's total borrowings amounted to approximately HK$93.5 million (2013: HK$136.4 million). The Group's borrowings included bank loans of approximately HK$61.7 million (2013: HK$67.4 million). There were no bank loans, other borrowings or amounts due to related parties (2013: HK$69.0 million) charged at fixed interest rates. The gearing ratio of the Group as at 30 June 2014, calculated as net debt divided by equity attributable to owners of the parent plus net debt, was 33.5% (2013: 139.2%).

These ratios were at reasonably adequate levels as at 30 June 2014. Having considered the Group's current unpledged cash and cash equivalents, bank and other borrowings, banking facilities, 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 Period. 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, utilize hedging tools, if available, to manage its foreign currency exposure.

Subscription of new shares under general mandate and refreshed general mandate

(i) On 21 January 2014, the Company entered into the subscription agreements with the independent subscribers for the subscription of an aggregate 239,032,479 subscription shares at the subscription price of HK$0.405 per subscription share.

    The above subscription was completed on 7 February 2014 and the Company issued 239,032,479 shares to 7 independent subscribers. The net proceeds from the subscription were approximately HK$96.5 million. The proceeds were used by the Company for the Group's business development and general working capital purposes.

(ii) On 29 April 2014, the Company entered into the subscription agreements with the independent subscribers for the subscription of an aggregate 80,000,000 subscription shares at the subscription price of HK$0.7 per subscription share.

The above subscription was completed on 16 May 2014 and the Company issued 80,000,000 shares to 4 independent subscribers. The net proceeds from the subscription of approximately HK$55.97 million. The net proceeds from the subscription was applied to finance business development and general working capital of the Group.

(iii) On 24 June 2014, the Company entered into the subscription agreements with the independent subscribers for the subscription of an aggregate 82,000,000 subscription shares at the subscription price of HK$0.7 per subscription share.

The above subscription was completed on 11 July 2014 and the Company issued 82,000,000 shares to 8 independent subscribers. The net proceeds from the subscription of approximately HK$57.10 million will be used for for the Group's settlement of loans, business development, investments and general working capital purposes.

Subscription of convertible bonds under refreshed general mandate

On 24 June 2014, the Company entered into the subscription agreement and the supplemental subscription agreement dated 31 July 2014 with the subscriber for the subscription of the convertible bonds ("**CB**") in an aggregate principal amount of HK$89,600,000 in cash. Subject to adjustments, upon full conversion of the CB at the initial conversion price of HK$0.7 per share, the Company will issue 128,000,000 new shares of the Company.

The above subscription was completed on 7 August 2014 and the Company issued CB in the aggregate principal amount of HK$89,600,000 to the subscriber. The net proceeds from the CB subscription of approximately HK$89.30 million will be used for the Group's settlement of loans, business developments, investments and general working capital. None of the CB has been converted into shares of the Company up to the date of this announcement.

Subscription of unlisted warrants under specific mandate

On 7 July 2014, the Company entered into the subscription agreement with the subscriber for the subscription of an aggregate of 180,000,000 non-listed warrants at an issue price of HK$0.01 per warrant. The warrants will entitle the holder to subscribe in cash up to an aggregate amount of HK$126 million for the subscription shares at an initial subscription price of HK$0.70 per subscription share, for a period of 2 years commencing from the date of issue of the warrants.

Based on the initial subscription price of HK$0.70 per subscription share, a maximum of 180,000,000 subscription shares will be allotted and issued by the Company upon full exercise of the subscription rights.

The subscription shares will be issued under the specific mandate to be sought at the extraordinary general meeting to be convened. No listing of the warrants will be sought on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or any other stock exchanges. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the subscription shares.

The net proceeds from the issue of the warrants and the full exercise of the warrants of approximately HK$1,500,000 and HK$126 million respectively will be used for the Group's settlement of loans, business development, investments and general working capital purposes.

Grant of share options

On 23 July 2014, the Company granted share options (the "**Options**") to certain eligible persons including Directors, employees and consultants of the Group (the "**Grantees**") to subscribe at the exercise price of HK$0.754 per share for a total of 78,600,000 ordinary shares of HK$0.1 each in the share capital of the Company pursuant to the share option scheme adopted by the Company on 23 May 2007, subject to the acceptance of the Grantees. Among the total of 78,600,000 Options, 13,100,000 Options were granted to the Directors and the chief executive officer of the Company. Further details of the grant of the Options as referred to in the announcement of the Company dated 23 July 2014.

Charge on assets and contingent liabilities

As at 30 June 2014, certain of the Group's property, plant and equipment, leasehold land and bank deposits with aggregate net book value of approximately HK$7.72 million (31 December 2013: HK$96.08 million) were pledged to banks to secure the Group's bank loans and bills payable. As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

Employee and remuneration policy

As at 30 June 2014, the Group had approximately 168 (2013: 500) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$7.41 million (30 June 2013: HK$18.10 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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

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 six months ended 30 June 2014.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code on ethics and securities transactions (the "**Code**"), which incorporates a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of the Securities on the Stock Exchange (the "**Listing Rules**"). Specified employees who are likely to be in possession of unpublished price-sensitive information of the Company are also subject to the compliance with the Code. Having made specific enquiry of all directors, the Company confirms that the directors have complied with the required standard set out in the Code throughout the six months ended 30 June 2014.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2014, save as disclosed as follows.

In respect of code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Jiang Jianjun is the Chairman and the Managing Director of the Company (The Company regards the role of its Managing Director to be same as that of chief executive under the CG Code) during the period from 1 January 2014 to 28 March 2014. On 28 March 2014, Mr. Jiang Jianjun resigned as the Managing Director of the Company and Mr. Li Jianqing was appointed as an Executive Director and the Chief Executive Officer of the Company. Following his resignation as the Managing Director, Mr. Jiang Jianjun will remain as the Chairman and an Executive Director. Hence, the Company has duly complied with the code provision A.2.1 as from 28 March 2014.

In respect of code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors, as equal board members, should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Qu Shuncai, Mr. Zhang Yonggen and Mr. Li Xiaofeng were unable to attend the extraordinary general meeting of the Company held on 2 April 2014 due to their other business engagements. Mr. Qu Shuncai, Mr. Song Shaohua, Mr. Jiang Jiancheng, Mr. Huang Qingxi, Dr. Loke Yu, Mr. Zhang Yonggen and Mr. Li Xiaofeng were unable to attend the adjourned extraordinary general meeting of the Company held on 6 June 2014 due to their other business engagements. Mr. Li Jianqing, Mr. Qu Shuncai, Mr. Jiang Jiancheng, Mr. Huang Qingxi, Dr. Loke Yu and Mr. Li Xiaofeng were unable to attend the annual general meeting of the Company held on 26 June 2014 due to their other business engagements.

By order of the Board
Sino Distillery Group Limited
Jiang Jianjun
Chairman

Hong Kong, 29 August 2014

As at the date of this announcement, the Executive Directors are Mr. Jiang Jianjun, Mr. Li Jianqing, Mr. Qu Shuncai and Mr. Jiang Jiancheng; the Non-executive Director is Mr. Huang Qingxi; and the Independent Non-executive Directors are Dr. Loke Yu alias Loke Hoi Lam, Mr. Li Xiaofeng and Mr. Ho Man Fai.

* *For identification purposes only*