OVERVIEW

We are one of the leading grape wine producers in the PRC, with our signature wines produced from the indigenous vitis amurensis variety of grapes (colloquially referred to as "mountain grapes") grown in vineyards at the foothills of the Changbai mountain range near Ji'An City, Jilin Province, the PRC. As at the Latest Practicable Date, our product range comprises [18] different grape wine products, which can be categorised into sweet wine and dry wine. Our signature wine products are sold under our "Tongtian" (通天) and "Tongtian Hong" (通天紅) labels in [19] provinces and [3] municipal cities in the PRC through the sales networks and distribution channels of [71] distributors as at the Latest Practicable Date.

Our revenues for the financial years ended 31 December 2006, 2007 and 2008 were RMB281.8 million, RMB391.6 million and RMB486.7 million, respectively, representing a CAGR of [31.4]%. Our gross profits for the financial years ended 31 December 2006, 2007 and 2008 were RMB141.3 million, RMB209.0 million and RMB276.9 million, respectively, representing a CAGR of approximately [40.0]%. Our net profits for the financial years ended 31 December 2006, 2007 and 2008 were RMB62.2 million, RMB105.2 million and RMB[136.8] million, respectively, representing a CAGR of approximately [48.3]%. Our revenues for the six months ended 30 June 2008 and 2009 were RMB206.0 million and RMB[242.7] million, respectively, representing an increase of approximately [17.8]%. Our gross profits for the six months ended 30 June 2008 and 2009 were RMB116.6 million and RMB[137.4] million, respectively, representing an increase of approximately [17.8]%. Our net profit for the six months ended 30 June 2008 and 2009 were RMB60.1 million and RMB[75.4] million, respectively, representing an increase of [25.5]%.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Corporate Reorganisation, which was completed by establishing our Company, Fullest Power and Rich Treasure as the parent of Tongtian Winery, our Company became the ultimate holding company of the companies now comprising our Group on [●]. Our Group comprising our Company and its subsidiaries resulting from the Corporate Reorganisation is regarded as a continuing entity. Our Group was under the control of the Controlling Shareholders prior to and after the Corporate Reorganisation.

Our combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow as set out in Appendix I to this document are prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation of the relevant entity, where this is a shorter period. The combined statements of financial position as set out in Appendix I to this document as at 31 December 2006, 2007, 2008 and 30 June 2009 present the assets and liabilities of the companies now comprising our Group which had been incorporated as at the relevant balance sheet dates as if the current group structure had been in existence at those dates.

Basis of combination

The combined financial information included in the unqualified accountants' report in Appendix I to this document incorporates the financial information of the companies now comprising our Group. All intra-group transactions, balances, income and expenses are eliminated on combination.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Growth in the PRC grape wine industry

Our financial results have been, and are expected to continue to be, significantly affected by the rate of growth of the PRC grape wine industry. Consumer spending preferences in the PRC and market sentiment towards grape wine products will positively affect the growth of the PRC grape wine industry and are one of the key drivers of our revenue. We believe that grape wine products will become increasingly popular in the PRC as consumer demand will continue to grow with the increase in disposable income of PRC residents, which will result in higher sales volume of our grape wine products.

Quality, availability and cost of grapes and grape juice

The principal raw materials used in the production of our grape wine products are grapes and grape juice. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the cost of grapes and grape juice accounted for approximately [45.0]%, [44.7]%, [44.8]% and [45.5]% of our Group's total cost of sales, respectively. Our ability to secure a consistent and sufficient supply of quality grapes or unprocessed grape juice is vital to the success of our business, and will affect our financial condition and results of operations. In order to secure a consistent and sufficient supply of quality grapes for our production, we have entered into long-term supply agreements with grape farmers of local vineyards in the regions around Ji'An City and at the foothills of the Changbai mountain range on the banks of the Yalu river.

Our ability to maintain and expand our distribution network

All of our grape wine products are sold to distributors located in different provinces and municipal cities across the PRC. Our revenue is highly dependent on our ability to maintain and expand our distribution network. The number of our distributors grew from 56 as at 31 December 2006, to 68 as at 31 December 2007, [71] as at 31 December 2008 and [71] as at 30 June 2009. We expect to continue to expand our distribution network in order to further grow our business.

Our product mix

Changes in the product mix of our grape wine products sold to our customers will affect our financial position and results of operations. We continuously monitor changes in the composition of our grape wine products and their respective contribution to our revenue and gross profit. We offer two broad categories of sweet wine and dry wine products, which include a total of [18] different grape wine products as at the Latest Practicable Date. During the Track

Record Period, our revenue derived from sales of our sweet wine products contributed approximately [62.0]%, [61.3]%, [66.0]% and [68.2]% of our total revenue. In response to the expected increase in business opportunity arising from a faster pace of growth in the sweet wine market, we intend to continue to focus our strategy on offering our sweet wine products. Our overall gross profit margin increased from approximately [50.2]% for 2006, to approximately [53.4]% for 2007, approximately [56.9]% for 2008 and approximately [56.6]% for the six months ended 30 June 2009, primarily as a result of a continued effort in selling higher gross margin products. We will continue to monitor and optimize our product mix in response to the changes in market conditions and consumer preferences to maximise our revenue and gross profits.

Competition

We operate in a highly competitive industry and face competition from a number of domestic wine producers with established brand names in the PRC. Our Directors believe that our major competitors are local wine producers Tonhwa Winery Limited (通化葡萄酒股份有限公司) and Chang Bai Shan Wine Holding Co. Ltd. (長白山酒業集團有限公司), who also uses the *vitis amurensis* grape variety as a major ingredient of their wines. While the continued growth of the PRC economy and the increased consumer demand has mitigated our competitive pressure, our products may also face increasing competition from wines offered by new entrants in the domestic market, including imported wines following the PRC's accession to the World Trade Organisation. Our ability to compete with existing and new competitors and expand into new markets will affect our total revenue. We expect that our competitiveness [will] be strengthened by our strategic focus on promoting our sweet wine products. Our ability to maintain our profitability and increase our revenue will depend on our ability to remain competitive in the PRC wine industry.

Seasonality

Our revenue is generally subject to a seasonal consumption cycles. Based on our past experience, 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 the 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. We believe that our financial conditions and operating results will continue to be affected by such seasonal factors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our combined financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following sets forth certain critical accounting policies that our management considers to be critical in the portrayal of our financial condition and results of operations:

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. We calculate our cost using the weighted average method. Whereas we determine our net realisable value based on the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. In order to determine these estimates, our management is required to review our inventory aging analyses and projections of expected future saleability of goods, and apply their own experience and judgment based on these information.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment loss. Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives after allowing for residual values estimated by the directors, using the straight-line method. Our management determines the following estimated useful lives for our Group's property, plant and equipment based on historical experience of the actual useful lives of such property, plant and equipment, and where no historical experience is available, based on such property, plant and equipment used for similar nature and functions:

Building	25 years
Plant and machinery	10 to 20 years
Office equipment	5 years
Motor vehicles	5 years

Fully depreciated property, plant and equipment still in use are retained in the financial statements. Our management reviews the estimated useful lives, residual values and depreciation method at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss statement.

Construction in progress includes property, plant and equipment in the course of construction for production or for our own use purposes. Construction in progress is carried at cost less any recognised impairment loss and classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

Impairment of assets

At each balance sheet date, our Group reviews the carrying amounts of our tangible assets to determine whether there is any indication that our assets have suffered an impairment loss. If any such indication exists, the recoverable amount of such asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, we discount our estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to our asset. Our management is required to exercise their judgement to determine whether these cash flow projections are discounted using an appropriate discount rate.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. During the Track Record Period, our Group did not recognise any impairment loss for our assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts. Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

SUMMARY RESULTS OF OPERATIONS

The following table sets forth the selected combined statement of comprehensive income of our Group for the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, which are derived from our combined statements of comprehensive income included in the accountants' report set out in Appendix I to this document.

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Revenue	281,823	391,570	486,708	206,028	[242,715]
Cost of sales	(140,477)	(182,561)	(209,769)	(89,433)	[(105,328)]
Gross profit	141,346	209,009	276,939	116,595	[137,387]
Other income	124	99	244	83	[476]
Selling and distribution expenses	(35,408)	(64,807)	(53,500)	(26,140)	[(25,951)]
Administrative expenses	(4,212)	(5,582)	(9,761)	(3,169)	[(3,777)]
Other expenses	–	–	(13,012)	–	[(1,573)]
Finance costs	(2,869)	–	–	–	[–]
Profit before tax	98,981	138,719	200,910	87,369	[106,562]
Income tax expense	(36,803)	(33,488)	(64,122)	(27,285)	[(31,207)]
Profit for the year/period and total comprehensive income for the year/period attributable to owners of our Company	62,178	105,231	136,788	60,084	[75,355]
Earnings per share					
Basic *(RMB)*	[0.05]	[0.08]	[0.10]	[0.05]	[0.06]

Note: Other expenses represent professional fees incurred in relation to the [●] of our Company and are charged as an expense in the year/period in which they are incurred.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue is mainly derived from the sales of our grape wine products. The increase of our revenue for the three years ended 31 December 2008 and the six months ended 30 June 2009 was primarily as a result of growing wine market in the PRC. As confirmed by our Directors, such increase in our revenue was not achieved by building up of inventory at our distributors. Our customers mainly comprised of regional distributors in the PRC. We sold our products to our distributors at prices ranging from RMB[5.9] to RMB[115] per bottle.

The following table sets out a breakdown of our revenue by product categories for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Sweet Wine	174,830	62.0	239,935	61.3	321,387	66.0	138,703	67.3	[165,515]	[68.2]
Dry Wine	106,993	38.0	151,635	38.7	165,321	34.0	67,325	32.7	[77,200]	[31.8]
Total	281,823	100.0	391,570	100.0	486,708	100.0	206,028	100.0	[242,715]	[100.0]

Revenue derived from the sales of our sweet wine products is generally higher than that of our dry wine products during the Track Record Period, primarily because of our business strategy in focusing on the promotion of our sweet wine products. The sales of our sweet wine products were approximately 63.4%, 58.2%, 94.4% and [114.4]% higher than that of our dry wine products for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Revenue derived from the sales of our sweet wine products made the largest contribution to our total revenue during the Track Record Period, represented approximately 62.0%, 61.3%, 66.0% and [68.2]% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

The average selling price of our products per bottle (750ml) during the track record period are approximately RMB16.8, RMB18.6, RMB21.2, RMB20.6 and RMB21.6, respectively. The increase in the average selling price per bottle during the Track Record Period was due to a shift in the focus of our products mix towards high gross profit margin products which are generally sold at higher prices.

The following table sets out the number of units sold and the average selling prices of our sweet and dry wine products during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	Total units sold	Average[1] selling price	Total units sold	Average[1] selling price	Total units sold	Average[1] selling price	Total units sold	Average[1] selling price	Total units sold	Average[1] selling price
	tonnes	*RMB'000 per tonne*	*tonnes*	*RMB'000 per tonne*	*tonnes*	*RMB'000 per tonne*	*tonnes*	*RMB'000 per tonne*	*tonnes*	*RMB'000 per tonne*
Sweet Wine	[8,216]	[21.3]	[10,159]	[23.6]	[11,155]	[28.8]	[5,020]	[27.6]	[5,654]	[29.3]
Dry Wine	[4,352]	[24.6]	[5,629]	[26.9]	[6,000]	[27.6]	[2,459]	[27.4]	[2,774]	[27.8]
Total	[12,568]	[22.4]	[15,788]	[24.8]	[17,155]	[28.4]	[7,479]	[27.5]	[8,428]	[28.8]

Note:

1. Weighted average selling price of our sweet or dry wine products (as applicable) taking into account the actual sales volume of each wine product.

During the Track Record Period, we did not adjust the individual selling prices of our products. However, the overall average selling prices of our sweet and dry wine products have increased as a result of a shift in our sales mix towards products with higher gross profit margins, which are generally products with higher selling prices, as we focused on growing their sales. The increase in our sweet wine average selling price from RMB21,300 per tonne in 2006 to RMB29,300 per tonne in 2009 was also due to the growing consumer demand on higher price product as a result of growing PRC economy, and the introduction of new products in 2006, whose growing sales help to increase our overall average selling price.

Our Group's sales were derived from our distributors located in different regions in the PRC. The following table sets forth a breakdown of our revenue by sales region for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
Region	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
North-East *(Note 1)*	38,588	13.7	58,403	14.9	76,479	15.7	27,579	13.4	[33,054]	[13.6]
Northern *(Note 2)*	60,992	21.6	71,715	18.3	89,535	18.4	44,239	21.5	[48,251]	[19.9]
Eastern *(Note 3)*	89,780	31.9	136,063	34.8	166,945	34.3	67,637	32.8	[85,538]	[35.2]
South-Central *(Note 4)*	33,298	11.8	42,753	10.9	58,544	12.0	27,828	13.5	[29,591]	[12.2]
South-West *(Note 5)*	59,165	21.0	82,636	21.1	95,205	19.6	38,745	18.8	[46,281]	[19.1]
Total	281,823	100.0	391,570	100.0	486,708	100.0	206,028	100.0	[242,715]	[100.0]

Notes:

1. North-east region of China, which includes Liaoning Province, Jilin Province and Heilongjiang Province.

2. Northern region of China, which includes Hebei Province, Shaanxi Province, Inner Mongolia, Shanxi Province and Beijing.

3. Eastern region of China, which includes Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Shandong Province and Shanghai.

4. South-central region of China, which includes Henan Province, Hubei Province, Guangdong Province and Hainan Province.

5. South-west region of China, which includes Sichuan Province, Yunnan Province, Guizhou Province and Chongqing.

Note: Sale in North East region includes direct sales in Jilin, which accounted for approximately [0.3]%, [0.3]%, [0.7]% and [0.3]% of our sales for each of the three years ended 31 December 2008 and the six months ended 30 June 2009.

The geographical distribution of our sales remained relatively stable during the Track Record Period. Revenue derived from our sales in the eastern region of China made the largest contribution to our total revenue during the Track Record Period, accounted for approximately 31.9%, 34.8%, 34.3% and [35.2]% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. The eastern region of China is our largest market with the highest number of distributors, as it is a more affluent region in the PRC with relatively high levels of per capita income, where consumers have a general preference towards wine products over other alcoholic beverages. The south-west and the northern regions of China are also our significant markets, where some of our key distributors are located.

Cost of sales

Our cost of sales primarily consists of raw materials costs, production overhead costs and consumption tax and other taxes in the PRC. The following table sets out a breakdown of our Group's cost of sales by production cost and such cost as a percentage of the total cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials										
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 & grape juice (Total)	*[63,156]*	*[45.0]*	*[81,684]*	*[44.7]*	*[93,920]*	*[44.8]*	*[39,694]*	*[44.4]*	*[47,970]*	*[45.5]*
Yeast & other additives	[4,415]	[3.2]	[6,069]	[3.3]	[7,591]	[3.6]	[3,471]	[3.9]	[3,994]	[3.8]
Packaging materials	[35,298]	[25.1]	[45,249]	[24.8]	[52,520]	[25.0]	[22,487]	[25.1]	[25,808]	[24.5]
Others	[414]	[0.3]	[535]	[0.3]	[808]	[0.4]	[255]	[0.3]	[287]	[0.3]
Total raw material cost	*[103,283]*	*[73.6]*	*[133,537]*	*[73.1]*	*[154,839]*	*[73.8]*	*[65,907]*	*[73.7]*	*[78,059]*	*[74.1]*
Production overheads	[4,682]	[3.3]	[5,567]	[3.1]	[6,259]	[3.0]	[2,923]	[3.3]	[2,998]	[2.9]
Consumption tax & other taxes	[32,512]	[23.1]	[43,457]	[23.8]	[48,671]	[23.2]	[20,603]	[23.0]	[24,271]	[23.0]
Total	[140,477]	[100.0]	[182,561]	[100.0]	[209,769]	[100.0]	[89,433]	[100.0]	[105,328]	[100.0]

Gross profit and gross profit margin

Our gross profit, which is our Group's revenue for the relevant period less cost of sales was RMB[141.3] million, RMB[209.0] million, RMB[276.9] million and RMB[137.4] million for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. The following table sets out an analysis of gross profit and gross profit margins by product category:

	Year ended 31 December						Six months ended 30 June			
	2006		2007		2008		2008		2009	
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin	Gross Profit	Margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Sweet Wine	[77,678]	[44.4]	[113,547]	[47.3]	[169,644]	[52.8]	[73,193]	[52.8]	[87,678]	[53.0]
Dry Wine	[63,668]	[59.5]	[95,462]	[63.0]	[107,295]	[64.9]	[43,402]	[64.5]	[49,709]	[64.4]
Total	[141,346]	[50.2]	[209,009]	[53.4]	[276,939]	[56.9]	[116,595]	[56.6]	[137,387]	[56.6]

Gross profit increased from approximately RMB[141.3] million for the year ended 31 December 2006 to approximately RMB[276.9] million for the year ended 31 December 2008, representing a CAGR of approximately [40.0]%. In addition, gross profit increased by approximately [17.8]%, from RMB[116.6] million for the six months ended 30 June 2008 to RMB[137.4] million for the six months ended 30 June 2009. This was mainly attributable to the increase in the sales volume of our grape wine products, particularly in our products with higher profit margins.

Our average gross profit margin increased from approximately [50.2]% for the year ended 31 December 2006 to approximately [53.4]% for the year ended 31 December 2007 and to approximately [56.9]% for the year ended 31 December 2008. This was mainly attributable to the shift in our sales mix towards higher margin products. The gross profit margins for our sweet wine increased from approximately [44.4]% for the year ended 31 December 2006 to approximately [47.3]% for the year ended 31 December 2007 and to approximately [52.8]% for the year ended 31 December 2008, representing an improvement of [6.5]% from 2006 to 2007 and of [11.6]% from 2007 to 2008, respectively. The average gross margins for our dry wine products increased from approximately [59.5]% for the year ended 31 December 2006 to approximately [63.0]% for the year ended 31 December 2007 and to approximately [64.9]% for the year ended 31 December 2008, representing an improvement of [5.9]% from 2006 to 2007 and of [3.0]% from 2007 to 2008, respectively. The improvements in the average gross profit margins from 2006 to 2007 and from 2007 to 2008 were mainly attributable to the launch of new products in 2007 and 2008 and our targeted efforts in promoting the sale of our products with higher profit margins. Our overall gross profit margin, gross profit margins for our sweet wine products and dry wine products for the six months ended 30 June 2009 remained stable at [56.6]%, [53.0]% and [64.4]%, respectively, as compared to the six months ended 30 June 2008.

Other income

Other income comprises mainly interest income derived from our bank deposits in interest bearing bank accounts at commercial banks. Other income represented 0.04%, 0.03%, 0.05% and [0.20]% of our revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

Selling and distribution expenses

Selling and distribution expenses include advertising and promotional expenses, transportation costs and sales commissions paid and miscellaneous expenditures related to our sales and marketing personnel. Advertising and promotional charges include expenses incurred for television commercials, advertisements and billboards, and promotional charges incurred for assisting our distributors to promote our products. Transportation costs are paid to logistics companies for the delivery of products to our customers and are charged based on the weight and distance of delivery of our products. Sales commissions are paid to sales personnel at a fixed percentage of sales. Selling and distribution expenses represented 12.6%, 16.6%, 11.0% and [10.7]% of our revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Our selling and distribution expenses as a percentage of our revenue increased from 12.6% for the year ended 31 December 2006 to 16.6% for the year ended 31 December 2007 primarily because we increased our advertising effort via various media including television, billboards and printed media. Our selling and distribution expenses as a percentage of our revenue decreased from 16.6% for the year ended 31 December 2007 to 11.0% for the year ended 31 December 2008 primarily because we decided to scale back our advertising expenditures during the second half of 2008 in light of the general economic slowdown in that period. Our selling and distribution expenses as a percentage of our revenue decreased from [12.7]% for the six months ended 30 June 2008 to [10.7]% for the six months ended 30 June 2009 primarily because we decided to continue to control the level of our advertising expenditure during the first half of 2009 in light of the general economic slowdown in the PRC which continued during that period.

Administrative expenses

Administrative expenses mainly represented insurance premium, product development expenses, directors' fees, salaries and welfare benefits paid, other tax expenses, rental charges, staff training expenses, entertainment expenses, motor vehicles expenses, travelling expenses, depreciation and amortisation expenses and other incidental administrative expenses. General and administrative expenses represented 1.5%, 1.4%, 2.0% and [1.4]% of our revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

Other expenses

Other expenses primarily represent professional service fees incurred during 2008 and first half of 2009 in relation to [●] of our Company, which amounted to approximately RMB13.0 million and RMB[2.0] million, respectively.

Finance costs

Our finance costs represent interest and other finance costs on our borrowings. Finance costs represented [1.0]% our revenue for the year ended 31 December 2006. We did not incur any finance costs for the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009 as we did not have any interest-bearing borrowings.

Tax

Tax represents amounts of PRC enterprise income tax paid by us, at the applicable tax rates in accordance with the relevant law and regulations in the PRC. We had no other tax payable in other jurisdictions during the Track Record Period. The applicable PRC enterprise income tax rates for Tongtian Winery (without taking into account of any applicable tax exemption it enjoyed) were [33]%, [33]%, [25]% and [25]% for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. Our PRC subsidiary, Tongtian Winery was approved to be converted into a wholly-owned foreign enterprise on 5 September 2006 and obtained its business license on 24 April 2007 and following application to local tax authority in the fourth quarter of 2007, Tongtian Winery was therefore exempted from the payment of the PRC enterprise income tax for the period from 1 October 2007 to 31 December 2007 under the relevant laws and regulations in the PRC in effect then. Tongtian Winery was no longer entitled to PRC enterprise income tax exemption from 1 January 2008, when the New PRC Enterprise Income Tax Law came into effect, which limited such tax exemption to only entities that were registered as wholly-owned foreign enterprises on or before 16 March 2007. As Tongtian Winery was registered as a wholly-owned foreign enterprise with the relevant industry and commerce administration bureau after 16 March 2007, it ceased to enjoy PRC enterprise income tax exemptions since 1 January 2008.

Our effective income tax rates for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were [37]%, [24]%, [32]% and [29]%, respectively. Our effective income tax rate decreased for the year ended 31 December 2007 as Tongtian Winery enjoyed exemption from the PRC enterprise income tax for the period from 1 October 2007 to 31 December 2007. Our effective tax rate for the years ended 31 December 2006 and 2008 were higher than our PRC enterprise income tax rates for the same year because certain portion of our marketing expenses, which exceeded the relevant statutory upper limit in the PRC, were not tax deductible. Our effective tax rates were higher than our PRC enterprise income tax rate for the year ended 31 December 2008 and the six months ended 30 June 2009 because commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of Tongtian Winery derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1).

Dividends

During the year ended 31 December 2006, the subsidiary Tongtian Winery declared a dividend of RMB55.0 million to its then shareholders, who were the founding members of Tongtian Winery. The dividend was paid in 2007.

During the year ended 31 December 2007, the subsidiary Tongtian Winery declared a dividend of RMB66,500,000 to its then shareholders, who were the founding members of Tongtian Winery, in respect of the financial year ended 2007. The dividend was paid in 2007.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended 30 June 2008 Compared to Six Months Ended 30 June 2009

Revenue

Revenue increased by approximately [17.8]%, from RMB[206.0] million for the six months ended 30 June 2008 to RMB[242.7] million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our sweet and dry wine products and an increase in the average selling price of our sweet wine products. The increase in the sales volume of our products was mainly attributable to the increase in consumer demand in the growing PRC grape wine industry. The increase in the average selling price of our sweet wine products was due to our targeted efforts in continuing to promote the sale of products with greater potential for growth, which were generally products with higher selling prices.

Sales of sweet wine products

Revenue from sales of our sweet wine products increased by approximately [19.3]%, from RMB[138.7] million for the six months ended 30 June 2008 to RMB[165.5] million for the six months ended 30 June 2009, primarily as a result of the increase in the sales volume and the increase in the average selling price of our sweet wine products. The increase in the sales volume of our products was mainly due to the general increase in consumer demand in the growing PRC grape wine industry and the increase in the average selling price of our sweet wine products was due to our targeted efforts in continuing to promote the sale of products with high gross profit margins.

Sales of dry wine products

Revenue from sales of our dry wine products increased by approximately [14.7]%, from RMB[67.3] million for the six months ended 30 June 2008 to RMB[77.2] million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our dry wine products, which was primarily due to the general increase in consumer demand for wine products.

Cost of sales

Cost of sales increased by approximately [17.8]%, from RMB[89.4] million for the six months ended 30 June 2008 to RMB[105.3] million for the six months ended 30 June 2009, such increase was in line with the increase in total revenue for the period ended 30 June 2009. The percentage of our raw materials costs as a proportion of our revenue increased by approximately [0.2]%, from approximately [32.0]% for the six months ended 30 June 2008 to approximately [32.2]% for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our sweet wine and dry wine products driven by market demand.

Cost of sales of sweet wine products

Cost of sales of our sweet wine products increased by approximately [18.8]%, from RMB[65.5] million for the six months ended 30 June 2008 to RMB[77.8] million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our sweet wine products.

Cost of sales of dry wine products

Cost of sales of our dry wine products increased by approximately [15.1]%, from RMB[23.9] million for the six months ended 30 June 2008 to RMB[27.5] million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our dry wine products.

Gross profit and gross profit margin

Gross profit increased by approximately [17.8]%, from RMB[116.6] million for the six months ended 30 June 2008 to RMB[137.4] million for the six months ended 30 June 2009, primarily as a result of the above factors. Gross profit margins remained stable at approximately [56.6]% for the six months ended 30 June 2008 and the six months ended 30 June 2009.

Gross profit and gross profit margin of sweet wine products

Gross profit for our sweet wine products increased by approximately [19.8]%, from RMB[73.2] million for the six months ended 30 June 2008 to RMB[87.7] million for the six months ended 30 June 2009, primarily as a result of an increase in the sales volume of our sweet wine products. The gross profit margin for our sweet wine products remained relatively stable at approximately [52.8]% for the six months ended 30 June 2008, as compared to approximately [53.0]% for the six months ended 30 June 2009.

Gross profit and gross profit margin of dry wine products

Gross profit for our dry wine products increased by approximately [14.5]%, from RMB[43.4] million for the six months ended 30 June 2008 to RMB[49.7] million for the six months ended 30 June 2009, primarily as a result of increase in the sales volume and average selling price of our dry wine products. The gross profit margin for our dry wine products remained relatively stable at approximately [64.5]% and [64.4]% for the six months ended 30 June 2008 and 2009, respectively.

Other income

Other income increased by RMB[393,000], from RMB[83,000] for the six months ended 30 June 2008 to RMB[476,000] for the six months ended 30 June 2009, primarily as a result of an increase in interest income resulted from the increase in bank balances.

Selling and distribution expenses

Selling and distribution expenses slightly reduced by [0.4]% from RMB[26.1] million for the six months ended 30 June 2008 to RMB[26.0] million for the six months ended 30 June 2009, primarily as a result of our decision to control the level of our advertising expenditures for the six months ended 30 June 2009 in light of the general economic slowdown in the PRC in the second half of 2008 and the six months ended 30 June 2009.

Administrative expenses

Administrative expenses increased by RMB[0.6] million, or approximately [18.8]%, from RMB[3.2] million for the six months ended 30 June 2008 to RMB[3.8] million for the six months ended 30 June 2009, primarily as a result of an increase in our insurance expenses due to an increase in insurance premium charged by the insurance company.

Finance costs

We did not incur any finance costs for the six months ended 30 June 2008 and 30 June 2009 as we did not have any bank loan during each of these periods.

Profit before tax

Profit before tax increased by RMB[19.2] million, or approximately [22.0]%, from RMB[87.4] million for the six months ended 30 June 2008 to RMB[106.6] million for the six months ended 30 June 2009, primarily as a result of the factors described above.

Income tax

Income tax increased by RMB[3.9] million, or approximately [14.3]%, from RMB[27.3] million for the six months ended 30 June 2008 to RMB[31.2] million for the six months ended 30 June 2009, primarily as a result of an increase in our profit before tax in the six months ended 30 June 2008 due to an increase in our revenue for that period.

Net profit

Net profit from operations increased by RMB[15.3] million, or approximately [25.5]%, from RMB[60.1] million for the six months ended 30 June 2008 to RMB[75.4] million for the six months ended 30 June 2009, primarily as a result of the factors described above.

Dividend

No dividend was declared or paid during the six months ended 30 June 2008 and the six months ended 30 June 2009.

Year Ended 31 December 2008 Compared to Year Ended 31 December 2007

Revenue

Revenue increased by approximately 24.3%, from RMB[391.6] million for the year ended 31 December 2007 to RMB486.7 million for the year ended 31 December 2008, primarily as a result of an increase in the sales volume of sweet and dry wine products and an increase in the average selling price of our sweet and dry wine products. The increase in the sales volume of our sweet and dry wine products was mainly attributable to the increase in consumer demand, the continued expansion of our distribution network in the PRC and our targeted efforts in promoting the sale of products with greater potential for growth, such as our high-end ice wine products which were sold at substantially higher prices than our other wine products.

Sales of sweet wine products

Revenue from sales of our sweet wine products increased by approximately 34.0%, from RMB239.9 million for the year ended 31 December 2007 to RMB321.4 million for the year ended 31 December 2008, primarily as a result of the increase in our sales volume due to higher consumer demand in the growing PRC grape wine industry and an increase in the average selling prices of our sweet wine products due to a shift in the focus of our product mix towards high gross profit margin products, which are generally sold at higher prices than other wine products.

Sales of dry wine products

Revenue from sales of our dry wine products increased by approximately 9.0%, from RMB151.6 million for the year ended 31 December 2007 to RMB165.3 million for the year ended 31 December 2008, primarily as a result of an increase in our sales volume due to greater overall wine consumption in the PRC.

Cost of sales

Cost of sales increased by approximately [14.9]%, from RMB[182.6] million for the year ended 31 December 2007 to RMB[209.8] million for the year ended 31 December 2008, primarily as a result of the increase in the volume of our raw materials purchases due to the growing customer demand for our products. The percentage of our raw materials costs as a proportion of our revenue decreased by approximately [2.3]%, from approximately [34.1]% for the year ended 31 December 2007 to approximately [31.8]% for the year ended 31 December 2008, primarily as a result of our targeted effort in promoting the sale of our products with high gross profit margins, the raw material costs of which typically represent a lower percentage of their respective sale price.

Cost of sales of sweet wine products

Cost of sales of our sweet wine products increased by approximately [20.0]%, from RMB[126.4] million for the year ended 31 December 2007 to RMB[151.7] million for the year ended 31 December 2008, primarily as a result of the increase in the sales volume of our sweet wine products.

Cost of sales of dry wine products

Cost of sales of our dry wine products increased by approximately [3.2]%, from RMB[56.2] million for the year ended 31 December 2007 to RMB[58.0] million for the year ended 31 December 2008, primarily as a result of the increase in the sales volume of our dry wine products.

Gross profit and gross profit margin

Gross profit increased by approximately [32.5]%, from RMB[209.0] million for the year ended 31 December 2007 to RMB[276.9] million for the year ended 31 December 2008, primarily as a result of the above factors. Gross margins increased from approximately [53.4]% for the year ended 31 December 2007 to approximately [56.9]% for the year ended 31 December 2008, primarily due to our targeted efforts in promoting the sale of our products with high gross profit margins and decrease of raw material cost as a percentage of our revenue as discussed above. Our revenue derived from the sales of our high gross margin products during this period such as Tongtian Wild Rose Grape Wine, Tongtian Hong Dry Wine, Tongtian Hong Cellar Stored Premium Dry Wine and Tongtian Ice Grape Wine – Gift Set increased by approximately [43.4]% in aggregate in the year ended 31 December 2008, as compared to the year ended 31 December 2007.

Gross profit and gross profit margin of sweet wine products

Gross profit for our sweet wine products increased by approximately [49.4]%, from RMB[113.5] million for the year ended 31 December 2007 to RMB[169.6] million for the year ended 31 December 2008, primarily as a result of increase sales volume of our high gross profit margin products. The gross profit margin for our sweet wine products increased from approximately [47.3]% for the year ended 31 December 2007 to approximately [52.8]% for the year ended 31 December 2008, primarily as a result of our targeted efforts in promoting the sale of our products with high gross profit margins.

Gross profit and gross profit margin of dry wine products

Gross profit for our dry wine products increased by approximately [12.4]%, from RMB[95.5] million for the year ended 31 December 2007 to RMB[107.3] million for the year ended 31 December 2008, primarily as a result of the increase in sales volume of our high gross profit margin products. The gross profit margin for our dry wine products increased from approximately [63.0]% for the year ended 31 December 2007 to approximately [64.9]% for the year ended 31 December 2008, primarily as a result of our targeted effort in promoting the sale of our products with high gross profit margins.

Other income

Other income increased by RMB0.14 million, or approximately 140%, from RMB0.10 million for the year ended 31 December 2007 to RMB0.24 million in the year ended 31 December 2008, primarily as a result of an increase in interest income derived from our bank deposits.

Selling and distribution expenses

Selling and distribution expenses decreased by 17.4% from RMB64.8 million in the year ended 31 December 2007 to RMB53.5 million in the year ended 31 December 2008, primarily as a result of our effort to manage our marketing strategies more effectively by delaying our advertising spending in the second half of 2008 due to the rapid economic slowdown during that period.

Administrative expenses

Administrative expenses increased by RMB4.2 million, or approximately 75.0%, from RMB5.6 million for the year ended 31 December 2007 to RMB9.8 million in the year ended 31 December 2008, primarily as a result of the increase in social insurance contributions as required by the new PRC Labour Contract Law, which came into effect on 1 January 2008.

Other expenses

We did not incur any other expenses during 2007. However, we incurred other expenses of approximately RMB13.0 million, primarily as a result of the professional service fees incurred in relation to [●] of our Company.

Finance costs

We did not incur any finance costs for the year ended 31 December 2008 as we did not have any bank loan during this period.

Profit before tax

Profit before tax increased by RMB62.2 million, or approximately 44.8%, from RMB138.7 million for the year ended 31 December 2007 to RMB200.9 million in the year ended 31 December 2008, primarily as a result of the factors described above.

Income tax

Income tax increased by RMB30.6 million, or approximately 91.3%, from RMB33.5 million for the year ended 31 December 2007 to RMB64.1 in the year ended 31 December 2008, primarily as a result of the higher profit before tax in the year ended 31 December 2008 and due to the fact that we enjoyed a PRC enterprise tax exemption during the period from 1

October 2007 to 31 December 2007, which we were no longer entitled to enjoy with effect from 1 January 2008. These factors were partially offset by the impact of the lowered unified PRC enterprise income tax rate of 25% commencing 1 January 2008, and commencing from 1 January 2008, deferred tax is calculated at the applicable withholding tax rate of the undistributed earnings of Tongtian Winery derived on or after 1 January 2008.

Net profit

Net profit from operations increased by RMB31.6 million, or approximately 30.0%, from RMB105.2 million for the year ended 31 December 2007 to RMB136.8 million in the year ended 31 December 2008, primarily as a result of the factors described above.

Dividend

During the year ended 31 December 2007, our subsidiary Tongtian Winery declared a dividend of RMB66.5 million to its then shareholders, who were the founding members of Tongtian Winery. The dividend was paid in 2007. No dividend was declared or paid during the year ended 31 December 2008.

Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

Revenue

Revenue increased by approximately 39.0%, from RMB281.8 million for the year ended 31 December 2006 to RMB391.6 million for the year ended 31 December 2007, primarily as a result of an increase in the sales volume of both our sweet and dry wine products and an increase in the average selling price of our sweet and dry wine products. The increase in our sales volume of our sweet and dry wine products was mainly attributable to the rapid increase in the number of our distributors from 56 as at 31 December 2006 to 68 as at 31 December 2007, the introduction of our new Tongtian Wild Rose Mountain Grape Sweet Wine (通天野玫瑰山葡萄甜酒) in 2007, and the general increase in consumer demand for our grape wine products. Our Directors believe that the increase in consumer demand for our grape wine products was primarily attributable to our successful brand building efforts and implementation of our marketing strategies. The increase in our average selling price was primarily attributable to the increase in the sales of products with greater potential for growth, such as our high-end ice wine products which were sold at substantially higher prices than our other wine products.

Sales from sweet wine products

Revenue from sales of our sweet wine products increased by approximately 37.2%, from RMB174.8 million for the year ended 31 December 2006 to RMB239.9 million for the year ended 31 December 2007, primarily as a result of the increase in our sales volume due to the introduction of Tongtian Wild Rose Mountain Grape Sweet Wine (通天野玫瑰山葡萄甜酒) into the market and an increase in the number of our distributors in 2007.

Sales from dry wine products

Revenue from sales of our dry wine products increased by approximately 41.7%, from RMB107.0 million for the year ended 31 December 2006 to RMB151.6 million for the year ended 31 December 2007, primarily as a result of the increase in the number of our distributors in 2007.

Cost of sales

Cost of sales increased by approximately [30.0]%, from RMB[140.5] million for the year ended 31 December 2006 to RMB[182.6] million for the year ended 31 December 2007, primarily as a result of an increase in our sales volume, and partially offset by a decrease in raw material costs for the year ended 31 December 2007 as we secured better terms from our suppliers due to economies of scale. [The percentage of our raw materials costs as a proportion of our revenue decreased by approximately [2.5]%, from approximately [36.6]% for the year ended 31 December 2006 to approximately [34.1]% for the year ended 31 December 2007, primarily as a result of our targeted effort in promoting the sale of our products with high gross profit margins, the raw material costs of which typically represent a lower percentage of their respective sale price.]

Cost of sales of sweet wine products

Cost of sales of our sweet wine products increased by approximately [30.0]%, from RMB[97.2] million for the year ended 31 December 2006 to RMB[126.4] million for the year ended 31 December 2007, primarily as a result of the increase in the volume of our raw materials purchases due to the growing customer demand for our products.

Cost of sales of dry wine products

Cost of sales of our dry wine products increased by approximately [30.0]%, from RMB[43.3] million for the year ended 31 December 2006 to RMB[56.2] million for the year ended 31 December 2007, primarily as a result of the increase in the volume of our raw materials purchases due to the growing customer demand for our products.

Gross profit and gross profit margin

Gross profit increased by approximately [47.9]%, from RMB[141.3] million for the year ended 31 December 2006 to RMB[209.0] million for the year ended 31 December 2007, primarily as a result of the above factors. Gross margins increased from approximately [50.2]% in the year ended 31 December 2006 to approximately [53.4]% in the year ended 31 December 2007, primarily due to a shift in the focus of our product mix towards high gross margin products and a decrease in our raw material cost as a percentage of revenue for reasons stated above. Our revenue derived from the sales of our high gross margin products during this period such as Tongtian Wild Rose Grape Wine, Tongtian Hong Dry Wine, Tongtian Hong Cellar Stored Premium Dry Wine and Tongtian Ice Grape Wine – Gift Set increased by approximately [87.8]% in aggregate in the year ended 31 December 2007, as compared to the year ended 31 December 2006.

Gross profit and gross profit margin of sweet wine products

Gross profit for our sweet wine products increased by approximately [46.1]%, from RMB[77.7] million for the year ended 31 December 2006 to RMB[113.5] million for the year ended 31 December 2007, primarily as a result of the increase in sales volume of our high gross profit margin products. The gross profit margin for our sweet wine products increased from approximately [44.4]% for the year ended 31 December 2006 to approximately [47.3]% for the year ended 31 December 2007, primarily as a result of our targeted efforts in promoting the sale of our products with high gross profit margins.

Gross profit and gross profit margin of dry wine products

Gross profit for our dry wine products increased by approximately [49.9]%, from RMB[63.7] million for the year ended 31 December 2006 to RMB[95.5] million for the year ended 31 December 2007, primarily as a result of the increase in sales volume of our high gross profit margin products. The gross profit margin for our dry wine products increased from approximately [59.5]% for the year ended 31 December 2006 to approximately [63.0]% for the year ended 31 December 2007, primarily as a result of our targeted efforts in promoting the sale of our products with high gross profit margins.

Other income

Other income decreased by RMB0.02 million, or approximately 16.7%, from RMB0.12 million for the year ended 31 December 2006 to RMB0.10 million for the year ended 31 December 2007, primarily as a result of a decrease in our interest income derived from bank deposits.

Selling and distribution expenses

Selling and distribution expenses increased by 83.1% from RMB35.4 million for the year ended 31 December 2006 to RMB64.8 million for the year ended 31 December 2007. The increase in our selling and distribution expenses was mainly attributable to (i) increase in sales commissions from RMB6.5 million for the year ended 31 December 2006 to RMB9.1 million for the year ended 31 December 2007, as a result of the higher revenue achieved for the year ended 31 December 2007; (ii) increase in transportation costs by 29.9% from RMB10.7 million for the year ended 31 December 2006 to RMB13.9 million for the year ended 31 December 2007, which was broadly in line with 39.0% increase in sales; and (iii) increase in advertising and promotional charges by 129.7% from RMB18.2 million for the year ended 31 December 2006 to RMB41.8 million (representing approximately 10.7% of our revenue) for the year ended 31 December 2007, as we continue to engage in brand building activities, such as mass media advertising.

Administrative expenses

Administrative expenses increased from approximately RMB4.2 million in the year ended 31 December 2006 to approximately RMB5.6 million in the year ended 31 December 2007. This was mainly due to the increase in insurance premiums and product development expenses by approximately RMB0.6 million and RMB0.3 million, respectively.

Finance costs

We did not incur any finance cost in the year ended 31 December 2007 as we did not have any bank loan during this period.

Profit before tax

Our profit before tax increased by [40.1]% from approximately RMB[99.0] million in the year ended 31 December 2006 to approximately RMB[138.7] million for the year ended 31 December 2007, primarily as a result of the factors described above.

Income tax

Despite an increase in our profit before tax in the year ended 31 December 2007, income tax decreased by approximately 9.0%, from approximately RMB36.8 million for the year ended 31 December 2006 to approximately RMB33.5 million for the year ended 31 December 2007. This was because Tongtian Winery became a wholly-owned foreign enterprise in April 2007 and was exempted from the PRC income tax from 1 October to 31 December in the year ended 31 December 2007 pursuant to the relevant laws and regulations in the PRC.

Pursuant to Article 57 of the PRC Enterprise Income Tax Law promulgated on 16 March 2007 and effective from 1 January 2008, only entities that have been registered as wholly-owned foreign enterprises on or before 16 March 2007 will continue to enjoy tax holidays and concessions that have been earlier granted. As Tongtian Winery was registered as a wholly-owned foreign enterprise with the relevant industry and commerce administration bureau on 24 April 2007, it will not be entitled to tax exemptions starting from 1 January 2008.

Net profit

Net profit from operations increased by RMB43.0 million, or approximately 69.1%, from RMB62.2 million for the year ended 31 December 2006 to RMB105.2 million in the year ended 31 December 2007, primarily as a result of the factors described above.

Dividend

During the year ended 31 December 2006 and 2007, our subsidiary Tongtian Winery declared a dividend of RMB55.0 million and RMB66.5 million, respectively, to its then shareholders, who were the founding members of Tongtian Winery. These dividends were paid in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. Since our establishment, our working capital needs and capital expenditure requirements have been financed through a combination of shareholders' equity, cash generated from operations, bank borrowing and advances from a shareholder.

The following table is a condensed summary of our audited combined statements of cash flow for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net cash inflow from operating activities	58,025	73,851	146,205	60,103	[74,303]
Net cash used in investing activities	(8,034)	(1,521)	(24,756)	(7,917)	[(1,524)]
Net cash used in financing activities	(50,989)	(71,369)	(8,617)	(9,000)	[–]
Net (decrease)/ increase in cash and cash equivalents	(998)	961	112,832	43,186	[72,779]
Cash and cash equivalents at beginning of year/period	3,021	2,023	2,984	2,984	[115,816]
Cash and cash equivalents at end of year/period	2,023	2,984	115,816	46,170	[188,595]

Cash flow from operating activities

We derive our cash inflow from operations principally from the receipt of payments for the sale of our products. Our cash outflow from operations is principally for payments for purchase of raw materials.

For the six months ended 30 June 2009, we recorded net cash inflow from operating activities of approximately RMB[74.3] million, which comprised operating profit before changes in working capital of approximately RMB[108.5] million, adjusted for net working capital inflow of approximately RMB[1.9] million and income taxes paid of approximately RMB[36.1] million, respectively. The net working capital inflow were the result of a decrease in inventories of approximately RMB[40.6] million and a decrease in prepayments and deposits of approximately RMB0.9 million. The decrease in inventories was primarily due to reduction in work-in-progress as a result of the utilisation of our inventory of base wine for production during the six months ended 30 June 2009. In general, our work-in-progress inventory is high as at the end of each year because we purchase grapes during September to November each year. These grapes are then converted into base wine to be consumed until the next harvest of grapes in the following year. Such working capital inflows were partially offset by an increase in trade receivables of approximately RMB[22.1] million, primarily due to our general practice of collecting our trade receivables from our customers, which, during the non-peak season in the middle of the year, gives them more flexibility to settle their payments with us within the relevant credit period to maintain good working relationships with them, a decrease in trade payables of approximately RMB[5.1] million due primarily to our general practice of settling our trade payables with our suppliers earlier during the non-peak season in the middle of the year to maintain good working relationships with them, and a decrease in other payables and accruals of RMB[12.4] million due primarily to the payment for expenses in relation to our corporate restructuring during that period.

For the year ended 31 December 2008, we recorded net cash inflow from operating activities of approximately RMB146.2 million, which comprised operating profit before changes in working capital of approximately RMB205.5 million, adjusted for net working capital outflow of approximately RMB25.9 million and income taxes paid of approximately RMB33.4 million, respectively. The net working capital outflows were the result of an increase in inventories of approximately RMB19.5 million and an increase in trade receivables of approximately RMB17.7 million. The increase in inventories was primarily due to purchase and stocking of raw materials for production. The increase in trade receivables was primarily due to increase in our sales volume. Such working capital outflows were partially offset by an increase in trade payables of approximately RMB1.7 million due primarily to an increase in raw material purchases, and an increase in other payables and accruals of RMB9.6 million due primarily to professional service fees payable in connection with our corporate restructuring exercise conducted during that year.

For the year ended 31 December 2007, we recorded net cash inflow from operating activities of approximately RMB73.9 million, which comprised operating profit before changes in working capital of approximately RMB143.8 million, adjusted for net working capital outflow of approximately RMB17.2 million and income taxes paid of approximately RMB52.7 million, respectively. The net working capital outflows were the result of an increase in inventories of approximately RMB4.5 million; an increase in trade receivables of approximately RMB17.4 million, and a decrease in trade payables of approximately RMB8.3 million. The increase in inventories was primarily due to purchase and stocking of raw materials for production. The increase in trade receivables was primarily due to an increase in our sales volume. The decrease in trade payables was primarily due to our strategy to offer faster payment to our suppliers in return for better prices. Such working capital outflows were partially offset by an increase in other payables and accruals of RMB12.9 million due primarily to increase in marketing expenses, amounts payable for advertising, salaries, freight and consumption tax and other tax payables of approximately RMB6.4 million, RMB4.6 million and RMB1.9 million respectively.

For the year ended 31 December 2006, we recorded net cash inflow from operating activities of approximately RMB58.0 million, which comprised operating profit before changes in working capital of approximately RMB106.8 million, adjusted for net working capital outflow of approximately RMB15.4 million and net interest and income taxes paid of approximately RMB2.9 million and RMB30.6 million respectively. The net working capital outflows were the result of an increase in inventories of approximately RMB32.3 million due to purchase and stocking of raw materials for production, and an increase in prepayments and deposits of approximately RMB0.6 million. The increase in inventories was primarily due to our increased purchase and stocking of raw materials for production. Such working capital outflows were partially offset by a decrease in trade receivables of approximately RMB9.8 million primarily due to the improvement of the credit management, an increase in trade payables of RMB5.5 million primarily due to the increase in our business activities, and an increase in other payables and accruals of approximately RMB2.2 million primarily due to the final payment to our contractor for the completion construction of the production facilities.

Cash flow from investing activities

We derive our cash inflow from investing activities primarily from proceeds of disposals of plant and machinery and interest income. Our cash outflow from investing activities is primarily for the acquisition and construction of property, plant and machinery in connection with [the expansion of our production capacity].

Net cash used in investing activities was approximately RMB[1.5] million for the period ended 30 June 2009. This was primarily due to an increase in our construction in progress of approximately RMB[2.0] million in relation to our production capacity expansion, partially offset by interest income of approximately RMB0.5 million during the same period.

Net cash used in investing activities was approximately RMB24.8 million in the year ended 31 December 2008. This was primarily due to the partial payment for the acquisition of construction in progress amounting to approximately RMB25.0 million, partially offset by interest income of approximately RMB0.2 million received during the same period. The acquisition of construction in progress was in connection with the construction of new production facilities behind our existing Tonghua production facilities for the purpose of expanding our production capacity.

Net cash used in investing activities was approximately RMB1.5 million in the year ended 31 December 2007. This was primarily due to deposits paid relating to the construction of new production facilities of approximately RMB1.7 million and the payment for the acquisition of plant and machinery amounting to approximately RMB0.2 million, partially offset by proceeds from the disposal of plant and machinery of approximately RMB0.3 million and interest income of approximately RMB0.1 million received during the same period.

Net cash used in investing activities was approximately RMB8.0 million in the year ended 31 December 2006. This was primarily due to the payment for the acquisition of plant and machinery amounting to approximately RMB8.1 million, partially offset by interest income of approximately RMB0.1 million. The acquisition of plant and machinery was in connection with the acquisition of tanks deployed in our winery facility in Ji'An City.

Cash flow from financing activities

We derive our cash inflow from financing activities principally from bank loans. Our cash outflow from financing activities is principally due to repayment of bank loans and interest.

For the six months ended 30 June 2009, we recorded nil cash used in or generated from financing as we did not have any bank borrowings nor were we involved in any fundraising activities.

For the year ended 31 December 2008, we recorded net cash used in financing activities of approximately RMB8.6 million. The cash outflows represented our repayment of loans from Mr. Wang of approximately RMB8.6 million.

For the year ended 31 December 2007, we recorded net cash used in financing activities of approximately RMB71.4 million. The cash outflows were arising from dividend payments of approximately RMB121.5 million. These outflows were partially offset by loans from Mr. Wang of approximately RMB50.1 million.

For the year ended 31 December 2006, we recorded net cash used in financing activities of approximately RMB51.0 million. The cash outflows were for the repayment for our bank loans and partial payment of the shareholder's loan from Mr. Wang of approximately RMB50.0 million and approximately RMB1.4 million respectively.

INDEBTEDNESS

We did not have any outstanding balance of bank borrowings as at 31 December 2006, 2007 and 2008 and 30 June 2009. During the Track Record Period, we obtained a number of unsecured and interest-free loans from Mr. Wang which were advanced to us for the primary purpose of settling the cash payments required for our purchases of grapes from grape farmers during the grape harvest season between September and November each year. As at 31 December 2008, all of these unsecured and interest-free loans from Mr. Wang had been fully repaid.

[Save as disclosed in the paragraph headed "Indebtedness" in this section of the document,] our Group did not have any other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at [30 September 2009]. We confirm that there has not been any material change in our indebtedness position since [30 September 2009].

CAPITAL EXPENDITURE

Our Group's capital expenditure has principally consisted of expenditure on property, plant and equipment and office equipment. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we incurred capital expenditure in the amounts of RMB0.3 million, RMB0.2 million, RMB26.7 million and RMB[2.0] million respectively. The following tables sets out our Group's historical capital expenditure during the Track Record Period:

Historical capital expenditure	**For the year ended 31 December**			**For the six months ended 30 June**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Plant and machinery	278	220	–	[–]
Construction in progress	–	–	26,700	[2,000]
Office equipment	10	–	–	[–]
Total	288	220	26,700	[2,000]

The capital expenditure in the year ended 31 December 2006 was primarily related to the acquisition and installation of computer systems. The capital expenditure incurred in the year ended 31 December 2007 was primarily related to the acquisition of a grapes crushing and pressing machine at our Ji'An winery facility. The capital expenditure in the year ended 31 December 2008 and six months ended 30 June 2009 was primarily related to the construction of new production facilities behind our existing Tonghua production facilities for the purpose of expanding our production capacity.

The following table sets out our Group's projected capital expenditure for the year ending 31 December 2009:

	For the year ending 31 December 2009
	RMB'000
[Construction in progress]	[3,000]
[Office equipment]	[50]
Total	[3,050]

As at 30 June 2009, we had aggregate capital commitments of RMB[19.3] million, being capital expenditure in respect of construction of a new plant, which is adjacent to our existing production facilities in Tonghua County, contracted for but not provided in the consolidated financial statements.

COMMITMENTS

Our Group's contractual commitments are primarily related to the non-cancellable operating leases for certain of our office premises and plant and equipment. The following table sets out the lease payments paid pursuant to these leases by our Group during the Track Record Period:

Minimum lease payments paid under leases	**For the year ended 31 December**			**For the six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Plant and machinery	1,150	1,850	2,010	925	[1,005]
Premises for office and warehouse	–	234	395	197	[193]
Total	1,150	2,084	2,405	1,122	[1,198]

Our Group's contractual commitments in aggregate amounted to RMB[2.5] million as at 30 June 2009. The following table sets out the breakdown of our commitment with respect to these non-cancellable operating leases as at [30 June 2009]:

	As at 30 June 2009
	RMB'000
Within one year	[2,010]
In the second to fifth year inclusive	[503]
Total	[2,513]

NET CURRENT ASSETS

Details of our current assets and liabilities at each of the balance sheet date during the Track Record Period are as follow:

	As at 31 December			**As at 30 June**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	119,036	123,499	142,993	[102,374]
Trade receivables	46,202	63,568	81,292	[103,403]
Deposits and prepayments	963	961	975	[51]
Prepaid lease payments	92	92	92	[92]
Bank balances and cash	2,023	2,984	115,816	[188,595]
	168,316	191,104	341,168	[394,515]
Current liabilities				
Trade payables	19,551	11,223	12,933	[7,793]
Other payables and accruals	12,870	25,805	35,358	[22,947]
Amount due to a shareholder	60,596	95,727	–	[–]
Tax liabilities	19,199	–	23,175	[14,205]
	112,216	132,755	71,466	[44,945]
Net current assets	56,100	58,349	269,702	[349,570]

Our net working capital position improved during the year ended 31 December 2007. We recorded a net current assets position of RMB58.3 million as at 31 December 2007, compared to a net current assets position of RMB56.1 million as at 31 December 2006. This improvement was primarily due to an increase in our working capital resources resulting from improvement in our business performance in 2007.

Our net working capital continued to improve during the year ended 31 December 2008. We recorded a net current assets position of RMB269.7 million as at 31 December 2008, compared to a net current assets position of RMB58.3 million as at 31 December 2007. This improvement was primarily due to an increase in our working capital resources resulting from a further improvement in our business performance in 2008.

Our net working capital continued to improve during the six months ended 30 June 2009. We recorded a net current assets position of RMB349.6 million as at 30 June 2009, compared to a net current assets position of RMB269.7 million as at 31 December 2008. This improvement was primarily due to an increase in our working capital resources resulting from [a further improvement in our business performance for the six months ended 30 June 2009].

As at the [30 September] 2009, we had net current assets of approximately RMB[396.2] million. The components of our current assets as at such date included inventories of RMB[123.0] million, trade receivables of RMB[90.5] million, deposits and prepayments of RMB[791] thousand, prepaid leases payment of RMB[92] thousand and bank balances and cash of RMB[247.5] million. The components of our current liabilities included trade payables of RMB[22.4] million, other payables and accruals of RMB[16.1] million and tax liabilities of RMB[27.2] million.

INVENTORY ANALYSIS

Our inventories comprise raw materials, semi-finished wine products (i.e. as base wine) and finished wine products. The raw materials which we use, such as grape juice, packaging materials (including bottles, labels and corks), and ancillary ingredients such as sugar are stored in anti-pest and anti-mould storage facilities. Our base wine is stored in stainless steel tanks located within our production facilities. The value of our inventories accounted for approximately 70.7%, 64.6%, 41.9% and [25.9]% of our total current assets as at 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively.

As at 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our inventory levels, comprising mainly base wines and blended wines undergoing the aging process, were worth approximately RMB119.0 million, RMB123.5 million, RMB143.0 million and RMB[102.4] million, respectively. The following table is a summary of our balance of inventories at each of the balance sheet dates during the Track Record Period:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	11,089	1,873	3,273	[4,048]
Work-in-progress	86,202	110,551	129,094	[87,825]
Finished goods	21,745	11,075	10,626	[10,501]
Total	119,036	123,499	142,993	[102,374]

Our inventory balance has generally increased from 2006 to 2008 as a result of the growth of our sales. The decreases in raw materials and finished goods from approximately RMB11.1 million and RMB21.7 million, respectively as at 31 December 2006 to approximately RMB1.9 million and RMB11.1 million, respectively as at 31 December 2007 reflected our Group's tighter controls and better inventory management during 2007. The general increase in our work-in-progress from 2006 to 2008 was due to the need to maintain sufficient base wine to meet increased sales of our grape wine products. For the six months ended 30 June 2009, our inventory balance decreased as a result of a fall in work-in-progress due to the utilisation of our inventory of base wine for production during that period. We experienced a fall in work-in-progress during this period because we only replenish our inventory of base wine once a year after the harvest of grapes from September to November.

The adequacy of our inventory is reviewed by our management on a half-yearly basis. Our policy on obsolete or damaged inventory is to write off such inventory when our management considers the relevant obsolete or damaged inventory items to have no residual value. In addition, specific provisions are made on the diminution in market value of our inventory should our management decide that the current level of provision is inadequate.

We have not made any provision for nor written off any inventory for damage or obsolescence in the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, as we have not experienced any significant damage or loss in respect of our inventory throughout our operating history.

The following table sets out our average inventory turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006	2007	2008	2009
Average inventory turnover days	348	318	302	[274]

Notes:

(1) Average inventory turnover days are computed by dividing the average of the beginning and closing inventory balance in the respective financial year by cost of sales (excluding consumption tax) and multiplied by 365 days.

(2) Average inventory turnover days for the six months ended 30 June 2009 are computed by dividing the average of the beginning and closing inventory balance in the respective period by cost of sales (excluding consumption tax and other taxes) and multiplied by 181 days.

The inventory turnover days for our business is generally high because we procure all the grapes, being the principal raw material for the production of our grape wine products, required for our production during the harvesting months between September and November of each year which will then be consumed in the course of our production until the next harvest of grapes in the following year. Our overall inventory level has remained relatively stable despite our increasing sales, as our Group has managed to strike a balance between maintaining sufficient inventory of base wine and finished products to meet the increased sales during the Track Record Period.

TRADE RECEIVABLES ANALYSIS

The following table sets out the aging analysis of our trade receivables at the balance sheet dates:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
0 to 30 days	36,077	51,202	77,558	[44,378]
31 to 60 days	9,197	12,366	3,734	[44,121]
61 to 90 days	928	–	–	[14,904]
Total trade receivables	46,202	63,568	81,292	[103,403]

We allow a credit period of 90 days for our distributors except for newly accepted customers who are required to settle payment of our goods on delivery.

The following table sets out our average trade receivables turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006	**2007**	**2008**	**2009**
Average trade receivables turnover days	66	51	54	[69]

Notes:

(1) Average trade receivables turnover days are computed by dividing the average of the beginning and closing trade receivables balance in the respective financial year by revenue and multiplied by 365 days.

(2) Average trade receivables turnover days for the six months ended 30 June 2009 are computed by dividing the average of the beginning and closing trade receivables balance in the respective period by revenue and multiplied by 181 days.

Our trade receivables generally increased from 2006 to [the six months ended 30 June 2009] in line with the growth in our sales. Our trade receivables turnover days improved from 66 days in the year ended 31 December 2006 to 51 days in the year ended 31 December 2007 primarily due to the addition of 12 distributors in 2007, who were required to settle their payment for our products on delivery as our new customers. Our trade receivables turnover days increased from 51 days in the year ended 31 December 2007 to 54 days in the year ended 31 December 2008 primarily due to our granting of credit periods to customers who started purchasing our products in 2007. Our trade receivables turnover days increased from 54 days for the year ended 31 December 2008 to [69] days for the six months ended 30 June 2009, primarily due to our general practice of giving our distributors greater flexibility to settle their payments with us during the non-peak season in the second quarter of the year, that is within the relevant credit period provided to them, to maintain good relationships with them. During the Track Record Period, we recorded higher sales in the second half of the year than the first half, mainly due to the fact that more higher gross profit margins product, which are generally products with higher prices, were sold during the second half, due to the effect of major holidays and festivals.

TRADE PAYABLES ANALYSIS

The following table sets out the aging analysis of our trade payables at the balance sheet dates:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
0 to 30 days	7,316	671	7,548	[2,232]
31 to 60 days	6,683	3,049	5,385	[4,347]
61 to 90 days	5,552	7,503	–	[1,214]
Total trade payables	19,551	11,223	12,933	[7,793]

We pay grape farmers cash on delivery for the purchase of grapes. The average credit period on purchase of our raw materials other than grapes is approximately 90 days. For the period ended 31 December 2008, we paid our suppliers of raw materials earlier than the credit period as we generally had surplus cash on hand.

The following table sets out our average trade payables turnover days for the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2006	2007	2008	2009
Average trade payables turnover days(1)(2)	57	40	27	[23]

Notes:

(1) Average trade payables turnover days are computed by dividing the average of the beginning and closing trade payables balance in the respective financial year by cost of sales (excluding consumption tax and value added tax) and multiplied by 365 days.

(2) Average trade payables turnover days for the six months ended 30 June 2009 are computed by dividing the average of the beginning and closing trade payables balance in the respective period by cost of sales (excluding consumption tax and other taxes) and multiplied by [181] days.

Our trade payables turnover days improved from 57 days in the year ended 31 December 2006 to 40 days in the year ended 31 December 2007 and to 27 days in the year ended 31 December 2008 mainly as a result of changes in our procurement strategies where we have shortened our settlement periods in exchange for better prices and to build stronger long-term relationship with our suppliers. Our trade payables turnover days decreased from 27 days for the year ended 31 December 2008 to [23] days for the six months ended 30 June 2009, primarily due to our general practice of settling our trade payables with our suppliers earlier during the non-peak season in the middle of the year to maintain good working relationships with them.

OTHER KEY FINANCIAL RATIOS

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
Current ratio *(Note 1)*	[1.5]	[1.4]	[4.8]	[8.8]
Quick ratio *(Note 2)*	[0.4]	[0.5]	[2.8]	[6.5]
Return on assets *(Note 3)*	[24.7]%	[38.9]%	[37.5]%	[15.8]%
Return on equity *(Note 4)*	[34.8]%	[46.5]%	[44.5]%	[18.4]%
Debt to Equity *(Note 5)*	41.8%	64.7%	nil	[nil]
Gearing ratio *(Note 6)*	[23.2]%	[34.2]%	nil	[nil]

Notes:

(1) Current ratio equals current assets divided by current liabilities as at the end of each year/period.

(2) Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each year/period.

(3) Return on assets equals net profit for each year/period divided by the average balance of total assets as at the beginning of each year/period and as at the end of each year/period.

(4) Return on equity equals net profit for each year/period divided by the average balance of total equity including amount due to shareholder as at the beginning of each year/period and as at the end of each year/period.

(5) Debt to equity equals the debts incurred in the ordinary course of business for each year/period divided by the average balance of the total equity including amount due to shareholder as at the beginning of each year/period and as at the end of each year/period.

(6) Gearing ratio equals the debts incurred in the ordinary course of business divided by total assets.

(7) Pursuant to shareholders resolutions dated 28 November 2008, the amount due to Mr. Wang of RMB87,110,000 was capitalized.

(8) For the six months ended 30 June 2009, our cash balance was higher than that of the ending balance for the three years ended 31 December 2008 as our Company used cash to purchase grape in the harvest period from September to December from grape farmer.

(9) For the six months ended 30 June 2009, our inventory balance decreased as a result of a fall in work-in-progress due to the utilisation of our inventory of base wine for production during that period.

The above factors ((7) – (9)) contributed to the significant enhancement in the liquidity ratios (current/quick) and leverage ratios (debt to equity/gearing) in 2008 and further increase for the six months ended 30 June 2009.

(10) In terms of growth rate, we recorded a significant improvement in our net profit. Hence the return on asset and return on equity improved significantly in 2009. For the six months ended 30 June 2009, return on asset and return on equity only reflected our half year results.

WORKING CAPITAL

Our Directors believe that, after taking into account the financial resources presently available to us, including our internal resources and the estimated [●], we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of publication of the [●]. [Having taken into account the expected net proceeds to be raised under the [●], the Directors are satisfied that our Group has sufficient working capital.]

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

CONTINGENT LIABILITIES

Prior to October 2008, Cabernet Sauvignon wine products were produced by Tongtian Winery under the label of "通天解百納" in Chinese.

On 14 April 2002, Yantai Changyu Pioneer Wine Company Limited ("Yantai Changyu") registered the trademark for the Chinese characters for Cabernet Sauvignon wine products, "解百納" with the Trademark Office of the State Administration for Industry and Commerce ("SAIC") ("Trademark Office") (the "Registration"). The Registration was subsequently revoked by the Trademark Bureau 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 Appeal Board of the SAIC.

On 27 June 2008, several wine producers in the PRC brought the matter to the Beijing Municipal First Middle Level People's Court seeking a judicial review of both the Registration as well as the revocation of the Withdrawal Ruling. As at the date of this report, the matter has not been 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 characters for Cabernet Sauvignon wine products, "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 conclusively upheld (the "Period of Alleged Infringement"), the Yantai Changyu group of companies would likely be able to successfully bring legal proceedings for trademark infringement against other PRC wine producers which had used "解百納" in their product labels during the Period of Alleged Infringement.

Tongtian Winery started repackaging its Cabernet Sauvignon wine products using a different label in Chinese characters and ceased selling products to our distributors under the label of "通天解百納" since October 2008. We have also offered our customers, who are wine distributors, to exchange their remaining stock of our products under the label of "通天解百納" with our repackaged Cabernet Sauvignon wine products. Should the Yantai Changyu group of companies commence legal proceedings against Tongtian Winery for trademark infringement during the Period of Alleged Infringement and the defence against such legal proceedings is unsuccessful, the damages which may be awarded by the PRC courts under the relevant PRC laws for trademark infringement may be in the form of repatriation of profits earned by Tongtian through the sale of "解百納" labelled wine products, or the losses suffered by the Changyu Group as a result of Tongtian Winery's infringement during the Period of Alleged Infringement (including any reasonable costs incurred by the Yantai Changyu group to stop such infringement). Where the profit earned or losses incurred cannot be determined, the management estimates that the amount of damages shall be not more than RMB500,000.

[Save as disclosed above, as at 30 June 2009, we did not have significant contingent liabilities. Save as disclosed above, our Group is not currently involved in any material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.]

DISTRIBUTABLE RESERVES

There was no distributable reserves as at 30 June 2009, as determined in accordance with Hong Kong Standards on Auditing.

DIVIDEND AND DIVIDEND POLICY

Our subsidiary Tongtian Winery declared a dividend of RMB55.0 million on 5 January 2006 and a dividend of RMB66.5 million on 8 January 2007, both to its then shareholders. We confirm that as at the Latest Practicable Date such dividends have been fully settled. Apart from the said dividends, no other dividends were paid by us or any of our subsidiaries to their then shareholders during the Track Record Period.

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the discretion of the Board of Directors.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws and our Articles of Association. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, the Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of not less than [●]% of the net profit available for distribution to the Shareholders in the foreseeable future.

PROPERTY INTEREST AND PROPERTY VALUATION

Savills Valuation and Professional Services Limited, an independent property valuer, has valued our property interests as at 30 September 2009 and is of the opinion that the value of our property interests is an aggregate amount of approximately RMB60.0 million. The full text of the letter, summary of values and valuation certificate with regard to such property interests are set out in Appendix IV to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of us since [30 June 2009] and there is no event since [30 June 2009] which would materially affect the information shown in the accountants' report set out in Appendix I to this document.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Liquidity risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. We do not have any significant exposure to liquidity risk as we were in a net current asset position as at 31 December 2006, 2007 and 2008 and 30 June 2009.

Our Group's liquidity position is monitored closely by the management of our Group. In the management of the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance our Group's operations and mitigate the effects of potential fluctuations in cash flows.

Credit risk

As at 31 December 2006, 2007 and 2008 and 30 June 2009, our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined balance sheets.

The management considers the credit risk exposure of our Group is low as the sales are normally settled within 90 days. Our management nonetheless reviews the recoverable amount of each individual debt regularly, if any, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the Directors consider that our Group's credit risk is significantly reduced.

Our Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Commodity price risk

Grapes and grape juice are the primary raw materials for the production of our products. Any fluctuation in the prices of grapes and grape juice may affect our profit margins. During the Track Record Period, our purchase costs in relation to grapes and grape juice were relatively stable as the market prices for grapes and grape juice were stable. However we cannot guarantee that the prices of grapes and grape juice will not fluctuate more widely in the future than they did during the Track Record Period. We manage our commodity price risk primarily by entering into long-term contracts with grape farmers of local vineyards in the regions around Ji'An City to ensure a stable supply of grape and grape juice in terms of both price and quantity.

Interest rate risk

Our Group's exposure to changes in interest rates relates primarily to interest-bearing short-term bank borrowings for which interest rates are subject to fluctuation, which was not significant during the Track Record Period as we had repaid all outstanding bank loans in 2006 and did not have any bank borrowing thereafter.