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)

MAJOR DISPOSAL AND RESUMPTION OF TRADING

THE DISPOSAL

On 24 February 2014 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchasers, whereby the Purchasers have conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Capital, representing all 75% equity interest in the Disposed Company held by the Vendor at the consideration of RMB40 million.

Since certain applicable percentage ratios for the Disposal are more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. As no Shareholder has any material interest in the Disposal, no Shareholder will be required to abstain from voting at the EGM on the resolution to approve the Agreement and the transactions contemplated thereunder.

A circular containing, amongst other things, further details of the Disposal and the notice of the EGM is expected to be dispatched to the Shareholders on or before 21 March 2014.

SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES

At the request of the Company, trading in the Shares on the Stock Exchange has been halted from 9:00 a.m. on 25 February 2014 pending the publication of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:00 a.m. on 3 March 2014.

THE AGREEMENT

Date

24 February 2014 (after trading hours) (as supplemented by a supplemental agreement dated 26 February 2014)

Parties

Vendor: 深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited*)

Purchasers:
(1) 肇東北大荒生物科技有限公司 (Zhaodong Beidahuang Biotechnology Limited*); and

(2) 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*)

Beidahuang is a limited liability company incorporated in the PRC and a subsidiary of 黑龍江農墾北大荒商貿集團 (Heilongjiang Nongken Beidahuang Business Trade Group*), a company with principal business in refined oil, production and distribution of agricultural products, and logistics. Beidahuang is principally engaged in the production and distribution of agricultural products in the North East of the PRC.

Huayin is a limited liability company incorporated in the PRC. Its principal business is industrial investment, property selling agency, intermediary advisory and fund guarantee service.

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

Asset to be disposed of

Pursuant to the Agreement, (i) the Company has conditionally agreed to sell and Beidahuang has conditionally agreed to acquire 60% equity interest in the Disposed Company and (ii) the Company has conditionally agreed to sell and Huayin has conditionally agreed to acquire 15% equity interest in the Disposed Company.

Consideration and payment terms

The aggregate Consideration for the Disposal is RMB40 million and shall be payable as to (i) RMB32 million by Beidahuang and (ii) RMB8 million by Huayin on the Completion Date, in cash or by telegraphic transfer to a bank account specified by the Vendor or to any nominee(s) specified by the Vendor.

The Consideration has been determined after arm's length negotiations among the parties to the Agreement with reference to (i) the reasons for the Disposal as discussed in the section headed "Reasons for the Disposal" below and (ii) the historical performance of the Disposed Company for the financial year ended 31 December 2012 and the six months ended 30 June 2013.

The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable and on normal commercial terms.

Conditions precedent

Completion of the Agreement is conditional upon satisfaction of the following conditions:

(i) the Purchaser having satisfied with and accepted the results of the due diligence review on the Disposed Company;

(ii) the obtaining of all necessary approvals and consents in relation to the Agreement and the transactions contemplated thereunder; and

(iii) the approval of the Agreement and the transactions contemplated thereunder by the Shareholders at the EGM.

The above conditions precedent shall be completed before 30 June 2014 or such later date as the Vendor and the Purchasers may agree in writing.

Completion

Completion shall take place on the third business day immediately after the date on which the conditions precedent have been satisfied.

Upon Completion, the Company and Beidahuang agreed that the strategic cooperation arrangement regarding (i) the supply of corns needed by the Disposed Company and (ii) the sale of ethanol, distillers dried grains with solubles and fuel ethanol produced by the Disposed Company, by Beidahuang will not continue. Details of the cooperation arrangement are set out in the announcement of the Company dated 14 January 2014.

INFORMATION OF THE DISPOSED COMPANY

The Disposed Company is a sino-foreign equity joint venture established in the PRC on 23 June 2006 with a registered and paid up capital of RMB318,000,000. It is principally engaged in the production and sale of ethanol products and ethanol by-products in the PRC. As at the date this announcement, the Vendor holds 75% equity interest in the Disposed Company and the remaining 25% equity interest is held by 哈爾濱工業投資集團有限公司 (Harbin Industry Investment Group Limited*).

The unaudited net liability of the Disposed Company as at 30 June 2013 was approximately RMB27.8 million.

A summary of the financial information of the Disposed Company for the two financial years ended 31 December 2011 and 2012 prepared in accordance with the Hong Kong Financial Reporting Standards is set out below:

	For the year ended 31 December	
	2011	**2012**
	(audited)	(audited)
	RMB	*RMB*
Revenue	188,046,055	44,401,121
Loss before taxation and impairment of assets	31,870,477	57,742,036
Loss after taxation and impairment of assets	49,605,665	145,637,036

FINANCIAL EFFECTS OF THE DISPOSAL AND USE OF PROCEEDS

As a result of the Disposal, it is estimated that the Group will realize a gain of approximately RMB95 million attributable to the Disposal for the financial year during which the Disposal is completed and a corresponding increase in the net assets of the Group. Such estimated gain was calculated by reference to (i) the Consideration of RMB40 million for the Disposal and (ii) the unaudited net liability of the Disposed Company attributable to the Group of approximately RMB55 million as at 31 December 2013. Accordingly, the Board considers that the Disposal will have positive impact on the Group's financial position. Subject to audit, the actual amount of the gain on the Disposal to be recognised by the Group will depend on the net liability of the Disposed Company as at Completion and therefore may be different from the amount mentioned above.

Upon completion of the Disposal, the Company will not have any interest in the Disposed Company and the Disposed Company will cease to be a subsidiary of the Company and its assets and liabilities and its profits and losses will no longer be consolidated into the consolidated financial statements of the Company.

The sale proceeds from the Disposal will be utilized as the general working capital of the Company and for future investment in potential projects when opportunity arises.

REASONS FOR THE DISPOSAL

The Group is principally engaged in the production and sale of ethanol products and ethanol by-products, the sale and distribution of wine and liquor and the production and sale of forages. The Disposed Company accounted for approximately 49% and 84% of the aggregate loss of the Group for the year ended 31 December 2012 and six months ended 30 June 2013. In light of the expected slowdown in the demand and prices for ethanol products due to the weak liquor market in the PRC, the Directors consider that the Disposal, if materializes, provides a good opportunity for the Group to realize the assets of the Disposed Company and improve the financial performance of the Group as a whole. Moreover, the sale proceeds from the Disposal 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. Therefore, the Directors consider the Disposal is in line with the Group's overall business strategy.

The Directors (including the independent non-executive Directors) also consider that the terms of the Agreement are fair and reasonable and the entering into the Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION OF THE DISPOSAL

Since certain applicable percentage ratios for the Disposal are more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. As no Shareholder has any material interest in the Disposal, no Shareholder will be required to abstain from voting at the EGM on the resolution to approve the Agreement and the transactions contemplated thereunder.

A circular containing, amongst other things, further details of the Disposal and the notice of the EGM is expected to be dispatched to the Shareholders on or before 21 March 2014.

Completion of the Disposal is conditional upon the satisfaction of the conditions set out in the section headed "Conditions precedent" in this announcement, including the approval of the Agreement and the transactions contemplated thereunder by the Shareholders at the EGM. Accordingly, the Disposal may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

BEIDAHUANG'S INTEREST TO SUBSCRIBE FOR CONVERTIBLE SECURITIES

Beidahuang has also expressed an interest to subscribe for convertible securities in the Company which are convertible into no less than 150 million Shares. As at the date of this announcement, no details (including but not limited to the principal amount and the conversion price) has yet been agreed between the parties on the possible subscription. The Company will issue further announcement on the possible subscription as and when appropriate in accordance with the Listing Rules.

As the possible subscription may or may not proceed, Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company.

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"Agreement"	the sale and purchase agreement dated 24 February 2014 (as supplemented by a supplemental agreement dated 26 February 2014) entered into amongst the Vendor and the Purchasers in relation to the Disposal
"Beidahuang"	肇東北大荒生物科技有限公司 (Zhaodong Beidahuang Biotechnology Limited*), a limited liability company incorporated in the PRC
"Board"	the board of Directors
"Company"	Sino Distillery Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Capital in accordance with the terms and conditions of the Agreement
"Completion Date"	the third business day immediately after the date on which the conditions precedent have been satisfied
"Consideration"	the cash consideration for the Sale Capital in the sum of RMB40 million

"Directors"	directors of the Company
"Disposal"	the disposal of the Sale Capital by the Vendor to the Purchasers pursuant to the Agreement
"Disposed Company"	哈爾濱中國釀酒有限公司 (Harbin China Distillery Company Limited*), a sino-foreign joint venture established under the laws of the PRC
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Huayin"	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*), a limited liability company incorporated in the PRC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	a party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company and who together with its/their ultimate beneficial owner(s) are independent of the Company and of connected persons (as defined in the Listing Rules) of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"Purchasers"	Beidahuang and Huayin, being the purchasers under the Agreement

"Sale Capital"	75% equity interest in the Disposed Company
"Shareholder(s)"	shareholder(s) of the Company
"Shares"	ordinary shares of the Company of HK$0.10 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	深圳市美名問世商貿有限公司 (Shenzhen Meiming Wenshi Trading Limited*), a wholly foreign-owned enterprise registered under the laws of the PRC and a wholly-owned subsidiary of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

* *For identification purpose only*

By Order of the Board
Sino Distillery Group Limited
Jiang Jianjun
Chairman and Managing Director

Hong Kong, 28 February 2014

As at the date hereof, the Executive Directors are Mr. Jiang Jianjun, Mr. Qu Shuncai and Mr. Song Shaohua; the Non-executive Director is Mr. Huang Qingxi; and the Independent Non-executive Directors are Dr. Loke Yu alias Loke Hoi Lam, Mr. Zhang Yonggen and Mr. Li Xiaofeng.