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 2011

The board of directors (the "Board") of BIO-DYNAMIC GROUP LIMITED (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011 together with the comparative amounts for 2010 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
REVENUE	5	**384,859**	439,177
Cost of sales		**(360,949)**	(426,494)
Gross profit		**23,910**	12,683
Other income and gains	5	**8,922**	6,582
Selling and distribution costs		**(30,494)**	(20,455)
Administrative expenses		**(73,741)**	(46,796)
Other expenses	6	**(74,311)**	(60,000)
Finance costs	7	**(5,534)**	(5,227)
LOSS BEFORE TAX	6	**(151,248)**	(113,213)
Income tax credit	8	**11,838**	938
LOSS FOR THE YEAR		**(139,410)**	(112,275)
Attributable to:			
Owners of the parent		**(125,547)**	(105,012)
Non-controlling interests		**(13,863)**	(7,263)
		(139,410)	(112,275)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	10	**HK(10.78) cents**	HK(11.79) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
LOSS FOR THE YEAR	**(139,410)**	(112,275)
Exchange differences on translation of foreign operations	**16,027**	9,470
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**16,027**	9,470
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(123,383)**	(102,805)
Attributable to:		
Owners of the parent	**(111,678)**	(98,058)
Non-controlling interests	**(11,705)**	(4,747)
	(123,383)	(102,805)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**339,888**	348,878
Prepaid land lease payments		**32,997**	32,461
Goodwill		**4,073**	4,073
Other intangible assets		**138,974**	195,121
Total non-current assets		**515,932**	580,533
CURRENT ASSETS			
Inventories		**96,815**	69,313
Trade and bills receivables	11	**15,204**	10,531
Prepayments, deposits and other receivables		**58,254**	39,181
Due from related parties		**446**	527
Pledged deposits		**27,418**	20,776
Cash and cash equivalents		**16,489**	38,098
Total current assets		**214,626**	178,426
CURRENT LIABILITIES			
Trade and bills payables	12	**65,033**	19,491
Other payables and accruals		**109,982**	75,765
Interest-bearing bank and other borrowings		**69,216**	65,781
Due to related parties		**18,106**	15,832
Due to a non-controlling shareholder of a subsidiary		**31,012**	31,730
Tax payable		**7,124**	5,974
Total current liabilities		**300,473**	214,573
NET CURRENT LIABILITIES		**(85,847)**	(36,147)
TOTAL ASSETS LESS CURRENT LIABILITIES		**430,085**	544,386
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**14,266**	27,182
Deferred income		**12,500**	12,381
Total non-current liabilities		**26,766**	39,563
Net assets		**403,319**	504,823
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**119,064**	114,545
Reserves		**229,654**	324,634
		348,718	439,179
Non-controlling interests		**54,601**	65,644
Total equity		**403,319**	504,823

NOTES TO FINANCIAL STATEMENTS
31 December 2011

1. BASIS OF PRESENTATION

At 31 December 2011, the Group had net current liabilities of HK$85,847,000, inclusive of bank and other borrowings, other payables and amount due to a non-controlling shareholder of a subsidiary of HK$69,216,000, HK$101,717,000 and HK$31,012,000, respectively, which were due for repayment or renewal within the next 12 months. The Group incurred a consolidated loss of HK$139,410,000 for the year ended 31 December 2011.

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, China Enterprise Capital Limited, a substantial shareholder of the Company, has agreed to 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 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 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 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Right Issues

HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 Business Combinations: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 Consolidated and Separate Financial Statements: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 sales 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 unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude 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 2011 and 2010.

	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**
Finance costs				**(5,534)**
Corporate and other unallocated expenses				**(18,289)**
Loss before tax				**(151,248)**
Segment assets	**474,010**	**175,439**	**79,943**	**729,392**
Reconciliation:				
Elimination of intersegment receivables				**(1,075)**
Corporate and other unallocated assets				**2,241**
Total assets				**730,558**
Segment liabilities	**235,618**	**88,824**	**1,504**	**325,946**
Reconciliation:				
Elimination of intersegment payables				**(1,075)**
Corporate and other unallocated liabilities				**2,368**
Total liabilities				**327,239**
Other segment information:				
Impairment losses recognised in the income statement	**74,311**	**–**	**–**	**74,311**
Provision against/(write back of provision against) 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**

	Ethanol *HK$'000*	Wine and liquor *HK$'000*	Animal feed *HK$'000*	Total *HK$'000*
Year ended 31 December 2010				
Segment revenue:				
Sales to external customers	321,617	117,560	–	439,177
Other revenue	3,471	2,897	–	6,368
	325,088	120,457	–	445,545
Segment results	(30,089)	(63,514)	(1,359)	(94,962)
Reconciliation:				
Interest income				214
Finance costs				(5,227)
Corporate and other unallocated expenses				(13,238)
Loss before tax				(113,213)
Segment assets	535,559	127,592	84,893	748,044
Reconciliation:				
Elimination of intersegment receivables				(1,365)
Corporate and other unallocated assets				12,280
Total assets				758,959
Segment liabilities	209,637	43,055	1,208	253,900
Reconciliation:				
Elimination of intersegment payables				(1,365)
Corporate and other unallocated liabilities				1,601
Total liabilities				254,136
Other segment information:				
Impairment losses recognised in the income statement	–	60,000	–	60,000
Provision against/(write back of provision against) inventories	(8,479)	51	–	(8,428)
Depreciation and amortisation	29,707	3,007	1,073	33,787
Capital expenditure*	22,786	71,994	70,051	164,831

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Geographical information

Revenue from external customers

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 management considers that it is impracticable to allocate the revenue and segment results 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. During the year ended 31 December 2010, revenue of approximately HK$43,214,000 was derived from sales by the ethanol segment to a single customer.

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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**384,859**	439,177
Other income and gains		
Government grants*	**2,125**	2,658
Amortisation of deferred income	**488**	468
Interest income	**160**	214
Gain on waived liability	**3,333**	–
Others	**2,816**	3,242
	8,922	6,582

* 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):

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**358,309**	434,922
Depreciation	**27,360**	27,376
Amortisation of prepaid land lease payments	**1,059**	1,016
Amortisation of other intangible assets	**12,119**	5,395
Minimum lease payments under operating leases in respect of land and buildings	**5,978**	4,399
Auditors' remuneration	**1,150**	980
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**27,350**	21,243
Equity-settled share option expense	**11,759**	5,510
Pension scheme contributions	**1,931**	1,926
	41,040	28,679
Other expenses:		
Impairment of items of property, plant and equipment	**27,013**	–
Impairment of goodwill	**–**	60,000
Impairment of other intangible assets	**47,298**	–
	74,311	60,000
Foreign exchange differences, net	**13**	411
Provision against/(write back of provision against) inventories*	**2,640**	(8,428)
Provision for other receivables**	**983**	–
Loss on disposal of items of property, plant and equipment	**336**	102
Interest income	**(160)**	(214)
Gain on waived liability	**(3,333)**	–

* The provision against/(write back of provision against) inventories for the year are 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

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**5,534**	5,227

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

	2011	2010
	HK$'000	*HK$'000*
Group:		
Current	**1,684**	1
Deferred	**(13,522)**	(939)
Total tax credit for the year	**(11,838)**	(938)

Under the new corporate income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%. One of the Group's subsidiaries is exempted from PRC corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years. Although this subsidiary has no assessable profit since its date of establishment, based on the State Council Circular on the Implementation of Transitional Concession Policies for Corporate Income Tax (Guo Fa [2007] No. 39), this subsidiary should be subject to the first year exemption in 2008 whether or not it has assessable profit.

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: 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 1,164,556,579 (2010: 890,361,104) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the impact of 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:

	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**12,783**	9,842
1 to 2 months	**1,234**	116
2 to 3 months	**560**	–
Over 3 months	**627**	573
	15,204	10,531

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:

	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**47,628**	8,879
1 to 2 months	**11,830**	4,478
2 to 3 months	**5,289**	562
Over 3 months	**286**	5,572
	65,033	19,491

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 2011, the Group's revenue was approximately HK$384.9 million, representing a decrease of 12.4% over last year. Loss attributable to owners of the parent was approximately HK$125.5 million, representing an increase of 19.6% over last year. Loss per share for the year was HK10.78 cents (2010: HK11.79 cents).

During the year, the Group's wine and liquor business recorded growth in revenue and profit. However, the Group's ethanol business recorded a substantial increase in loss. As a result, the loss attributable to owners of the parent increased as compared to last year.

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$226.5 million, down 29.6% over last year and accounted for 58.8% (2010: 73.2%) of the total revenue. The decrease in revenue was mainly due to the temporary suspension of the Group's ethanol production facility (i) for around one month during April 2011 to May 2011 to start up its own electric power generation facility so as to reduce the future costs of electricity, and (ii) from July 2011 to September 2011 to reduce the cash outflow and operating loss caused by elevated corn prices during this period. Sales volume of ethanol products decreased by 40.8% to 26,778 tonnes and average selling price of ethanol products increased by 16.2% to RMB5,522 per tonne. Gross loss was approximately HK$13.2 million (2010: HK$5.1 million). The increase in gross loss was mainly due to increase in corn price and depreciation.

The profitability of the Group's ethanol production is highly sensitive to ethanol and corn price. Due to the volatile ethanol and corn price, the operating results of the Group's ethanol business may fluctuate significantly. In view of the recent adverse market conditions, the future growth forecast of the Group's ethanol business was reduced and hence, an impairment of property, plant and equipment of approximately HK$27.0 million and an impairment of intangible assets of approximately HK$47.3 million were made during the year.

In order to improve the profitability and competitiveness of the Group's ethanol business, Harbin Distillery plans to form a strategic alliance with a Shanghai high-tech enterprise to produce cellulosic fuel ethanol from kenaf. Up to the date of this announcement, a non-legally binding framework agreement has been signed but no formal agreement has been entered into in respect of the alliance. In the event that such alliance is being concluded, a separate announcement will be made to the public.

Wine and liquor business

The Group's wine and liquor business is principally engaged in sales 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 2011, the Group had 25 wine and liquor specialty stores and 20 franchise stores in Guangzhou.

During the year, the wine and liquor business recorded revenue of approximately HK$158.4 million, up 34.7% over last year and accounted for 41.2% (2010: 26.8%) of the total revenue. The increase in revenue was mainly attributable to the contributions from Power Range Holdings Limited and its subsidiaries (the "Power Range Group") which were acquired in September 2010 and the growth of the Group's retail and distribution operation in Guangzhou. A subsidiary of the Power Range Group is the exclusive distributor of Diancang Jiugui, Xiaoxiangquan under 250ml and Meiming Wenshi in China until May 2020. Gross profit was approximately HK$37.1 million, representing an increase of 108.9% over last year. Gross profit margin improved from 15.1% to 23.4%. The increase was mainly due to enhancement of product mix following the acquisition of Power Range Group.

The Group will continue to improve the product mix and focus on higher margin products to grow its business.

Animal feed business

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

Crop stalks are poor in nutritive value and low in digestibility. The Group's intellectual property involves a technique and know-how to decompose lignin and cellulose by microbial and enzymatic means so as to increase digestibility and protein content of crop stalks. The crop stalks can be treated with either potable water or liquid waste from the ethanol production process. Crop stalks treated with ethanol liquid waste has higher protein content than that with potable water as ethanol liquid waste contains some proteins.

During the year, the Group has completed construction of a 100,000 tonne forage production facility within the Group's ethanol production facility in Harbin. In addition, the Group has conducted an evaluation of the sustainable collection, storage and transportation of corn stalks left in the field after harvesting. The insight from this evaluation has helped the Group understand the volume potential and economics of corn stalk as quality forage for livestock. As some of the conventional agriculture equipment in China cannot be used for the production of the Group's forages due to size limits, the Group has spent considerable time to modify and customise the equipment. The Group has offered its high-protein forages to certain farms in Heilongjiang province for their feeding trial. Currently, the Group has reached preliminary agreement with two farms in Heilongjiang province on the framework for collaboration. A forage production facility will be built within the farms so that the products will be efficiently processed near the source of raw materials (i.e. corn stalk). Up to the date of this announcement, no formal agreement has been entered into in respect of the collaboration. In the event that such collaboration is being concluded, a separate announcement (if required) will be made to the public.

Financial review

The Group's total revenue for the year was approximately HK$384.9 million, representing a decrease of 12.4% over last year. The decrease was mainly attributable to the decrease in revenue of ethanol business.

Gross profit of the Group was approximately HK$23.9 million, representing an increase of 88.5% over last year. Overall gross profit margin increased from 2.9% to 6.2%. The increase was mainly attributable to the growth of wine and liquor business.

Selling and distribution costs was approximately HK$30.5 million, representing an increase of 49.1% over last year and 7.9% (2010: 4.7%) of the Group's revenue. The increase was mainly due to the increase in expenses following the acquisition of Power Range Group in September 2010.

Administrative expenses was approximately HK$73.7 million, representing an increase of 57.6% over last year. The increase was due to (i) the increase in recognition of share option expenses of approximately HK$6.2 million, (ii) the depreciation provided during the temporary suspension of the Group's Harbin production facility of approximately HK$8.8 million, and (iii) the increase in amortisation of intangible assets of approximately HK$6.7 million and other administrative expenses following the acquisition of the Power Range Group and Keen Vitality Holdings Limited in September 2010.

Other expenses amounted to approximately HK$74.3 million, representing an increase of 23.9% over last year. The other expenses for the year represented an impairment of property, plant and equipment of approximately HK$27.0 million and an impairment of intangible assets of approximately HK$47.3 million in relation to the ethanol business.

Finance cost was approximately HK$5.5 million, representing an increase of 5.9% over last year. The increase was due to increase in interest rate.

Income tax credit was approximately HK$11.8 million, representing an increase of 1162.0% over last year. The increase was due to reversal of deferred tax liabilities in respect of the impairment recognised for intangible assets.

Liquidity, financial resources and capital structure

During the year, the issued share capital of the Company increased by 45,196,134 shares to 1,190,642,397 shares due to (i) allotment and issuance of 30,000,000 shares as additional consideration for the acquisition of Keen Vitality Holdings Limited pursuant to the sale and purchase agreement dated 4 August 2010, (ii) allotment and issuance of 11,326,134 shares for settlement of certain payables of two subsidiaries and (iii) the exercise of share options by directors and employees. Apart from options to subscribe for shares in the Company, there were no other capital instruments in issue.

As at 31 December 2011, the Group had equity attributable to owners of the parent of approximately HK$348.7 million (2010: HK$439.2 million). Net current liabilities of the Group as at 31 December 2011 amounted to approximately HK$85.8 million (2010: HK$36.1 million). The Group's unpledged cash and cash equivalents as at 31 December 2011 amounted to approximately HK$16.5 million (2010: HK$38.1 million), which were denominated in Hong Kong dollars and Renminbi.

As at 31 December 2011, the Group's total borrowings amounted to approximately HK$118.3 million (2010: HK$113.3 million). The Group's borrowings included bank loans of approximately HK$65.4 million (2010: HK$62.3 million), other borrowings of approximately HK$3.8 million (2010: HK$3.5

million), amounts due to related parties of approximately HK$18.1 million (2010: HK$15.8 million) and an amount due to a non-controlling shareholder of a subsidiary of approximately HK$31.0 million (2010: HK$31.7 million). All of the borrowings are denominated in Renminbi. The bank loans bear interest rates ranging between 7.21% and 7.37% (2010: 5.31% and 6.37%). Other borrowings bear interest rate of 6.25% (2010: 6.37%). The amounts due to related parties and a non-controlling shareholder of a subsidiary are interest-free. The gearing ratio of the Group as at 31 December 2011, calculated as net debt divided by equity attributable to owners of the parent plus net debt, was 41.7% (2010: 25.4%).

The primary source of funds to finance the Group's operations and capital expenditures is cash generated by operations. Considered the Group's current unpledged cash and cash equivalents and bank and other borrowings, and the financial support from a substantial shareholder, the management believes that the Group's financial resources are sufficient for its 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 2011, certain of the Group's property, plant and equipment, leasehold land and pledged deposits with aggregate net book value of approximately HK$109.1 million (2010: HK$106.2 million) were pledged to banks to secure the Group's bank loans and bills payable.

As at 31 December 2011, the Group had no material contingent liabilities (2010: Nil).

Employee and remuneration policy

As at 31 December 2011, the Group had approximately 523 (2010: 552) employees in Hong Kong and the PRC with total staff costs amounted to approximately HK$41.0 million (2010: HK$28.7 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 2011:

"**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 2011, 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$139,410,000 during the year ended 31 December 2011, and, as at that date, the Group's consolidated current liabilities exceeded its consolidated current assets by HK$85,847,000. 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 2011 have been reviewed by the audit committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2011.

By Order of the Board
BIO-DYNAMIC GROUP LIMITED
Peter Lo
Chairman

Hong Kong, 16 March 2012

As at the date hereof, the executive directors are Mr. Peter Lo, Mr. Han Dong, Mr. David Lee Sun, Mr. Zhao Difei, Mr. Li Jian Quan and Mr. Fu Hui; the non-executive director is Mr. Derek Emory Ting-Lap Yeung; and the independent non-executive directors are Mr. Sam Zuchowski, Dr. Loke Yu alias Loke Hoi Lam and Mr. Zhang Yonggen.