RISKS RELATING TO OUR BUSINESS

We rely on the consistent and sufficient supply of quality grapes and grape juice

Our operation is heavily reliant on a consistent and sufficient supply of quality grapes and grape juice. The principal raw materials used in the production of our grape wine products comprise grapes and grape juice, which accounted for approximately [45.0]%, [44.7]%, [44.8]%, and [45.5]% of our Group's total cost of sales, respectively, for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009.

The breakdown of the cost of sales recognised for grapes and grape juice for each year/period during the Track Record Period and the six months ended 30 June 2009 is as follow:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Grape	50,864	36.2	71,332	39.1	83,983	40.0	34,917	39.0	42,702	40.5
Grape juice	12,292	8.8	10,352	5.6	9,937	4.8	4,777	5.4	5,268	5.0
Grape and grape juice (Total)	63,156	45.0	81,684	44.7	93,920	44.8	39,694	44.4	47,970	45.5

Note: Percentages are denoted in terms of total cost of sales in the respective year/period.

In order to secure a consistent and sufficient supply of quality grapes for our production, we have entered into long-term supply agreements with [145], [159], [173] and [173] grape farmers, respectively, for the three years ended 31 December 2008 and the six months ended 30 June 2009. Those farmers are located in the regions around Ji'An City, Jilin Province, the PRC and at the foothills of the Changbai mountain range on the banks of the Yalu river. These grape farmers are required to supply their annual harvests of grapes to us exclusively for a duration of 20 years at prices determined by negotiation between the parties annually with reference to the market prices of grapes pursuant to our long-term supply contracts with them. The first long-term supply agreements were entered into with local farmers in 2004, and we continued to enter into similar agreements up to and including 2008, these contracts will expire from 2024 to 2028. There is no assurance that these grape farmers will renew their contracts with us upon expiry of such long-term supply contracts. Further, the quality of their harvests are subject to agricultural risks beyond our control, such as changes in weather, climatic and environmental conditions, and occurrence of natural disasters including floods, droughts or earthquakes and outbreaks of crop diseases or pests. There is no assurance that these local grape farmers will be able to continue to supply their harvest of grapes of sufficient quality to meet our quality control requirements.

During the Track Record Period, we relied on one grape juice supplier, which is an Independent Third Party, to supply us with grape juice. The kind of grape used to produce such grape juice was Cabernet Sauvignon. Our supplier is located in Hebei provinces where Cabernet Sauvignon grapes are grown, and such grape juice is fermented and not concentrated when delivered to us. The grape juice supplier is not our exclusive supplier, hence the quantity and price of grape juice supplied to us are subject to negotiation. We contract with our grape juice supplier to determine the price and quantity of purchases on an annual basis. The contract prices of grape juice are determined by negotiation between the parties with reference to the market prices of grape juice. We inspect the quality of the grape juice upon receipt and grape juice that cannot meet our standard will be rejected. There are other grape juice producers in PRC and our Directors therefore consider that our Group will be able to identify another supplier without difficulty.

All our grapes and grape juice are purchased from domestic suppliers in the PRC. We have not entered into any long-term contracts with our grape juice suppliers, and there is also no assurance that we can procure quality unprocessed grape juice of sufficient quality at competitive prices or that we are able to pass on any increase in such procurement costs to our customers. Disruptions of supplies of quality grapes or grape juice, or increases in the purchase prices of these raw materials may adversely affect our production, revenue and profitability.

We rely on our distributors and third-party retailers for the sales of our products to consumers

We do not have any long-term agreements with our distributors. All of our distribution agreements are entered into with our distributors for a period of one year. During the Track Record Period, we have less than 1% direct sales in Jilin Province where our headquarters and production plant are located, substantially all of our products are sold to distributors located in different provinces and municipal cities across the PRC. As at the Latest Practicable Date, we sell our grape wine products to [71] distributors spread out in [19] provinces and [3] municipal cities of the PRC who distribute and sell our grape wine products to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets, as well as through such distributors' own direct sales distribution to end-consumers and other sub-distributors. Failure by our distributors to maintain or expand their existing distribution coverage may affect the reach of our products.

Further, we have no direct control over the business operations of our distributors and each of our distributors is generally given an exclusive right to distribute our products within a designated geographical area. There is no assurance that our distributors will continue to distribute our products in the future. Our business, and to a certain extent, our future growth, are therefore dependent on the ability of our distributors to maintain and expand their distribution coverage.

We may not have adequate control over the operation of our distributors

Our expansion is dependent on, among other things, the operation of our distributors, over which we have no direct control. There is no assurance that all of our distributors will strictly adhere to our pricing and distribution policies. The failure of which may adversely affect our sales and consequently, our business operation.

In addition, most/some of our distributors are involved in sales and distribution of other goods and services that are not manufactured by our Group. In case any of our distributors is found to be involved in activities that violate PRC rules and regulations, our Group's goodwill may be adversely affected.

Our business may be adversely affected if our trade receivables become bad debts and cannot be collected timely by us

Our Group recorded a significant amount of trade receivables at each balance sheet date during the Track Record Period. As at 31 December 2006, 31 December 2007, 31 December 2008 and 30 June 2009, our Group's trade receivables amounted to approximately RMB46.2 million, RMB63.6 million, RMB81.3 million and RMB103.4 million, respectively, representing approximately 27.4%, 33.3%, 23.8% and 26.2% of our Group's total current assets as at the respective balance sheet dates. For details on the aged analysis of trade receivables, please refer to the accountants' report set out in Appendix I to this document. The outstanding amount of trade receivable as at 30 September 2009 amounted to nil or 0% of the trade receivables as at 30 June 2009.

In the event that any material portion of such trade receivables becomes bad debts and cannot be collected by our Group, our Group's operations and financial condition may be adversely affected. In addition, in the event that our Group's trade receivables could not be collected timely and our Group might need to finance its working capital requirement by internal resources or borrowings, any increase in interest rate may adversely affect our Group's financial position due to increase in finance costs.

Our business could be adversely affected if we are unable to retain our executive Directors and key employees

Our Directors believe that our success is, to a large extent, attributable to the significant cumulative expertise and experience of our executive Directors and key employees in the PRC grape wine industry – in particular, Mr. Wang, our chairman and chief executive officer, Mr. Zhang Hebin, our executive Director, Ms. Ji Chunhua, our chief winemaker, Mr. Yu Dazhou, our vineyard manager and winemaker, and Mr. Kang Hong and Mr. Sun Yankun, our deputy general managers, each of whom have at least 20 years of experience in the PRC grape wine industry. There can be no assurance that any of our executive Directors and key employees will not join a competitor or form a competing company. If we lose any of our executive Directors and key employees, we may not be able to maintain our established relationships with our suppliers and customers. Further, there is no assurance that we would be able to find, attract and retain other suitably qualified and experienced individuals as their replacement.

We are subject to changes in demand in the PRC for our products and seasonal fluctuations in consumer demand

We sell all our products in the PRC domestic market and intend to continue to focus our selling efforts within the PRC. As the demand for grape wines is closely linked with the level of disposable income of PRC residents which is beyond our control, there is no assurance that consumer demand in the PRC for grape wines will continue to grow in the future or will not decline from the current levels. Our future success is dependent on our ability to respond to changes in consumption preferences and tastes of our PRC consumers, and our ability to develop new wine products or improve on our existing products to cater for these changes.

Our revenue is generally subject to seasonal consumption cycles. Chinese customers traditionally tend to purchase wine and other alcoholic beverages as gifts for festive celebration purposes. Our sale volume is typically higher in the second half of each year as a result of consumers' increased spending appetite in the weeks leading up to some major Chinese holidays and festivals, including the Chinese Lunar New Year, the Mid-Autumn Festival and the National Day. The higher sales experienced during these periods are generally followed by a transitory period of lower sales. If we are unable to produce a sufficient quantity of grape wine products to meet the increased market demand during our peak sales seasons, our financial condition and operating results may be adversely affected.

We have not yet secured registration of the "Tongtian Hong" ("通天紅") trademark in the PRC and rely on intellectual property rights, including our trademarks, and may be subject to claims for infringement of third parties' intellectual property rights

Our products are primarily marketed under the "Tongtian" ("通天") and "Tongtian Hong" ("通天紅") labels. For the three years ended 31 December 2008 and the six months ended 30 June 2009, the revenues attributable to the sales of products under the "Tongtian Hong" ("通天紅") label were approximately RMB36.8 million, RMB106.8 million, RMB140.4 million and RMB69.8 million, respectively, amount to 13.1%, 27.3%, 28.9% and 28.8% of our total sales, respectively. However, we are still in the process of application, and have not yet secured registration, of the "Tongtian Hong" ("通天紅") trademark in the PRC as at the Latest Practicable Date and we can give no assurance that the "Tongtian Hong" ("通天紅") trademark can be successfully registered by us. We had submitted an application for trademark registration for the "Tongtian Hong" ("通天紅") trademark but such application was subsequently turned down by the Trademark Office of the State Administration for Industry and Commerce ("SAIC") ("Trademark Office") (國家工商行政管理總局商標局) in 2007 because the "Tongtian Hong" ("通天紅") trademark is similar to the "Tongtian" ("通天") trademark registered with the Trademark Bureau, which was registered under the name of a different entity, 通化縣原野山葡萄酒廠 ("Tonghua Yuen Ye Shan Winery") (which is owned by Ms. Wang Bo, the daughter of Mr. Wang), at the time of our trademark application. Tonghua Yuen Ye Shan Winery was a PRC domestic entity established in March 2000 and a grape wine producer. Based on confirmations given by Tonghua Municipal Administration for Industry and Commerce (通化市工商行政管理局) on 18 August 2009 and 10 October 2009, the registration of Tonghua Yuen Ye Shan Winery was cancelled in [May 2002] and this entity is no longer in existence. To the best of our Directors' knowledge, information and belief after having made all reasonable enquiries, Ms. Wang Bo did not (i) hold any position in our Group or (ii) directly or indirectly own, operate, participate, invest in or carry on any business in any capacity or hold any equity interest or otherwise in any company or entity whose business competes or may compete with the business carried on by our Group as at the Latest Practicable Date. Our Directors confirmed that our Company did not have any business relationship with Tonghua Yuen Ye Shan Winery. The "Tongtian" ("通天") trademark was subsequently transferred at nil consideration to Tongtian Winery on 19 August 2002. In July 2009, we submitted another application for "Tongtian Hong" ("通天紅").

In addition, any unauthorised usage or misuse of the registered trademarks owned by us or trademark(s) under application by us by third parties producing counterfeit products of inferior quality may cause confusion among consumers and harm our brand name and reputation in the market. We are currently not aware of our products being counterfeited and sold in the market. However, we can give no assurance that counterfeit products will not appear in the market in the future as our Group continues to expand and our products continue to gain popularity. Counterfeit products of inferior quality may create a negative perception of our brand name and our product images, and may materially and adversely affect our business, financial condition, operating results and viability.

In order to protect and enforce our intellectual property rights, we may have to resort to litigation against the infringing parties. The outcome of such litigation can be uncertain and there is no assurance that we are able to adequately protect and safeguard our intellectual property rights. Such litigation could result in substantial costs and diversion of management resources, and all of these may adversely affect our financial performance and prospects.

Our brand name and product images may be adversely affected by claims by third-parties for possible infringement of their intellectual property rights, particularly with respect to the historical sales of our products to distributors under the "Tongtian Cabernet" ("通天解百納") name

Third parties, including our competitors, may allege or claim that one or more of our products infringe their intellectual property rights. We may be subject to legal proceedings and claims relating to such allegations.

In particular, prior to October 2008, we produced and sold our Cabernet Sauvignon wine products (currently labelled "通天赤霞珠" in Chinese) under the label of "Tongtian Cabernet" ("通天解百納" in Chinese). On 14 April 2002, Yantai Changyu Pioneer Wine Company Limited (烟台張裕集團有限公司) ("Yantai Changyu") registered the trademark for the Chinese characters for Cabernet, "解百納", with the Trademark Office (the "Registration"). The Registration was subsequently revoked by the Trademark Office on 10 July 2002 on application by several wine producers in the PRC against the Registration (the "Withdrawal Ruling"). On 23 June 2008, the Yantai Changyu group of companies successfully appealed against the Withdrawal Ruling, which was then revoked by the Trademark Review and Adjudication Board of the SAIC (國家工商行政管理總局商標評審委員會). Shortly thereafter, on 27 June 2008, several wine producers in the PRC brought the matter to the Beijing Municipal First Intermediate People's Court (北京市第一中級人民法院) seeking a judicial review of both the Registration as well as the revocation of the Withdrawal Ruling. We are not and have never been a party involved in such proceeding. As at the Latest Practicable Date, the matter has not been finally resolved. Should the Registration eventually be conclusively upheld by the PRC courts, other wine producers in the PRC will not be allowed to use the Chinese words for Cabernet, "解百納", as part of their product labels. In addition, if the Registration is deemed by the PRC courts to have been continuously effective from 14 April 2002 until such date as the Registration is eventually conclusively upheld (the "Period of Alleged Infringement"), there is a possibility that the Yantai Changyu group may be able to successfully bring legal proceedings for trademark infringement against other PRC wine producers, including us, who had used "解百納" in their product labels during the Period of Alleged Infringement.

For the years ended 31 December 2006, 2007 and 2008, our sales of "解百納" labelled wine products accounted for approximately 19.3%, 9.9% and 5.9% of our total revenue, respectively. We ceased the sale of our Cabernet Sauvignon products under the "Tongtian Cabernet" ("通天解百納") name in October 2008, and commenced repackaging our Cabernet Sauvignon wine products using a different label in Chinese (namely "通天赤霞珠"). However, there can be no assurance that the Yantai Changyu group will not commence legal proceedings against us for trademark infringement during the Period of Alleged Infringement, or that ourdefence raised in such legal proceedings will be successful. Jingtian & Gongcheng, our legal advisers on PRC Law, have advised us that should such legal proceedings be successfully carried out by the Yantai Changyu group against our Group, the damages which may be awarded by the PRC courts under the Trademark Law of the PRC (中華人民共和國商標法) may be in the form of repatriation of profits earned by our Group through the sale of "解百納" labelled wine products, or the losses suffered by the Yantai Changyu group as a result of our Group's infringement during the Period of Alleged Infringement (including any reasonable costs incurred by the Yantai Changyu group to stop such infringement). Pursuant to the Trademark Law, where the profit earned or losses incurred cannot be determined, the maximum damages shall be not more than RMB500,000.

In the event of any claims or litigation involving infringement of the intellectual property rights of third parties, whether with or without merit, it could result in a diversion of our management time and resources, and our business operations may be materially and adversely affected. In addition, any successful claim against us arising out of such proceedings could result in substantial monetary liability and may materially affect our reputation and the continued sale of our affected products and consequently, our financial performance.

We are yet to obtain the registration of our Group's logo as a trademark in Hong Kong

We submitted an application to the Trade Marks Registry of the Intellectual Property Department of the Government of Hong Kong Special Administrative Region (the "Trade Marks Registry") for registration of our logo as appeared on the cover of this document as a trademark, details of which are set forth in the paragraph headed "Intellectual property rights of our Group" in Appendix VI to this document. As at the Latest Practicable Date, our application had proceeded to the substantive examination stage. We are not aware of any infringement or passing off action in respect of any third party intellectual property rights regarding the use of our logo. Given that the registration of the trademark is yet to be approved by the Trade Marks Registry, there can be no assurance that there will not be any claims, disputes or litigations made or threatened to be made against us in the future. Any claims, disputes or litigations involving infringement of third party intellectual property rights, whether with or without merits can be costly and may result in a diversion of our resources, affect adversely our reputation and/or financial performance.

Our future success and growth potential are dependent on our ability to successfully implement our production capacity expansion plans

Our annual production capacity of approximately 19,000 tonnes is expected to increase to 39,000 tonnes by end of 2010 by expansion of our production facilities. There is no assurance that such expansion plan will be successfully implemented in a timely manner, or will be commercially successful. Our production capacity expansion plan is also subject to risks commonly associated with large construction and expansion projects, such as adverse weather conditions, natural disasters, accidents and unforeseen circumstances and problems, and other factors beyond our control. As such, we may not be able to achieve the planned production capacity expansion on time. Failure to implement our production capacity expansion plan or execute such plan cost-effectively and on a timely basis may have a material and adverse impact on our financing costs, change our operating environment or affect our ability to respond to market or industry changes promptly, all of which may have a material adverse effect on our business, profitability and financial performance.

For the three years ended 31 December 2008 and the six months ended 30 June 2009, our total revenue increased by approximately [33.6]%, [38.9]%, [24.3]%, and [17.8]%, respectively. However, there can be no assurance that we will be able to sell the additional wine we produce from our new production facilities. In addition, our fixed costs will increase significantly as a result of this expansion and since we have not entered into any long-term sales contract, we may not be able to sell our products at such quantities and/or prices with commercially acceptable margins and our production facilities would be underutilised. If we are unable to sell our additional wine products on a commercially acceptable basis and/or our production facilities are underutilised, our business, financial condition, results of our operations and prospects would be materially and adversely affected.

Our Group has a lease agreement which has not been duly registered

As at the Latest Practicable Date, we leased a warehouse located at Li Ming Industrial Zone, Kuaidamao Town, Tonghua County, Jilin Province (吉林省通化縣快大茂鎮黎明工業區) from Tonghua Da Sen Lin Ye Development Co., Ltd. (通化大森林業開發有限責任公司), an [Independent Third Party], for approximately 700 square metres. The expiry date of the tenancy for these properties is 29 September 2010. The lessor cannot provide the relevant building ownership certificates for the warehouse. According to a supplementary agreement executed by Tonghua Da Sen Lin Ye Development Co., Ltd. and our Company dated 30 September 2009, the lessor will compensate all our losses in case we cannot continue to use the warehouse during the lease period due to the lack of relevant building ownership certificates. As advised by our PRC legal advisor, Jingtian & Gongcheng, the lease may not be protected by relevant PRC governmental authorities due to the lack of the relevant building ownership certificates. There is no assurance that the right of our Group to use and occupy those leased properties will not be interfered with in the future and our Group may be required to relocate from those properties.

RISKS RELATING TO OUR INDUSTRY

We are exposed to potential product liability and litigation which may adversely affect our business, operating results and financial condition

Pursuant to the Law of the PRC on Production Quality (中華人民共和國產品質量法), if a product causes property damage or personal injury, manufacturers and sellers of the product are liable for the property damage or personal injuries caused by the product. In addition, under the Law of the PRC on the Protection of Consumers' Rights and Interests (中華人民共和國消費者權益保護法), which protects the rights of consumers in respect of safety of persons and property in the purchase and use of goods and services and Administration for Industry and Commerce (工商行政管理局) is authorised to impose penalties on these manufacturers and sellers.

Any product liability claim against us, no matter whether it is successful or not or it is with or without merit, would adversely affect our Group's business and reputation. End-consumers of our wine products, and consequently, our key distributors and consumers may lose confidence in our products. In addition, a product liability claim could result in us incurring significant expenses and substantial time and efforts of our management in defending and proving such claims to be without merit. As at the Latest Practicable Date, we have not faced any claims or complaints in respect of food poisoning, health complications or allergic reactions, resulting from the consumption of our products. There is no assurance that such claims will not be made against our Group in future. We have taken out product liability insurance with coverage up to RMB300 million and individual claims up to a limit of RMB300 million each. There can be no assurance that such product liability insurance policy coverage is sufficient to settle any successful product liability claims against us.

We are reliant on public confidence in PRC food and beverage product manufacturers

In recent years, reports have surfaced in the media relating to food and beverage products made in the PRC which were unfit for human consumption. If public confidence in food and beverage products made in the PRC is continuously weakened, it may result in our end consumers switching to consumption of imported beverages instead. This will adversely affect our profitability and prospects.

We face the risks of contamination and deterioration of our wines

Contamination and deterioration are risks inherent to all food and beverage industry participants, including us. Given the nature of raw materials used in the wine production process, in particular their contaminable and perishable nature, there is always the possibility of contamination and deterioration in our raw materials and finished wine products during the production process or during storage.

Any contamination or deterioration in our raw materials or finished wine products, through improper handling, outbreak of diseases, tampering or otherwise, may result in our raw materials and wine products being found unsafe for production and consumption, respectively. This could in turn lead to delays in production or delivery of our products to our customers, costs incurred in the purchase of replacement raw materials, a recall of our products, a loss in revenue and/or payment of compensation to our customers for delays and recalls. Any such delays or recall would significantly damage our reputation for product quality, which we believe is one of our principal competitive strengths, and could seriously harm our business, profitability and financial performance.

We operate in a highly competitive business and failure to maintain our competitiveness may adversely affect our operating results

The production and sale of grape wine products is a highly competitive business within the PRC. As at the Latest Practicable Date, our distribution network stretches across 19 provinces and 3 municipal cities throughout the PRC and we compete primarily on the basis of quality, price, distribution network, and brand image. We are subject to competition from existing competitors as well as new market entrants, including competition from imported wines. As such, there is no assurance that we will be able to remain competitive. We may lose our customers to other competitors if we are unable to meet the changing needs and taste of customers. If our new products do not achieve market acceptance and our failure to compete effectively, our business, financial conditions and operating results may be materially and adversely affected.

We may face labour shortages and rising labour costs

Our employees are mostly employed in our production and sales and marketing departments. We have observed an overall tightening of the labour market in the PRC and currently expect such tightening to continue in the near future. A tight labour market (where the supply is less than demand) could push up salaries. Due to the tightening labour market, we have observed a general increase in market labour cost rates in recent years. In order to compete effectively, we may need to increase the salaries of or offer a more competitive remuneration package to our employees to attract and retain them. The increase in costs as a result of this may have an adverse impact on our profitability and financial performance.

We may be affected by adverse public opinion about alcoholic beverages

While a number of research studies suggest that moderate alcohol consumption may provide various health benefits, there are other studies which conclude or suggest that alcohol consumption has no health benefits and may increase the risk of stroke, cancer and other illnesses. An unfavorable report on the health effects of alcohol consumption could significantly reduce the demand for wine and cause a reduction in the consumption of alcoholic beverages generally, which would materially and adversely impact our profitability.

We are subject to the risk of operating hazards and other operational disruptions

Our production and winery facilities comprise wine storage tanks, bottling lines, grapes crushing and pressing machines, fermentation tanks, warehouses, offices and staff quarters. Should there be any disastrous events beyond our control, including, but not limited to, riots and political instability, occurring at or affecting our production and winery facilities or the place where these facilities are located, the production activities of our Group would be adversely affected.

Operating hazards like incidents of fire, mechanical failures or storage tank leakages, and external events such as inclement weather or natural disasters, could result in an interruption to, or delay of, or require us to curtail, our operations. We maintain insurance policies covering losses to our manufacturing facilities and equipment due to fire, as described in the section "Insurance" of this document. However, we cannot assure you that our insurance coverage will be sufficient to cover all our potential losses, and losses incurred or payments required to be made by us as a result of these or other factors may exceed our insurance coverage or not be covered by our insurance at all, which could materially and adversely affect our business, financial condition, results of operation and prospects. Furthermore, if we are not able to find suitable alternative facilities in a timely manner in the event that any of our factories are destroyed or become inoperable for any reason, our business, financial condition, results of operations and prospects may be materially and adversely affected. Accordingly, any major disruptions to our production facilities, equipment or inventories will have an adverse effect on our business, financial condition, results of operations and prospects.

We are dependent on regulatory approvals for our operations

As we are engaged in the production of beverage products, our production operations have to comply with the relevant health and hygiene standards of the PRC and are subject to periodic inspection by the relevant PRC authorities.

Operations within the PRC wine production industry are subject to compliance with the PRC food hygiene laws and regulations. These laws and regulations require all enterprises engaged in the production of wine products to obtain licences, permits, approvals or certifications such as Hygiene Permit (衛生許可證), National Industrial Products – Production Permit (全國工業產品生產許可證) and the Water Intake Permit (取水許可證). For further details of the requisite licences, permits, approvals or certifications for our operations which we have obtained, and the applicable laws and regulations, please refer to the section "Regulatory Overview" of this document.

In the event that we are unable to comply with relevant laws and regulations or maintain the requisite health and hygiene standards set by the relevant regulatory authorities, we may face penalties such as fines, suspension of production activities, or revocation of our production licences. The occurrence of such events may adversely affect our reputation and business and may result in substantial monetary losses, which would materially and adversely impact our profitability.

RISKS RELATING TO THE PRC

Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government may adversely affect our business, growth strategies, operating results and financial condition

Substantially all of our revenues are derived from our operations in the PRC. As a result, our business is significantly subject to economic, political and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform. However, the PRC Government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market-oriented.

We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC Government. Changes in the economic, political and social conditions or the relevant policies (including tax policies) of the PRC Government, such as changes in laws and regulations (or the interpretation thereof) or restrictive financial measures, could have adverse effects on the overall economic growth of the PRC and investment in the wine production industry, which could in turn adversely affect our current or future business, growth strategies, operating results or financial condition.

The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to you

Our Company is a holding company established in Bermuda and conduct our business through Tongtian Winery, our indirectly wholly-owned subsidiary in the PRC. Tongtian Winery is organised under the laws of the PRC and is governed by its articles of association. The PRC legal system is based on written statutes. Prior court decisions can be cited as a reference but are not binding on subsequent cases. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and have not yet been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties, which may lead to additional restrictions and uncertainty for our business.

Our primary source of funds in the form of dividends and other distributions from our operating subsidiary in the PRC is subject to various legal and contractual restrictions and uncertainties which may limit our ability to pay dividends or make other distributions to our Shareholders

Our Company is a holding company established in Bermuda and conduct our business through Tongtian Winery, our indirectly wholly-owned subsidiary in the PRC. As a result, our profits available for distribution to our Shareholders are dependent on the profits available for distribution from Tongtian Winery. If Tongtian Winery incurs debts or losses, such indebtedness or loss may impair our ability to pay dividends on our Shares. Under the PRC laws and regulations, Tongtian Winery is regarded as a wholly-owned foreign enterprise. According to the new Enterprise Income Tax ("EIT") Law of the PRC (中華人民共和國企業所得税法), which became effective on 1 January 2008, 10% of withholding EIT is levied on dividends paid by foreign invested enterprises unless there is any bilateral taxation arrangement between the PRC and the jurisdiction of the shareholders. PRC laws and regulations require dividends to be paid only out of net income as determined in accordance with the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. As a result, our primary internal source of funds for dividend payments from Tongtian Winery is subject to these and other legal and contractual restrictions and uncertainties.

New labour laws in the PRC may adversely affect our results of operations

As at the Latest Practicable Date, we employed approximately [362] employees in the PRC. On 29 June 2007, the PRC government promulgated a new labour law, namely, the Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the "New Labour Law") which became effective on 1 January 2008.

The New Labour Law imposes greater liabilities on employers and significantly impacts the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations to be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce in the PRC, the New Labour Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our circumstances or in a timely and cost effective manner, thus our results of operations could be adversely affected.